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000"> 16,452 22,037

Other personal lending

47,531 36,368 3,924 9,823 9,384 107,030

motor vehicle finance

5 328 392 12 1,216 1,953

credit cards

12,959 10,289 897 1,050 3,322 28,517

second lien residential mortgages

56 2 4,433 4,491

other

34,567 25,695 2,633 4,328 4,846 72,069

Total gross loans at 31 December 2014

178,531 129,515 6,571 65,400 13,537 393,554

Impairment allowances on personal lending

First lien residential mortgages

306 46 97 1,644 36 2,129

Other personal lending

786 208 97 350 1,030 2,471

motor vehicle finance

1 2 5 60 68

credit cards

347 119 33 36 298 833

second lien residential mortgages

| | | | | | |
|--|-----|--|-----|--|--|
| | 271 | | 271 | | |
|--|-----|--|-----|--|--|

| | | | | | |
|-------|--|--|--|--|--|
| other | | | | | |
|-------|--|--|--|--|--|

| | | | | | |
|-----|----|----|----|-----|-------|
| 438 | 87 | 59 | 43 | 672 | 1,299 |
|-----|----|----|----|-----|-------|

Total impairment allowances at 31 December 2014

| | | | | | |
|-------|-----|-----|-------|-------|-------|
| 1,092 | 254 | 194 | 1,994 | 1,066 | 4,600 |
|-------|-----|-----|-------|-------|-------|

On a reported basis, total personal lending reduced by \$8.3bn, mainly due to the classification of \$7.6bn of assets of our Brazilian operations as Assets held for sale and adverse foreign exchange movements of \$3.3bn.

Loan impairment allowances reduced by \$1.3bn, mainly due to the Brazilian reclassification.

Loan impairment charges were \$0.9bn, \$0.3bn less than in 1H14 due to reduced levels of lending balances and lower new impaired loans and delinquency in the US CML portfolio, reflecting the continued portfolio run-off and loan sales.

Excluding the Brazilian reclassification, personal lending grew by \$2.7bn on a constant currency basis.

Mortgage lending

The commentary that follows is on a constant currency basis:

Excluding the effect of the reclassification of the assets of our Brazilian operations as Assets held for sale and the

US CML run-off portfolio, mortgage lending increased by \$3.4bn during 1H15. Mortgage lending balances in Asia grew by \$3.1bn, primarily attributable to continued growth in Hong Kong (\$2.2bn) due to increased promotional campaigns and, to a lesser extent, in Australia and mainland China (\$1.0bn) as a result of strong demand and our competitive customer offerings. The quality of our Asian mortgage book remained high with negligible defaults and impairment allowances. The average loan to value (LTV) ratio on new mortgage lending in Hong Kong was 44% compared with an estimated 27% for the overall portfolio.

In North America, our Canadian mortgage balances increased by \$0.5bn during 1H15 a result of a spring mortgage campaign.

The Premier mortgage portfolio in the US also increased by \$0.6bn as we continued to focus on growth in our core portfolios of higher credit quality mortgages. Collectively assessed impairment allowances reduced in 1H15 due to continued improvement in the credit quality of the

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Risk (continued)

mortgage portfolio. The US CML portfolio declined by \$1.8bn, including second lien mortgages, in 1H15.

We classified mortgage lending balances of \$1.9bn in Brazil as **Assets held for sale** .

In Europe, there was a decline of \$0.8bn or 0.6% in the mortgage portfolio due to decreased new mortgage lending and the effect of repayments, mainly in the UK, and a fall in impairment allowances due to reductions in receivables and defaulted loans.

The LTV ratio on new lending in the UK was 55.9% compared with an average of 42.5% for the total mortgage portfolio. The credit quality of our UK mortgage portfolio remained high and both loan impairment charges and delinquency levels declined in 1H15.

Other personal lending

The commentary that follows is on a constant currency basis:

Excluding the effect of the Brazilian reclassification and the US CML run-off portfolio, other personal lending increased by \$1.0bn during 1H15. This was driven by strong growth in personal loans in Hong Kong (\$1.5bn) and an increase in other lending in France (\$0.4bn).

These increases were partially offset by reductions in credit card lending of \$0.2bn in the UK and \$0.3bn in Hong Kong. Other personal lending in North America declined by \$0.6bn, of which \$0.3bn was a reduction in second lien mortgage balances during 1H15.

HSBC Finance

Lending in HSBC Finance for residential mortgages, including second lien mortgages, decreased by \$1.8bn

to \$21.8bn at 30 June 2015. Of the mortgage lending in HSBC Finance 90% consisted of first lien residential mortgages and 10% of second lien mortgages. In addition to the continued loan sales in the CML portfolio, we transferred a further \$0.4bn to **Assets held for sale** during 1H15, and these loans were mainly sold in May 2015. The average gain on sale of foreclosed properties that arose after we took title to the property was 1%.

The decrease in impairment allowances from \$1.7bn at 31 December 2014 to \$1.3bn at 30 June 2015 reflected reduced levels of delinquency and lower newly impaired loans and loan balances outstanding as a result of continued sale and liquidation of the portfolio.

Across the first and second lien residential mortgages in our CML portfolio, two months and over delinquent balances reduced by \$0.5bn to \$1.8bn during 1H15, reflecting the continued portfolio run-off and loan sales.

At 30 June 2015, renegotiated real estate secured accounts in HSBC Finance represented 92% (December 2014: 93%) of North America's total renegotiated loans. \$7bn of renegotiated real estate secured loans were classified as impaired

(31 December 2014: \$8bn). During 1H15, the aggregate number of renegotiated loans in HSBC Finance reduced due to portfolio run-off and further loan sales in the CML portfolio.

HSBC Bank USA

In HSBC Bank USA, mortgage balances grew by \$0.6bn to \$17.4bn during 1H15 as we continued to implement our strategy to grow the HSBC Premier and Advance customer base. We continued to sell all agency eligible new originations in the secondary market.

Supplementary information

Reconciliation of reported and constant currency changes impaired loans and allowances by geographical region

| | 31 December 2014 | Currency translation adjustment ⁶ | 31 December 2014 at 30 June 2015 exchange rates | Movement on a constant currency basis | 30 June 2015 as reported \$m | Reported change ⁷ % | Constant currency change ⁷ % |
|------------------------------------|---------------------|--|---|---|---------------------------------------|--------------------------------------|--|
| Impaired loans | | | | | | | |
| Europe | 10,242 | (231) | 10,011 | (491) | 9,520 | (7) | (5) |
| Asia | 2,048 | (56) | 1,992 | 159 | 2,151 | 5 | 8 |
| Middle East and North Africa | 1,981 | (13) | 1,968 | (264) | 1,704 | (14) | (13) |
| North America | 11,694 | (30) | 11,664 | (1,029) | 10,635 | (9) | (9) |
| Latin America | 3,365 | (383) | 2,982 | (1,838) | 1,144 | (66) | (62) |
| | 29,330 | (713) | 28,617 | (3,463) | 25,154 | (14) | (12) |
| Impairment allowances | | | | | | | |
| Europe | 4,455 | (133) | 4,322 | (94) | 4,228 | (5) | (2) |
| Asia | 1,356 | (25) | 1,331 | 67 | 1,398 | 3 | 5 |
| Middle East and North Africa | 1,406 | (7) | 1,399 | (212) | 1,187 | (16) | (15) |
| North America | 2,640 | (21) | 2,619 | (388) | 2,231 | (15) | (15) |
| Latin America | 2,529 | (293) | 2,236 | (1,502) | 734 | (71) | (67) |

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America

| | | | | | | |
|------------------------------------|-------|--------|---------|--------------|-------------|-------------|
| 12,386 | (479) | 11,907 | (2,129) | 9,778 | (21) | (18) |
| <i>For footnotes, see page 86.</i> | | | | | | |

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Table of Contents**Risk (continued)***Gross loans and advances by industry sector*

| | At 31 December 2014 \$m | Currency effect \$m | Movement \$m | At 30 June 2015 \$m |
|--|----------------------------------|---------------------------|-----------------|------------------------------|
| Personal | 393,554 | (3,933) | (4,321) | 385,300 |
| first lien residential mortgages | 286,524 | (1,895) | 124 | 284,753 |
| other personal | 107,030 | (2,038) | (4,445) | 100,547 |
| Corporate and commercial | 542,625 | (8,345) | (10,073) | 524,207 |
| manufacturing | 106,986 | (2,467) | (2,421) | 102,098 |
| international trade and services | 180,791 | (2,651) | (8,661) | 169,479 |
| commercial real estate | 73,293 | (993) | (1,543) | 70,757 |
| other property-related | 52,387 | (326) | 7,048 | 59,109 |
| government | 6,143 | (128) | 25 | 6,040 |
| other commercial | 123,025 | (1,780) | (4,521) | 116,724 |
| Financial | 50,818 | (357) | 3,757 | 54,218 |
| Total gross loans and advances to customers (A) | 986,997 | (12,635) | (10,637) | 963,725 |
| Gross loans and advances to banks | 112,198 | (2,471) | (284) | 109,443 |
| Total gross loans and advances | 1,099,195 | (15,106) | (10,921) | 1,073,168 |
| Impaired loans and advances to customers | 29,283 | (713) | (3,460) | 25,110 |
| as a percentage of (A) | 3.0% | | | 2.6% |
| Impairment allowances on loans and advances to customers | 12,337 | (480) | (2,117) | 9,740 |
| as a percentage of (A) | 1.2% | | | 1.0% |

For footnote, see page 86.

The currency effect on personal lending gross loans and advances of \$3.9bn was made up as follows: Asia \$1.4bn, North America \$1.4bn, Latin America \$1.0bn and Europe \$0.1bn. The currency effect on wholesale lending gross

loans and advances of \$11.2bn was made up as follows: Latin America \$4.4bn, Europe \$2.8bn, Asia \$2.4bn, North America \$1.1bn and Middle East and North Africa \$0.5bn.

Gross loans and advances to customers by country

| | First lien residential mortgages \$m | Other personal \$m | Property- related \$m | Commercial, international trade and other \$m | Total \$m |
|--|---|-----------------------------------|--------------------------------------|--|----------------------|
| Europe | 130,909 | 46,402 | 35,134 | 192,217 | 404,662 |
| UK | 124,001 | 21,221 | 26,303 | 148,414 | 319,939 |
| France | 2,342 | 12,248 | 6,811 | 21,028 | 42,429 |
| Germany | 5 | 216 | 364 | 7,933 | 8,518 |
| Switzerland | 346 | 8,266 | 235 | 841 | 9,688 |
| other | 4,215 | 4,451 | 1,421 | 14,001 | 24,088 |
| Asia | 95,176 | 37,199 | 73,767 | 166,895 | 373,037 |
| Hong Kong | 58,884 | 24,380 | 55,627 | 84,411 | 223,302 |
| Australia | 9,079 | 709 | 1,837 | 6,457 | 18,082 |
| India | 1,357 | 287 | 630 | 6,189 | 8,463 |
| Indonesia | 58 | 380 | 84 | 5,706 | 6,228 |
| Mainland China | 4,823 | 1,908 | 6,992 | 25,224 | 38,947 |
| Malaysia | 4,945 | 1,576 | 2,000 | 5,446 | 13,967 |
| Singapore | 8,942 | 5,707 | 4,146 | 12,137 | 30,932 |
| Taiwan | 4,099 | 689 | 119 | 5,903 | 10,810 |
| other | 2,989 | 1,563 | 2,332 | 15,422 | 22,306 |
| Middle East and North Africa (excluding Saudi Arabia) | 2,642 | 4,006 | 2,412 | 23,317 | 32,377 |
| Egypt | 1 | 515 | 124 | 2,414 | 3,054 |
| UAE | 2,248 | 1,866 | 1,650 | 14,935 | 20,699 |
| other | 393 | 1,625 | 638 | 5,968 | 8,624 |
| North America | 53,995 | 8,995 | 17,096 | 54,483 | 134,569 |
| US | 36,952 | 5,088 | 12,964 | 41,812 | 96,816 |
| Canada | 15,679 | 3,654 | 3,807 | 11,618 | 34,758 |
| other | 1,364 | 253 | 325 | 1,053 | 2,995 |
| Latin America | 2,031 | 3,945 | 1,457 | 11,647 | 19,080 |
| Mexico | 1,919 | 2,630 | 1,296 | 8,435 | 14,280 |
| other | 112 | 1,315 | 161 | 3,212 | 4,800 |
| At 30 June 2015 | 284,753 | 100,547 | 129,866 | 448,559 | 963,725 |

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Table of Contents**Risk (continued)**

| | First lien | | | | |
|--|-------------|----------|-----------|-----------------|-----------|
| | residential | Other | Property- | Commercial, | Total |
| | mortgages | personal | related | international | |
| | \$m | \$m | \$m | trade and other | \$m |
| Europe | 144,225 | 50,673 | 38,379 | 251,321 | 484,598 |
| UK | 135,701 | 22,121 | 28,124 | 204,624 | 390,570 |
| France | 3,131 | 14,177 | 8,322 | 23,292 | 48,922 |
| Germany | 6 | 205 | 146 | 8,080 | 8,437 |
| Switzerland | 352 | 8,189 | 248 | 461 | 9,250 |
| other | 5,035 | 5,981 | 1,539 | 14,864 | 27,419 |
| Asia | 95,489 | 34,191 | 67,457 | 166,486 | 363,623 |
| Hong Kong | 54,988 | 21,777 | 49,209 | 84,002 | 209,976 |
| Australia | 10,214 | 915 | 2,805 | 7,135 | 21,069 |
| India | 1,169 | 303 | 593 | 4,993 | 7,058 |
| Indonesia | 70 | 469 | 75 | 5,632 | 6,246 |
| Mainland China | 5,516 | 151 | 6,228 | 24,349 | 36,244 |
| Malaysia | 5,463 | 1,892 | 1,988 | 5,181 | 14,524 |
| Singapore | 10,330 | 6,118 | 4,351 | 12,803 | 33,602 |
| Taiwan | 4,193 | 691 | 127 | 6,960 | 11,971 |
| other | 3,546 | 1,875 | 2,081 | 15,431 | 22,933 |
| Middle East and North Africa (excluding Saudi Arabia) | 2,543 | 4,010 | 2,027 | 21,794 | 30,374 |
| Egypt | 1 | 493 | 104 | 2,264 | 2,862 |
| UAE | 2,168 | 1,815 | 1,314 | 13,379 | 18,676 |
| other | 374 | 1,702 | 609 | 6,151 | 8,836 |
| North America | 58,677 | 10,896 | 15,321 | 48,312 | 133,206 |
| US | 39,939 | 5,842 | 10,609 | 34,279 | 90,669 |
| Canada | 17,174 | 4,769 | 4,210 | 13,064 | 39,217 |
| other | 1,564 | 285 | 502 | 969 | 3,320 |
| Latin America | 4,501 | 10,547 | 2,840 | 31,522 | 49,410 |
| Mexico | 2,155 | 2,987 | 1,428 | 9,128 | 15,698 |
| other | 2,346 | 7,560 | 1,412 | 22,394 | 33,712 |
| Included in other: Brazil | 2,232 | 6,360 | 1,273 | 19,555 | 29,420 |
| At 30 June 2014 | 305,435 | 110,317 | 126,024 | 519,435 | 1,061,211 |
| Europe | 131,000 | 47,531 | 35,313 | 200,313 | 414,157 |
| UK | 123,239 | 21,023 | 25,927 | 156,577 | 326,766 |
| France | 2,914 | 12,820 | 7,341 | 21,834 | 44,909 |
| Germany | 6 | 212 | 304 | 7,275 | 7,797 |

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| | | | | | |
|--|---------|---------|---------|---------|---------|
| Switzerland | 298 | 8,149 | 225 | 614 | 9,286 |
| other | 4,543 | 5,327 | 1,516 | 14,013 | 25,399 |
| Asia | 93,147 | 36,368 | 70,057 | 164,739 | 364,311 |
| Hong Kong | 56,656 | 22,891 | 52,208 | 82,362 | 214,117 |
| Australia | 9,154 | 815 | 2,130 | 6,360 | 18,459 |
| India | 1,235 | 285 | 613 | 5,099 | 7,232 |
| Indonesia | 64 | 469 | 202 | 5,476 | 6,211 |
| Mainland China | 4,238 | 1,981 | 6,606 | 24,875 | 37,700 |
| Malaysia | 5,201 | 1,750 | 1,988 | 5,217 | 14,156 |
| Singapore | 9,521 | 5,878 | 4,210 | 11,951 | 31,560 |
| Taiwan | 3,920 | 626 | 118 | 7,057 | 11,721 |
| other | 3,158 | 1,673 | 1,982 | 16,342 | 23,155 |
| Middle East and North Africa (excluding Saudi Arabia) | 2,647 | 3,924 | 2,246 | 21,633 | 30,450 |
| Egypt | 1 | 510 | 98 | 2,272 | 2,881 |
| UAE | 2,263 | 1,782 | 1,545 | 13,814 | 19,404 |
| other | 383 | 1,632 | 603 | 5,547 | 8,165 |
| North America | 55,577 | 9,823 | 15,492 | 51,535 | 132,427 |
| US | 37,937 | 5,482 | 11,461 | 38,632 | 93,512 |
| Canada | 16,236 | 4,085 | 3,708 | 11,825 | 35,854 |
| other | 1,404 | 256 | 323 | 1,078 | 3,061 |
| Latin America | 4,153 | 9,384 | 2,572 | 29,543 | 45,652 |
| Mexico | 1,967 | 2,642 | 1,336 | 9,503 | 15,448 |
| other | 2,186 | 6,742 | 1,236 | 20,040 | 30,204 |
| Included in other: Brazil | 2,067 | 5,531 | 1,077 | 16,814 | 25,489 |
| At 31 December 2014 | 286,524 | 107,030 | 125,680 | 467,763 | 986,997 |

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Table of Contents**Risk (continued)****Greece**

As a result of the unfolding crisis, we have raised additional loan impairment charges and other credit risk provisions amounting to \$111m. The tables in this section summarise our Greek country exposures.

Exposures to banks, other financial corporations, non-financial corporations and households are based on the counterparty's country of domicile. We separately identify exposures to the shipping industry. These are denominated in US dollars and booked in the UK. We believe the shipping industry is less sensitive to the Greek economy as it is mainly dependent on international trade. The average LTV weighted by the value of loans of our residential mortgages is 66%. We have had restricted lending appetite in Greece for a number of years.

Summary of exposures to Greece

| | \$bn |
|---|--------------|
| On-balance sheet exposures | |
| Loans and advances to customers | 3.0 |
| other financial institutions and corporates | 0.7 |
| shipping industry booked in UK | 1.7 |
| personal mortgages | 0.6 |
| Derivative assets | 0.4 |
| Gross balance sheet exposure before risk mitigation | 3.4 |
| Risk mitigation: collateral and derivative liabilities | (0.4) |
| Net on-balance sheet exposure | 3.0 |
| Off-balance sheet exposures | |
| Gross off-balance sheet exposure to banks before risk mitigation | 0.3 |
| Risk mitigation: collateral and guarantees held on off-balance sheet exposures to banks | (0.1) |
| Net off-balance sheet exposures to banks | 0.2 |
| Gross off-balance sheet exposures to customers | 0.6 |
| Net off-balance sheet exposures | 0.8 |
| Total net exposures at 30 June 2015 | 3.8 |
| Basis of preparation | |

The gross exposure represents the on-balance sheet carrying amounts recorded in accordance with IFRSs and off-balance sheet exposures before risk mitigation.

The net exposure is stated after taking into account mitigating offsets that are incorporated into the risk management view of the exposure but do not meet accounting offset requirements. These risk mitigating offsets include:

derivative liabilities for which a legally enforceable right of offset with derivative assets exists;

collateral received on derivative assets; and

cash collateral and guarantees received on off-balance sheet exposures.

Redenomination risk

There is the continuing possibility of Greece exiting the eurozone. There remains no established legal framework within the European treaties to facilitate such an event; consequently, it is not possible to accurately predict the course of events and legal consequences that would ensue.

Greece funding exposure

| | Denominated in | | Total \$bn |
|---------------------------------|----------------|--------------------|---------------|
| | Euros \$bn | US dollars \$bn | |
| At 30 June 2015 | | | |
| In-country assets | 1.0 | 0.0 | 1.0 |
| In-country liabilities | (0.8) | (0.3) | (1.1) |
| Net in-country funding exposure | 0.2 | (0.3) | (0.1) |
| Off-balance sheet exposure | 0 | | 0 |

Key risks associated with an exit by Greece include:

Foreign exchange losses: an exit would probably be accompanied by the passing of laws establishing a new local currency and providing for a redenomination of euro assets into the new local currency. The value of assets and liabilities in Greece would immediately fall assuming the value of the redenominated currency is less than the original euros when translated into the carrying amounts. It is not possible to predict what the total consequential loss might be as it is uncertain which assets and liabilities would be legally redenominated or the extent of the devaluation. These assets and liabilities predominantly comprise loans and deposits arising from our commercial banking operations in Greece, and the net assets represent our net funding exposure. The table above also identifies in-country off-balance sheet exposures as these are at risk of redenomination should they be called, giving rise to a balance sheet exposure.

External contracts redenomination risk: contracts entered into between HSBC businesses based outside Greece with in-country counterparties or those otherwise closely connected with Greece may be affected by redenomination. The effect remains subject to a high level of uncertainty. Factors such as the country law under which the contract is documented, the HSBC entity involved and the payment mechanism may all be relevant to this assessment, as will the precise exit scenario as the consequences for external contracts of a disorderly exit may differ from one sanctioned under EU law. In addition, capital controls could be introduced which may affect our ability to repatriate funds including currencies not affected by the redenomination event.

We continue to identify and monitor potential redenomination risks and, where possible, take steps to mitigate them and/or reduce our overall exposure to losses that might arise in the event of a redenomination. We recognise, however, that a euro exit could take different forms, depending on the scenario. These could have distinct legal consequences which could significantly alter the potential effectiveness of any mitigation initiatives, and it is accordingly not possible to predict how effective particular measures may be until they are tested against the precise circumstances of a redenomination event.

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Risk (continued)

Risk elements in the loan portfolio

The disclosure of credit risk elements in this section reflects US accounting practice and classifications. The purpose of the disclosure is to present within the US disclosure framework those elements of the loan portfolios with a greater risk of loss. The three main classifications of credit risk elements presented are:

impaired loans;

unimpaired loans contractually past due 90 days or more as to interest or principal; and

troubled debt restructurings not included in the above.

Impaired loans

In the following tables, we present information on our impaired loans and advances in accordance with the classification approach described on page 137 of the *Annual Report and Accounts 2014*.

A loan is impaired, and an impairment allowance is recognised, when there is objective evidence of a loss event that has an effect on the cash flows of the loan which can be reliably estimated. In accordance with IFRSs, we recognise interest income on assets after they have been written down as a result of an impairment loss.

The balance of impaired loans at 30 June 2015 was \$4.2bn lower than at 31 December 2014. This reduction was largely due to the reclassification of the assets of our Brazilian operations as *Assets held for sale*, and a combination of the continued run-off of the CML portfolio, and reductions in corporate individually assessed impaired loans in Europe.

Unimpaired loans past due 90 days or more

Examples of unimpaired loans past due 90 days or more include individually assessed mortgages that are in arrears more than 90 days where there are no other indicators of impairment, but where the value of collateral is sufficient to repay both the principal debt and all potential interest for at least one year; and short-term trade facilities past due more than 90 days for technical reasons such as delays in documentation, but where there is no concern over the creditworthiness of the counterparty.

The amount of unimpaired loans past due 90 days or more at 30 June 2015 was \$66m, \$6m lower than at 31 December 2014. The slight decrease was primarily in the Middle East and North Africa.

Troubled debt restructurings

Under US GAAP, a troubled debt restructuring (TDR) is a loan the terms of which have been modified for economic or legal reasons related to the borrower s financial difficulties to grant a concession to the borrower that the lender would not otherwise consider. A modification which results in a delay in payment that is considered insignificant is not regarded as a concession for the purposes of this disclosure. The SEC requires separate disclosure of any loans which meet the definition of a TDR that are not included in the previous two loan categories. These are classified as TDR s in the table on page 74b. Loans that have been identified as TDRs under the US guidance retain

this designation until they are repaid or are derecognised. This treatment differs from the Group s impaired loans disclosure convention under IFRS under which a loan may return to unimpaired status after demonstrating a significant reduction in the risk of non-payment of future cash flows. As a result reported TDRs include those loans that have returned to unimpaired status under the Group s disclosure convention for renegotiated loans.

The balance of TDRs not included as impaired loans at 30 June 2015 remained broadly stable.

Potential problem loans

Potential problem loans are loans where information on possible credit problems among borrowers causes management to seriously doubt their ability to comply with the loan repayment terms. The following concentrations of credit risk have a higher risk of containing potential problem loans.

Mortgage lending on page 70 includes disclosure about certain homogeneous groups of loans which are collectively assessed for impairment, which may represent exposures to potential problem loans, including interest-only mortgages and affordability mortgages, including ARMs. Collectively assessed loans and advances, although not classified as impaired until more than 90 days past due, are assessed collectively for losses that have been incurred but have not yet been individually identified. This policy is further described on page 212 of the Form 20-F for 2014 filed with the Securities and Exchange Commission and available on our website www.hsbc.com under Investor Relations.

Renegotiated loans and forbearance on page 63 includes disclosure about the credit quality of loans whose contractual payment terms have been changed at some point in the life of the loan because of significant concerns about the borrower s ability to make contractual payments when due. Renegotiated loans are classified as impaired when:

there has been a change in contractual cash flows as a result of a concession which the lender would otherwise not consider, and

it is probable that without the concession, the borrower would be unable to meet contractual payment obligations in full.

This presentation applies unless the concession is insignificant and there are no other indicators of impairment. The renegotiated loan will continue to be disclosed as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment.

Renegotiated loans that are not classified as impaired may have a higher risk of becoming delinquent in the future, and may therefore be potential problem loans. Further information regarding the credit quality classification of renegotiated loans can be found on page 207 of the Form 20-F for 2014 filed with the Securities and Exchange Commission and available on our website www.hsbc.com under Investor Relations.

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Table of Contents**Risk (continued)***Analysis of risk elements in the loan portfolio by geographical region*

The analysis below sets out the amount of risk elements in loan portfolios included within loans and advances to customers and banks in the consolidated balance sheet, trading loans classified as in default and assets obtained by taking possession of security. The table excludes the amount of risk elements in loan portfolios classified as assets held for sale in the consolidated balance sheet, which is set out in footnote 2.

| | At | At | At |
|--|----------------|----------------|--------------------|
| | 30 June | 30 June | 31 December |
| | 2015 | 2014 | 2014 |
| | \$m | \$m | \$m |
| Impaired loans | 25,153 | 33,936 | 29,330 |
| Europe | 9,519 | 11,992 | 10,242 |
| Asia | 2,151 | 1,781 | 2,048 |
| Middle East and North Africa | 1,704 | 2,222 | 1,981 |
| North America | 10,635 | 13,702 | 11,694 |
| Latin America | 1,144 | 4,239 | 3,365 |
| Unimpaired loans contractually past due 90 days or more as to principal or interest | 66 | 162 | 72 |
| Europe | 6 | 8 | 6 |
| Asia | 4 | 10 | 1 |
| Middle East and North Africa | 55 | 105 | 59 |
| North America | 1 | 39 | 3 |
| Latin America | 1 | 1 | 3 |
| Troubled debt restructurings (not included in the classifications above) | 6,914 | 6,626 | 6,982 |
| Europe | 1,669 | 1,253 | 1,652 |
| Asia | 242 | 302 | 267 |
| Middle East and North Africa | 631 | 381 | 778 |
| North America | 4,060 | 4,285 | 3,932 |
| Latin America | 312 | 405 | 353 |
| Trading loans classified as in default | 143 | 17 | 4 |
| Europe | 139 | 17 | 4 |
| North America | 4 | 17 | 4 |
| Risk elements on loans | 32,276 | 40,741 | 36,388 |

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| | | | |
|---|---------------|----------|----------|
| Europe | 11,333 | 13,253 | 11,900 |
| Asia | 2,397 | 2,093 | 2,316 |
| Middle East and North Africa | 2,390 | 2,708 | 2,818 |
| North America | 14,699 | 18,043 | 15,633 |
| Latin America | 1,457 | 4,644 | 3,721 |
| Assets held for resale¹ | 204 | 317 | 245 |
| Europe | 26 | 43 | 29 |
| Asia | 14 | 20 | 14 |
| Middle East and North Africa | | | |
| North America | 149 | 228 | 186 |
| Latin America | 15 | 26 | 16 |
| Total risk elements² | 32,480 | 41,058 | 36,633 |
| Europe | 11,359 | 13,296 | 11,929 |
| Asia | 2,411 | 2,113 | 2,330 |
| Middle East and North Africa | 2,390 | 2,708 | 2,818 |
| North America | 14,848 | 18,271 | 15,819 |
| Latin America | 1,472 | 4,670 | 3,737 |
| | % | % | % |
| Loan impairment allowances as a percentage of risk elements on loans ³ | 30.4 | 34.5 | 34.0 |

1 *Assets held for resale represent assets obtained by taking possession of collateral held as security for financial assets.*

2 *Total risk elements in respect of assets classified as held for sale in the consolidated balance sheet and not presented above were \$2,358m (30 June 2014: \$549m; 31 December 2014: \$466m) of which \$2,346 were impaired (30 June 2014: \$548m; 31 December 2014: \$465m); \$1m unimpaired loans contractually past due 90 days or more as to principal or interest (30 June 2014: \$1m; 31 December 2014: \$1m) and \$11m troubled debt restructurings (not included in the classifications above) (30 June 2014: nil; 31 December 2014: nil).*

3 *Ratio excludes trading loans classified as in default.*

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Table of Contents**Securitisation exposures and other structured products**

The following table summarises the carrying amount of our asset-backed securities (ABSs) exposure by categories of collateral and includes assets held in the GB&M legacy credit portfolio with a carrying value of \$19bn (30 June 2014: \$27bn; 31 December 2014: \$23bn).

At 30 June 2015, the available-for-sale reserve in respect of ABSs was a deficit of \$818m (30 June 2014: \$951m; 31 December 2014: \$777m). For 2015, the impairment write-back in respect of ABSs was \$90m (30 June 2014: \$203m; 31 December 2014: \$276m).

Representations and warranties related to mortgage sales and securitisation activities

We have been involved in various activities related to the sale and securitisation of residential mortgages that are not recognised on our balance sheet. These activities are set out on page 162 of the *Annual Report and Accounts 2014*.

There have been no significant changes in the liabilities recognised in respect of various representations and warranties regarding the origination and sale by HSBC Bank USA of mortgage loans, primarily to government sponsored entities, nor repurchase demands outstanding since 31 December 2014.

Carrying amount of HSBC's consolidated holdings of ABSs

| | Trading \$m | Available for sale \$m | Held to maturity \$m | Designated at fair value through profit or loss \$m | Loans and receivables \$m | Total \$m | Of which held through consolidated SEs \$m |
|--|----------------|------------------------------|----------------------------|---|------------------------------------|---------------|--|
| Mortgage-related assets | 2,343 | 23,469 | 14,140 | | 742 | 40,694 | 7,047 |
| sub-prime residential | 114 | 2,571 | | | 164 | 2,849 | 1,884 |
| US Alt-A residential | 88 | 2,353 | 9 | | 85 | 2,535 | 2,247 |
| US Government agency and sponsored enterprises: MBSs | 158 | 14,611 | 14,131 | | | 28,900 | |
| other residential | 1,279 | 1,181 | | | 205 | 2,665 | 660 |
| commercial property | 704 | 2,753 | | | 288 | 3,745 | 2,256 |
| Leveraged finance-related assets | 263 | 3,001 | | | 191 | 3,455 | 2,092 |
| Student loan-related assets | 250 | 3,271 | | | 95 | 3,616 | 3,057 |
| Other assets | 1,602 | 973 | | 13 | 212 | 2,800 | 683 |
| At 30 June 2015 | 4,458 | 30,714 | 14,140 | 13 | 1,240 | 50,565 | 12,879 |
| Mortgage-related assets | 1,117 | 29,863 | 1,022 | | 1,477 | 33,479 | 11,587 |

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| | | | | | | | |
|--|-------|--------|--------|----|-------|--------|--------|
| sub-prime residential | 150 | 3,231 | | | 394 | 3,775 | 3,041 |
| US Alt-A residential | 96 | 3,214 | 18 | | 128 | 3,456 | 2,738 |
| US Government agency and sponsored enterprises: MBSs | 136 | 16,739 | 1,004 | | | 17,879 | |
| other residential | 266 | 1,737 | | | 362 | 2,365 | 1,336 |
| commercial property | 469 | 4,942 | | | 593 | 6,004 | 4,472 |
| Leveraged finance-related assets | 298 | 4,836 | | | 242 | 5,376 | 4,209 |
| Student loan-related assets | 227 | 3,654 | | | 123 | 4,004 | 3,546 |
| Other assets | 1,375 | 1,245 | | 22 | 1,051 | 3,693 | 995 |
| At 30 June 2014 | 3,017 | 39,598 | 1,022 | 22 | 2,893 | 46,552 | 20,337 |
| Mortgage-related assets | 1,882 | 21,350 | 13,447 | | 1,264 | 37,944 | 7,992 |
| sub-prime residential | 122 | 3,081 | | | 308 | 3,511 | 2,075 |
| US Alt-A residential | 96 | 3,022 | 11 | | 110 | 3,239 | 2,411 |
| US Government agency and sponsored enterprises: MBSs | 82 | 10,401 | 13,436 | | | 23,919 | |
| other residential | 928 | 1,220 | | | 330 | 2,478 | 652 |
| commercial property | 654 | 3,627 | | | 516 | 4,797 | 2,854 |
| Leveraged finance-related assets | 172 | 3,660 | | | 218 | 4,050 | 2,526 |
| Student loan-related assets | 242 | 3,545 | | | 119 | 3,906 | 3,284 |
| Other assets | 1,264 | 1,114 | | 19 | 646 | 3,043 | 758 |
| At 31 December 2014 | 3,560 | 29,670 | 13,447 | 19 | 2,247 | 48,943 | 14,560 |

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Risk (continued)

Liquidity and funding

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. The risk arises from mismatches in the timing of cash flows.

Funding risk is the risk that funding considered to be sustainable (and therefore used to fund assets) proves not to be sustainable over time.

There have been no material changes to the policies and practices for the management of liquidity and funding risks described in the *Annual Report and Accounts 2014*.

A summary of our current policies and practices regarding liquidity and funding is provided on page 215 of the Annual Report and Accounts 2014.

Our liquidity and funding risk management framework

The objective of our liquidity framework is to allow us to withstand very severe liquidity stresses. It is designed to be adaptable to changing business models, markets and regulations.

Our liquidity and funding risk management framework requires:

liquidity to be managed by operating entities on a stand-alone basis with no implicit reliance on the Group or central banks;

all operating entities to comply with their limits for the advances to core funding ratio; and

all operating entities to maintain a positive stressed cash flow position out to three months under prescribed Group stress scenarios.

Liquidity and funding in the first half of 2015

The liquidity position of the Group remained strong in 1H15, as demonstrated by the key liquidity and funding metrics presented below. During the period, reported customer accounts decreased by 1% (\$15bn) while reported loans and advances to customers decreased by 2% (\$21bn), leading to a small reduction in our advances to deposits ratio to 71% (30 June 2014: 74%; 31 December 2014: 72%).

Wholesale senior funding markets

Conditions in wholesale debt markets deteriorated through the second quarter as the uncertainty around Greece affected market confidence. The path of interest rates and broader global economic uncertainty means further volatility can be expected; however global bank funding needs and regulatory proposals for increased loss absorbing capacity suggest continued volumes of primary market supply. We retained good access to debt capital markets with Group entities issuing \$9.6bn of public transactions, of which \$4.3bn was in the form of senior unsecured debt.

Liquidity regulation

The European adoption of the Basel Committee framework (legislative texts known as the Capital Requirements Regulation and Directive – CRR/CRD IV) was published in June 2013, requiring the reporting of the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) to European regulators from 30 June 2014. A significant level of interpretation was involved in reporting and calculating the LCR as defined in the CRR text as certain areas were only addressed by the finalisation of the LCR regulation in January 2015. This will not become a regulatory standard until 1 October 2015. The European calibration of NSFR is pending following the Basel Committee’s final recommendation in October 2014. We monitor NSFR in line with the relevant text from the Basel Committee of Banking Supervision (BCBS295), pending its implementation in Europe. Both Group NSFR and Group LCR as reported were above 100%.

Management of liquidity and funding risk

Our liquidity and funding risk management framework (LFRF) employs two key measures to define, monitor and control the liquidity and funding risk of each of our operating entities. The advances to core funding ratio is used to monitor our structural long-term funding position, and the stressed coverage ratio, incorporating Group-defined stress scenarios, is used to monitor our resilience to severe liquidity stresses.

The three principal entities listed in the tables below represented 64% (30 June 2014: 67%; 31 December 2014: 66%) of the Group’s customer accounts. Including the other principal entities, the figure was 93% (30 June 2014: 96%; 31 December 2014: 95%).

Advances to core funding ratio

The table below shows the extent to which loans and advances to customers in the listed principal banking entities were financed by reliable and stable sources of funding.

*Advances to core funding ratios*⁸

| | 30 Jun | Half-year to | |
|---|--------|--------------|--------|
| | 2015 | 30 Jun | 31 Dec |
| | % | 2014 | 2014 |
| | | % | % |
| HSBC UK | | | |
| Period-end | 96 | 99 | 97 |
| Maximum | 98 | 102 | 100 |
| Minimum | 96 | 99 | 97 |
| Average | 97 | 101 | 99 |
| The Hongkong and Shanghai Banking Corporation | | | |
| Period-end | 74 | 74 | 75 |

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| | | | |
|------------|------------|----|-----|
| Maximum | 75 | 75 | 75 |
| Minimum | 73 | 72 | 73 |
| Average | 74 | 74 | 74 |
| HSBC USA | | | |
| Period-end | 95 | 97 | 100 |
| Maximum | 100 | 98 | 100 |
| Minimum | 95 | 85 | 95 |
| Average | 97 | 93 | 97 |

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Table of Contents*Advances to core funding ratios⁸ (continued)*

| | 30 Jun | Half-year to | 31 Dec |
|--|---------------|--------------|--------|
| | 2015 | 30 Jun | 2014 |
| | % | % | % |
| Total of HSBC's other principal entities | | | |
| Period-end | 93 | 93 | 92 |
| Maximum | 94 | 94 | 93 |
| Minimum | 92 | 93 | 92 |
| Average | 93 | 93 | 93 |

For footnote, see page 86.

There were no material movements in 1H15 for any of the principal banking entities and all entities remained within their advances to core funding limits. The limits set for principal operating entities at 30 June 2015 ranged from 80% to 120%.

Stressed coverage ratios

The ratios tabulated below express stressed cash inflows as a percentage of stressed cash outflows over both one-month and three-month time horizons. Operating entities are required to maintain a ratio of 100% or more out to three months.

Inflows included in the numerator of the stressed coverage ratio are generated from liquid assets net of assumed haircuts, and cash inflows related to assets contractually maturing within the time period.

In general, customer advances are assumed to be renewed and as a result do not generate a cash inflow.

Stressed one-month and three-month coverage ratios⁸

| | Stressed one-month | | | Stressed three-month | | |
|------------|--------------------------------------|--------|--------|--------------------------------------|--------|--------|
| | coverage ratios for the half-year to | | | coverage ratios for the half-year to | | |
| | 30 Jun | 30 Jun | 31 Dec | 30 Jun | 30 Jun | 31 Dec |
| | 2015 | 2014 | 2014 | 2015 | 2014 | 2014 |
| | % | % | % | % | % | % |
| HSBC UK | | | | | | |
| Period-end | 127 | 103 | 117 | 114 | 103 | 109 |
| Maximum | 127 | 106 | 117 | 114 | 109 | 109 |

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| | | | | | | |
|---|------------|-----|-----|------------|-----|-----|
| Minimum | 112 | 102 | 103 | 105 | 103 | 103 |
| Average | 117 | 104 | 110 | 108 | 104 | 104 |
| The Hongkong and Shanghai Banking Corporation | | | | | | |
| Period-end | 118 | 114 | 117 | 114 | 111 | 112 |
| Maximum | 118 | 119 | 118 | 114 | 114 | 114 |
| Minimum | 113 | 114 | 114 | 111 | 111 | 111 |
| Average | 116 | 115 | 116 | 112 | 112 | 113 |
| HSBC USA | | | | | | |
| Period-end | 120 | 115 | 111 | 110 | 108 | 104 |
| Maximum | 120 | 115 | 122 | 110 | 110 | 111 |
| Minimum | 109 | 108 | 111 | 101 | 104 | 104 |
| Average | 113 | 112 | 118 | 104 | 107 | 108 |
| Total of HSBC's other principal entities | | | | | | |
| Period-end | 116 | 115 | 121 | 109 | 108 | 108 |
| Maximum | 121 | 121 | 121 | 109 | 115 | 109 |
| Minimum | 112 | 114 | 115 | 106 | 108 | 108 |
| Average | 115 | 117 | 116 | 107 | 111 | 108 |

The coverage ratio for HSBC UK increased due to strong growth in deposits over the period.

Sources of funding

Our primary sources of funding are customer current accounts and customer savings deposits payable on demand or at short notice. We issue wholesale securities (secured and unsecured) to supplement our customer deposits and change the currency mix, maturity profile or location of our liabilities.

The level of customer accounts continued to exceed the level of loans and advances to customers. The positive funding gap was predominantly deployed into liquid assets, cash and balances with central banks and financial investments, as required by the LFRF.

Loans and other receivables due from banks continued to exceed deposits taken from banks. The Group remained a net unsecured lender to the banking sector.

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Table of Contents**Risk (continued)***Consolidated funding sources and uses*

| | 30 Jun 2015 \$m | At 30 Jun 2014 \$m | 31 Dec 2014 \$m |
|--|--------------------------------|-----------------------------|-----------------------|
| Sources | | | |
| Customer accounts | 1,335,800 | 1,415,705 | 1,350,642 |
| Deposits by banks | 71,140 | 92,764 | 77,426 |
| Repurchase agreements non-trading | 81,506 | 165,506 | 107,432 |
| Debt securities in issue | 102,656 | 96,397 | 95,947 |
| Liabilities of disposal groups held for sale | 53,226 | 12,361 | 6,934 |
| Subordinated liabilities | 24,781 | 28,052 | 26,664 |
| Financial liabilities designated at fair value | 69,485 | 82,968 | 76,153 |
| Liabilities under insurance contracts | 69,494 | 75,223 | 73,861 |
| Trading liabilities | 181,435 | 228,135 | 190,572 |
| repos | 2,081 | 5,189 | 3,798 |
| stock lending | 13,655 | 15,252 | 12,032 |
| settlement accounts | 29,398 | 41,240 | 17,454 |
| other trading liabilities | 136,301 | 166,454 | 157,288 |
| Total equity | 201,382 | 198,722 | 199,978 |
| | 2,190,905 | 2,395,833 | 2,205,609 |

Market risk

Market risk is the risk that adverse movements in market factors, such as foreign exchange rates, interest rates, credit spreads, equity prices and commodity prices, will reduce our income or the value of our portfolios.

There were no material changes to the policies and practices for the management of market risk described in the *Annual Report and Accounts 2014*.

A summary of our market risk management framework including current policies is provided on page 221 of the Annual Report and Accounts 2014.

Market risk in the first half of 2015

Global markets were influenced by the Greek crisis and concerns about the slowdown in the mainland Chinese economy. Markets remained volatile given the uncertainties in the global economic outlook compounded by volatility in the oil and gas markets.

We maintained an overall defensive risk profile that resulted in a continued reduction in our trading value at risk (VaR). Non-trading VaR increased slightly during the first half of the year, driven by the expectations of an increase in US rates.

| Uses | At | | |
|--|-----------------------|-----------------------|-----------------------|
| | 30 Jun 2015 \$m | 30 Jun 2014 \$m | 31 Dec 2014 \$m |
| Loans and advances to customers | 953,985 | 1,047,241 | 974,660 |
| Loans and advances to banks | 109,405 | 127,387 | 112,149 |
| Reverse repurchase agreements non-trading | 149,384 | 198,301 | 161,713 |
| Assets held for sale | 60,929 | 10,248 | 7,647 |
| Trading assets | 283,138 | 347,106 | 304,193 |
| reverse repos | 741 | 4,484 | 1,297 |
| stock borrowing | 11,639 | 13,903 | 7,969 |
| settlement accounts | 33,249 | 48,139 | 21,327 |
| other trading assets | 237,509 | 280,580 | 273,600 |
| Financial investments | 404,682 | 423,710 | 415,467 |
| Cash and balances with central banks | 144,324 | 132,137 | 129,957 |
| Net deployment in other balance sheet assets and liabilities | 85,058 | 109,703 | 99,823 |
| | 2,190,905 | 2,395,833 | 2,205,609 |

As a consequence of the Greek crisis, the yields on lower rated European government bonds increased but remained well below previous crisis peaks.

Although the Chinese government intervened through policy adjustments, mainly around interest rates and reserve requirements, the mainland Chinese equity markets fell during the latter part of the period under review.

In addition, divergent monetary policies were seen in the US and Europe. The US Federal Reserve Board continued to discuss a move to normalise monetary policy with an expected interest rate rise in 2015. This contrasted with the eurozone implementing its asset purchase programme earlier in the year.

Capital flows to emerging markets remained weak and are likely to stay uncertain as they await the timing of a possible US interest rate increase later this year.

Trading portfolios

Value at risk of the trading portfolios

Trading VaR resides within Global Markets. The VaR for trading activity at 30 June 2015 was lower than at 31 December 2014 due primarily to declines in interest rate trading VaR.

The Group trading VaR for the half-year is shown in the table below.

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Table of Contents*Trading VaR, 99% 1 day*

| | Foreign | | | Portfolio | | Total \$m |
|--------------------------------------|----------------------------------|-------------------------|---------------|-------------------------|---|--------------|
| | exchange and commodity \$m | Interest rate \$m | Equity \$m | Credit spread \$m | diversification including RNIV ⁹ \$m | |
| Half-year to 30 June 2015 | 11.5 | 36.7 | 8.1 | 14.9 | (14.1) | 57.1 |
| Average | 15.2 | 41.1 | 7.2 | 16.3 | (16.9) | 62.9 |
| Maximum | 21.7 | 47.1 | 12.4 | 21.8 | | 77.9 |
| Minimum | 9.2 | 33.3 | 3.4 | 9.9 | | 51.3 |
| Half-year to 30 June 2014 | 13.6 | 41.7 | 9.1 | 12.7 | (27.9) | 49.2 |
| Average | 15.8 | 37.1 | 5.9 | 15.0 | (22.5) | 51.3 |
| Maximum | 28.0 | 50.5 | 12.4 | 20.9 | | 63.4 |
| Minimum | 8.7 | 26.9 | 3.2 | 9.3 | | 38.5 |
| Half-year to 31 December 2014 | 9.8 | 45.4 | 7.3 | 12.5 | (14.3) | 60.7 |
| Average | 18.0 | 41.9 | 7.9 | 12.4 | (13.4) | 66.8 |
| Maximum | 34.2 | 50.6 | 15.6 | 17.1 | | 77.8 |
| Minimum | 8.8 | 34.4 | 3.8 | 8.8 | | 49.9 |

For footnote, see page 86.

Back-testing

There were no loss or profit exceptions for the Group in 1H15.

Non-trading portfolios*Value at risk of the non-trading portfolios*

Non-trading VaR of the Group includes contributions from all global businesses. There is no commodity risk in the non-trading portfolios. The VaR for non-trading activity at 30 June 2015 was slightly higher than at 31 December 2014 driven by an increase in non-trading interest rate VaR, partially offset by an increase in diversification benefit.

The Group non-trading VaR for the half-year is shown in the table below.

Non-trading VaR, 99% 1 day

| | Interest | Credit | Portfolio | |
|----------------------------------|-----------------|---------------|------------------------------------|--------------|
| | rate | spread | diversification⁹ | Total |
| | \$m | \$m | \$m | \$m |
| Half-year to 30 June 2015 | 106.4 | 66.7 | (45.3) | 127.8 |
| Average | 86.6 | 61.7 | (33.6) | 114.7 |
| Maximum | 112.6 | 71.9 | | 128.1 |
| Minimum | 70.5 | 54.3 | | 91.5 |
| Half-year to 30 June 2014 | 103.6 | 75.1 | (27.7) | 151.0 |
| Average | 116.1 | 79.3 | (40.9) | 154.5 |
| Maximum | 147.7 | 91.9 | | 189.0 |
| Minimum | 99.1 | 69.0 | | 122.5 |
| Half-year to 31 December 2014 | 88.2 | 62.5 | (28.5) | 122.2 |
| Average | 90.9 | 67.5 | (34.0) | 124.4 |
| Maximum | 105.1 | 82.8 | | 160.6 |
| Minimum | 83.3 | 49.6 | | 92.3 |

For footnote, see page 86.

Non-trading VaR excludes equity risk on available-for-sale securities, structural foreign exchange risk and interest rate risk on fixed rate securities issued by HSBC Holdings. This section and the sections below describe the scope of HSBC's management of market risks in non-trading books.

Non-trading interest rate risk

Our policies regarding the funds transfer priority process for managing non-trading interest rate risk and liquidity and funding risk are described on pages 226 and 219, respectively, of the *Annual Report and Accounts 2014*.

Third-party assets in Balance Sheet Management

Third-party assets in BSM in total did not change during 1H15, primarily as a result of the reclassification of \$10bn of assets in Brazil to held for sale, offset by an increase of \$6bn in financial investments due to increased deployment of commercial surplus funds into securities in Hong Kong. Notwithstanding the reclassification, BSM continues to manage Brazilian assets pending entity disposal.

Table of Contents**Risk (continued)***Third-party assets in Balance Sheet Management*

| | 30 Jun | At 30 Jun | 31 Dec |
|---|----------------|--------------|---------|
| | 2015 | 2014 | 2014 |
| | \$m | \$m | \$m |
| Cash and balances at central banks | 107,513 | 107,698 | 103,008 |
| Trading assets | 2,104 | 5,673 | 4,610 |
| Financial assets designated at fair value | | 70 | |
| Loans and advances | | | |
| to banks | 54,586 | 61,277 | 53,842 |
| to customers | 2,723 | 1,871 | 1,931 |
| Reverse repurchase agreements | 48,922 | 69,844 | 59,172 |
| Financial investments | 312,975 | 311,333 | 306,763 |
| Other | 2,370 | 1,420 | 2,470 |
| | 531,193 | 559,186 | 531,796 |

Sensitivity of net interest income

The table below sets out the effect on our future net interest income (NII) of an incremental 25 basis points parallel rise or fall in all yield curves worldwide at the beginning of each quarter during the 12 months from 1 July 2015.

The sensitivities shown represent the change in the base case projected NII that would be expected under the two rate scenarios assuming that all other non-interest rate risk variables remain constant, and there are no management actions. In deriving our base case net interest income projections, the repricing rate of assets and liabilities used is derived from current yield curves. The interest rate sensitivities are indicative and based on simplified scenarios.

Assuming no management response, a sequence of such rises (up-shock scenario) would increase planned net interest income for the 12 months to 30 June 2016 by \$1,027m (to 31 December 2015: \$885m), while a sequence of such falls (down-shock scenario) would decrease planned net interest income by \$1,905m (to 31 December 2015: \$2,089m).

The NII sensitivity of the Group can be split into three key components; the structural sensitivity arising from the four global businesses excluding BSM and Global Markets, the sensitivity of the funding of the trading book (Global Markets) and the sensitivity of BSM.

The structural sensitivity is positive in a rising rate environment and negative in a falling rate environment. The sensitivity of the funding of the trading book is negative in a rising rate environment and positive in a falling rate

environment. The sensitivity of BSM depends on its position. Typically, assuming no management response, the sensitivity of BSM is negative in a rising rate environment and positive in a falling rate environment.

The NII sensitivity figures below also incorporate the effect of any interest rate behaviouralisation applied and the effect of any assumed repricing across products under the specific interest rate scenario. They do not incorporate the effect of any management decision to change the composition of HSBC's balance sheet.

The NII sensitivity in BSM arises from a combination of the techniques that BSM uses to mitigate the transferred interest rate risk and the methods it uses to optimise net revenues in line with its defined risk mandate. The figures in the table below do not incorporate the effect of any management decisions within BSM, but in reality it is likely that there would be some short-term adjustment in BSM positioning to offset the NII effects of the specific interest rate scenario where necessary.

The NII sensitivity arising from the funding of the trading book comprises the expense of funding trading assets, while the revenue from these trading assets is reported in net trading income. This leads to an asymmetry in the NII sensitivity figures which is cancelled out in our global business results, where we include both NII and net trading income. It is likely, therefore, that the overall effect on profit before tax of the funding of the trading book will be much less pronounced than is shown in the figures below.

The scenario sensitivities remained broadly unchanged in 1H15.

Sensitivity of projected net interest income

| | US dollar bloc \$m | Rest of Americas bloc \$m | Hong Kong dollar bloc \$m | Rest of Asia bloc \$m | Sterling bloc \$m | Euro bloc \$m | Total \$m |
|--|--------------------------|------------------------------------|------------------------------------|--------------------------------|-------------------------|---------------------|--------------|
| Change in July 2015 to June 2016 projected net interest income arising from a shift in yield curves at the beginning of each quarter of: | | | | | | | |
| + 25 basis points | 347 | 5 | 307 | 297 | 174 | (103) | 1,027 |
| - 25 basis points | (470) | (22) | (580) | (246) | (565) | (22) | (1,905) |
| Change in January 2015 to December 2015 projected net interest income arising from a shift in yield curves at the beginning of each quarter of: | | | | | | | |
| + 25 basis points | 209 | (9) | 245 | 265 | 321 | (146) | 885 |
| - 25 basis points | (521) | (1) | (494) | (259) | (783) | (31) | (2,089) |
| Change in July 2014 to | | | | | | | |

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June 2015 projected net
interest income arising
from a shift in yield curves
at the beginning of each
quarter of:

| | | | | | | | |
|-------------------|-------|------|-------|-------|-------|------|---------|
| + 25 basis points | 54 | 26 | 293 | 252 | 451 | (97) | 979 |
| 25 basis points | (308) | (37) | (450) | (235) | (691) | (25) | (1,746) |

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We monitor the sensitivity of reported reserves to interest rate movements on a monthly basis by assessing the expected reduction in valuation of available-for-sale portfolios and cash flow hedges due to parallel movements of plus or minus 100bps in all yield curves. These particular exposures form only a part of our overall interest rate exposures. The accounting treatment of our remaining interest rate exposures, while economically largely

offsetting the exposures shown in the above table, does not require revaluation movements to go to reserves.

The table below describes the sensitivity of our reported reserves to the stipulated movements in yield curves and the maximum and minimum month-end figures during the period. The sensitivities are indicative and based on simplified scenarios.

Sensitivity of reported reserves to interest rate movements

| | Impact in the preceding 6 months | | |
|---|----------------------------------|---------|---------|
| | Maximum | Minimum | |
| | \$m | \$m | \$m |
| At 30 June 2015 | | | |
| + 100 basis point parallel move in all yield curves | (3,858) | (3,858) | (3,306) |
| As a percentage of total shareholders' equity | (2.0%) | (2.0%) | (1.7%) |
| 100 basis point parallel move in all yield curves | 3,786 | 3,786 | 3,251 |
| As a percentage of total shareholders' equity | 2.0% | 2.0% | 1.7% |
| At 30 June 2014 | | | |
| + 100 basis point parallel move in all yield curves | (5,157) | (5,212) | (5,066) |
| As a percentage of total shareholders' equity | (2.7%) | (2.7%) | (2.7%) |
| 100 basis point parallel move in all yield curves | 4,730 | 4,915 | 4,730 |
| As a percentage of total shareholders' equity | (2.5%) | (2.6%) | (2.5%) |
| At 31 December 2014 | | | |
| + 100 basis point parallel move in all yield curves | (3,696) | (5,212) | (3,696) |
| As a percentage of total shareholders' equity | (1.9%) | (2.7%) | (1.9%) |
| 100 basis point parallel move in all yield curves | 3,250 | 4,915 | 3,250 |
| As a percentage of total shareholders' equity | 1.7% | 2.6% | 1.7% |

Additional market risk measures applicable only to the parent company

The principal tools used in the management of market risk are VaR for foreign exchange rate risk and the projected sensitivity of HSBC Holdings' NII to future changes in yield curves and interest rate gap repricing for interest rate risk.

Foreign exchange risk

Total foreign exchange VaR arising within HSBC Holdings in the first half of 2015 was as follows:

HSBC Holdings foreign exchange VaR

| | 30 Jun 2015 \$m | Half-year to 30 Jun 2014 \$m | 31 Dec 2014 \$m |
|---------------|--------------------------------|---------------------------------------|-----------------------|
| At period-end | 47.1 | 51.3 | 29.3 |
| Average | 38.8 | 47.0 | 42.1 |
| Maximum | 47.1 | 51.5 | 50.0 |
| Minimum | 32.9 | 42.5 | 29.3 |

The foreign exchange risk largely arises from loans to subsidiaries of a capital nature that are not denominated in the functional currency of either the provider or the recipient and which are accounted for as financial assets. Changes in the carrying amount of these loans due to foreign exchange rate differences are taken directly to HSBC Holdings income statement. These loans, and most of the associated foreign exchange exposures, are eliminated on consolidation.

Interest rate repricing gap table

The interest rate risk on the fixed-rate securities issued by HSBC Holdings is not included within the Group VaR but is managed on a repricing gap basis. The interest rate repricing gap table below analyses the full-term structure of interest rate mismatches within HSBC Holdings balance sheet.

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Table of Contents**Risk (continued)***Repricing gap analysis of HSBC Holdings*

| | Total \$m | Up to 1 year \$m | 1 to 5 years \$m | 5 to 10 years \$m | More than 10 years \$m | Non-interest bearing \$m |
|--|----------------------|---------------------------------|---------------------------------|----------------------------------|---------------------------------------|---|
| Cumulative interest rate gap | | | | | | |
| Total assets | 148,926 | 46,084 | 402 | 2,144 | | 100,296 |
| Total liabilities and equity | (148,926) | (2,345) | (6,850) | (10,104) | (14,507) | (115,120) |
| Off-balance sheet items attracting interest rate sensitivity | | (21,248) | 5,351 | 9,222 | 5,763 | 912 |
| Net interest rate risk gap at 30 June 2015 | | 22,491 | (1,097) | 1,262 | (8,744) | (13,912) |
| Cumulative interest rate risk gap | | 22,491 | 21,394 | 22,656 | 13,912 | |
| Total assets | 145,891 | 45,396 | 591 | 1,961 | 665 | 97,278 |
| Total liabilities and equity | (145,891) | (9,503) | (10,348) | (8,509) | (14,891) | (102,640) |
| Off-balance sheet items attracting interest rate sensitivity | | (20,597) | 7,137 | 7,400 | 6,042 | 18 |
| Net interest rate risk gap at 30 June 2014 | | 15,296 | (2,620) | 852 | (8,184) | (5,344) |
| Cumulative interest rate risk gap | | 15,296 | 12,676 | 13,528 | 5,344 | |
| Total assets | 147,864 | 44,613 | 290 | 1,824 | | 101,137 |
| Total liabilities and equity | (147,864) | (3,506) | (9,238) | (8,413) | (14,458) | (112,249) |
| Off-balance sheet items attracting interest rate sensitivity | | (21,525) | 7,295 | 7,400 | 5,763 | 1,067 |
| Net interest rate risk gap at 31 December 2014 | | 19,582 | (1,653) | 811 | (8,695) | (10,045) |
| Cumulative interest rate risk gap | | 19,582 | 17,929 | 18,740 | 10,045 | |

Operational risk

Operational risk is relevant to every aspect of our business and covers a wide spectrum of issues, in particular legal, compliance, security and fraud. Losses and other adverse consequences arising from breaches of regulation and law, unauthorised activities, error, omission, fraud, systems failure or external events all fall within the definition of operational risk.

Activity to further enhance and embed our Operational Risk Management Framework (ORMF) continued in the first half of 2015. Responsibility for minimising operational risk lies with HSBC s management and staff.

All regional, global business, country, business unit and functional heads are required to manage the operational risks and internal controls of the business and operational activities for which they are responsible.

The diagrammatic representation of our ORMF is provided on page 187 of the *Annual Report and Accounts 2014*.

A summary of our current policies and practices regarding operational risk is provided on page 228 of the Annual Report and Accounts 2014.

Operational risk profile in the first half of 2015

During 1H15, our operational risk profile continued to be dominated by compliance risks and we continued to see losses that relate to events from prior years (significant events are outlined in Notes 17 and 19 on the Financial Statements). A number of mitigating actions are being undertaken to prevent future conduct-related incidents.

Operational risks include:

compliance with regulatory agreements and orders: failure to implement our obligations under the US DPA could have a material adverse effect on our results and operations. The work of the Monitor is discussed on page 13, with compliance risk described below;

level of change creating operational complexity: the Global Risk function is engaged with business management in business transformation initiatives to ensure robust internal controls are maintained as we execute our change agenda;

fraud risks: while compared with the industry our loss performance remains strong in most markets, the introduction of new technologies and ways of banking mean that we continue to be subject to fraud attacks as new attack vectors are developed. We continue to increase monitoring and enhance detective controls to mitigate these risks in accordance with our risk appetite;

information security: the security of our information and technology infrastructure is crucial for maintaining our banking services and protecting our customers and the HSBC brand. We continue to be a target of increasingly sophisticated cyber-attacks such as distributed denial of service , in common with other banks and multinational organisations, which can affect the availability of customer-facing websites. Programmes of work are ongoing to strengthen internal security controls to prevent unauthorised access to our systems, including lessons learnt from attacks experienced within the industry and information sharing with other financial institutions, government agencies and external

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intelligence providers. Our UK operation is currently participating in an external penetration testing scheme called CBEST developed by the PRA that is aimed at assessing the ability of critical financial institutions to detect and defend against cyber-attacks;

third-party risk management: we are strengthening our third-party risk management capability, particularly the management of vendor risks, including the implementation of the supplier performance management programme with our most important suppliers. Attention is also being paid to the screening of suppliers to enable us to identify if any of them are on a sanctions list and we should therefore exit such relationships. Vendor risk management is a core element of third-party risk management.

Other operational risks are also monitored and managed through the use of the ORMF and governing policies.

Compliance risk

Compliance risk is the risk that we fail to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice, and incur fines and penalties and suffer damage to our business as a consequence. Compliance risk falls within the definition of operational risk.

All Group companies and employees are required to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice. These include those relating to AML, counter-terrorist and proliferation financing, sanctions compliance, anti-bribery and corruption, conduct of business and market conduct. The compliance risk policies and practices are described on pages 189 and 229 of the *Annual Report and Accounts 2014*. There were no material changes to our policies and practices for the management of compliance risk in the first half of 2015 with the exception of the implementation of the new AML and sanctions policy procedures as outlined below.

Enhanced global AML and sanctions policies were approved in 2014. Global businesses and all in-scope countries had implemented new AML and sanctions policy procedures by the end of March 2015. The application of procedures required to embed them in our day to day business operations globally will remain a key focus during the rest of 2015. The overriding policy objective is for every employee to engage in only the right kind of business, conducted in the right way .

Programmes to enhance the Group's standards of regulatory conduct ensuring the delivery of fair outcomes for customers and orderly and transparent operations in financial markets continued to progress in 1H15.

We have experienced increasing levels of compliance risk in recent years as regulators and other agencies pursued investigations into historical activities, and we have continued to work with them in relation to these matters. They are described in Areas of special interest on page 59.

It is clear that the level of inherent compliance risk that we face will continue to remain high for the foreseeable future. However, we consider that good progress is being made and will continue to be made in ensuring that we are well placed to effectively manage those risks.

Whistleblowing

HSBC operates global disclosure lines (telephone and email) which are available to allow employees to raise concerns regarding potential wrongdoing when the normal channels for escalation are unavailable or inappropriate. Matters raised are independently investigated by appropriate subject matter teams. Outcomes including remedial action taken are reported to the Conduct & Values Committee, in respect of AML and sanctions matters to the Financial System Vulnerabilities Committee and in respect of audit and accounting matters to the Group Audit Committee.

Reputational risk

Reputational risk is the risk of failure to meet stakeholder expectations as a result of any event, behaviour, action or inaction, either by HSBC itself, our employees or those with whom we are associated, that might cause stakeholders to form a negative view of the Group. This may have financial or non-financial implications or have other consequences such as loss of confidence.

The reputational risk policies and practices are described on pages 199 and 235 of the *Annual Report and Accounts 2014*.

We have a zero tolerance for knowingly engaging in any business, activity or association where foreseeable reputational damage has not been considered and mitigated. There must be no barriers to open discussion and the escalation of issues that could affect the Group negatively. While there is a level of risk in every aspect of business activity, appropriate consideration of potential harm to HSBC's good name must be a part of all business decisions.

We have restructured our Reputational Risk Function and created a Reputational Risk Management team. This team's mandate is to provide bespoke advisory services to the business on reputational risks to the bank and to work with the Financial Crime and Regulatory Compliance teams to mitigate such risks where possible.

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Risk (continued)

Risk management of insurance operations

The majority of the risk in our insurance business derives from manufacturing activities and can be categorised as insurance risk and financial risk. Insurance risk is the risk, other than financial risk, of loss transferred from the holder of the insurance contract to the issuer (HSBC). Financial risks include market risk, credit risk and liquidity risk.

There have been no material changes to the policies and practices for the management of risks arising in our insurance operations described in the *Annual Report and Accounts 2014*.

A summary of our policies and practices regarding the risk management of insurance operations, our insurance model and the main contracts we manufacture are provided on page 231 of the Annual Report and Accounts 2014.

Risk management of insurance operations in the first half of 2015

We measure the risk profile of our insurance manufacturing businesses using an economic capital approach. Under this approach, assets and liabilities are measured on a market value basis and capital is held to ensure that there is less than a 1 in 200 chance of insolvency during the coming year given the risks that the businesses are exposed to. This approach is aligned to the measurement approach for market, credit and insurance risks in the economic

capital model in the European Solvency II insurance capital regulations applicable from 2016.

The risk profile of our life insurance manufacturing businesses did not change materially during 1H15 despite the decrease in liabilities under insurance contracts to \$69bn (31 December 2014: \$74bn).

This reduction arose from the transfer of \$5bn of these liabilities to Liabilities of disposal groups held for sale during the period when we announced the plan to sell our operations in Brazil (including the entire insurance business there).

Asset and liability matching

A principal tool used to manage exposures to both financial and insurance risk, in particular for life insurance contracts, is asset and liability matching. In many markets in which we operate it is neither possible nor appropriate to follow a perfect asset and liability matching strategy. For long-dated non-linked contracts, in particular, this results in a duration mismatch between assets and liabilities. We therefore structure portfolios that support liabilities under non-linked contracts with due consideration to the risk exposure to HSBC and the capital requirements.

The table below shows the composition of assets and liabilities by contract type and demonstrates that there were sufficient assets to cover the liabilities to policyholders, in each case at 30 June 2015.

Balance sheet of insurance manufacturing subsidiaries by type of contract

| | Insurance contracts | | | | Investment contracts | | | Other assets and liabilities | Total |
|---|---------------------|--------------------|------------------|--------------|----------------------|--------------------|--------------|------------------------------|----------------|
| | With DPF \$m | Unit-linked \$m | Annuities \$m | Other \$m | With DPF \$m | Unit-linked \$m | Other \$m | | |
| Financial assets | 30,199 | 7,351 | 1,272 | 6,359 | 22,570 | 2,587 | 4,027 | 5,862 | 80,227 |
| trading assets | | | 3 | | | | | | 3 |
| financial assets designated at fair value | 4,563 | 7,157 | 343 | 699 | 6,778 | 2,174 | 1,924 | 1,136 | 24,774 |
| derivatives | 42 | 1 | | 2 | 100 | | 11 | 63 | 219 |
| financial investments | 22,784 | | 830 | 5,478 | 13,902 | | 1,425 | 4,663 | 49,082 |
| other financial assets | 2,810 | 193 | 96 | 180 | 1,790 | 413 | 667 | | 6,149 |
| Reinsurance assets | 199 | 239 | | 754 | | | | | 1,192 |
| PVIF | | | | | | | | 5,363 | 5,363 |
| Other assets and investment properties | 828 | 11 | 24 | 109 | 739 | 12 | 26 | 12,887 | 14,636 |
| Total assets at 30 June 2015 | 31,226 | 7,601 | 1,296 | 7,222 | 23,309 | 2,599 | 4,053 | 24,112 | 101,418 |
| Liabilities under investment contracts: | | | | | | 2,558 | 3,786 | | 6,344 |
| designated at fair value | | | | | | 2,558 | 3,786 | | 6,344 |
| Liabilities under insurance contracts | 30,914 | 7,541 | 1,237 | 6,493 | 23,309 | | | | 69,494 |
| Deferred tax | 12 | | 8 | 4 | | | | 1,131 | 1,155 |
| Other liabilities | | | | | | | | 13,837 | 13,837 |
| Total liabilities | 30,926 | 7,541 | 1,245 | 6,497 | 23,309 | 2,558 | 3,786 | 14,968 | 90,830 |
| Total equity | | | | | | | | 10,588 | 10,588 |
| Total equity and liabilities at | 30,926 | 7,541 | 1,245 | 6,497 | 23,309 | 2,558 | 3,786 | 25,556 | 101,418 |

30 June
2015



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Table of Contents*Balance sheet of insurance manufacturing subsidiaries by type of contract (continued)*

| | With DPF \$m | Insurance contracts | | | Investment contracts | | | Other assets and liabilities \$m | Total \$m |
|---|--------------------|------------------------|------------------|--------------|----------------------|------------------------|--------------|---|--------------|
| | | Unit- linked \$m | Annuities \$m | Other \$m | With DPF \$m | Unit- linked \$m | Other \$m | | |
| Financial assets | 28,014 | 12,043 | 1,629 | 5,452 | 26,657 | 2,867 | 4,455 | 6,064 | 87,181 |
| trading assets | | | 4 | | | | | | 4 |
| financial assets | | | | | | | | | |
| designated at fair value | 4,383 | 11,760 | 564 | 651 | 7,523 | 2,411 | 1,541 | 2,219 | 31,052 |
| derivatives | 7 | 1 | | 2 | 95 | | | 71 | 176 |
| financial investments | 20,565 | | 960 | 4,421 | 17,049 | | 1,750 | 3,697 | 48,442 |
| other financial assets | 3,059 | 282 | 101 | 378 | 1,990 | 456 | 1,164 | 77 | 7,507 |
| Reinsurance assets | 183 | 265 | | 723 | | | | 2 | 1,173 |
| PVIF | | | | | | | | 5,438 | 5,438 |
| Other assets and investment properties | 794 | 330 | 19 | 101 | 728 | 11 | 27 | 7,813 | 9,823 |
| Total assets at 30 June 2014 | 28,991 | 12,638 | 1,648 | 6,276 | 27,385 | 2,878 | 4,482 | 19,317 | 103,615 |
| Liabilities under investment contracts: | | | | | | 2,878 | 4,276 | | 7,154 |
| designated at fair value | | | | | | 2,878 | 3,800 | | 6,678 |
| carried at amortised cost | | | | | | | 476 | | 476 |
| Liabilities under | 28,217 | 12,518 | 1,591 | 5,512 | 27,385 | | | | 75,223 |

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| | | | | | | | | | |
|--|--------|--------|-------|-------|--------|-------|-------|--------|---------|
| insurance contracts | | | | | | | | | |
| Deferred tax | 12 | | 11 | 10 | | | | 1,223 | 1,256 |
| Other liabilities | | | | | | | | 9,451 | 9,451 |
| Total liabilities | 28,229 | 12,518 | 1,602 | 5,522 | 27,385 | 2,878 | 4,276 | 10,674 | 93,084 |
| Total equity | | | | | | | | 10,531 | 10,531 |
| Total equity and liabilities at 30 June 2014 | 28,229 | 12,518 | 1,602 | 5,522 | 27,385 | 2,878 | 4,276 | 21,205 | 103,615 |
| Financial assets | 29,040 | 11,278 | 1,517 | 6,253 | 24,238 | 2,561 | 4,322 | 5,732 | 84,941 |
| trading assets | | | 3 | | | | | | 3 |
| financial assets designated at fair value | 4,304 | 11,111 | 533 | 782 | 6,346 | 2,223 | 1,684 | 1,713 | 28,696 |
| derivatives | 12 | 1 | | 1 | 101 | 1 | 10 | 73 | 199 |
| financial investments | 21,152 | | 886 | 5,167 | 15,677 | | 1,807 | 3,812 | 48,501 |
| other financial assets | 3,572 | 166 | 95 | 303 | 2,114 | 337 | 821 | 134 | 7,542 |
| Reinsurance assets | 190 | 262 | | 617 | | | | 2 | 1,071 |
| PVIF | | | | | | | | 5,307 | 5,307 |
| Other assets and investment properties | 698 | 328 | 23 | 107 | 831 | 7 | 26 | 7,383 | 9,403 |
| Total assets at 31 December 2014 | 29,928 | 11,868 | 1,540 | 6,977 | 25,069 | 2,568 | 4,348 | 18,424 | 100,722 |
| Liabilities under investment contracts: | | | | | | | | | |
| designated at fair value | | | | | | | | 2,542 | 4,155 |
| carried at amortised cost | | | | | | | | 2,542 | 3,770 |
| Liabilities under insurance contracts | 29,479 | 11,820 | 1,473 | 6,021 | 25,068 | | | | 73,861 |
| Deferred tax | 12 | | 11 | 18 | | | | 1,180 | 1,221 |
| Other | | | | | | | | 8,577 | 8,577 |

| | | | | | | | | | |
|-----------------|--------|--------|-------|-------|--------|-------|-------|--------|---------|
| liabilities | | | | | | | | | |
| Total | | | | | | | | | |
| liabilities | 29,491 | 11,820 | 1,484 | 6,039 | 25,068 | 2,542 | 4,155 | 9,757 | 90,356 |
| Total equity | | | | | | | | 10,366 | 10,366 |
| Total equity | | | | | | | | | |
| and liabilities | | | | | | | | | |
| at | | | | | | | | | |
| 31 December | | | | | | | | | |
| 2014 | 29,491 | 11,820 | 1,484 | 6,039 | 25,068 | 2,542 | 4,155 | 20,123 | 100,722 |

The Brazilian insurance operations and the UK pensions business are reported as disposal groups held for sale at 30 June 2015. The assets and liabilities of these disposal groups are included in the 'Other assets and liabilities' column of the table above.

These disposal groups contained a total of \$12bn of total liabilities (mainly liabilities under insurance and investment contracts) and \$12bn of total assets (mainly financial and reinsurance assets backing these liabilities and the PVIF associated with the insurance contracts) at 30 June 2015. The disposal of the UK pensions business is expected to be completed in the second half of 2015.

Insurance risk

Insurance risk is principally measured in terms of liabilities under the contracts in force.

A principal risk we face is that, over time, the cost of acquiring and administering a contract, claims and benefits may exceed the aggregate amount of premiums received and investment income. The cost of claims and benefits can be influenced by many factors, including mortality and morbidity experience, lapse and surrender rates and, if the policy has a savings element, the performance of the assets held to support the liabilities.

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Table of Contents**Risk (continued)**

The insurance risk profile and related exposures remain largely consistent with those observed at 31 December 2014.

Footnotes to Risk**Credit risk**

- 1 *The amount of loan commitments reflects, where relevant, the expected level of take-up of pre-approved loan offers made by mailshots to personal customers. In addition to those amounts, there is a further maximum possible exposure to credit risk of \$70bn (30 June 2014: \$60bn; 31 December 2014: \$71bn), reflecting the full take-up of loan commitments. The take-up of such offers is generally at modest levels.*
- 2 *Other commercial loans and advances includes advances in respect of agriculture, transport, energy utilities and ABSs reclassified to Loans and advances .*
- 3 *Loans and advances to customers includes asset-backed securities that have been externally rated as strong (30 June 2015: \$812m; 30 June 2014: \$1.8bn; 31 December 2014: \$1.2bn), good (30 June 2015: \$100m; 30 June 2014: \$88m; 31 December 2014: \$256m), satisfactory (30 June 2015: \$125m; 30 June 2014: \$54m; 31 December 2014: \$332m), sub-standard (30 June 2015: \$102m; 30 June 2014: \$220m; 31 December 2014: \$94m) and impaired (30 June 2015: \$101m; 30 June 2014: \$321m; 31 December 2014: \$128m).*
- 4 *Corporate and commercial includes commercial real estate renegotiated loans of \$2,547m (30 June 2014: \$3,527; 31 December 2014: \$2,724m) of which \$656m (30 June 2014: \$475m; 31 December 2014: \$608m) were neither past due nor impaired, \$1m (30 June 2014: \$97m; 31 December 2014: \$1m) were past due but not impaired and \$1,890m (30 June 2014: \$2,955m; 31 December 2014: \$2,115m) were impaired.*
- 5 *Financial includes loans and advances to banks.*
- 6 *Currency translation adjustment is the effect of translating the results of subsidiaries and associates for the previous period at the average rates of exchange applicable in the current period.*
- 7 *Negative numbers are favourable; positive numbers are unfavourable.*

Liquidity and funding

- 8 *The most favourable metrics are a smaller advances to core funding and a larger stressed one month coverage ratio.*

Market risk

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Portfolio diversification is the market risk dispersion effect of holding a portfolio containing different risk types. It represents the reduction in unsystematic market risk that occurs when combining a number of different risk types, for example, interest rate, equity and foreign exchange, together in one portfolio. It is measured as the difference between the sum of the VaR by individual risk type and the combined total VaR. A negative number represents the benefit of portfolio diversification. As the maximum and minimum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification benefit for these measures. For presentation purposes, portfolio diversification within the trading portfolio includes VaR-based RNIV.

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Table of Contents**Capital****Capital**

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Our objective in the management of Group capital is to maintain appropriate levels of capital to support our business strategy and meet our regulatory and stress testing related requirements.

Capital highlights

Our end point CET1 ratio of 11.6% was up from 11.1% at the end of 2014 as a result of continued capital generation and RWA initiatives offset by business growth and regulatory changes.

Our leverage ratio remained strong at 4.9%.

Capital overview*Capital ratios*

| | 30 Jun 2015 | At 30 Jun 2014 | 31 Dec 2014 |
|---|------------------------|----------------------|----------------|
| | % | % | % |
| CRD IV end point | | | |
| Common equity tier 1 ratio ¹ | 11.6 | 11.3 | 11.1 |
| CRD IV transitional | | | |
| Common equity tier 1 ratio ¹ | 11.6 | 11.2 | 10.9 |
| Tier 1 ratio | 13.4 | 12.3 | 12.5 |
| Total capital ratio | 16.3 | 15.4 | 15.6 |

Total regulatory capital and risk-weighted assets

| | 30 Jun 2015 | At 30 Jun 2014 | 31 Dec 2014 |
|---|------------------------|----------------------|----------------|
| | \$m | \$m | \$m |
| CRD IV end point | | | |
| Common equity tier 1 capital ¹ | 138,080 | 141,557 | 135,953 |
| CRD IV transitional | | | |
| Common equity tier 1 capital ¹ | 138,080 | 140,070 | 133,200 |
| Additional tier 1 capital | 21,346 | 13,813 | 19,539 |
| Tier 2 capital | 35,684 | 38,951 | 37,991 |
| Total regulatory capital | 195,110 | 192,834 | 190,730 |
| Risk-weighted assets | 1,193,154 | 1,248,572 | 1,219,765 |

For footnotes, see page 100.

Our approach to managing Group capital is designed to ensure that we exceed current regulatory requirements and that we respect the payment priority of our capital providers. Throughout the first half of 2015, we complied with the PRA's regulatory capital adequacy requirements, including those relating to stress testing. We are also well placed to meet our expected future capital requirements.

We continue to manage Group capital to meet a medium-term target for return on equity of more than 10% by 2017. This is modelled on a CET1 ratio on an end point basis in the range of 12% to 13%, which takes into account known and quantifiable end point CET1 requirements including a regulatory and management buffer of 1.5-2.5%, based on our estimate of the additional CET1 we will need to hold to cover the new time-varying buffers and other factors. It will be kept under review as clarity in respect of future regulatory developments continues to improve.

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Capital and RWAs are calculated and presented on the Group's interpretation of final CRD IV legislation and the PRA's final rules as set out in the PRA Rulebook.

We continue to exceed the PRA's current requirements in relation to capital ratios for major UK banks and building societies.

Despite the rules published to date, there remains continued uncertainty around the amount of capital that UK banks will be required to hold. While there is emerging clarity around the interaction of the capital buffers and the PRA's Pillar 2 framework, uncertainty remains around the broader capital framework, including Basel revisions to the RWA framework, capital floors, global systemically important bank (G-SIB) developments and total loss absorbing capacity (TLAC) requirements. Furthermore, there remain a number of draft and unpublished European Banking Authority (EBA) regulatory and implementing technical standards due in 2015.

A summary of our policies and practices regarding capital management, measurement and allocation is provided on page 257 of the Annual Report and Accounts 2014.

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Table of Contents**Capital** (continued)**Movements by major driver***Capital and RWA movements by major driver CRD IV end point basis*

| | Common equity tier 1 capital \$bn | RWAs \$bn |
|---|--|----------------------|
| CRD IV end point basis at 1 January 2015 | 136.0 | 1,219.8 |
| Capital generation from profit | 5.6 | |
| consolidated profits attributable to shareholders of the parent company (including regulatory adjustments) <i>Of which \$1.4bn gain on the partial sale of our shareholding in Industrial Bank including fair value gains reclassified to the income statement</i> | 8.2 | |
| dividends net of scrip ³ | (0.7) | |
| second interim dividend ² net of planned scrip | (1.9) | |
| Further impact on partial sale of shareholding in Industrial Bank including fair value gains reclassified to the income statement and lower allowable non-controlling interests | (3.6) | |
| Regulatory changes | | 5.8 |
| RWA initiatives | | (50.3) |
| Business growth including associates | | 30.0 |
| Foreign currency translation differences ⁴ | (1.8) | (14.2) |
| Other movements | 1.9 | 2.1 |
| CRD IV end point basis at 30 June 2015 | 138.1 | 1,193.2 |

For footnotes, see page 100.

Capital generation from profits contributed \$5.6bn to CET1 capital, being profits attributable to shareholders of the parent company after regulatory adjustment for own credit spread, debit valuation adjustment and deconsolidation of insurance entities and net of dividends including the foreseeable second interim dividend after planned scrip. This also included the benefit of a higher fourth interim dividend scrip take-up and fair value gains reclassified to the income statement from the partial sale of our shareholding in Industrial Bank.

At our Investor Update we announced that we plan to significantly reduce Group RWAs by the end of 2017 and redeploy them to support higher returning areas. A number of internal programmes have been established to drive and manage these plans. RWAs reduced in the period,

driven by RWA initiatives and foreign currency translation differences. The reduction was largely offset by business growth, principally in CMB and Global Banking across Asia, Europe and North America and business growth in our associate BoCom.

These initiatives included accelerated reduction of GB&M legacy assets of \$14.1bn from both the disposal of securitisation positions and the unwinding of other securitisation transactions. In both GB&M and CMB, more detailed mapping within RWA calculations and improved recognition of collateral and netting, reduced RWAs by \$12.6bn and \$6.1bn, respectively. The partial sale of our shareholding in Industrial Bank reduced RWAs by \$12.3bn. In addition, the continued reduction of RBWM's US CML run-off portfolio reduced RWAs by \$5.2bn.

Risk-weighted assets

RWAs by risk type

| | 30 Jun 2015 | At 30 Jun 2014 | 31 Dec 2014 |
|--------------------------|------------------------|----------------------|----------------|
| | \$bn | \$bn | \$bn |
| Credit risk | 935.1 | 966.0 | 955.3 |
| standardised approach | 348.5 | 350.9 | 356.9 |
| IRB foundation approach | 23.3 | 15.5 | 16.8 |
| IRB advanced approach | 563.3 | 599.6 | 581.6 |
| Counterparty credit risk | 83.7 | 101.4 | 90.7 |
| standardised approach | 24.3 | 30.6 | 25.2 |
| advanced approach | 59.4 | 70.8 | 65.5 |
| Market risk | 56.6 | 63.1 | 56.0 |
| internal model based | 46.5 | 49.5 | 44.6 |
| standardised approach | 10.1 | 13.6 | 11.4 |
| Operational risk | 117.8 | 118.1 | 117.8 |
| | 1,193.2 | 1,248.6 | 1,219.8 |
| Of which: | | | |
| Run-off portfolios | 79.9 | 121.6 | 99.2 |
| legacy credit in GB&M | 30.0 | 52.7 | 44.1 |
| US CML and Other | 49.9 | 68.9 | 55.1 |

HSBC HOLDINGS PLC

Table of Contents**Capital** (continued)*RWAs by global businesses*

| | 30 Jun 2015 | At 30 Jun 2014 | 31 Dec 2014 |
|---|------------------------|----------------------|----------------|
| | \$bn | \$bn | \$bn |
| Retail Banking and Wealth Management ⁵ | 204.6 | 225.4 | 207.2 |
| Commercial Banking ⁵ | 439.6 | 422.5 | 430.3 |
| Global Banking and Markets | 491.0 | 537.3 | 516.1 |
| Global Private Banking | 21.1 | 22.1 | 20.8 |
| Other | 36.9 | 41.3 | 45.4 |
| | 1,193.2 | 1,248.6 | 1,219.8 |

RWAs by geographical regions⁶

| | 30 Jun 2015 | At 30 Jun 2014 | 31 Dec 2014 |
|------------------------------|------------------------|----------------------|----------------|
| | \$bn | \$bn | \$bn |
| Europe | 369.5 | 393.6 | 375.4 |
| Asia | 487.4 | 481.1 | 499.8 |
| Middle East and North Africa | 63.1 | 62.7 | 63.0 |
| North America | 215.7 | 236.9 | 221.4 |
| Latin America | 82.3 | 96.8 | 88.8 |
| | 1,193.2 | 1,248.6 | 1,219.8 |

For footnotes, see page 100.

Credit risk RWAs*Credit risk exposure RWAs by geographical region*

| Europe \$bn | Asia \$bn | MENA \$bn | North America | Latin | Total \$bn |
|----------------|--------------|--------------|------------------|-------|---------------|
|----------------|--------------|--------------|------------------|-------|---------------|

| | | | | \$bn | America | |
|-----------------------------|--------------|--------------|-------------|--------------|-------------|--------------|
| | | | | \$bn | \$bn | |
| IRB approach | 204.0 | 216.2 | 15.5 | 139.4 | 11.5 | 586.6 |
| IRB advanced approach | 186.0 | 216.2 | 10.2 | 139.4 | 11.5 | 563.3 |
| IRB foundation approach | 18.0 | | 5.3 | | | 23.3 |
| Standardised approach | 50.7 | 177.7 | 38.6 | 32.5 | 49.0 | 348.5 |
| RWAs at 30 June 2015 | 254.7 | 393.9 | 54.1 | 171.9 | 60.5 | 935.1 |
| IRB approach | 222.6 | 209.9 | 15.3 | 155.3 | 12.0 | 615.1 |
| IRB advanced approach | 211.2 | 209.9 | 11.2 | 155.3 | 12.0 | 599.6 |
| IRB foundation approach | 11.4 | | 4.1 | | | 15.5 |
| Standardised approach | 46.9 | 174.3 | 39.0 | 30.7 | 60.0 | 350.9 |
| RWAs at 30 June 2014 | 269.5 | 384.2 | 54.3 | 186.0 | 72.0 | 966.0 |
| IRB approach | 216.1 | 213.1 | 15.6 | 142.0 | 11.6 | 598.4 |
| IRB advanced approach | 203.3 | 213.1 | 11.6 | 142.0 | 11.6 | 581.6 |
| IRB foundation approach | 12.8 | | 4.0 | | | 16.8 |
| Standardised approach | 47.1 | 186.0 | 39.0 | 29.6 | 55.2 | 356.9 |
| RWAs at 31 December 2014 | 263.2 | 399.1 | 54.6 | 171.6 | 66.8 | 955.3 |

Credit risk exposure RWAs by global businesses

| | US | | | | | | | |
|-----------------------------|------------------------|-------------------|--------------|--------------------------|--------------|-------------|---------------|--------------|
| | Principal ⁵ | run-off | Total | | | | | Total |
| | RBWM \$bn | portfolio \$bn | RBWM \$bn | CMB ⁵ \$bn | GB&M \$bn | GPB \$bn | Other \$bn | |
| IRB approach | 60.1 | 42.6 | 102.7 | 225.6 | 234.8 | 9.5 | 14.0 | 586.6 |
| IRB advanced approach | 60.1 | 42.6 | 102.7 | 210.6 | 227.8 | 9.4 | 12.8 | 563.3 |
| IRB foundation approach | | | | 15.0 | 7.0 | 0.1 | 1.2 | 23.3 |
| Standardised approach | 59.8 | 4.3 | 64.1 | 181.9 | 72.0 | 7.7 | 22.8 | 348.5 |
| RWAs at 30 June 2015 | 119.9 | 46.9 | 166.8 | 407.5 | 306.8 | 17.2 | 36.8 | 935.1 |
| IRB approach | 60.5 | 60.6 | 121.1 | 213.2 | 256.4 | 11.2 | 13.2 | 615.1 |
| IRB advanced approach | 60.5 | 60.6 | 121.1 | 206.0 | 249.5 | 11.1 | 11.9 | 599.6 |
| IRB foundation approach | | | | 7.2 | 6.9 | 0.1 | 1.3 | 15.5 |
| Standardised approach | 60.0 | 5.5 | 65.5 | 177.5 | 73.6 | 6.5 | 27.8 | 350.9 |
| RWAs at 30 June 2014 | 120.5 | 66.1 | 186.6 | 390.7 | 330.0 | 17.7 | 41.0 | 966.0 |

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Table of Contents**Capital** (continued)

| | US | | | | | | | |
|-----------------------------|------------------------|-------------------|--------------|--------------------------|--------------|-------------|---------------|---------------|
| | Principal ⁵ | run-off | Total | | | | | |
| | RBWM \$bn | portfolio \$bn | RBWM \$bn | CMB ⁵ \$bn | GB&M \$bn | GPB \$bn | Other \$bn | Total \$bn |
| IRB approach | 56.1 | 47.3 | 103.4 | 217.2 | 255.6 | 10.2 | 12.0 | 598.4 |
| IRB advanced approach | 56.1 | 47.3 | 103.4 | 209.2 | 248.1 | 10.0 | 10.9 | 581.6 |
| IRB foundation approach | | | | 8.0 | 7.5 | 0.2 | 1.1 | 16.8 |
| Standardised approach | 61.2 | 4.8 | 66.0 | 181.0 | 70.1 | 6.6 | 33.2 | 356.9 |
| RWAs at 31 December 2014 | 117.3 | 52.1 | 169.4 | 398.2 | 325.7 | 16.8 | 45.2 | 955.3 |

Credit risk RWAs are calculated using three approaches as permitted by the PRA. For consolidated Group reporting we have adopted the advanced IRB approach for the

majority of our business, with a small proportion being on the foundation IRB approach and the remaining portfolios on the standardised approach.

RWA movement by geographical regions by key driver credit risk IRB only⁷

| | North | | | Latin | | Total \$bn |
|-----------------------------|----------------|--------------|--------------|-----------------|-----------------|---------------|
| | Europe \$bn | Asia \$bn | MENA \$bn | America \$bn | America \$bn | |
| RWAs at 1 January 2015 | 216.1 | 213.1 | 15.6 | 142.0 | 11.6 | 598.4 |
| Foreign currency movement | (0.8) | (2.2) | (0.4) | (1.8) | (1.0) | (6.2) |
| Acquisitions and disposals | (12.1) | | | | | (12.1) |
| Book size | 3.6 | 8.8 | (0.6) | 1.3 | (0.8) | 12.3 |
| Book quality | (5.0) | (3.1) | (0.2) | (0.6) | 1.7 | (7.2) |
| Model updates | 1.6 | (1.7) | | | | (0.1) |
| Methodology and policy | 0.6 | 1.3 | 1.1 | (1.5) | | 1.5 |
| internal updates | (2.0) | (0.7) | 1.0 | (1.5) | | (3.2) |
| external updates regulatory | 2.6 | 2.0 | 0.1 | | | 4.7 |

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| | | | | | | |
|-----------------------------|---------------|--------------|--------------|--------------|--------------|---------------|
| Total RWA movement | (12.1) | 3.1 | (0.1) | (2.6) | (0.1) | (11.8) |
| RWAs at 30 June 2015 | 204.0 | 216.2 | 15.5 | 139.4 | 11.5 | 586.6 |
| RWAs at 1 January 2014 | 166.9 | 182.9 | 15.0 | 161.5 | 8.5 | 534.8 |
| Foreign currency movement | 4.9 | 0.8 | (0.2) | (0.1) | (0.4) | 5.0 |
| Acquisitions and disposals | (2.3) | | (0.5) | (2.6) | (0.1) | (5.5) |
| Book size | 3.0 | 13.0 | (0.2) | (0.5) | 1.9 | 17.2 |
| Book quality | (1.7) | 0.7 | 0.7 | (2.3) | 0.4 | (2.2) |
| Model updates | 14.9 | 0.3 | | (5.1) | | 10.1 |
| Methodology and policy | 36.9 | 12.2 | 0.5 | 4.4 | 1.7 | 55.7 |
| internal updates | (9.8) | (5.6) | (0.2) | (2.6) | (0.1) | (18.3) |
| external updates regulatory | 2.2 | 6.7 | (0.2) | 0.7 | 0.1 | 9.5 |
| CRD IV impact | 37.0 | 5.7 | 0.4 | 4.9 | 0.2 | 48.2 |
| NCOA moving from STD to IRB | 7.5 | 5.4 | 0.5 | 1.4 | 1.5 | 16.3 |
| | | | | | | |
| Total RWA movement | 55.7 | 27.0 | 0.3 | (6.2) | 3.5 | 80.3 |
| RWAs at 30 June 2014 | 222.6 | 209.9 | 15.3 | 155.3 | 12.0 | 615.1 |
| RWAs at 1 July 2014 | 222.6 | 209.9 | 15.3 | 155.3 | 12.0 | 615.1 |
| Foreign currency movement | (16.5) | (4.8) | | (2.3) | (1.5) | (25.1) |
| Acquisitions and disposals | (1.2) | | (0.2) | (1.6) | | (3.0) |
| Book size | 8.4 | 6.5 | 2.0 | 3.4 | 0.1 | 20.4 |
| Book quality | 0.2 | (0.7) | (1.5) | (8.0) | 1.0 | (9.0) |
| Model updates | 4.5 | | | (1.0) | | 3.5 |
| Methodology and policy | (1.9) | 2.2 | | (3.8) | | (3.5) |
| internal updates | (1.9) | 0.4 | | (3.8) | | (5.3) |
| external updates regulatory | | 1.8 | | | | 1.8 |
| CRD IV impact | | | | | | |
| NCOA moving from STD to IRB | | | | | | |
| | | | | | | |
| Total RWA movement | (6.5) | 3.2 | 0.3 | (13.3) | (0.4) | (16.7) |
| RWAs at 31 December 2014 | 216.1 | 213.1 | 15.6 | 142.0 | 11.6 | 598.4 |

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Table of Contents**Capital** (continued)*RWA movement by global businesses by key driver credit risk IRB only⁷*

| | Principal⁵ | US | Total | | | | | |
|---|------------------------------|------------------|--------------|------------------------|-----------------|--------------|--------------|---------------|
| | RBWM | run-off | RBWM | CMB⁵ | GB&M | GPB | Other | Total |
| | \$bn | portfolio | \$bn | \$bn | \$bn | \$bn | \$bn | \$bn |
| | | \$bn | | | | | | |
| RWAs at 1 January 2015 | 56.1 | 47.3 | 103.4 | 217.2 | 255.6 | 10.2 | 12.0 | 598.4 |
| Foreign currency movement | (0.5) | | (0.5) | (2.7) | (2.8) | | (0.2) | (6.2) |
| Acquisitions and disposals | | | | | (12.1) | | | (12.1) |
| Book size | 1.6 | (2.7) | (1.1) | 9.0 | 2.6 | (0.2) | 2.1 | 12.4 |
| Book quality | (1.5) | (2.3) | (3.8) | 2.0 | (5.6) | | 0.1 | (7.3) |
| Model updates | | | | 1.6 | (1.7) | | | (0.1) |
| Methodology and policy internal updates | 4.4 | 0.3 | 4.7 | (1.5) | (1.2) | (0.5) | | 1.5 |
| external updates | 2.4 | 0.3 | 2.7 | (1.5) | (3.9) | (0.5) | | (3.2) |
| regulatory updates | 2.0 | | 2.0 | | 2.7 | | | 4.7 |
| Total RWA movement | 4.0 | (4.7) | (0.7) | 8.4 | (20.8) | (0.7) | 2.0 | (11.8) |
| RWAs at 30 June 2015 | 60.1 | 42.6 | 102.7 | 225.6 | 234.8 | 9.5 | 14.0 | 586.6 |
| RWAs at 1 January 2014 | 58.5 | 72.6 | 131.1 | 189.4 | 198.5 | 10.6 | 5.2 | 534.8 |
| Foreign currency movement | 0.5 | | 0.5 | 2.2 | 2.1 | 0.2 | | 5.0 |

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| | | | | | | | | |
|-----------------------------|-------|--------|--------|--------|--------|-------|-------|--------|
| Acquisitions and disposals | | | | | (5.5) | | | (5.5) |
| Book size | 1.2 | (3.4) | (2.2) | 11.6 | 8.5 | (0.4) | (0.3) | 17.2 |
| Book quality | (1.8) | (4.0) | (5.8) | 2.8 | 0.7 | (0.3) | 0.4 | (2.2) |
| Model updates | 0.1 | (4.9) | (4.8) | 9.3 | 5.3 | 0.3 | | 10.1 |
| Methodology and policy | 2.0 | 0.3 | 2.3 | (2.1) | 46.8 | 0.8 | 7.9 | 55.7 |
| internal updates | (2.6) | | (2.6) | (5.5) | (9.9) | (0.3) | | (18.3) |
| external updates | | | | | | | | |
| regulatory | | | | 2.5 | 6.3 | 0.5 | 0.2 | 9.5 |
| CRD IV impact | | | | (0.7) | 48.6 | 0.2 | 0.1 | 48.2 |
| NCOA moving from STD to IRB | 4.6 | 0.3 | 4.9 | 1.6 | 1.8 | 0.4 | 7.6 | 16.3 |
| Total RWA movement | 2.0 | (12.0) | (10.0) | 23.8 | 57.9 | 0.6 | 8.0 | 80.3 |
| RWAs at 30 June 2014 | 60.5 | 60.6 | 121.1 | 213.2 | 256.4 | 11.2 | 13.2 | 615.1 |
| RWAs at 1 July 2014 | 60.5 | 60.6 | 121.1 | 213.2 | 256.4 | 11.2 | 13.2 | 615.1 |
| Foreign currency movement | (3.1) | | (3.1) | (10.9) | (10.2) | (0.4) | (0.5) | (25.1) |
| Acquisitions and disposals | | | | | (2.7) | | (0.3) | (3.0) |
| Book size | 0.7 | (3.5) | (2.8) | 11.5 | 12.6 | (0.1) | (0.8) | 20.4 |
| Book quality | (3.9) | (4.6) | (8.5) | | (0.9) | | 0.4 | (9.0) |
| Model updates | 0.5 | (1.3) | (0.8) | 2.9 | 1.7 | (0.3) | | 3.5 |
| Methodology and policy | 1.4 | (3.9) | (2.5) | 0.5 | (1.3) | (0.2) | | (3.5) |
| internal updates | (0.4) | (3.9) | (4.3) | 0.5 | (1.3) | (0.2) | | (5.3) |
| external updates | | | | | | | | |
| regulatory | 1.8 | | 1.8 | | | | | 1.8 |
| CRD IV impact | | | | | | | | |
| NCOA moving from STD to IRB | | | | | | | | |
| Total RWA movement | (4.4) | (13.3) | (17.7) | 4.0 | (0.8) | (1.0) | (1.2) | (16.7) |

| | | | | | | | | |
|--------------------------------|------|------|-------|-------|-------|------|------|-------|
| RWAs at 31 December 2014 | 56.1 | 47.3 | 103.4 | 217.2 | 255.6 | 10.2 | 12.0 | 598.4 |
|--------------------------------|------|------|-------|-------|-------|------|------|-------|

Standardised approach

For portfolios treated under the standardised approach, credit risk RWAs decreased by \$8.4bn of which \$8.0bn was due to foreign currency movements. Credit risk RWAs decreased by \$12.3bn due to the partial sale of our investment in Industrial Bank as recorded in Other .

Business growth in North America, Europe and Middle East and Asia increased RWAs by \$11.0bn.

RWA initiatives in CMB and GB&M resulted in an overall decrease in RWAs of \$2.2bn across Middle East and Latin America.

Additionally, internal updates in CMB and GB&M relating to the reclassification of corporate exposures from the IRB to the standardised approach resulted in an increase in RWAs of \$3.0bn on the standardised approach and a decline in the IRB approach of \$2.6bn.

RWA increased by \$0.8bn due to deferred tax assets.

Internal ratings-based approach

For portfolios treated under the IRB approach, credit risk RWAs decreased by \$11.8bn of which \$6.2bn was due to foreign currency movements driven by the deterioration of a range of currencies including euro against US dollar.

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Capital (continued)

Acquisitions and disposals

The continued disposal of legacy securitisation positions and the unwinding of other securitisation transactions in GB&M resulted in a decrease in RWAs of \$12.1bn in Europe.

Book size

Business growth from higher term lending to corporate customers and institutions in CMB and GB&M in Asia, North America and Europe increased RWAs by \$16.6bn. This was partially offset by RWA initiatives in Europe including a reduction in net current account balances which decreased RWAs by \$2.2bn, and the run-down of legacy securitisation positions lowering RWAs by \$3.6bn.

In North America, in RBWM, continued run-off of the US CML retail mortgage portfolios resulted in an RWA reduction of \$2.7bn in book size. This was partially offset by growth in retail lending in Asia and Europe of \$1.6bn.

Book quality

In GB&M, there were favourable movements in average customer credit quality in the corporate portfolio in Asia and Europe which decreased RWAs by \$5.7bn, offset by credit quality deterioration in North America which increased RWAs by \$1.6bn. In addition, improving economic stability in Asia resulted in an upgrade to the internal credit risk rating of sovereigns which decreased RWAs by \$0.6bn, offset by internal sovereign downgrades in Latin America which increased RWAs by \$1.1bn. RWA initiatives relating to the execution of a netting agreement reduced RWAs by \$1.3bn in Europe.

In CMB, change in the average credit quality of the portfolio and model recalibrations resulted in an RWA increase of \$3.2bn across Europe, North America, Middle East and Latin America, offset by credit quality improvements in Asia which reduced RWAs by \$1.1bn.

RWAs reduced by \$2.3bn in the US run-off portfolio in book quality as a result of exposures moving to default combined with continued improvements in the credit quality of the residual performing book.

Credit quality improvements in Principal RBWM related primarily to favourable shifts in portfolio quality in mortgages and revolving credit which reduced RWAs in Europe by \$1.5bn.

Model updates

In CMB, selected portfolios in Europe were migrated from the advanced IRB approach to the foundation IRB approach, as a result of a change in permission, increasing RWAs by \$1.6bn.

In GB&M, the update of the Sovereign PD model decreased RWAs by \$1.8bn in Asia.

Methodology and policy changes

RWA initiatives in GB&M and CMB, consisting of improvements in asset classification and recognition of guarantees, resulted in a decrease in RWAs by \$3.1bn across Europe, Asia and North America.

Internal updates in CMB and GB&M relating to the reclassification of corporate exposures to the standardised methodology resulted in a decrease in IRB RWAs of \$2.6bn and a net increase of \$0.4bn in overall RWAs.

This was partially offset by the application of a scaling factor to the securitisation positions risk-weighted at 1,250%, increasing RWAs by \$2.1bn.

In Principal RBWM, the further application of a regulator mandated risk-weight floor on residential mortgages in Hong Kong resulted in an increase in RWAs of \$2.0bn. Additionally a change in the methodology in the calculation of defaulted mortgage exposures resulted in an increase in RWAs of \$2.0bn in Europe which was offset by a reduction in the capital deduction for expected loss in the calculation of regulatory capital.

Counterparty credit risk and market risk RWAs

Counterparty credit risk RWAs

| | 30 Jun 2015 \$bn | At 30 Jun 2014 \$bn | 31 Dec 2014 \$bn |
|-----------------------------|---------------------------------|------------------------------|------------------------|
| Advanced approach | 59.4 | 70.8 | 65.5 |
| CCR IRB approach | 55.9 | 65.2 | 62.0 |
| credit valuation adjustment | 3.5 | 5.6 | 3.5 |
| Standardised approach | 24.3 | 30.6 | 25.2 |
| CCR standardised approach | 5.2 | 3.9 | 4.4 |
| credit valuation adjustment | 16.6 | 22.2 | 18.0 |
| central counterparty | 2.5 | 4.5 | 2.8 |
| | 83.7 | 101.4 | 90.7 |

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Table of Contents**Capital** (continued)*RWA movement by key driver counterparty credit risk advanced approach*

| | 30 June 2015 \$bn | Half-year to | |
|------------------------------|----------------------------------|-------------------------|-----------------------------|
| | | 30 June 2014 \$bn | 31 December 2014 \$bn |
| RWAs at beginning of period | 65.5 | 42.2 | 70.8 |
| Book size | (3.0) | 3.2 | (1.6) |
| Book quality | (0.6) | (0.3) | (0.3) |
| Model updates | | 2.2 | (2.1) |
| Methodology and policy | (2.5) | 23.5 | (1.3) |
| internal regulatory updates | (2.5) | (1.0) | (2.8) |
| external regulatory updates | | 7.5 | 1.5 |
| CRD IV impact | | 17.0 | |
| Total RWA movement | (6.1) | 28.6 | (5.3) |
| RWAs at end of period | 59.4 | 70.8 | 65.5 |

Counterparty credit risk RWAs decreased by \$7.0bn, of which \$6.1bn related to the advanced approach.

Standardised approach

RWA under the standardised approach reduced by \$0.9bn. The main driver was a RWA initiative consisting of increased level of detail in counterparty mappings leading to additional CVA exemptions.

Advanced approach**Book size**

The decrease was driven mainly by a combination of reduced portfolio size following trade maturities, RWA

initiatives, mainly trade compressions, and reducing mark to markets of over-the-counter derivatives, most notably in Asian and North American portfolios.

Methodology and policy changes

The decrease in RWAs from internal methodology updates was mainly driven by RWA initiatives consisting of more efficient allocation of collateral, mostly in North America, and refinement of transaction and counterparty static data

used to calculate exposures and risk weights in the derivative portfolios globally.

Market risk RWAs

| | 30 Jun | At | |
|----------------------------|---------------|--------|--------|
| | 2015 | 30 Jun | 31 Dec |
| | \$bn | 2014 | 2014 |
| | | \$bn | \$bn |
| Internal model based | 46.5 | 49.5 | 44.6 |
| VaR | 7.2 | 5.6 | 7.3 |
| stressed VaR | 10.4 | 7.8 | 10.4 |
| incremental risk charge | 21.0 | 24.9 | 20.1 |
| comprehensive risk measure | | 2.0 | |
| other VaR and stressed VaR | 7.9 | 9.2 | 6.8 |
| Standardised approach | 10.1 | 13.6 | 11.4 |
| | 56.6 | 63.1 | 56.0 |

RWA movement by key driver – market risk – internal model based

| | 30 June | Half-year to | |
|-------------------------------|----------------|--------------|-------------|
| | 2015 | 30 June | 31 December |
| | \$bn | 2014 | 2014 |
| | | \$bn | \$bn |
| RWAs at beginning of period | 44.6 | 52.2 | 49.5 |
| Acquisitions and disposals | | | (2.2) |
| Movement in risk levels | 2.7 | 0.9 | (5.1) |
| Model updates | | | |
| Methodology and policy | (0.8) | (3.6) | 2.4 |
| internal updates | (0.8) | 0.5 | (4.3) |
| external updates – regulatory | | (4.1) | 6.7 |
| Total RWA movement | 1.9 | (2.7) | (4.9) |
| RWAs at end of period | 46.5 | 49.5 | 44.6 |

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Table of Contents**Capital** (continued)

Total market risk RWAs remained relatively stable during the first half of the year, increasing marginally by \$0.6bn.

Standardised approach

Market risk RWA movements in portfolios not within the scope of modelled approaches reflected a decrease of \$1.3bn, mainly related to the reduction in securitisation positions held within the trading book.

Internal Model based**Movement in Risk Levels**

Movements relating to changes in risk levels reflected an increase in capital requirements arising from internal models due to the net effect of position management and increased market volatility mainly in European markets.

Methodology and policy changes

The movements in Methodology and policy relate to an internal scenario refinement within the risk not in VaR (RNIV) equity correlation risk model.

Capital*Source and application of total regulatory capital*

| | 30 June | Half-year to | |
|---|----------------|--------------|-------------|
| | 2015 | 30 June | 31 December |
| | \$m | 2014 | 2014 |
| | | \$m | \$m |
| Movement in total regulatory capital | | | |
| Opening common equity tier 1 capital on a transitional basis ⁸ | 133,200 | 131,233 | 140,070 |
| Transitional adjustments | 2,753 | | |
| Unrealised gains arising from revaluation of property | 1,375 | | |
| Unrealised gains in available-for-sale debt and equities | 1,378 | | |
| Opening common equity tier 1 capital on an end point basis ^{1,8} | 135,953 | | |
| Contribution to common equity tier 1 capital from profit for the period | 8,151 | 9,432 | 3,246 |

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| | | | |
|---|----------------|---------|---------|
| consolidated profits attributable to shareholders of the parent company | 9,618 | 9,746 | 3,942 |
| removal of own credit spread net of tax | (568) | 202 | (530) |
| debit valuation adjustment | (121) | 97 | 157 |
| deconsolidation of insurance entities and SPE entities | (778) | (613) | (323) |
| Net dividends including foreseeable net dividends ² | (2,562) | (2,329) | (5,212) |
| update for actual dividends and scrip take-up | 1,255 | 1,108 | (15) |
| first interim dividend net of scrip | (1,875) | (1,766) | |
| second foreseeable interim dividend net of planned scrip | (1,942) | (1,671) | |
| third interim dividend net of scrip | | | (1,835) |
| fourth foreseeable interim dividend net of planned scrip | | | (3,362) |
| Decrease in goodwill and intangible assets deducted ⁴ | (81) | 237 | 159 |
| Ordinary shares issued | 9 | 14 | 253 |
| Foreign currency translation differences ⁴ | (1,838) | 444 | (6,634) |
| Unrealised gains arising from revaluation of property | | (65) | (29) |
| Unrealised gains in available-for-sale debt and equities | | (141) | (1,237) |
| Other, including regulatory adjustments | (1,552) | 1,245 | 2,584 |
| Closing common equity tier 1 capital | 138,080 | 140,070 | 133,200 |
| Opening additional tier 1 capital on a transitional basis ⁸ | 19,539 | 14,408 | 13,813 |
| Movement in additional tier 1 securities | 1,190 | (500) | 5,461 |
| new issuance | 2,459 | | 5,681 |
| grandfathering adjustments | (1,269) | (500) | (220) |
| Other, including regulatory adjustments | 617 | (95) | 265 |
| Closing tier 1 capital on a transitional basis | 159,426 | 153,883 | 152,739 |
| Opening tier 2 capital on a transitional basis ⁸ | 37,991 | 35,538 | 38,951 |
| Movement in tier 2 securities | (2,198) | 3,450 | (1,036) |
| new issuance | 1,680 | 3,500 | |
| grandfathering adjustments | (2,997) | | |
| foreign currency translation differences | (410) | 105 | (1,171) |
| other movements | (471) | (155) | 135 |
| Other, including regulatory adjustments | (109) | (37) | 76 |
| Closing total regulatory capital on a transitional basis | 195,110 | 192,834 | 190,730 |

For footnotes, see page 100.

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Table of Contents**Capital** (continued)*Composition of regulatory capital*

| | 30 June | At 30 June | 31 December |
|---|-----------------|---------------|-------------|
| | 2015 | 2014 | 2014 |
| | \$m | \$m | \$m |
| Common equity tier 1 capital | | | |
| Shareholders' equity | 167,374 | 173,453 | 166,617 |
| shareholders' equity per balance sheet | 192,427 | 190,281 | 190,447 |
| foreseeable interim dividend | (1,942) | (1,671) | (3,362) |
| preference share premium | (1,405) | (1,405) | (1,405) |
| other equity instruments | (13,991) | (5,851) | (11,532) |
| deconsolidation of special purpose entities ⁴⁰ | (243) | (686) | (323) |
| deconsolidation of insurance entities | (7,472) | (7,215) | (7,208) |
| Non-controlling interests | 3,579 | 3,792 | 4,640 |
| non-controlling interests per balance sheet | 8,955 | 8,441 | 9,531 |
| preference share non-controlling interests | (2,106) | (2,153) | (2,127) |
| non-controlling interests transferred to tier 2 capital | | (487) | (473) |
| non-controlling interests in deconsolidated subsidiaries | (911) | (824) | (851) |
| surplus non-controlling interest disallowed in CET1 | (2,359) | (1,185) | (1,440) |
| Regulatory adjustments to the accounting basis | (2,660) | (1,072) | (3,556) |
| own credit spread | 184 | 1,314 | 767 |
| debit valuation adjustment | (318) | (354) | (197) |
| defined benefit pension fund adjustment | (2,583) | (2,301) | (4,069) |
| cash flow hedging reserve | 57 | 269 | (57) |
| Deductions | (30,213) | (34,616) | (31,748) |
| goodwill and intangible assets | (21,397) | (24,752) | (22,475) |
| deferred tax assets that rely on future profitability (excludes those arising from temporary differences) | (859) | (945) | (1,036) |
| additional valuation adjustment (referred to as PVA) | (1,177) | (1,688) | (1,341) |
| investments in own shares through the holding of composite products of which HSBC is a component (exchange traded funds, derivatives and index stock) | (990) | (904) | (1,083) |
| negative amounts resulting from the calculation of expected loss amounts | (5,790) | (6,327) | (5,813) |

| | | | |
|---|----------------|---------|---------|
| Common equity tier 1 capital on an end point basis | 138,080 | 141,557 | 135,953 |
| Tier 1 and tier 2 capital on a transitional basis | | | |
| Common equity tier 1 capital on an end point basis | 138,080 | 141,557 | 135,953 |
| Transitional adjustments | | (1,487) | (2,753) |
| unrealised gains arising from revaluation of property | | (1,346) | (1,375) |
| unrealised gains in available-for-sale debt and equities | | (141) | (1,378) |
| Common equity tier 1 capital on a transitional basis | 138,080 | 140,070 | 133,200 |
| Other tier 1 capital before deductions | 21,449 | 13,977 | 19,687 |
| preference share premium | 1,015 | 1,160 | 1,160 |
| preference share non-controlling interests | 1,711 | 1,955 | 1,955 |
| allowable non-controlling interest in AT1 | 1,456 | 635 | 884 |
| hybrid capital securities | 17,267 | 10,227 | 15,688 |
| Deductions | (103) | (164) | (148) |
| unconsolidated investments ² | (103) | (164) | (148) |
| Tier 1 capital on a transitional basis | 159,426 | 153,883 | 152,739 |
| Tier 2 capital on a transitional basis | | | |
| Total qualifying tier 2 capital before deductions | 35,924 | 39,197 | 38,213 |
| allowable non-controlling interest in tier 2 | 8 | 47 | 99 |
| perpetual subordinated debt | 1,941 | 2,218 | 2,218 |
| term subordinated debt | 33,975 | 36,692 | 35,656 |
| non-controlling interests in tier 2 capital | | 240 | 240 |
| Total deductions other than from tier 1 capital | (240) | (246) | (222) |
| unconsolidated investments ² | (240) | (246) | (222) |
| Total regulatory capital on a transitional basis | 195,110 | 192,834 | 190,730 |

For footnotes, see page 100.

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Table of Contents**Capital** (continued)*Reconciliation of regulatory capital from transitional basis to an estimated CRD IV end point basis*

| | 30 June 2015 \$m | At 30 June 2014 \$m | 31 December 2014 \$m |
|---|---------------------------------|------------------------------|----------------------------|
| Common equity tier 1 capital on a transitional basis | 138,080 | 140,070 | 133,200 |
| Unrealised gains arising from revaluation of property | | 1,346 | 1,375 |
| Unrealised gains in available-for-sale debt and equities | | 141 | 1,378 |
| Common equity tier 1 capital on an end point basis | 138,080 | 141,557 | 135,953 |
| Additional tier 1 capital on a transitional basis | 21,346 | 13,813 | 19,539 |
| Grandfathered instruments: | | | |
| Preference share premium | (1,015) | (1,160) | (1,160) |
| Preference share non-controlling interests | (1,711) | (1,955) | (1,955) |
| Hybrid capital securities | (9,127) | (10,227) | (10,007) |
| Transitional provisions: | | | |
| Allowable non-controlling interest in AT1 | (1,282) | (231) | (487) |
| Unconsolidated investments | 103 | 164 | 148 |
| Additional tier 1 capital on an end point basis | 8,314 | 404 | 6,078 |
| Tier 1 capital on an end point basis | 146,394 | 141,961 | 142,031 |
| Tier 2 capital on a transitional basis | 35,684 | 38,951 | 37,991 |
| Grandfathered instruments: | | | |
| Perpetual subordinated debt | (1,941) | (2,218) | (2,218) |
| Term subordinated debt | (19,033) | (21,513) | (21,513) |
| Transitional provisions: | | | |
| Non-controlling interest in tier 2 capital | | (240) | (240) |
| Allowable non-controlling interest in tier 2 | 14 | 190 | 396 |
| Unconsolidated investments | (103) | (164) | (148) |
| Tier 2 capital on an end point basis | 14,621 | 15,006 | 14,268 |
| Total regulatory capital on an end point basis | 161,015 | 156,967 | 156,299 |

The capital position presented on a CRD IV transitional basis follows the CRD IV legislation as implemented in the PRA Rulebook.

The effects of draft EBA technical standards are not generally captured in our numbers. These could have additional effects on our capital position and RWAs.

While CRD IV allows for the majority of regulatory adjustments and deductions from CET1 to be implemented on a gradual basis from 1 January 2014 to 1 January 2018, the PRA has largely decided not to make use of these transitional provisions. From 1 January 2015, unrealised gains on investment property and available-for-sale securities are to be recognised in CET1 capital. As a result, our end point and transitional CET1 capital and ratios are now aligned. Transitional provisions, however, continue to apply for additional tier 1 and tier 2 capital.

For additional tier 1 and tier 2 capital, the PRA followed the transitional provisions timing as set out in CRD IV to apply the necessary regulatory adjustments and deductions, the effect of which is being phased in at 20% per annum from 1 January 2014 to 1 January 2018.

Non-CRD IV compliant additional tier 1 and tier 2 instruments also benefit from a grandfathering period. This progressively reduces the eligible amount by 10% annually following an initial reduction of 20% on 1 January 2014 until they are fully phased out by 1 January 2022.

Under CRD IV, as implemented in the UK, banks are required to meet a minimum CET1 ratio of 4.5% of RWAs and a minimum tier 1 ratio of 6% of RWAs (from 1 January 2015), and a total capital ratio of 8% of RWAs. In addition to the Pillar 1 minimum ratios, the PRA sets Pillar 2A capital requirements which together are considered the minimum level of regulatory capital to be maintained at all times. Pillar 2A is to be met at least with 56% CET1 capital and the remaining with non-common equity capital.

Alongside CRD IV requirements, from 1 July 2014, the PRA expects major UK banks and building societies to meet a 7% CET1 ratio using the CRD IV end point definition. Going forward, as the grandfathering provisions fall away, we intend to meet these regulatory minima in an economically efficient manner by issuing non-common equity capital as necessary. At 30 June 2015, we had issued \$23.1bn of CRD IV compliant non-common equity capital instruments, of which \$1.7bn of tier 2 and \$2.5bn of additional tier 1 were issued during the first half of 2015. At 30 June 2015, we also had \$32.8bn of non-common equity capital instruments qualifying as eligible capital under CRD IV by virtue of the application of the grand-fathering provisions, after applying a 30% reduction as outlined above.

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Table of Contents**Capital (continued)****Leverage ratio***Estimated leverage ratio*

| | EU Delegated Act basis at 30 June | 31 December | Basel III 2014 basis at 30 June |
|--|--|-------------|---------------------------------------|
| | 2015 | 2014 | 2014 |
| | \$bn | \$bn | \$bn |
| Total assets per accounting balance sheet | 2,572 | 2,634 | 2,754 |
| Deconsolidation of insurance/other entities | (103) | (102) | (107) |
| Consolidation of banking associates | 206 | 194 | 186 |
| Total assets per regulatory/accounting balance sheet | 2,675 | 2,726 | 2,833 |
| Adjustment to reverse netting of loans and deposits allowable under IFRS | 37 | 38 | 98 |
| Reversal of accounting values: | (476) | (525) | (498) |
| derivatives | (298) | (345) | (270) |
| repurchase agreement and securities finance | (178) | (180) | (228) |
| Replaced with regulatory values: | | | |
| Derivatives: | 168 | 166 | 199 |
| mark-to-market value | 70 | 81 | 60 |
| deductions of receivables assets for cash variation margin | (67) | (82) | (55) |
| add-on amounts for potential future exposure | 143 | 148 | 166 |
| exposure amount resulting from the additional treatment for written credit derivatives | 22 | 19 | 28 |
| Repurchase agreement and securities finance: | 187 | 188 | 237 |
| gross securities financing transactions assets | 246 | 269 | 314 |
| netted amounts of cash payables and cash receivables of gross securities financing transactions assets | (68) | (89) | (86) |
| measurement of counterparty risk | 9 | 8 | 9 |
| Addition of off balance sheet commitments and guarantees: | 399 | 396 | 445 |
| guarantees and contingent liabilities | 68 | 67 | 80 |
| commitments | 322 | 321 | 356 |
| other | 9 | 8 | 9 |
| Exclusion of items already deducted from the capital measure | (33) | (36) | (37) |
| Exposure measure after regulatory adjustments | 2,957 | 2,953 | 3,277 |

| | | | |
|---|-------------|------|------|
| Tier 1 capital under CRD IV (end point) | 146 | 142 | 142 |
| Estimated leverage ratio (end point) | 4.9% | 4.8% | 4.3% |

In January 2015, the PRA issued a letter setting out the approach to be taken for calculating the leverage ratio for 2014 year end disclosures. While the numerator continues to be calculated using the final CRD IV end point tier 1 capital definition, the exposure measure is calculated based on the EU delegated act (rather than the Basel 2014 definition disclosed in the *Interim Report 2014*).

The basis of preparation for the leverage ratio can be found on page 261 of the *Annual Report and Accounts 2014*. The basis of preparation for the June 2014 comparative can be found on page 198 in the *Interim Report 2014*.

Regulatory developments

Regulatory capital buffers

CRD IV establishes a number of capital buffers, to be met with CET1 capital, broadly aligned with the Basel III framework. CRD IV suggests that these will be phased in from 1 January 2016, subject to national discretion.

Automatic restrictions on capital distributions apply if a bank's CET1 capital falls below the level of its CRD IV combined buffer. The CRD IV combined buffer is defined as the total of the capital conservation buffer (CCB), the countercyclical capital buffer (CCyB), the global systemically important institutions (G-SII's) buffer and the systemic risk buffer (SRB) as these become applicable.

Under the revised Pillar 2 framework, the PRA has introduced a PRA buffer, the use of which will not result in automatic restrictions on capital distributions. However, the PRA expects firms not to meet the CRD IV buffers with any CET1 capital maintained to meet its individual capital guidance (ICG).

In June 2015, the Financial Policy Committee (FPC) maintained a 0% CCyB rate for UK exposures and recognised the 1.5% CCyB rates introduced by Norway and Sweden, which are to become effective from June 2016. The FPC had also previously recognised the 1% CCyB rates introduced by both these countries to become effective from October 2015. In March 2015, the FPC further stated that the PRA would reciprocate the HKMA CCyB rate of 0.625% to be applied to Hong Kong exposures from January 2016. In accordance with UK legislation and the PRA's supervisory statement PS 3/14, this rate will directly apply to the calculation of our institution-specific CCyB rate from 1 January 2016.

The institution-specific CCyB rate for the Group is based on the weighted average of the CCyB rates that apply in the jurisdictions where relevant credit exposures are located. Currently the Group's institution-specific CCyB is zero.

Further details of the aforementioned CRD IV buffers are set out on page 252 of the *Annual Report and Accounts 2014*.

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Capital (continued)**Pillar 2 and the PRA buffer**

Under the Pillar 2 framework, banks are already required to hold capital in respect of the internal capital adequacy assessment and supervisory review which leads to a final determination by the PRA of ICG under Pillar 2A and Pillar 2B. Pillar 2A was previously met by total capital but, since 1 January 2015, in accordance with the PRA supervisory statement SS5/13, is expected to be met with at least 56% CET1.

The Pillar 2A requirement is a point in time assessment of the amount of capital the PRA considers that a bank should hold to meet the overall financial adequacy rule. It is therefore subject to change pending annual assessment and the supervisory review process. During 2014, our Pillar 2A requirement amounted to 1.5% of RWAs. In February 2015, this was revised to 2.0% of RWAs, of which 1.1% is expected to be met by CET1 with immediate effect.

In July 2015, the PRA published a final policy statement PS17/15, setting out revisions to the Pillar 2 Framework. The revised framework is to become effective from 1 January 2016. The PRA statement of policy sets out the methodologies that the PRA will use to inform its setting of firms' Pillar 2 capital requirements, including new approaches for determining Pillar 2 requirements for credit risk, operational risk, credit concentration risk and pension obligation risk.

As is set out in the revised PRA supervisory statement SS31/15, the PRA will also introduce a PRA buffer which is to replace the capital planning buffer (CPB), under Pillar 2B. This is to be met in the form of CET1 capital. The PRA buffer will avoid duplication with CRD IV buffers and will be set for a particular firm depending on its vulnerability in a stress scenario. In order to address significant weaknesses in risk management and governance, a scalar may be applied to firms' CET1 Pillar 1 and Pillar 2A capital requirements, and will also form part of the PRA Buffer. Where the PRA considers there is overlap between the CRD IV buffers and the PRA buffer assessment, the PRA buffer will be set as the excess capital required over and above the CCB and relevant systemic buffers. The PRA buffer will also be in addition to the CCyB and sectoral capital requirements.

Overall capital requirements

Elements of the capital requirements that are known or quantified to date are set out in the diagram below.

Capital requirements framework (end point)

There remains residual uncertainty as to what HSBC's precise end point CET1 capital requirement will be. Time-varying elements such as the macro-prudential tools, the Pillar 2A and 2B requirements and systemic buffers are subject to change. This uncertainty is reflected in the 1.5-2.5% regulatory and management buffer we have included in the 12-13% CET1 range that is used to model our medium-term target for return on equity, of more than 10%, by 2017.

In addition, we will need to consider the effect of the FSB proposals in relation to TLAC requirements, and the UK implementation of the EU minimum requirement for own funds and eligible liabilities (MREL). For further details, see page 100.

Regulatory stress testing

The Group is subject to supervisory stress testing in many jurisdictions. These supervisory requirements are increasing in frequency and in the granularity with which results are required. As such, stress testing represents a key focus for the Group. The results of the 2014 UK stress testing exercise were published in December 2014.

In March 2015, the Bank of England published key elements of the 2015 stress test and accompanying guidance. Unlike the 2014 stress test, which was based on the 2014 EBA stress testing exercise, the 2015 UK exercise is wholly designed by the Bank of England. This aims to assess the resilience of the UK banking system to a deterioration in global economic conditions. The results of the 2015 UK stress test are expected to be published at the end of 2015.

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Table of Contents**Capital** (continued)

The EBA is not undertaking a stress testing exercise in 2015, and will instead carry out a transparency exercise towards the end of the year. This exercise will involve publishing detailed data on bank balance sheets, covering their composition of capital, leverage ratio and RWAs. In July 2015, the EBA published draft templates on the data to be disclosed and a tentative list of banks expected to be included in this exercise, which includes HSBC. The EBA also disclosed a timeline for the 2016 EU wide stress test exercise, which is expected to be aligned with banks' annual supervisory review and evaluation process. The EBA expects to publish the 2016 stress test scenario and methodology in the first quarter of 2016, with results published in the third quarter of 2016.

In 2015, Group entities also participated in regional stress testing exercises. For further details on stress testing exercises, see page 59.

RWA developments

Throughout 2014 and in the first half of 2015, UK, EU and international regulators issued a series of consultations designed to revise the various components of the RWA regime and increase related reporting and disclosures. In particular, the Basel Committee published proposals across all Pillar 1 risk types to update standardised, non-modelled approaches for calculating capital requirements and to provide the basis for the application of a capital floor. There have also been various consultations on proposed modelled approaches for market risk requirements. Quantitative impact studies (QIS) in relation to the Basel Committee proposals for the revised standardised approach to credit risk and capital floors were published in February 2015. The QIS results will inform final requirements which are expected by the end of 2015. These will need to be transposed into EU law before coming into effect.

Further details of Basel RWA developments during 2014 may be found on page 254 of the *Annual Report and Accounts 2014*.

In March 2015, the EBA published a discussion paper on the future of the IRB approach. This set out further work in three key areas: a review of the IRB regulatory framework; supervisory consistency, which will include annual benchmarking exercises; and increased transparency based on comparable templates. In particular, it proposed a phased EBA work-plan to deliver final amendments by the end of 2017 with implementation thereafter.

In May 2015, the EBA consulted on regulatory technical standards (RTS) for specialised lending exposures. This aims to specify how certain factors (e.g. financial strength and the political and legal environment) should be taken into account when assigning risk weights to specialised lending exposures. This also proposes to include more consistency in categorisation and definitions for specialised lending.

In June 2015, the Basel Committee published a consultation paper on the treatment of interest rate risk in the banking book (IRRBB). IRRBB is currently included in the scope of Pillar 2 requirements. The consultation proposes two possible alternatives, either to include IRRBB within Pillar 1 requirements, or introduce a strengthened approach to Pillar 2 which would also include additional disclosures under Pillar 3. The consultation closes in September 2015 and is expected to include a QIS to inform final requirements.

In July 2015, the Basel Committee published a consultation paper proposing amendments to the methodology for calculating CVA. This was in response to calls to review the existing methodology, including from the EU. The Basel consultation will close in October 2015, and a QIS will be completed by September 2015 to inform final requirements. As part of this, the EU will review the exemptions to the CVA charge currently applied to corporates, sovereigns and intragroup exposures. Once finalised, changes would need to be transposed into CRD IV before coming into effect. A further QIS for the proposed revisions to the market risk framework and CVA requirements was also published in July 2015.

UK leverage ratio framework

Following consultations by the FPC and HM Treasury in 2014, secondary legislation came into force in April 2015 to provide the FPC with direction powers in relation to the UK leverage ratio framework. In July 2015, the FPC published its final policy statement setting out its intention to use its new powers of direction. As a result, in July 2015, the PRA issued a consultation paper to introduce requirements for the UK leverage ratio framework. This introduces a minimum leverage ratio of 3%, an additional leverage ratio buffer (ALRB) for G-SIIs and a countercyclical leverage ratio buffer (CCLB). The ALRB and CCLB are to be set at 35% of the relevant buffers in the risk-weighted capital framework. The PRA also proposes to introduce new reporting and disclosure templates as part of this framework. The minimum leverage ratio requirement is aligned with existing PRA expectations (as set out in the PRA supervisory statement SS3/13), and the additional leverage ratio buffers, subject to finalisation, are to apply from 1 January 2016 in line with the corresponding risk-weighted capital buffers. Transitional arrangements are proposed for the new disclosure and reporting requirements.

Both the FPC and the PRA note that an internationally agreed minimum leverage ratio requirement will be applied from 2018 and, as a result, will consider the implications for the UK leverage ratio framework again in 2017.

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Table of Contents**Capital (continued)****Banking structural reform and recovery and resolution planning**

In the EU, the Bank Recovery and Resolution Directive (BRRD) came into effect from 1 January 2015, with the option to delay implementation of bail-in provisions until 1 January 2016. Despite this, the UK introduced bail-in powers from 1 January 2015. The UK transposition of the BRRD builds on the resolution framework already in place in the UK. In January 2015, the PRA published a policy statement containing updated requirements for recovery and resolution planning which revises PRA rules that have been in force since 1 January 2014. In addition, the EBA has produced a number of RTS and guidelines, some of which are yet to be finalised, that will further inform the BRRD requirements.

In July 2015, the EBA published final draft RTS for MREL which seeks to provide additional clarity on the criteria that resolution authorities should take into account when setting a firm specific minimum requirement for eligible liabilities. The EBA notes that it aims to implement the MREL in a way which is consistent with the developing international standard on total loss absorbing capacity. The Bank of England is expected to publish a consultation paper later in 2015 on the transposition of MREL into UK requirements.

In respect of UK ring-fencing requirements, in May 2015 the PRA published a policy statement containing near final rules on legal structure, corporate governance, and continuity of services and facilities. The PRA intends to undertake a further consultation in 2015 and publish final versions of PRA rules and supervisory statements during the first half of 2016, with implementation by 1 January 2019.

In the EU, discussions on the Banking Structural Reform Regulation continue to progress. In January 2014, the European Commission published legislative proposals on ring-fencing trading activities from deposit taking and prohibiting proprietary trading in financial instruments and commodities. In June 2015, the European Council published its negotiating position on the regulation, which will need to be agreed with the European Parliament before being finalised.

For further details of the Group's approach to structural reform, see page 12.

Total loss absorbing capacity proposals

In November 2014, as part of the 'too big to fail' agenda, the FSB published proposals on TLAC for G-SIBs. The FSB proposals include a minimum TLAC requirement in the range of 16-20% of RWAs and a TLAC leverage ratio of at least twice the Basel III tier 1 leverage ratio. The TLAC requirement is to be applied in accordance with individual resolution strategies, as determined by the G-SIB's crisis management group. A QIS was undertaken earlier this year, the results of which will inform final proposals. The conformance period for the TLAC requirement will also be influenced by the QIS, but will not be before 1 January 2019. Once finalised, it is expected that any new TLAC standard should be met alongside the Basel III minimum capital requirements.

The draft proposals require G-SIBs to be subject to a minimum TLAC requirement with the precise details to be informed by the QIS. There are a number of details relating to the types of liabilities which can be used to meet the TLAC requirement, the composition of TLAC and the location of liabilities within a banking group, in accordance

with its resolution strategy. The TLAC proposals are expected to be finalised later in 2015 and will need to be implemented into national legislation before coming into effect.

Other regulatory updates

In January 2015, the Basel Committee published final standards on Revised Pillar 3 disclosure requirements. They mandate extensive use of standardised templates to enhance comparability between banks disclosures and require a considerable volume of disclosures to be produced semi-annually, rather than annually as hitherto. The revised framework calls for implementation concurrently with financial reports, at the latest for 2016 year-end reports, but is yet to be transposed into EU requirements.

In March 2015, the EBA also consulted on guidelines proposing criteria to set limits on exposures to shadow banking entities. Once finalised, implementation by national competent authorities is currently expected by the end of 2015.

Footnotes to Capital

1 From 1 January 2015 the CRD IV transitional CET1 and end point CET1 capital ratios became aligned for HSBC Holdings plc due to the recognition of unrealised gains on investment property and available-for-sale securities.

2 This includes dividends on ordinary shares, quarterly dividends on preference shares and coupons on capital securities, classified as equity.

3 Dividends net of scrip are in respect of the 2015 first interim dividend and an update for a higher 2014 fourth interim dividend scrip take-up in excess of plan.

4 The basis of presentation for foreign currency translation differences has changed to reflect the total amount in CET1 capital. Previously this only included foreign currency translation differences recognised in other comprehensive income. The comparative periods have also been updated to reflect the change.

5 In the first half of 2015, a portfolio of customers was transferred from CMB to RBWM in Latin America in order to better align the combined banking needs of the customers with our established global businesses. Comparative data have been re-presented accordingly.

6 RWAs are non-additive across geographical regions due to market risk diversification effects within the Group.

7 For the basis of preparation, see page 260 of the Annual Report and Accounts 2014.

8 CRD IV opening balances as at December 2013 were estimated based on the Group's interpretation of final CRD IV legislation and final rules issued by the PRA, details of which can be found in the basis of preparation on page 324 of the Annual Report and Accounts 2013.

9 Includes externally verified profits for the half-year to 30 June 2015.

10 Mainly comprises unrealised gains/losses in available-for-sale debt securities related to SPEs.

11 Includes own credit spread on trading liabilities.

12 Mainly comprise investments in insurance entities.

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Table of Contents**Financial Statements (unaudited) (continued)****Financial Statements****Consolidated income statement****for the half-year to 30 June 2015**

| | 30 June | Half-year to | |
|---|----------------|--------------|-------------|
| | | 30 June | 31 December |
| | 2015 | 2014 | 2014 |
| <i>Notes</i> | \$m | \$m | \$m |
| Interest income | 24,019 | 25,435 | 25,520 |
| Interest expense | (7,575) | (8,030) | (8,220) |
| Net interest income | 16,444 | 17,405 | 17,300 |
| Fee income | 9,372 | 10,031 | 9,514 |
| Fee expense | (1,647) | (1,854) | (1,734) |
| Net fee income | 7,725 | 8,177 | 7,780 |
| Trading income excluding net interest income | 3,520 | 2,362 | 2,491 |
| Net interest income on trading activities | 1,053 | 913 | 994 |
| Net trading income | 4,573 | 3,275 | 3,485 |
| Changes in fair value of long-term debt issued and related derivatives | 1,324 | 438 | 70 |
| Net income from other financial instruments designated at fair value | 1,342 | 1,222 | 743 |
| Net income from financial instruments designated at fair value | 2,666 | 1,660 | 813 |
| Gains less losses from financial investments | 1,874 | 946 | 389 |
| Dividend income | 68 | 88 | 223 |
| Net insurance premium income | 5,607 | 6,137 | 5,784 |
| Other operating income | 836 | 538 | 593 |
| Total operating income | 39,793 | 38,226 | 36,367 |
| Net insurance claims and benefits paid and movement in liabilities to policyholders | (6,850) | (7,059) | (6,286) |

| | | | | |
|---|---|-----------------|----------|----------|
| Net operating income before loan impairment charges and other credit risk provisions | | 32,943 | 31,167 | 30,081 |
| Loan impairment charges and other credit risk provisions | | (1,439) | (1,841) | (2,010) |
| Net operating income | | 31,504 | 29,326 | 28,071 |
| Employee compensation and benefits | | (10,041) | (9,978) | (10,388) |
| General and administrative expenses | | (8,129) | (7,127) | (11,438) |
| Depreciation and impairment of property, plant and equipment | | (604) | (712) | (670) |
| Amortisation and impairment of intangible assets | | (413) | (449) | (487) |
| Total operating expenses | | (19,187) | (18,266) | (22,983) |
| Operating profit | | 12,317 | 11,060 | 5,088 |
| Share of profit in associates and joint ventures | | 1,311 | 1,280 | 1,252 |
| Profit before tax | | 13,628 | 12,340 | 6,340 |
| Tax expense | 2 | (2,907) | (2,022) | (1,953) |
| Profit for the period | | 10,721 | 10,318 | 4,387 |
| Profit attributable to shareholders of the parent company | | 9,618 | 9,746 | 3,942 |
| Profit attributable to non-controlling interests | | 1,103 | 572 | 445 |
| | | \$ | \$ | \$ |
| Basic earnings per ordinary share | 4 | 0.48 | 0.50 | 0.19 |
| Diluted earnings per ordinary share | 4 | 0.48 | 0.50 | 0.19 |

The accompanying notes on pages 107 to 139 form an integral part of these financial statements¹.

For footnote, see page 106.

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Table of Contents**Financial Statements (unaudited) (continued)****Consolidated statement of comprehensive income****for the half-year to 30 June 2015**

| | 30 June | Half-year to 30 June | 31 December |
|---|----------------|-------------------------|-------------|
| | 2015 | 2014 | 2014 |
| | \$m | \$m | \$m |
| Profit for the period | 10,721 | 10,318 | 4,387 |
| Other comprehensive income/(expense) | | | |
| Items that will be reclassified subsequently to profit or loss when specific conditions are met: | | | |
| Available-for-sale investments | (2,445) | 958 | 2,014 |
| fair value gains/(losses) | (355) | 2,183 | 2,611 |
| fair value gains reclassified to the income statement | (2,317) | (643) | (1,029) |
| amounts reclassified to the income statement in respect of impairment losses | 2 | 15 | 359 |
| income taxes | 225 | (597) | 73 |
| Cash flow hedges | (150) | (17) | 205 |
| fair value gains/(losses) | 341 | (44) | 1,556 |
| fair value (gains)/losses reclassified to the income statement | (538) | 50 | (1,294) |
| income taxes | 47 | (23) | (57) |
| Share of other comprehensive income/(expense) of associates and joint ventures | 2 | (16) | 96 |
| share for the period | 2 | (18) | 96 |
| reclassified to income statement on disposal | | 2 | |
| Exchange differences | (3,267) | 670 | (9,573) |
| foreign exchange gains reclassified to the income statement on disposal of a foreign operation | | (21) | |
| other exchange differences | (3,395) | 691 | (9,608) |
| income tax attributable to exchange differences | 128 | | 35 |
| Items that will not be reclassified subsequently to profit or loss: | | | |
| Remeasurement of defined benefit asset/liability | (1,680) | 316 | 1,669 |
| before income taxes | (2,085) | 421 | 1,998 |
| income taxes | 405 | (105) | (329) |
| Other comprehensive income/(expense) for the period, net of tax | (7,540) | 1,911 | (5,589) |

| | | | |
|--|--------------|--------|---------|
| Total comprehensive income/(expense) for the period | 3,181 | 12,229 | (1,202) |
| Attributable to: | | | |
| shareholders of the parent company | 2,856 | 11,706 | (2,461) |
| non-controlling interests | 325 | 523 | 1,259 |
| Total comprehensive income/(expense) for the period | 3,181 | 12,229 | (1,202) |

The accompanying notes on pages 107 to 139 form an integral part of these financial statements¹.

For footnote, see page 106.

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Table of Contents**Consolidated balance sheet****at 30 June 2015**

| | | At 30 June 2015 \$m | At 30 June 2014 \$m | At 31 December 2014 \$m |
|--|--------------|------------------------------|------------------------------|----------------------------------|
| | <i>Notes</i> | | | |
| Assets | | | | |
| Cash and balances at central banks | | 144,324 | 132,137 | 129,957 |
| Items in the course of collection from other banks | | 10,190 | 8,144 | 4,927 |
| Hong Kong Government certificates of indebtedness | | 28,104 | 26,640 | 27,674 |
| Trading assets | 6 | 283,138 | 347,106 | 304,193 |
| Financial assets designated at fair value | 9 | 25,168 | 31,823 | 29,037 |
| Derivatives | 10 | 296,942 | 269,839 | 345,008 |
| Loans and advances to banks | | 109,405 | 127,387 | 112,149 |
| Loans and advances to customers | | 953,985 | 1,047,241 | 974,660 |
| Reverse repurchase agreements non-trading | | 149,384 | 198,301 | 161,713 |
| Financial investments | 11 | 404,682 | 423,710 | 415,467 |
| Assets held for sale | 12 | 60,929 | 10,248 | 7,647 |
| Prepayments, accrued income and other assets | | 55,489 | 75,520 | 67,529 |
| Current tax assets | | 566 | 1,068 | 1,309 |
| Interests in associates and joint ventures | 14 | 18,705 | 17,497 | 18,181 |
| Goodwill and intangible assets | | 24,913 | 29,740 | 27,577 |
| Deferred tax assets | | 5,789 | 7,192 | 7,111 |
| Total assets | | 2,571,713 | 2,753,593 | 2,634,139 |
| Liabilities and equity | | | | |
| Liabilities | | | | |
| Hong Kong currency notes in circulation | | 28,104 | 26,640 | 27,674 |
| Deposits by banks | | 71,140 | 92,764 | 77,426 |
| Customer accounts | | 1,335,800 | 1,415,705 | 1,350,642 |
| Repurchase agreements non-trading | | 81,506 | 165,506 | 107,432 |
| Items in the course of transmission to other banks | | 12,711 | 9,936 | 5,990 |
| Trading liabilities | 15 | 181,435 | 228,135 | 190,572 |
| Financial liabilities designated at fair value | | 69,485 | 82,968 | 76,153 |
| Derivatives | 10 | 289,984 | 263,494 | 340,669 |
| Debt securities in issue | | 102,656 | 96,397 | 95,947 |
| Liabilities of disposal groups held for sale | 12 | 53,226 | 12,361 | 6,934 |
| Accruals, deferred income and other liabilities | | 42,224 | 50,882 | 46,462 |
| Current tax liabilities | | 1,322 | 1,434 | 1,213 |
| Liabilities under insurance contracts | | 69,494 | 75,223 | 73,861 |
| Provisions | 17 | 5,125 | 4,283 | 4,998 |

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| | | | |
|-------------------------------------|------------------|-----------|-----------|
| Deferred tax liabilities | 1,338 | 1,091 | 1,524 |
| Subordinated liabilities | 24,781 | 28,052 | 26,664 |
| Total liabilities | 2,370,331 | 2,554,871 | 2,434,161 |
| Equity | | | |
| Called up share capital | 9,758 | 9,535 | 9,609 |
| Share premium account | 12,290 | 11,582 | 11,918 |
| Other equity instruments | 13,991 | 5,851 | 11,532 |
| Other reserves | 15,180 | 28,355 | 20,244 |
| Retained earnings | 141,208 | 134,958 | 137,144 |
| Total shareholders' equity | 192,427 | 190,281 | 190,447 |
| Non-controlling interests | 8,955 | 8,441 | 9,531 |
| Total equity | 201,382 | 198,722 | 199,978 |
| Total liabilities and equity | 2,571,713 | 2,753,593 | 2,634,139 |

The accompanying notes on pages 107 to 139 form an integral part of these financial statements¹.

For footnote, see page 107.

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Table of Contents**Financial Statements (unaudited) (continued)****Consolidated statement of cash flows****for the half-year to 30 June 2015**

| | 30 June 2015 \$m | Half-year to 30 June 2014 \$m | 31 December 2014 \$m |
|--|---------------------------------|--|----------------------------|
| Cash flows from operating activities | | | |
| Profit before tax | 13,628 | 12,340 | 6,340 |
| Adjustments for: | | | |
| net gain from investing activities | (1,926) | (979) | (949) |
| share of profit in associates and joint ventures | (1,311) | (1,280) | (1,252) |
| (gain)/loss on disposal of associates, joint ventures, subsidiaries and businesses | | (18) | 27 |
| other non-cash items included in profit before tax | 4,522 | 4,284 | 6,978 |
| change in operating assets | 12,077 | (86,266) | 112,143 |
| change in operating liabilities | (15,544) | 59,108 | (152,922) |
| elimination of exchange differences | 3,951 | (5,486) | 30,057 |
| dividends received from associates | 770 | 127 | 630 |
| contributions paid to defined benefit plans | (226) | (315) | (366) |
| tax paid | (1,351) | (1,358) | (2,215) |
| Net cash generated from/(used in) operating activities | 14,590 | (19,843) | (1,529) |
| Cash flows from investing activities | | | |
| Purchase of financial investments | (211,669) | (187,934) | (196,265) |
| Proceeds from the sale and maturity of financial investments | 208,637 | 194,335 | 188,502 |
| Purchase of property, plant and equipment | (620) | (523) | (954) |
| Proceeds from the sale of property, plant and equipment | 56 | 55 | 33 |
| Net cash inflow/(outflow) from disposal of customer and loan portfolios | 321 | 950 | (1,985) |
| Net purchase of intangible assets | (400) | (385) | (518) |
| Net cash inflow/(outflow) from disposal of subsidiaries, businesses, associates and joint ventures | 7 | (140) | (102) |
| Net cash outflow from acquisition of or increase in stake of associates | (1) | (30) | |
| Net cash generated from/(used in) investing activities | (3,669) | 6,328 | (11,289) |
| Cash flows from financing activities | | | |

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| | | | |
|---|----------------|----------|----------|
| Issue of ordinary share capital | 9 | 14 | 253 |
| Net sales/(purchases) of own shares for market-making and investment purposes | 139 | (25) | (71) |
| Issue of other equity instruments | 2,459 | | 5,681 |
| Redemption of preference shares and other equity instruments | (462) | 234 | (468) |
| Subordinated loan capital issued | 1,680 | 3,500 | |
| Subordinated loan capital repaid | (778) | (3,042) | (121) |
| Dividends paid to ordinary shareholders of the parent company | (1,834) | (1,755) | (4,856) |
| Dividends paid to non-controlling interests | (386) | (350) | (289) |
| Dividends paid to holders of other equity instruments | (428) | (287) | (286) |
| Net cash generated from/(used in) financing activities | 399 | (1,711) | (157) |
| Net increase/(decrease) in cash and cash equivalents | 11,320 | (15,226) | (12,975) |
| Cash and cash equivalents at the beginning of the period | 301,301 | 346,281 | 334,498 |
| Exchange differences in respect of cash and cash equivalents | (3,829) | 3,443 | (20,222) |
| Cash and cash equivalents at the end of the period | 308,792 | 334,498 | 301,301 |

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Consolidated statement of changes in equity

for the half-year to 30 June 2015

| Paid up share capital \$m | Share premium \$m | Other equity instruments ² \$m | Retained earnings \$m | Available-for-sale fair value reserve ³ \$m | Other reserves | | | Total shareholders equity \$m |
|------------------------------|----------------------|--|--------------------------|---|---|--|-----------------------|----------------------------------|
| | | | | | Cash flow hedging reserve ³ \$m | Foreign exchange reserve ³ \$m | Merger reserve \$m | |
| 9,609 | 11,918 | 11,532 | 137,144 | 2,143 | 58 | (9,265) | 27,308 | 190,447 |
| | | | 9,618 | | | | | 9,618 |
| | | | (1,693) | (1,735) | (151) | (3,183) | | (6,762) |
| | | | | (1,735) | (151) | | | (1,735) (151) |
| | | | (1,695) | | | | | (1,695) |
| | | | 2 | | | | | 2 |
| | | | | | | (3,183) | | (3,183) |
| | | | 7,925 | (1,735) | (151) | (3,183) | | 2,856 |
| 31 | 490 | | (512) | | | | | 9 |

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| | | | | | | | | |
|-------|--------|--------|---------|-----|-------|----------|--------|---------|
| 118 | (118) | | 2,242 | | | | | 2,242 |
| | | | (6,224) | | | | | (6,224) |
| | | 2,459 | | | | | | 2,459 |
| | | | 444 | | | | | 444 |
| | | | 189 | | | | | 194 |
| | | | | 5 | | | | |
| 9,758 | 12,290 | 13,991 | 141,208 | 413 | (93) | (12,448) | 27,308 | 192,427 |
| 9,415 | 11,135 | 5,851 | 128,728 | 97 | (121) | (542) | 27,308 | 181,871 |
| | | | 9,746 | | | | | 9,746 |
| | | | 300 | 956 | (16) | 720 | | 1,960 |
| | | | | 956 | | | | 956 |
| | | | | | (16) | | | (16) |
| | | | 316 | | | | | 316 |
| | | | (16) | | | | | (16) |
| | | | | | | 720 | | 720 |
| | | | 10,046 | 956 | (16) | 720 | | 11,706 |
| 28 | 539 | | (553) | | | | | 14 |
| 92 | (92) | | 2,111 | | | | | 2,111 |

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| | | | | | | | | |
|-------|--------|-------|---------|-------|-------|-----|--------|---------|
| | | | (5,774) | | | | | (5,774) |
| | | | 333 | | | | | 333 |
| | | | 67 | (39) | (8) | | | 20 |
| 9,535 | 11,582 | 5,851 | 134,958 | 1,014 | (145) | 178 | 27,308 | 190,281 |

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Table of Contents**Financial Statements (unaudited) (continued)***Consolidated statement of changes in equity for the half-year to 30 June 2015 (continued)*

| Called up share capital \$m | Share premium \$m | Other equity instru- ments \$m | Retained earnings \$m | Available- for-sale fair value reserve \$m | Other reserves | | Merger reserve \$m | Total share- holders equity \$m | cont in |
|--------------------------------------|-------------------------|--|-----------------------------|--|--|---------------------------------------|--------------------------|---|------------|
| | | | | | Cash flow hedging reserve \$m | Foreign exchange reserve \$m | | | |
| 9,535 | 11,582 | 5,851 | 134,958 | 1,014 | (145) | 178 | 27,308 | 190,281 | |
| | | | 3,942 | | | | | 3,942 | |
| | | | 1,766 | 1,069 | 205 | (9,443) | | (6,403) | |
| | | | | 1,069 | 205 | | | 1,069 205 | |
| | | | 1,670 | | | | | 1,670 | |
| | | | 96 | | | | | 96 | |
| | | | | | | (9,443) | | (9,443) | |
| | | | 5,708 | 1,069 | 205 | (9,443) | | (2,461) | |
| 32 | 378 | | (157) | | | | | 253 | |

| | | | | | | | | |
|-------|--------|--------|---------|-------|-----|---------|--------|---------|
| 42 | (42) | | 598 | | | | | 598 |
| | | | (4,119) | | | | | (4,119) |
| | | 5,681 | | | | | | 5,681 |
| | | | 399 | | | | | 399 |
| | | | (243) | 60 | (2) | | | (185) |
| 9,609 | 11,918 | 11,532 | 137,144 | 2,143 | 58 | (9,265) | 27,308 | 190,447 |

The accompanying notes on pages 107 to 139 form an integral part of these financial statements¹.

Footnotes to financial statements

- The tables: Gross loans and advances to customers by industry sector and by geographical region (see page 61), Movement in impairment allowances on loans and advances to customers and banks (see page 66), and the Composition of regulatory capital within Capital (see page 94) also form an integral part of these financial statements.*
- During March 2015, HSBC Holdings issued \$2,450m of Perpetual Subordinated Contingent Convertible Capital Securities, after issuance costs of \$8m and tax benefits of \$17m, which are classified as equity under IFRSs.*
- At 30 June 2015, our operations in Brazil were classified as held for sale (see Note 12). The cumulative amount of other reserves attributable to these operations were as follows: available-for-sale fair value reserve debit of \$65m, cash flow hedging reserve debit of \$29m and foreign exchange reserve debit of \$1,724m.*

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Table of Contents**Notes on the Financial Statements (unaudited)****Notes on the Financial Statements**

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| | | | |
|---|-----|--|-----|
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1 Basis of preparation and significant accounting policies

(a) Compliance with International Financial Reporting Standards

The interim condensed consolidated financial statements of HSBC have been prepared in accordance with the Disclosure Rules and Transparency Rules of the Financial Conduct Authority and IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB) and as endorsed by the EU. These interim consolidated financial statements should be read in conjunction with the *Annual Report and Accounts 2014*.

At 30 June 2015, there were no unendorsed standards effective for the half-year to 30 June 2015 affecting these interim consolidated financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC.

Standards applied during the half-year to 30 June 2015

There were no new standards applied during the half-year to 30 June 2015. During the period, HSBC applied a number of interpretations and amendments to standards which had an insignificant effect on these interim consolidated financial statements.

(b) Use of estimates and judgements

Management believes that HSBC's critical accounting estimates and judgements are those which relate to impairment of loans and advances, goodwill impairment, the valuation of financial instruments, deferred tax assets, provisions for liabilities and interests in associates. There was no change in the current period to the critical accounting estimates and judgements applied in 2014, which are stated on pages 62 and 348 of the *Annual Report and Accounts 2014*.

(c) Composition of Group

There were no material changes in the composition of the HSBC Group in the half-year to 30 June 2015.

(d) Future accounting developments

Information on future accounting developments and their potential effect on the financial statements of HSBC are provided on page 345 of the *Annual Report and Accounts 2014*.

(e) **Going concern**

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group and parent company have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

(f) **Accounting policies**

The accounting policies applied by HSBC for these interim consolidated financial statements are consistent with those described on pages 345 to 457 of the *Annual Report and Accounts 2014*, as are the methods of computation.

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Table of Contents**Notes on the Financial Statements (unaudited) (continued)****2 Tax**

| | 30 June 2015 \$m | Half-year to 30 June 2014 \$m | 31 December 2014 \$m |
|---------------------------|---------------------------------|--|----------------------------|
| Current tax | | | |
| UK corporation tax charge | 343 | 165 | (96) |
| Overseas tax ¹ | 2,071 | 1,803 | 2,078 |
| | 2,414 | 1,968 | 1,982 |
| Deferred tax | 493 | 54 | (29) |
| Tax expense | 2,907 | 2,022 | 1,953 |
| Effective tax rate | 21.3% | 16.4% | 30.8% |

1 *Overseas tax included Hong Kong profits tax of \$714m (first half of 2014: \$589m; second half of 2014: \$546m). Subsidiaries in Hong Kong provided for Hong Kong profits tax at the rate of 16.5% (2014: 16.5%) on the profits for the period assessable in Hong Kong. Other overseas subsidiaries and overseas branches provided for taxation at the appropriate rates in the countries in which they operated.*

Deferred taxation

Net deferred tax assets amounted to \$4.5bn at 30 June 2015 (30 June 2014: \$6.1bn; 31 December 2014: \$5.6bn), mainly relating to timing differences in the US. Net deferred tax assets have fallen since 31 December 2014 mainly because the net assets of Brazilian operations were transferred to Held for Sale (see Note 12).

3 Dividends

On 3 August 2015, the Directors declared a second interim dividend in respect of the financial year ending 31 December 2015 of \$0.10 per ordinary share, a distribution of approximately \$1,954m which will be payable on 2 October 2015. No liability is recognised in the financial statements in respect of this dividend.

Dividends to shareholders of the parent company

| | 30 June 2015 | | | Half-year to 30 June 2014 | | | 31 December 2014 | | |
|--|--------------------|--------------|----------------------------|------------------------------|--------------|----------------------------|--------------------|--------------|----------------------------|
| | Per share \$ | Total \$m | Settled in scrip \$m | Per share \$ | Total \$m | Settled in scrip \$m | Per share \$ | Total \$m | Settled in scrip \$m |
| Dividends paid on ordinary shares | | | | | | | | | |
| In respect of previous year: | | | | | | | | | |
| fourth interim dividend | 0.20 | 3,845 | 2,011 | 0.19 | 3,582 | 1,827 | | | |
| In respect of current year: | | | | | | | | | |
| first interim dividend | 0.10 | 1,951 | 231 | 0.10 | 1,906 | 284 | | | |
| second interim dividend | | | | | | | 0.10 | 1,914 | 372 |
| third interim dividend | | | | | | | 0.10 | 1,918 | 226 |
| Total | 0.30 | 5,796 | 2,242 | 0.29 | 5,488 | 2,111 | 0.20 | 3,832 | 598 |
| Total dividends on preference shares classified as equity (paid quarterly) | 31.00 | 45 | | 31.00 | 45 | | 31.00 | 45 | |

Total coupons on capital securities classified as equity

| | First call date | 30 June 2015 | | Half-year to 30 June 2014 | | 31 December 2014 | |
|---|--------------------|--------------------|--------------|------------------------------|--------------|--------------------|--------------|
| | | Per security \$ | Total \$m | Per security \$ | Total \$m | Per security \$ | Total \$m |
| Perpetual subordinated capital securities ¹ | | | | | | | |
| \$2,200m issued at 8.125% | Apr 2013 | 1.016 | 89 | 1.016 | 89 | 1.016 | 90 |
| \$3,800m issued at 8.000% | Dec 2015 | 1.000 | 152 | 1.000 | 152 | 1.000 | 152 |
| Perpetual subordinated contingent convertible securities ² | | | | | | | |
| \$2,250m issued at 6.375% | Sep 2024 | 31.875 | 72 | | | | |
| \$1,500m issued at 5.625% | Jan 2020 | 28.125 | 28 | | | | |
| 1,500m issued at 5.250% | Sep 2022 | 29.396 | 42 | | | | |
| Total | | | 383 | | 241 | | 242 |

1 Discretionary coupons are paid quarterly on the perpetual subordinated capital securities.

2 Discretionary coupons are paid semi-annually on the perpetual subordinated contingent convertible securities.

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On 15 July 2015, HSBC paid a further coupon on the \$2,200m subordinated capital securities of \$0.508 per security, representing a total distribution of \$45m. On 17 July 2015, HSBC paid a further coupon on the \$1,500m subordinated contingent convertible securities, representing a total distribution of \$42m. No liability is recognised in the financial statements in respect of these coupon payments.

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In March 2015, HSBC issued \$2,450m of contingent convertible securities issued at 6.375% which are classified as equity under IFRSs. Discretionary coupons are paid semi-annually on these contingent convertible securities and none were declared in the first half of 2015.

4 Earnings per share*Profit attributable to ordinary shareholders of the parent company*

| | 30 June 2015 \$m | Half-year to 30 June 2014 \$m | 31 December 2014 \$m |
|---|---------------------------------|-------------------------------------|----------------------------|
| Profit attributable to shareholders of the parent company | 9,618 | 9,746 | 3,942 |
| Dividend payable on preference shares classified as equity | (45) | (45) | (45) |
| Coupon payable on capital securities classified as equity | (383) | (241) | (242) |
| Profit attributable to ordinary shareholders of the parent company | 9,190 | 9,460 | 3,655 |

Basic and diluted earnings per share

| | Half-year to 30 June 2015 | | | Half-year to 30 June 2014 | | | Half-year to 31 December 2014 | | |
|--|----------------------------------|--|------------------------------------|---------------------------|-----------------------------------|---------------------------|----------------------------------|-----------------------------------|---------------------------|
| | Profit \$m | Number of shares (millions) | Amount per share \$ | Profit \$m | Number of shares (millions) | Amount per share \$ | Profit \$m | Number of shares (millions) | Amount per share \$ |
| Basic ¹ | 9,190 | 19,249 | 0.48 | 9,460 | 18,847 | 0.50 | 3,655 | 18,960 | 0.19 |
| Effect of dilutive potential ordinary shares | | 68 | | | 101 | | | 96 | |
| Diluted¹ | 9,190 | 19,317 | 0.48 | 9,460 | 18,948 | 0.50 | 3,655 | 19,056 | 0.19 |

¹ Weighted average number of ordinary shares outstanding (basic) or assuming dilution (diluted).

5 Segmental analysis

HSBC operates a matrix management structure which includes geographical regions and global businesses. HSBC considers that geographical operating segments represent the most appropriate information for users of the financial statements to best evaluate the nature and financial effects of HSBC's business activities and the economic environment in which it operates. HSBC's operating segments are Europe, Asia, Middle East and North Africa, North America and Latin America.

| | North | | | Latin Intra-HSBC | | | |
|--|---------------|---------------|--------------|------------------|----------------|----------------|---------------|
| | Europe \$m | Asia \$m | MENA \$m | America \$m | America \$m | items \$m | Total \$m |
| <i>Net operating income</i> ¹ | | | | | | | |
| Half-year to 30 June 2015 | | | | | | | |
| Net operating income | 11,469 | 14,065 | 1,289 | 4,126 | 3,558 | (1,564) | 32,943 |
| external | 10,974 | 13,148 | 1,279 | 3,979 | 3,563 | | 32,943 |
| inter-segment | 495 | 917 | 10 | 147 | (5) | (1,564) | |
| Half-year to 30 June 2014 | | | | | | | |
| Net operating income | 10,873 | 12,107 | 1,294 | 4,067 | 4,265 | (1,439) | 31,167 |
| external | 10,335 | 11,343 | 1,271 | 3,948 | 4,270 | | 31,167 |
| inter-segment | 538 | 764 | 23 | 119 | (5) | (1,439) | |
| Half-year to 31 December 2014 | | | | | | | |
| Net operating income | 10,698 | 11,570 | 1,254 | 4,085 | 4,007 | (1,533) | 30,081 |
| external | 10,115 | 10,728 | 1,253 | 3,989 | 3,996 | | 30,081 |
| inter-segment | 583 | 842 | 1 | 96 | 11 | (1,533) | |
| <i>Profit/(loss) before tax</i> | | | | | | | |
| Half-year to: | | | | | | | |
| 30 June 2015 | 2,205 | 9,400 | 901 | 690 | 432 | | 13,628 |
| 30 June 2014 | 2,258 | 7,894 | 989 | 825 | 374 | | 12,340 |
| 31 December 2014 | (1,662) | 6,731 | 837 | 592 | (158) | | 6,340 |

HSBC HOLDINGS PLC

Table of Contents**Notes on the Financial Statements (unaudited)** (continued)

| | Europe | | Asia | | MENA | | North America | | Latin America | | Intra-HSBC items | | Total | |
|----------------------------------|------------------|----------------|---------------|----------------|----------------|------------------|------------------|--|---------------|--|------------------|--|-------|--|
| | \$m | | \$m | | \$m | | \$m | | \$m | | \$m | | \$m | |
| <i>Balance sheet information</i> | | | | | | | | | | | | | | |
| At 30 June 2015 | | | | | | | | | | | | | | |
| Total assets | 1,236,270 | 917,489 | 61,625 | 411,601 | 104,203 | (159,475) | 2,571,713 | | | | | | | |
| Total liabilities | 1,171,686 | 842,077 | 51,745 | 372,300 | 91,998 | (159,475) | 2,370,331 | | | | | | | |
| At 30 June 2014 | | | | | | | | | | | | | | |
| Total assets | 1,430,863 | 874,334 | 61,289 | 437,706 | 125,630 | (176,229) | 2,753,593 | | | | | | | |
| Total liabilities | 1,362,091 | 807,906 | 51,619 | 398,776 | 110,708 | (176,229) | 2,554,871 | | | | | | | |
| At 31 December 2014 | | | | | | | | | | | | | | |
| Total assets | 1,290,926 | 878,723 | 62,417 | 436,859 | 115,354 | (150,140) | 2,634,139 | | | | | | | |
| Total liabilities | 1,223,371 | 807,998 | 52,569 | 398,356 | 102,007 | (150,140) | 2,434,161 | | | | | | | |

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

6 Trading assets

| | 30 June 2015 \$m | At 30 June 2014 \$m | 31 December 2014 \$m |
|---|-------------------------|---------------------|----------------------|
| Trading assets: | | | |
| not subject to repledge or resale by counterparties | 246,704 | 248,929 | 247,586 |
| which may be repledged or resold by counterparties | 36,434 | 98,177 | 56,607 |
| | 283,138 | 347,106 | 304,193 |
| Treasury and other eligible bills | 10,444 | 17,678 | 16,170 |
| Debt securities | 111,241 | 155,522 | 141,532 |
| Equity securities | 77,142 | 73,855 | 75,249 |
| Trading securities valued at fair value | 198,827 | 247,055 | 232,951 |
| Loans and advances to banks ¹ | 35,309 | 41,048 | 27,581 |

| | | | |
|--|----------------|---------|---------|
| Loans and advances to customers ¹ | 49,002 | 59,003 | 43,661 |
| | 283,138 | 347,106 | 304,193 |

1 *Loans and advances to banks and customers include settlement accounts, stock borrowing, reverse repos and other amounts.*

Trading securities valued at fair value¹

| | 30 June | At 30 June | 31 December |
|---|----------------|---------------|-------------|
| | 2015 | 2014 | 2014 |
| | \$m | \$m | \$m |
| US Treasury and US Government agencies ² | 16,301 | 27,019 | 25,880 |
| UK Government | 11,142 | 9,364 | 9,280 |
| Hong Kong Government | 6,677 | 5,189 | 6,946 |
| Other government | 54,986 | 90,261 | 78,774 |
| Asset-backed securities ³ | 4,306 | 2,903 | 3,494 |
| Corporate debt and other securities | 28,273 | 38,464 | 33,328 |
| Equity securities | 77,142 | 73,855 | 75,249 |
| | 198,827 | 247,055 | 232,951 |

1 *Included within these figures are debt securities issued by banks and other financial institutions of \$19,298m (30 June 2014: \$26,390m; 31 December 2014: \$22,399m), of which \$1,384m (30 June 2014: \$4,036m; 31 December 2014: \$2,949m) are guaranteed by various governments.*

2 *US Treasury and US Government agencies includes securities that are supported by an explicit guarantee issued by the US Government.*

3 *Excludes asset-backed securities included under US Treasury and US Government agencies.*

Trading securities listed on a recognised exchange and unlisted

| | Treasury | | | |
|------------------------|-----------------------|-------------------|-------------------|----------------|
| | and other | Debt | Equity | |
| | eligible bills | securities | securities | Total |
| | \$m | \$m | \$m | \$m |
| Fair value | | | | |
| Listed ¹ | 480 | 75,031 | 76,751 | 152,262 |
| Unlisted ² | 9,964 | 36,210 | 391 | 46,565 |
| At 30 June 2015 | 10,444 | 111,241 | 77,142 | 198,827 |
| Listed ¹ | 1,394 | 99,414 | 73,163 | 173,971 |
| Unlisted ² | 16,284 | 56,108 | 692 | 73,084 |
| At 30 June 2014 | 17,678 | 155,522 | 73,855 | 247,055 |

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| | Treasury and other eligible bills \$m | Debt securities \$m | Equity securities \$m | Total \$m |
|-----------------------|--|---------------------------|-----------------------------|--------------|
| Listed ¹ | 1,311 | 98,028 | 74,542 | 173,881 |
| Unlisted ² | 14,859 | 43,504 | 707 | 59,070 |
| At 31 December 2014 | 16,170 | 141,532 | 75,249 | 232,951 |

1 Included within listed investments are \$7,394m (30 June 2014: \$4,479m; 31 December 2014: \$5,956m) of securities listed in Hong Kong.

2 Unlisted treasury and other eligible bills primarily comprise treasury bills not listed on an exchange but for which there is a liquid market.

7 Fair values of financial instruments carried at fair value

The accounting policies, control framework and the hierarchy used to determine fair values at 30 June 2015 are consistent with those applied for the Annual Report and Accounts 2014.

*Financial instruments carried at fair value and bases of valuation***Recurring fair value measurements****At 30 June 2015**

Assets

Trading assets

Financial assets designated at fair value

| | Valuation techniques With | | | |
|---|------------------------------|-------------------------------|---------------------------------------|---------|
| | Quoted market price | Using observable inputs | significant unobservable inputs | Total |
| | Level 1 \$m | Level 2 \$m | Level 3 \$m | \$m |
| Trading assets | 153,912 | 123,486 | 5,740 | 283,138 |
| Financial assets designated at fair value | 20,318 | 4,377 | 473 | 25,168 |

| | | | | |
|--|----------------|----------------|--------------|----------------|
| Derivatives | 7,932 | 285,942 | 3,068 | 296,942 |
| Financial investments: available for sale | 234,117 | 124,381 | 4,007 | 362,505 |
| Liabilities | | | | |
| Trading liabilities | 47,975 | 128,155 | 5,305 | 181,435 |
| Financial liabilities designated at fair value | 3,557 | 65,923 | 5 | 69,485 |
| Derivatives | 7,781 | 280,760 | 1,443 | 289,984 |
| At 30 June 2014 | | | | |
| Assets | | | | |
| Trading assets | 220,194 | 121,083 | 5,829 | 347,106 |
| Financial assets designated at fair value | 26,359 | 4,752 | 712 | 31,823 |
| Derivatives | 2,484 | 264,877 | 2,478 | 269,839 |
| Financial investments: available for sale | 259,077 | 132,934 | 6,443 | 398,454 |
| Liabilities | | | | |
| Trading liabilities | 102,025 | 118,430 | 7,680 | 228,135 |
| Financial liabilities designated at fair value | 4,115 | 78,853 | | 82,968 |
| Derivatives | 2,857 | 258,776 | 1,861 | 263,494 |
| At 31 December 2014 | | | | |
| Assets | | | | |
| Trading assets | 180,446 | 117,279 | 6,468 | 304,193 |
| Financial assets designated at fair value | 23,697 | 4,614 | 726 | 29,037 |
| Derivatives | 4,366 | 337,718 | 2,924 | 345,008 |
| Financial investments: available for sale | 241,464 | 131,264 | 4,988 | 377,716 |
| Liabilities | | | | |
| Trading liabilities | 62,385 | 122,048 | 6,139 | 190,572 |
| Financial liabilities designated at fair value | 3,792 | 72,361 | | 76,153 |
| Derivatives | 4,649 | 334,113 | 1,907 | 340,669 |

The decrease in Level 1 trading assets and liabilities during the first half of 2015 reflects a decrease in debt securities, treasury bills and other government bills/bonds. The decrease in Level 2 derivative assets and liabilities is driven by participation in portfolio compression exercises and market movement. There were no material transfers between Level 1 and Level 2 during the period.

Fair value adjustments

Fair value adjustments are adopted when HSBC considers that there are additional factors that would be considered by a market participant that are not incorporated within the valuation model. HSBC classifies fair value adjustments as either risk-related or model-related. The majority of these adjustments relate to GB&M. Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement. For example, as models are enhanced, fair value adjustments may no longer be required. Similarly, fair value adjustments will decrease when the related positions are unwound, but this may not result in profit or loss.

Table of Contents**Notes on the Financial Statements (unaudited) (continued)***Global Banking and Markets fair value adjustments*

| | 30 June | At 30 June | 31 December |
|---|----------------|---------------|-------------|
| Type of adjustment | 2015 | 2014 | 2014 |
| | \$m | \$m | \$m |
| Risk-related | 1,447 | 1,419 | 1,958 |
| bid-offer | 547 | 558 | 539 |
| uncertainty | 68 | 363 | 357 |
| credit valuation adjustment | 808 | 968 | 871 |
| debit valuation adjustment | (431) | (474) | (270) |
| funding fair value adjustment | 453 | | 460 |
| other | 2 | 4 | 1 |
| Model-related | 410 | 202 | 57 |
| model limitation | 400 | 198 | 52 |
| other | 10 | 4 | 5 |
| Inception profit (Day 1 P&L reserves) (Note 10) | 117 | 135 | 114 |
| | 1,974 | 1,756 | 2,129 |

Fair value adjustments declined by \$155m during the period (first half of 2014: \$178m decline; second half of 2014: \$373m rise). The debit valuation adjustment movement was \$161m as a result of the widening of HSBC's credit spreads (first half of 2014: \$142m decline, second half of 2014: \$204m decline). Reduced derivative counterparty exposures and narrowing of counterparty credit default swap spreads contributed to a reduction in the credit valuation adjustment of \$63m (first half of 2014: \$306m decline; second half of 2014: \$97m decline). The movement in uncertainty and model limitation categories was primarily driven by a reclassification of an adjustment relating to derivative discounting assumptions between the categories.

Funding fair value adjustment was adopted in the second half of 2014.

A description of HSBC's risk-related and model-related adjustments is provided on pages 381 and 382 of the *Annual Report and Accounts 2014*.

Fair value valuation bases

Financial instruments measured at fair value using a valuation technique with significant unobservable inputs Level 3

| | Assets | | | | | Liabilities | | | |
|---|------------------------------|----------------------------|--------------------------------------|-------------------------|---------------|----------------------------|--------------------------------------|-------------------------|--------------|
| | Available for sale \$m | Held for trading \$m | At fair value ¹ \$m | Deriv- atives \$m | Total \$m | Held for trading \$m | At fair value ¹ \$m | Deriv- atives \$m | Total \$m |
| Private equity including strategic investments | 3,026 | 194 | 441 | | 3,661 | 33 | | | 33 |
| Asset-backed securities | 736 | 577 | | | 1,313 | | | | |
| Loans held for securitisation | | 35 | | | 35 | | | | |
| Structured notes | | | | | | 5,272 | | | 5,272 |
| Derivatives with monolines | | | | 189 | 189 | | | | |
| Other derivatives | | 7 | | 2,879 | 2,886 | | | 1,443 | 1,443 |
| Other portfolios | 245 | 4,927 | 32 | | 5,204 | | 5 | | 5 |
| At 30 June 2015 | 4,007 | 5,740 | 473 | 3,068 | 13,288 | 5,305 | 5 | 1,443 | 6,753 |
| Private equity including strategic investments | 3,562 | 169 | 455 | | 4,186 | | | | |
| Asset-backed securities | 2,450 | 641 | | | 3,091 | | | | |
| Loans held for securitisation | | 56 | | | 56 | | | | |
| Structured notes | | 2 | | | 2 | 7,680 | | | 7,680 |
| Derivatives with monolines | | | | 270 | 270 | | | 2 | 2 |
| Other derivatives | | | | 2,208 | 2,208 | | | 1,858 | 1,858 |
| Other portfolios | 431 | 4,961 | 257 | | 5,649 | | | 1 | 1 |
| At 30 June 2014 | 6,443 | 5,829 | 712 | 2,478 | 15,462 | 7,680 | | 1,861 | 9,541 |
| Private equity including strategic investments | 3,120 | 164 | 432 | | 3,716 | 47 | | | 47 |

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| | | | | | | | | |
|-------------------------------|-------|-------|-----|-------|--------|-------|-------|-------|
| Asset-backed securities | 1,462 | 616 | | | 2,078 | | | |
| Loans held for securitisation | | 39 | | | 39 | | | |
| Structured notes | | 2 | | | 2 | 6,092 | | 6,092 |
| Derivatives with monolines | | | | 239 | 239 | | 1 | 1 |
| Other derivatives | | | | 2,685 | 2,685 | | 1,906 | 1,906 |
| Other portfolios | 406 | 5,647 | 294 | | 6,347 | | | |
| At 31 December 2014 | 4,988 | 6,468 | 726 | 2,924 | 15,106 | 6,139 | 1,907 | 8,046 |

1 Designated at fair value through profit or loss.

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The basis for determining the fair value of the financial instruments in the table above is explained on page 383 of the *Annual Report and Accounts 2014*.

Movement in Level 3 financial instruments

| | Assets | | | | Liabilities | | |
|--------------------|-----------|---------------|-------------|----------|---------------|-------------|--|
| | | Designated | | | Designated | | |
| | | at fair value | | | at fair value | | |
| | | through | | | through | | |
| | | profit | | | profit | | |
| | Available | or loss | Derivatives | Held for | or loss | Derivatives | |
| | for sale | | | trading | | | |
| | \$m | \$m | \$m | \$m | \$m | \$m | |
| 1 January 2015 | 4,988 | 6,468 | 726 | 2,924 | 6,139 | 1,907 | |
| Total | | | | | | | |
| gains/(losses) | | | | | | | |
| recognised in | | | | | | | |
| profit or loss | (17) | (14) | (19) | 344 | (223) | (467) | |
| trading | | | | | | | |
| income/(expense) | | | | | | | |
| including net | | | | | | | |
| interest income | | (14) | | 344 | (223) | (467) | |
| net | | | | | | | |
| income/(expense) | | | | | | | |
| from other | | | | | | | |
| financial | | | | | | | |
| instruments | | | | | | | |
| designated at fair | | | | | | | |
| value | | | (19) | | | (1) | |
| gains less losses | | | | | | | |
| from financial | | | | | | | |
| investments | (29) | | | | | | |
| loan impairment | | | | | | | |
| charges and other | | | | | | | |
| credit risk | | | | | | | |
| provisions | 12 | | | | | | |
| Total | 72 | (6) | (9) | 5 | (20) | 1 | |
| gains/(losses) | | | | | | | |

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| | | | | | | | |
|--|--------------|--------------|------------|--------------|--------------|----------|--------------|
| Recognised in other comprehensive income ¹ | | | | | | | |
| Investments: fair value gains | 70 | | | | | | |
| Exchange differences | 2 | (6) | (9) | 5 | (20) | (1) | 1 |
| Purchases | 342 | 435 | 165 | | | 9 | |
| New issuances | | | | | 863 | | |
| Redemptions | (420) | (1,134) | (46) | | (10) | (2) | |
| Settlements | (15) | (90) | (72) | 43 | (681) | | 41 |
| Transfers out | (1,257) | (31) | (272) | (312) | (889) | | (52) |
| Transfers in | 314 | 112 | | 64 | 126 | | 13 |
| at 30 June 2015 | 4,007 | 5,740 | 473 | 3,068 | 5,305 | 5 | 1,443 |
| Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 June 2015 | 13 | (6) | 17 | 444 | (24) | (1) | (459) |
| Trading income/(expense) including net interest income net of net income/(expense) from other financial instruments designated at fair value | | (6) | | 444 | (24) | | (459) |
| Loan impairment recoveries and other credit risk provisions | 13 | | 17 | | | (1) | |
| at 1 January 2014 | 7,245 | 5,347 | 608 | 2,502 | 7,514 | | 2,335 |
| Total unrealised gains/(losses) recognised in profit or loss | 58 | 18 | 48 | 10 | 94 | | (248) |
| Trading income/(expense) including net interest income net of net income/(expense) | | 18 | 48 | 10 | 94 | | (248) |

| | | | | | | |
|---------------------|---------|-------|------|-------|-------|-------|
| from other | | | | | | |
| financial | | | | | | |
| instruments | | | | | | |
| designated at fair | | | | | | |
| value | | | | | | |
| gains less losses | | | | | | |
| from financial | | | | | | |
| investments | 79 | | | | | |
| loan impairment | | | | | | |
| charges and other | | | | | | |
| credit risk | | | | | | |
| provisions | (21) | | | | | |
| total | | | | | | |
| gains/(losses) | | | | | | |
| recognised in | | | | | | |
| other | | | | | | |
| comprehensive | | | | | | |
| income ¹ | 334 | 70 | (1) | 61 | 113 | 83 |
| available-for-sale | | | | | | |
| investments: fair | | | | | | |
| value gains | 145 | | | | | |
| cash flow hedges: | | | | | | |
| fair value gains | | | | | | 34 |
| exchange | | | | | | |
| differences | 189 | 70 | (1) | 61 | 113 | 49 |
| acquisitions | 1,228 | 613 | 123 | | (31) | |
| new issuances | | | | | 1,416 | |
| redemptions | (741) | (210) | (40) | | | |
| settlements | (722) | (40) | (29) | 5 | (801) | (99) |
| transfers out | (1,654) | (31) | | (228) | (720) | (321) |
| transfers in | 695 | 62 | 3 | 128 | 95 | 111 |
| at 30 June 2014 | 6,443 | 5,829 | 712 | 2,478 | 7,680 | 1,861 |

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Table of Contents**Notes on the Financial Statements (unaudited) (continued)***Movement in Level 3 financial instruments (continued)*

| | Assets | | | | Liabilities | | | |
|--|---------------|----------|---------|-------------|---------------|------|-------------|--|
| | Designated | | | | Designated | | | |
| | at fair value | | | | at fair value | | | |
| | through | | | | through | | | |
| | profit | | | | profit | | | |
| | Available | Held for | or loss | Derivatives | Held for | or | Derivatives | |
| | for sale | trading | \$m | \$m | trading | loss | \$m | |
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | |
| Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 June 2014 | (21) | 8 | 23 | 128 | 175 | | 43 | |
| trading income excluding net interest income | | 8 | | 128 | 175 | | 43 | |
| net income from other financial instruments designated at fair value | | | 23 | | | | | |
| loan impairment charges and other credit risk provisions | (21) | | | | | | | |
| At 1 July 2014 | 6,443 | 5,829 | 712 | 2,478 | 7,680 | | 1,861 | |
| Total gains/(losses) recognised in profit or loss | 116 | 176 | 8 | 949 | (119) | | 243 | |
| trading income/(expense) excluding net interest income | | 176 | | 949 | (119) | | 243 | |
| net income/(expense) from other financial instruments designated at fair value | | | 8 | | | | | |
| gains less losses from financial investments | 119 | | | | | | | |
| loan impairment charges and other credit risk provisions | (3) | | | | | | | |
| Total gains recognised in other comprehensive income ¹ | (208) | (248) | (15) | (187) | (236) | | (29) | |

| | | | | | | |
|------------------------------------|---------|-------|-------|-------|---------|-------|
| available-for-sale investments: | | | | | | |
| fair value gains | 63 | | | | | |
| cash flow hedges: fair value | | | | | | |
| losses | | | | (9) | | |
| exchange differences | (271) | (248) | (15) | (178) | (236) | (29) |
| Purchases | 277 | 92 | 150 | | | |
| New issuances | | | | | 651 | |
| Sales | (496) | (271) | (109) | | | |
| Settlements | (533) | (9) | (49) | 22 | (854) | 30 |
| Transfers out | (1,373) | (81) | | (316) | (1,198) | (206) |
| Transfers in | 762 | 980 | 29 | (22) | 215 | 8 |
| At 31 December 2014 | 4,988 | 6,468 | 726 | 2,924 | 6,139 | 1,907 |
| Unrealised gains/(losses) | | | | | | |
| recognised in profit or loss | | | | | | |
| relating to assets and liabilities | | | | | | |
| held at 31 December 2014 | (3) | (7) | 23 | 818 | (297) | 91 |
| trading income/(expense) | | | | | | |
| excluding net interest income | | (7) | | 818 | (297) | 91 |
| net income from other | | | | | | |
| financial instruments | | | | | | |
| designated at fair value | | | 23 | | | |
| loan impairment charges and | | | | | | |
| other credit risk provisions | (3) | | | | | |

1 Included in Available-for-sale investments: fair value gains/(losses) and Exchange differences in the consolidated statement of comprehensive income.

Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period. Movements in available-for-sale assets are mainly driven by sales of private equity investments and the transfer out of Level 3 of legacy credit assets following greater price certainty. Purchases and sales in trading assets reflect origination and sell-down of syndicated loans.

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

The following table shows the sensitivity of Level 3 fair values to reasonably possible alternative assumptions:

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Table of Contents*Sensitivity of fair values to reasonably possible alternative assumptions*

| | Reflected in | | Reflected in other | |
|--|----------------|--------------|----------------------|--------------|
| | profit or loss | | comprehensive income | |
| | Favourable | Unfavourable | Favourable | Unfavourable |
| | changes | changes | changes | changes |
| | \$m | \$m | \$m | \$m |
| Derivatives, trading assets and trading liabilities ¹ | 255 | (274) | | |
| Financial assets and liabilities designated at fair value | 41 | (42) | | |
| Financial investments: available for sale | 33 | (30) | 222 | (217) |
| At 30 June 2015 | 329 | (346) | 222 | (217) |
| Derivatives, trading assets and trading liabilities ¹ | 266 | (251) | | |
| Financial assets and liabilities designated at fair value | 35 | (60) | | |
| Financial investments: available for sale | | | 369 | (614) |
| At 30 June 2014 | 301 | (311) | 369 | (614) |
| Derivatives, trading assets and trading liabilities ¹ | 296 | (276) | | |
| Financial assets and liabilities designated at fair value | 37 | (47) | | |
| Financial investments: available for sale | 51 | (67) | 270 | (350) |
| At 31 December 2014 | 384 | (390) | 270 | (350) |

1 *Derivatives, trading assets and trading liabilities* are presented as one category to reflect the manner in which these financial instruments are risk-managed.

The reduction in the effect of both favourable and unfavourable changes during the period primarily reflects increased pricing certainty, in particular in private equity, and some reduction in Level 3 balances offset by decreased pricing certainty in derivative funding assumptions.

Sensitivity of fair values to reasonably possible alternative assumptions by Level 3 instrument type

| | Reflected in | | Reflected in other | |
|--|----------------|--------------|----------------------|--------------|
| | profit or loss | | comprehensive income | |
| | Favourable | Unfavourable | Favourable | Unfavourable |
| | changes | changes | changes | changes |
| | \$m | \$m | \$m | \$m |
| Private equity including strategic investments | 79 | (79) | 171 | (171) |
| Asset-backed securities | 31 | (9) | 29 | (24) |
| Loans held for securitisation | 1 | (1) | | |
| Structured notes | 19 | (14) | | |
| Derivatives with monolines | 9 | (9) | | |
| Other derivatives | 117 | (198) | | |
| Other portfolios | 73 | (36) | 22 | (22) |
| At 30 June 2015 | 329 | (346) | 222 | (217) |
| Private equity including strategic investments | 41 | (78) | 224 | (481) |
| Asset-backed securities | 47 | (18) | 103 | (90) |
| Loans held for securitisation | 2 | (2) | | |
| Structured notes | 15 | (9) | | |
| Derivatives with monolines | 21 | (10) | | |
| Other derivatives | 141 | (156) | | |
| Other portfolios | 34 | (38) | 42 | (43) |
| At 30 June 2014 | 301 | (311) | 369 | (614) |
| Private equity including strategic investments | 77 | (110) | 172 | (255) |
| Asset-backed securities | 49 | (22) | 60 | (55) |
| Loans held for securitisation | 1 | (1) | | |
| Structured notes | 14 | (9) | | |
| Derivatives with monolines | 11 | (11) | | |
| Other derivatives | 129 | (155) | | |
| Other portfolios | 103 | (82) | 38 | (40) |
| At 31 December 2014 | 384 | (390) | 270 | (350) |

Favourable and unfavourable changes are determined on the basis of sensitivity analysis. The sensitivity analysis aims to measure a range of fair values consistent with the application of a 95% confidence interval. Methodologies take account of the nature of the valuation technique employed, the availability and reliability of observable proxies and historical data. When the available data is not amenable to statistical analysis, the quantification of uncertainty is judgemental, but remains guided by the 95% confidence interval.

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Table of Contents**Notes on the Financial Statements (unaudited) (continued)**

When the fair value of a financial instrument is affected by more than one unobservable assumption, the above table reflects the most favourable or the most unfavourable change from varying the assumptions individually.

Key unobservable inputs to Level 3 financial instruments and inter-relationships

The table below lists key unobservable inputs to Level 3 financial instruments, and provides the range of those inputs as at 30 June 2015. The core range of inputs is the estimated range within which 90% of the inputs fall.

There has been no change to the key unobservable inputs to Level 3 financial instruments and inter-relationships therein which are detailed on page 388 of the *Annual Report and Accounts 2014*.

Quantitative information about significant unobservable inputs in Level 3 valuations

| | Fair value | | Valuation technique | Key unobservable inputs | Full range of inputs | | Core range of inputs | |
|--|---------------|--------------------|------------------------|-------------------------|----------------------|--------|----------------------|--------|
| | Assets \$m | Liabilities \$m | | | Lower | Higher | Lower | Higher |
| Private equity including strategic investments | 3,661 | 33 | See notes ³ | See notes ³ | n/a | n/a | n/a | n/a |
| Asset-backed securities | 1,313 | | | | | | | |
| CLO/CD $\text{\textcircled{O}}$ | 632 | | Market proxy | Prepayment rate | 1% | 6% | 1% | 6% |
| other ABSs | 681 | | Market proxy | Bid quotes | 0 | 100 | 32 | 95 |
| | | | Market proxy | Bid quotes | 0 | 102 | 26 | 72 |
| Loans held for securitisation | 35 | | | | | | | |
| Structured notes | | 5,272 | | | | | | |
| equity-linked notes | | 4,283 | Model option | Equity volatility | 11% | 78% | 19% | 40% |
| | | | Model option | Equity correlation | 35% | 91% | 43% | 79% |
| fund-linked notes | | 390 | Model option | Fund volatility | 6% | 8% | 6% | 8% |
| FX-linked notes | | 282 | Model option | FX volatility | 1% | 27% | 6% | 15% |
| other | | 317 | | | | | | |

| | | | | | | | | |
|---------------------------------|---------------|--------------|----------------------------|-------------------|-----|-----|-----|-----|
| Derivatives with monolines | 189 | | Model discounted cash flow | Credit spread | 4% | 4% | 4% | 4% |
| Other derivatives | 2,886 | 1,443 | | | | | | |
| Interest rate derivatives: | | | | | | | | |
| securitisation swaps | 733 | 649 | Model discounted cash flow | Prepayment rate | 0% | 58% | 5% | 56% |
| long-dated swaptions | 1,404 | 160 | Model option model | IR volatility | 4% | 58% | 18% | 40% |
| other | 285 | 70 | | | | | | |
| FX derivatives: | | | | | | | | |
| FX options | 153 | 124 | Model option model | FX volatility | 0% | 27% | 6% | 12% |
| other | 16 | 4 | | | | | | |
| Equity derivatives: | | | | | | | | |
| long-dated single stock options | 170 | 227 | Model option model | Equity volatility | 10% | 70% | 18% | 45% |
| other | 35 | 146 | | | | | | |
| Credit derivatives: | | | | | | | | |
| other | 90 | 63 | | | | | | |
| Other portfolios | 5,204 | 5 | | | | | | |
| structured certificates | 4,416 | | Model discounted cash flow | Credit volatility | 2% | 4% | 2% | 4% |
| EM corporate debt | 248 | | Market proxy | Credit spread | 4% | 4% | 4% | 4% |
| Other ² | 540 | 5 | Market proxy | Bid quotes | 76 | 136 | 104 | 133 |
| At 30 June 2015 | 13,288 | 6,753 | | | | | | |

1 Collateralised loan obligation/collateralised debt obligation.

2 Other includes a range of smaller asset holdings.

3 See notes on page 388 of the Annual Report and Accounts 2014.

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Table of Contents**8 Fair values of financial instruments not carried at fair value**

The basis for measuring the fair values of loans and advances to banks and customers, financial investments, deposits by banks, customer accounts, debt securities in issue and subordinated liabilities is explained on page 391 of the *Annual Report and Accounts 2014*.

Fair values of financial instruments which are not carried at fair value on the balance sheet

| | At 30 June 2015 | | At 30 June 2014 | | At 31 December 2014 | |
|---|---------------------------|----------------------|---------------------------|----------------------|---------------------------|----------------------|
| | Carrying amount \$m | Fair value \$m | Carrying amount \$m | Fair value \$m | Carrying Amount \$m | Fair value \$m |
| Assets | | | | | | |
| Loans and advances to banks | 109,405 | 109,411 | 127,387 | 127,421 | 112,149 | 112,133 |
| Loans and advances to customers | 953,985 | 953,388 | 1,047,241 | 1,040,666 | 974,660 | 972,837 |
| Reverse repurchase agreements non-trading | 149,384 | 149,406 | 198,301 | 198,287 | 161,713 | 161,723 |
| Financial investments: debt securities | 42,177 | 43,367 | 25,256 | 26,196 | 37,751 | 39,163 |
| Liabilities | | | | | | |
| Deposits by banks | 71,140 | 71,128 | 92,764 | 92,758 | 77,426 | 77,398 |
| Customer accounts | 1,335,800 | 1,336,068 | 1,415,705 | 1,415,732 | 1,350,642 | 1,350,595 |
| Repurchase agreements non-trading | 81,506 | 81,506 | 165,506 | 165,506 | 107,432 | 107,432 |
| Debt securities in issue | 102,656 | 103,160 | 96,397 | 97,536 | 95,947 | 96,403 |
| Subordinated liabilities | 24,781 | 27,045 | 28,052 | 31,084 | 26,664 | 30,054 |

Other financial instruments not carried at fair value are typically short-term in nature and reprice to current market rates frequently. Accordingly, their carrying amount is a reasonable approximation of fair value.

9 Financial assets designated at fair value

| | 30 June | At | |
|--|-------------|------------------------|----------------------------|
| | 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Financial assets designated at fair value: | | | |

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| | | | |
|---|---------------|--------|--------|
| not subject to repledge or resale by counterparties | 25,168 | 31,523 | 28,357 |
| which may be repledged or resold by counterparties | | 300 | 680 |
| | 25,168 | 31,823 | 29,037 |
| Treasury and other eligible bills | 63 | 27 | 56 |
| Debt securities | 4,485 | 9,870 | 8,891 |
| Equity securities | 20,465 | 21,886 | 20,006 |
| Securities designated at fair value | 25,013 | 31,783 | 28,953 |
| Loans and advances to banks and customers | 155 | 40 | 84 |
| | 25,168 | 31,823 | 29,037 |

*Securities designated at fair value*¹

| | 30 June | At | |
|---|----------------|---------|-------------|
| | 2015 | 30 June | 31 December |
| | \$m | 2014 | 2014 |
| | | \$m | \$m |
| US Treasury and US Government agencies ² | 7 | 12 | 8 |
| UK Government | 127 | 153 | 140 |
| Hong Kong Government | 34 | 111 | 40 |
| Other government | 779 | 4,729 | 4,088 |
| Asset-backed securities ³ | 17 | 354 | 18 |
| Corporate debt and other securities | 3,584 | 4,538 | 4,653 |
| Equity securities | 20,465 | 21,886 | 20,006 |
| | 25,013 | 31,783 | 28,953 |

1 *Included within these figures are debt securities issued by banks and other financial institutions of \$1,545m (30 June 2014: \$1,587m; 31 December 2014: \$1,388m), of which \$102m (30 June 2014: \$31m; 31 December 2014: \$24m) are guaranteed by various governments.*

2 *US Treasury and US Government agencies includes securities that are supported by an explicit guarantee issued by the US Government.*

3 *Excludes asset-backed securities included under US Treasury and US Government agencies.*

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Table of Contents**Notes on the Financial Statements (unaudited) (continued)***Securities listed on a recognised exchange and unlisted*

| | Treasury | | | |
|------------------------|------------------------------------|---------------------------|-----------------------------|---------------|
| | and other eligible bills \$m | Debt Securities \$m | Equity securities \$m | Total \$m |
| Fair value | | | | |
| Listed ¹ | | 2,473 | 13,071 | 15,544 |
| Unlisted | 63 | 2,012 | 7,394 | 9,469 |
| At 30 June 2015 | 63 | 4,485 | 20,465 | 25,013 |
| Listed ¹ | | 2,706 | 15,902 | 18,608 |
| Unlisted | 27 | 7,164 | 5,984 | 13,175 |
| At 30 June 2014 | 27 | 9,870 | 21,886 | 31,783 |
| Listed ¹ | 5 | 2,731 | 13,837 | 16,573 |
| Unlisted | 51 | 6,160 | 6,169 | 12,380 |
| At 31 December 2014 | 56 | 8,891 | 20,006 | 28,953 |

1 Included within listed securities are \$1,593m (30 June 2014: \$1,337m; 31 December 2014: \$1,361m) of investments listed on a recognised exchange in Hong Kong.

10 Derivatives*Fair values of derivatives by product contract type held by HSBC*

| | Assets | | | Liabilities | | |
|------------------|----------------|----------------|--------------|----------------|----------------|--------------|
| | Trading \$m | Hedging \$m | Total \$m | Trading \$m | Hedging \$m | Total \$m |
| Foreign exchange | 89,992 | 1,302 | 91,294 | 90,812 | 775 | 91,587 |
| Interest rate | 322,112 | 1,628 | 323,740 | 312,496 | 3,417 | 315,913 |
| Equities | 12,243 | | 12,243 | 12,985 | | 12,985 |

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| | | | | | | |
|----------------------------|---------|-------|----------------|---------|-------|----------------|
| Credit | 7,130 | | 7,130 | 7,327 | | 7,327 |
| Commodity and other | 2,702 | | 2,702 | 2,339 | | 2,339 |
| Gross total fair values | 434,179 | 2,930 | 437,109 | 425,959 | 4,192 | 430,151 |
| Offset | | | (140,167) | | | (140,167) |
| At 30 June 2015 | | | 296,942 | | | 289,984 |
| Foreign exchange | 56,756 | 1,993 | 58,749 | 54,999 | 500 | 55,499 |
| Interest rate | 426,714 | 2,097 | 428,811 | 417,705 | 4,715 | 422,420 |
| Equities | 10,993 | | 10,993 | 13,808 | | 13,808 |
| Credit | 7,944 | | 7,944 | 8,146 | | 8,146 |
| Commodity and other | 1,285 | | 1,285 | 1,564 | | 1,564 |
| Gross total fair values | 503,692 | 4,090 | 507,782 | 496,222 | 5,215 | 501,437 |
| Offset | | | (237,943) | | | (237,943) |
| At 30 June 2014 | | | 269,839 | | | 263,494 |
| Foreign exchange | 95,584 | 1,728 | 97,312 | 95,187 | 572 | 95,759 |
| Interest rate | 471,379 | 1,864 | 473,243 | 463,456 | 4,696 | 468,152 |
| Equities | 11,694 | | 11,694 | 13,654 | | 13,654 |
| Credit | 9,340 | | 9,340 | 10,061 | | 10,061 |
| Commodity and other | 3,884 | | 3,884 | 3,508 | | 3,508 |
| Gross total fair values | 591,881 | 3,592 | 595,473 | 585,866 | 5,268 | 591,134 |
| Offset | | | (250,465) | | | (250,465) |
| At 31 December 2014 | | | 345,008 | | | 340,669 |

Derivative assets decreased during the first half of 2015, primarily driven by a decrease in the fair value of interest rate derivatives as yield curves in major currencies steepened, and from portfolio compression exercises. This resulted in the decrease in gross fair values and a corresponding decrease in the offset amount.

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Table of Contents**Trading derivatives**

The notional contract amounts of derivatives held for trading purposes indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk. The 20% decline in the notional amounts of HSBC's derivative contracts during the first half of 2015 was primarily driven by interest rate derivatives, reflecting participation in industry-wide portfolio compression exercises.

Notional contract amounts of derivatives held for trading purposes by product type

| | 30 June | At 30 June | 31 December |
|---------------------|-------------------|---------------|-------------|
| | 2015 | 2014 | 2014 |
| | \$m | \$m | \$m |
| Foreign exchange | 5,982,764 | 5,560,351 | 5,548,075 |
| Interest rate | 15,991,209 | 27,069,408 | 22,047,278 |
| Equities | 592,453 | 593,532 | 568,932 |
| Credit | 485,268 | 615,765 | 550,197 |
| Commodity and other | 82,138 | 88,297 | 77,565 |
| | 23,133,832 | 33,927,353 | 28,792,047 |

Credit derivatives

The notional contract amount of credit derivatives of \$485bn (30 June 2014: \$616bn; 31 December 2014: \$550bn) consisted of protection bought of \$245bn (30 June 2014: \$306bn; 31 December 2014: \$272bn) and protection sold of \$240bn (30 June 2014: \$310bn; 31 December 2014: \$278bn).

HSBC manages the credit risk arising on buying and selling credit derivative protection by including the related credit exposures within its overall credit limit structure for the relevant counterparty. The trading of credit derivatives is restricted to a small number of offices within the major centres which have the control infrastructure and market skills to manage effectively the credit risk inherent in the products.

Derivatives valued using models with unobservable inputs

The difference between the fair value at initial recognition (the transaction price) and the value that would have been derived had valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is as follows:

Unamortised balance of derivatives valued using models with significant unobservable inputs

| 30 June | Half-year to 30 June | 31 December |
|----------------|-------------------------|-------------|
|----------------|-------------------------|-------------|

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| | 2015 | 2014 | 2014 |
|---|------------|------------|------------|
| | \$m | \$m | \$m |
| Unamortised balance at beginning of period | 114 | 167 | 135 |
| Deferral on new transactions | 118 | 74 | 103 |
| Recognised in the income statement during the period: | (115) | (112) | (122) |
| amortisation | (69) | (56) | (58) |
| subsequent to unobservable inputs becoming observable | (1) | (7) | (6) |
| maturity or termination, or offsetting derivative | (45) | (49) | (58) |
| Exchange differences | | 6 | (2) |
| Unamortised balance at end of period¹ | 117 | 135 | 114 |

¹ *This amount is yet to be recognised in the consolidated income statement.*

The fair value at initial recognition is the transaction price. The transaction price may be viewed as the combination of a model price and a margin. In subsequent periods, the model price reflects changes in market conditions. The unamortised balance reflects that component of the margin that has yet to be recognised in the income statement.

Hedge accounting derivatives

The notional contract amounts of derivatives held for hedge accounting purposes indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

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Table of Contents**Notes on the Financial Statements (unaudited) (continued)***Notional contract amounts of derivatives held for hedging purposes by product type*

| | At 30 June 2015 | | At 30 June 2014 | | At 31 December 2014 | |
|------------------|-----------------|---------------|-----------------|---------------|---------------------|---------------|
| | Cash flow | Fair value | Cash flow | Fair value | Cash flow | Fair value |
| | hedges \$m | hedges \$m | hedges \$m | hedges \$m | hedges \$m | hedges \$m |
| Foreign exchange | 24,611 | 128 | 25,456 | 97 | 25,340 | |
| Interest rate | 118,599 | 88,994 | 220,089 | 101,784 | 190,902 | 90,338 |
| | 143,210 | 89,122 | 245,545 | 101,881 | 216,242 | 90,338 |

11 Financial investments

| | 30 June | At | 31 December |
|---|---------|---------|-------------|
| | 2015 | 30 June | 31 December |
| | \$m | \$m | \$m |
| Financial investments: | | | |
| not subject to repledge or resale by counterparties | 392,367 | 409,500 | 380,419 |
| which may be repledged or resold by counterparties | 12,315 | 14,210 | 35,048 |
| | 404,682 | 423,710 | 415,467 |

Carrying amounts and fair values of financial investments

| | At 30 June 2015 | | At 30 June 2014 | | At 31 December 2014 | |
|-----------------------------------|-----------------|------------|-----------------|------------|---------------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value | Carrying amount | Fair value |
| | \$m | \$m | \$m | \$m | \$m | \$m |
| Treasury and other eligible bills | 92,390 | 92,390 | 78,177 | 78,177 | 81,517 | 81,517 |

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| | | | | | | |
|--------------------|----------------|----------------|---------|---------|---------|---------|
| available for sale | 92,390 | 92,390 | 78,177 | 78,177 | 81,517 | 81,517 |
| Debt securities | 306,508 | 307,699 | 336,807 | 337,747 | 323,256 | 324,668 |
| available for sale | 264,331 | 264,332 | 311,551 | 311,551 | 285,505 | 285,505 |
| held to maturity | 42,177 | 43,367 | 25,256 | 26,196 | 37,751 | 39,163 |
| Equity securities | 5,784 | 5,784 | 8,726 | 8,726 | 10,694 | 10,694 |
| available for sale | 5,784 | 5,784 | 8,726 | 8,726 | 10,694 | 10,694 |
| | 404,682 | 405,873 | 423,710 | 424,650 | 415,467 | 416,879 |

Financial investments at amortised cost and fair value

| | Amortised cost ¹ | Fair value ² |
|---|--------------------------------|----------------------------|
| | \$m | \$m |
| US Treasury | 37,187 | 37,485 |
| US Government agencies ³ | 22,954 | 22,897 |
| US Government sponsored entities ³ | 9,909 | 10,232 |
| UK Government | 21,473 | 21,793 |
| Hong Kong Government | 50,804 | 50,813 |
| Other government | 146,758 | 149,117 |
| Asset-backed securities ⁴ | 16,642 | 15,972 |
| Corporate debt and other securities | 90,356 | 91,780 |
| Equities | 4,261 | 5,784 |
| At 30 June 2015 | 400,344 | 405,873 |
| US Treasury | 37,378 | 37,900 |
| US Government agencies ³ | 17,393 | 17,326 |
| US Government sponsored entities ³ | 5,087 | 5,407 |
| UK Government | 29,941 | 30,189 |
| Hong Kong Government | 50,187 | 50,191 |
| Other government | 160,023 | 163,796 |
| Asset-backed securities ⁴ | 24,574 | 22,665 |
| Corporate debt and other securities | 85,864 | 88,448 |
| Equities | 7,876 | 8,728 |
| At 30 June 2014 | 418,323 | 424,650 |

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Table of Contents*Financial investments at amortised cost and fair value (continued)*

| | Amortised cost ¹ | Fair value ² |
|---|--------------------------------|----------------------------|
| | \$m | \$m |
| US Treasury | 33,931 | 34,745 |
| US Government agencies ³ | 18,326 | 18,516 |
| US Government sponsored entities ³ | 9,339 | 9,761 |
| UK Government | 28,680 | 29,758 |
| Hong Kong Government | 43,573 | 43,574 |
| Other government | 159,846 | 163,402 |
| Asset-backed securities ⁴ | 20,911 | 19,177 |
| Corporate debt and other securities | 84,387 | 87,252 |
| Equities | 7,421 | 10,694 |
| At 31 December 2014 | 406,414 | 416,879 |

1 Represents the amortised cost or cost basis of the financial investment.

2 Included within these figures are debt securities issued by banks and other financial institutions of \$67bn (30 June 2014: \$56bn; 31 December 2014: \$54bn), of which \$18bn (30 June 2014: \$11bn; 31 December 2014: \$9bn) were guaranteed by various governments. The fair value of the debt securities issued by banks and other financial institutions at 30 June 2015 was \$67bn (30 June 2014: \$57bn; 31 December 2014: \$54bn).

3 US Government agencies and sponsored entities include securities that are supported by an explicit guarantee issued by the US Government.

4 Excludes asset-backed securities included under US Government agencies and sponsored entities.

Financial investments listed and unlisted

| | Treasury and other eligible bills available for sale | Debt securities available for sale | Debt securities held to maturity | Equity securities available for sale | Total |
|------------------------|---|---|---|---|----------------|
| | \$m | \$m | \$m | \$m | \$m |
| Carrying amount | | | | | |
| Listed ¹ | 5,609 | 159,707 | 8,117 | 898 | 174,331 |
| Unlisted ² | 86,781 | 104,624 | 34,060 | 4,886 | 230,351 |
| At 30 June 2015 | 92,390 | 264,331 | 42,177 | 5,784 | 404,682 |
| Listed ¹ | 4,219 | 160,719 | 6,325 | 3,892 | 175,155 |

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| | | | | | |
|-----------------------|--------|---------|--------|--------|---------|
| Unlisted ² | 73,958 | 150,832 | 18,931 | 4,834 | 248,555 |
| At 30 June 2014 | 78,177 | 311,551 | 25,256 | 8,726 | 423,710 |
| Listed ¹ | 4,101 | 168,879 | 6,037 | 5,928 | 184,945 |
| Unlisted ² | 77,416 | 116,626 | 31,714 | 4,766 | 230,522 |
| At 31 December 2014 | 81,517 | 285,505 | 37,751 | 10,694 | 415,467 |

1 The fair value of listed held-to-maturity debt securities at 30 June 2015 was \$8bn (30 June 2014: \$7bn; 31 December 2014: \$6bn). Included within listed investments were \$5bn (30 June 2014: \$4bn; 31 December 2014: \$4bn) of investments listed on a recognised exchange in Hong Kong.

2 Unlisted treasury and other eligible bills available for sale primarily comprise treasury bills not listed on an exchange but for which there is a liquid market.

Maturities of investments in debt securities at their carrying amount

| | 5 years or | | 10 years or | | Total \$m |
|------------------------|--------------------------|----------------|----------------|-------------------------|----------------|
| | less but over | less but over | less but over | less but over | |
| | 1 year or less \$m | 1 year \$m | 5 years \$m | Over 10 years \$m | |
| Available for sale | 61,158 | 127,281 | 35,291 | 40,601 | 264,331 |
| Held to maturity | 1,862 | 10,886 | 7,797 | 21,632 | 42,177 |
| At 30 June 2015 | 63,020 | 138,167 | 43,088 | 62,233 | 306,508 |
| Available for sale | 69,692 | 144,859 | 52,676 | 44,324 | 311,551 |
| Held to maturity | 2,055 | 8,811 | 7,003 | 7,387 | 25,256 |
| At 30 June 2014 | 71,747 | 153,670 | 59,679 | 51,711 | 336,807 |
| Available for sale | 68,344 | 134,815 | 44,938 | 37,408 | 285,505 |
| Held to maturity | 1,396 | 9,622 | 7,087 | 19,646 | 37,751 |
| At 31 December 2014 | 69,740 | 144,437 | 52,025 | 57,054 | 323,256 |

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Table of Contents**Notes on the Financial Statements (unaudited) (continued)****12 Assets held for sale and liabilities of disposal groups held for sale**

| | 30 June | At 30 June | 31 December |
|--|----------------|---------------|-------------|
| | 2015 | 2014 | 2014 |
| | \$m | \$m | \$m |
| Disposal groups | 60,513 | 9,620 | 6,883 |
| Non-current assets held for sale | 416 | 628 | 764 |
| Total assets held for sale | 60,929 | 10,248 | 7,647 |
| Liabilities of disposal groups held for sale | 53,226 | 12,361 | 6,934 |

Disposal groups**Brazil**

In the first half of 2015, we announced the plan to sell our operations in Brazil. At 30 June 2015, the sale was considered highly probable and therefore the assets and liabilities of the disposal group were classified as held for sale. The disposal group includes the assets and liabilities expected to be sold plus allocated goodwill as set out in the table below.

The disposal group is measured at its carrying amount at 30 June 2015 which is lower than its fair value less cost to sell. The carrying amount includes a \$1.3bn deferred tax asset (see Note 2) and \$1.3bn of allocated goodwill (see Note 20). The assets and liabilities of the disposal group have been reclassified from their individual lines in the consolidated balance sheet and are presented in separate Held for sale lines at 30 June 2015. There is no change to the comparative balance sheet presentation and there is no separate presentation in the income statement.

The planned sale gives rise to a deferred tax liability of \$0.2bn (recorded in deferred tax liabilities in the Group's consolidated balance sheet). At 30 June 2015, there were no other significant accounting implications in respect of the planned sale although this may evolve as it progresses. The disposal group represents a foreign operation and when the disposal completes the cumulative amount of associated exchange differences previously recognised in other comprehensive income will be reclassified to the income statement. At 30 June 2015, there was a cumulative loss of \$1.7bn in the Group's foreign exchange reserve attributable to the Brazilian operations.

Other

During 2014, we entered into an agreement to sell our pensions business in the UK. This represents the Other disposal group in the table below.

In the first half of 2015, we also announced the plan to sell our operations in Turkey. At 30 June 2015, the planned sale was not considered highly probable and therefore the operations were not classified as held for sale.

The major classes of assets and associated liabilities of disposal groups held for sale are as follows:

| | At 30 June 2015 | | |
|--|-----------------|--------------|---------------|
| | Brazil | Other | Total |
| | \$m | \$m | \$m |
| Assets of disposal groups held for sale | | | |
| Trading assets | 1,887 | | 1,887 |
| Fair value of financial assets designated at fair value | 4,130 | 6,187 | 10,317 |
| Loans and advances to banks | 4,193 | | 4,193 |
| Loans and advances to customers | 20,827 | | 20,827 |
| Reverse repurchase agreements | 6,142 | | 6,142 |
| Financial investments | 8,073 | | 8,073 |
| Goodwill and intangible assets | 1,847 | 134 | 1,981 |
| Deferred tax asset | 1,273 | | 1,273 |
| Prepayments, accrued income and other assets | 5,167 | 653 | 5,820 |
| Total assets | 53,539 | 6,974 | 60,513 |
| Liabilities of disposal groups held for sale | | | |
| Deposits by banks | 2,212 | | 2,212 |
| Customer accounts | 19,432 | | 19,432 |
| Debt securities in issue | 10,790 | | 10,790 |
| Liabilities under insurance contracts | 4,462 | 2,972 | 7,434 |
| Accruals, deferred income and other liabilities | 9,380 | 3,978 | 13,358 |
| Total liabilities | 46,276 | 6,950 | 53,226 |
| Expected date of completion | 2016 | Q3 2015 | |
| Operating segment | Latin America | Europe | |
| Fair value of selected financial instruments which are not carried at fair value on the balance sheet | | | |
| Loans and advances to banks and customers | 24,675 | | 24,675 |
| Customer accounts | 19,401 | | 19,401 |

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Table of Contents**13 Assets charged as security for liabilities and collateral accepted as security for assets**

Information on financial assets pledged as security for liabilities and collateral accepted as security for assets is disclosed on pages 401 and 402 of the *Annual Report and Accounts 2014*. There was no material change in the amount of assets charged as security for liabilities and collateral accepted as security for assets at 30 June 2015.

14 Interests in associates and joint ventures

At 30 June 2015, the carrying amount of HSBC's interests in associates and joint ventures was \$18.7bn (30 June 2014: \$17.5bn; 31 December 2014: \$18.2bn).

Principal associates of HSBC

| | At 30 June 2015 | | At 30 June 2014 | | At 31 December 2014 | |
|-------------------------------------|------------------------|--------------------------------|------------------------|--------------------------------|------------------------|--------------------------------|
| | Carrying amount \$m | Fair value ¹ \$m | Carrying amount \$m | Fair value ¹ \$m | Carrying amount \$m | Fair value ¹ \$m |
| Listed | | | | | | |
| Bank of Communications Co., Limited | 15,021 | 14,715 | 14,113 | 9,757 | 14,590 | 13,140 |
| The Saudi British Bank | 2,905 | 5,312 | 2,579 | 5,205 | 2,811 | 6,220 |
| | 17,926 | 20,027 | 16,692 | 14,962 | 17,401 | 19,360 |

¹ *Principal associates are listed on recognised stock exchanges. The fair values are based on the quoted market prices of the shares held (Level 1 in the fair value hierarchy).*

Bank of Communications Co., Limited**Impairment testing**

As at 30 June 2015, the fair value of HSBC's investment in Bank of Communications Co., Limited (BoCom) had been below the carrying amount for approximately 38 months, apart from a short period in 2013 and briefly during the first half of 2015. As a result, we performed an impairment test on the carrying amount of the investment in BoCom. The test confirmed that there was no impairment as at 30 June 2015.

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| | At 30 June 2015 | | | At 30 June 2014 | | | At 31 December 2014 | | |
|------------------------------------|-----------------|---------------|---------------|-----------------|---------------|---------------|---------------------|---------------|---------------|
| | Carrying | | Fair | Carrying | | Fair | Carrying | | Fair |
| | VIU \$bn | value \$bn | value \$bn | VIU \$bn | value \$bn | value \$bn | VIU \$bn | value \$bn | value \$bn |
| BoCom | 16.5 | 15.0 | 14.7 | 14.6 | 14.1 | 9.8 | 15.7 | 14.6 | 13.1 |
| Basis of recoverable amount | | | | | | | | | |

The impairment test was performed by comparing the recoverable amount of BoCom, determined by a value-in-use (VIU) calculation, with its carrying amount. The VIU calculation uses discounted cash flow projections based on management's estimates of earnings. Cash flows beyond the short to medium-term are then extrapolated in perpetuity using a long-term growth rate. An imputed capital maintenance charge (CMC) is included to meet the expected regulatory capital requirements, and calculated as a deduction from forecast cash flows. The principal inputs to the CMC calculation include estimates of asset growth, the ratio of risk-weighted assets to total assets, and the expected regulatory capital requirements. Management judgement is required in estimating the future cash flows of BoCom.

Key assumptions in VIU calculation

Long-term growth rate: the growth rate used was 5% (30 June 2014: 5%; 31 December 2014: 5%) for periods after 2018 and does not exceed forecast GDP growth in mainland China.

Long-term asset growth rate: the growth rate used was 4% (30 June 2014: 4%; 31 December 2014: 4%) for periods after 2018 and this is the rate of growth required for an assumed 5% long-term growth rate in profit.

Discount rate: the discount rate of 13% (30 June 2014: 13%; 31 December 2014: 13%) is derived from a range of values obtained by applying a Capital Asset Pricing Model (CAPM) calculation for BoCom, using market data. Management supplements this by comparing the rates derived from the CAPM with discount rates available from external sources, and HSBC's discount rate for evaluating investments in mainland China. The discount rate used was within the range of 10.1% to 14.3% (30 June 2014: 11.2% to 15.3%; 31 December 2014: 11.4% to 14.2%) indicated by the CAPM and external sources.

Loan impairment charge as a percentage of customer advances: the ratio used ranges from 0.73% to 1% (30 June 2014: 0.63% to 1%; 31 December 2014: 0.73% to 1%) in the short-to medium-term. The long-term ratio was assumed to revert to a historical rate of 0.65% (30 June 2014: 0.65%; 31 December 2014: 0.65%). The rates were within the medium-term range forecasts of 0.54% to 1.02% (30 June 2014: 0.52% to 1.11%; 31 December 2014: 0.51% to 1.08%) disclosed by external analysts.

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Table of Contents**Notes on the Financial Statements (unaudited)** (continued)

Risk-weighted assets as a percentage of total assets: the ratio used ranges from 70% to 72% (30 June 2014: 70.2% throughout; 31 December 2014: 70% to 72%) in the short- to medium-term. The long-term ratio reverts to a rate of 70% (30 June 2014: 70.2%; 31 December 2014: 70%).

Cost-income ratio: the ratio used was 41% (30 June 2014: ranged from 40.8% to 43.0%; 31 December 2014: ranged from 40.0% to 42.4%) in the short- to medium-term. The ratios were within the short- to medium-term range forecasts of 37.5% to 43.5% (30 June 2014: 39.8% to 44.3%; 31 December 2014: 37.2% to 44.5%) disclosed by external analysts.

Sensitivity analyses were performed on each key assumption to ascertain the impact of reasonably possible changes in assumptions. The following changes to each key assumption on its own used in the VIU calculation would be necessary to reduce headroom to nil:

| Key assumption | Changes to key assumption to reduce headroom to nil |
|---|--|
| Long-term growth rate | Decrease by 56 basis points |
| Long-term asset growth rate | Increase by 56 basis points |
| Discount rate | Increase by 72 basis points |
| Loan impairment charge as a percentage of customer advances | Increase by 12 basis points |
| Risk-weighted assets as a percentage of total assets | Increase by 4.4% |
| Cost-income ratio | Increase by 2.5% |

15 Trading liabilities

| | 30 June | At 30 June | 31 December |
|---|----------------|---------------|-------------|
| | 2015 | 2014 | 2014 |
| | \$m | \$m | \$m |
| Deposits by banks | 45,900 | 47,901 | 41,453 |
| Customer accounts ¹ | 52,384 | 67,077 | 50,600 |
| Other debt securities in issue | 33,957 | 35,071 | 33,602 |
| Other liabilities – net short positions in securities | 49,194 | 78,086 | 64,917 |
| | 181,435 | 228,135 | 190,572 |

1 *Structured deposits placed at HSBC Bank USA and HSBC Trust Company (Delaware) National Association are insured by the Federal Deposit Insurance Corporation (FDIC), a US government agency, up to \$250,000 per depositor.*

At 30 June 2015, the cumulative amount of change in fair value attributable to changes in credit risk was a gain of \$16m (30 June 2014: loss of \$123m; 31 December 2014: loss of \$79m).

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16 Maturity analysis of assets and liabilities

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Maturity analysis of assets and liabilities

| | Due not more than 1 month | Due over 1 month but not more than 3 months | Due over 3 months but not more than 6 months | Due over 6 months but not more than 9 months | Due over 9 months but not more than 1 year | Due over 1 year but not more than 2 years | Due over 2 years but not more than 5 years | Due over 5 years | Total |
|--|---------------------------------|--|---|---|---|--|--|---------------------|---------|
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| Financial assets | | | | | | | | | |
| Cash and balances at central banks | 144,324 | | | | | | | | 144,324 |
| Loans in the course of collection from other banks | 10,190 | | | | | | | | 10,190 |
| Government securities | 28,104 | | | | | | | | 28,104 |
| Trading assets | 282,483 | | | | | 147 | 508 | | 283,138 |
| Financial assets designated at fair value | 383 | 182 | 164 | 232 | 214 | 743 | 2,944 | 20,306 | 25,168 |
| Derivatives | 294,171 | 84 | 22 | 296 | 240 | 624 | 856 | 649 | 296,942 |
| Loans and advances to banks | 74,112 | 16,136 | 4,272 | 2,882 | 2,117 | 6,145 | 2,047 | 1,694 | 109,405 |
| Loans and advances to customers | 192,308 | 73,948 | 51,291 | 36,703 | 37,713 | 83,083 | 198,247 | 280,692 | 953,985 |
| Reverse purchase | 102,041 | 24,539 | 10,795 | 6,659 | 1,599 | 2,521 | 1,230 | | 149,384 |

| | | | | | | | | | |
|---|------------------|----------------|----------------|---------------|---------------|----------------|----------------|----------------|------------------|
| Investments | 32,486 | 52,871 | 35,737 | 18,669 | 16,588 | 41,709 | 97,837 | 108,785 | 404,682 |
| Assets held for sale | 17,846 | 4,378 | 3,501 | 1,883 | 2,852 | 6,682 | 6,553 | 11,489 | 55,184 |
| Accrued income and other | | | | | | | | | |
| Financial assets | 12,008 | 7,151 | 1,757 | 390 | 275 | 469 | 421 | 2,435 | 24,900 |
| Total financial assets | 1,190,456 | 179,289 | 107,539 | 67,714 | 61,598 | 142,123 | 310,643 | 426,050 | 2,485,412 |
| Non-financial assets | | | | | | | | 86,301 | 86,301 |
| Total assets | | | | | | | | | |
| 30 June 2015 | 1,190,456 | 179,289 | 107,539 | 67,714 | 61,598 | 142,123 | 310,643 | 512,351 | 2,571,713 |
| Financial liabilities | | | | | | | | | |
| Long Kong currency notes in circulation | 28,104 | | | | | | | | 28,104 |
| Deposits by banks | 62,588 | 2,961 | 871 | 468 | 150 | 739 | 3,286 | 77 | 71,140 |
| Customer accounts | 1,217,805 | 57,511 | 25,235 | 11,448 | 10,972 | 7,933 | 4,565 | 331 | 1,335,800 |
| Repurchase agreements | | | | | | | | | |
| Non-trading items in the course of transmission | 64,910 | 11,795 | 2,861 | 601 | 339 | | 500 | 500 | 81,500 |
| Other | 12,711 | | | | | | | | 12,711 |
| Trading liabilities | 146,612 | 1,523 | 2,597 | 2,572 | 1,505 | 6,051 | 10,098 | 10,477 | 181,435 |
| Financial liabilities designated at fair value | 101 | 899 | 1,309 | 3,864 | 3,082 | 5,590 | 12,937 | 41,703 | 69,485 |
| Derivatives | 286,128 | 81 | 33 | 27 | 420 | 574 | 1,143 | 1,578 | 289,986 |
| Debt securities in issue | 16,235 | 13,703 | 19,315 | 11,725 | 7,924 | 8,421 | 19,782 | 5,551 | 102,650 |
| Liabilities of disposal groups held | 26,188 | 1,827 | 4,731 | 2,071 | 1,802 | 1,995 | 3,088 | 8,248 | 49,952 |

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| | | | | | | | | | |
|----------------|------------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|------------------|
| for sale | | | | | | | | | |
| accruals and | | | | | | | | | |
| other | | | | | | | | | |
| financial | | | | | | | | | |
| liabilities | 20,451 | 6,467 | 2,343 | 1,424 | 1,115 | 816 | 1,229 | 888 | 34,730 |
| subordinated | | | | | | | | | |
| liabilities | | 2 | 1,557 | 402 | | 69 | 3,194 | 19,557 | 24,780 |
| total | | | | | | | | | |
| financial | | | | | | | | | |
| liabilities | 1,881,833 | 96,769 | 60,852 | 34,602 | 27,309 | 32,188 | 59,822 | 88,910 | 2,282,283 |
| non-financial | | | | | | | | | |
| liabilities | | | | | | | | 88,046 | 88,046 |
| total | | | | | | | | | |
| liabilities at | | | | | | | | | |
| June | | | | | | | | | |
| 2015 | 1,881,833 | 96,769 | 60,852 | 34,602 | 27,309 | 32,188 | 59,822 | 176,956 | 2,370,339 |

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Notes on Financial Statements (unaudited) (continued)

| | Due not more than 1 month | Due over 1 month but not more than 3 months | Due over 3 months but not more than 6 months | Due over 6 months but not more than 9 months | Due over 9 months but not more than 1 year | Due over 1 year but not more than 2 years | Due over 2 years but not more than 5 years | Due over 5 years | Total |
|--|---------------------------------|--|---|---|---|---|---|---------------------|-----------|
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| Financial assets | | | | | | | | | |
| Cash and balances at central banks | 132,137 | | | | | | | | 132,137 |
| Items in the course of collection from other banks | 8,144 | | | | | | | | 8,144 |
| Hong Kong government certificates of indebtedness | 26,640 | | | | | | | | 26,640 |
| Trading assets | 345,144 | 1,025 | 100 | | | | 837 | | 347,106 |
| Financial assets designated at fair value | 863 | 346 | 469 | 646 | 289 | 1,361 | 3,740 | 24,109 | 31,823 |
| Derivatives | 265,816 | 345 | 551 | 82 | 309 | 669 | 1,120 | 947 | 269,839 |
| Loans and advances to banks | 86,341 | 20,506 | 3,958 | 1,908 | 2,517 | 6,734 | 3,390 | 2,033 | 127,387 |
| Loans and advances to customers | 252,285 | 81,682 | 54,901 | 30,874 | 35,921 | 96,919 | 189,032 | 305,627 | 1,047,241 |
| Reverse purchase agreements | | | | | | | | | |
| Non-trading financial investments | 138,214 | 41,593 | 7,387 | 5,034 | 4,190 | 363 | 1,520 | | 198,301 |
| | 30,651 | 43,087 | 33,722 | 20,295 | 21,715 | 43,448 | 111,847 | 118,945 | 423,710 |

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| | | | | | | | | | |
|---|-----------|---------|---------|--------|--------|---------|---------|---------|-----------|
| Assets held for sale | 1,600 | 199 | 72 | 106 | 47 | 115 | 210 | 6,598 | 8,940 |
| Accrued income and other financial assets | 18,184 | 7,671 | 2,549 | 1,305 | 299 | 702 | 853 | 3,652 | 35,213 |
| Total financial assets | 1,306,019 | 196,454 | 103,709 | 60,250 | 65,287 | 150,311 | 312,549 | 461,911 | 2,656,490 |
| Non-financial assets | | | | | | | | 97,103 | 97,103 |
| Total assets | | | | | | | | | |
| As of 30 June 2014 | 1,306,019 | 196,454 | 103,709 | 60,250 | 65,287 | 150,311 | 312,549 | 559,014 | 2,753,593 |
| Financial liabilities | | | | | | | | | |
| Banking Hong Kong currency notes in circulation | 26,640 | | | | | | | | 26,640 |
| Deposits by banks ¹ | 83,467 | 3,888 | 1,613 | 346 | 323 | 850 | 1,801 | 476 | 92,768 |
| Customer accounts ¹ | 1,269,487 | 62,090 | 29,768 | 14,215 | 20,194 | 14,620 | 5,065 | 266 | 1,415,703 |
| Repurchase agreements | | | | | | | | | |
| Non-trading items in the course of transmission | 126,600 | 23,791 | 7,603 | 2,239 | 4,523 | | | 750 | 165,506 |
| Other banks | 9,936 | | | | | | | | 9,936 |
| Trading liabilities | 189,446 | 1,304 | 3,763 | 3,713 | 2,752 | 6,879 | 9,396 | 10,882 | 228,135 |
| Financial liabilities | | | | | | | | | |
| Designated at fair value | 2,648 | 973 | 9 | 2,135 | 4,291 | 9,211 | 18,622 | 45,079 | 82,968 |
| Derivatives | 258,655 | 40 | 78 | 41 | 92 | 698 | 1,650 | 2,240 | 263,494 |
| Debt securities in issue | 16,560 | 9,767 | 10,576 | 9,592 | 6,417 | 18,854 | 19,081 | 5,550 | 96,397 |
| Liabilities of disposal groups held for sale | 7,894 | 227 | 49 | 66 | 116 | 225 | 585 | 3,158 | 12,320 |
| Accruals and other financial | 23,412 | 8,366 | 3,086 | 1,939 | 1,416 | 1,661 | 1,632 | 1,075 | 42,587 |

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| | | | | | | | | | |
|--------------|-----------|---------|--------|--------|--------|--------|--------|---------|-----------|
| ilities | | | | | | | | | |
| ordinated | | | | | | | | | |
| ilities | 16 | 114 | 26 | 183 | | 308 | 4,006 | 23,399 | 28,055 |
| otal | | | | | | | | | |
| ancial | | | | | | | | | |
| ilities | 2,014,761 | 110,560 | 56,571 | 34,469 | 40,124 | 53,306 | 61,838 | 92,875 | 2,464,504 |
| on-financial | | | | | | | | | |
| ilities | | | | | | | | 90,367 | 90,367 |
| otal | | | | | | | | | |
| ilities at | | | | | | | | | |
| June 2014 | 2,014,761 | 110,560 | 56,571 | 34,469 | 40,124 | 53,306 | 61,838 | 183,242 | 2,554,871 |

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Maturity analysis of assets and liabilities (continued)

| | Due not more than 1 month \$m | Due over 1 month but not more than 3 months \$m | Due over 3 months but not more than 6 months \$m | Due over 6 months but not more than 9 months \$m | Due over 9 months but not more than 1 year \$m | Due over 1 year but not more than 2 years \$m | Due over 2 years but not more than 5 years \$m | Due over 5 years \$m | Total \$m |
|--|--|---|--|--|--|--|---|----------------------------|--------------|
| Financial assets | | | | | | | | | |
| Cash and balances at central banks | 129,957 | | | | | | | | 129,957 |
| Loans in the course of collection from other banks | 4,927 | | | | | | | | 4,927 |
| Long Kong government certificates of indebtedness | 27,674 | | | | | | | | 27,674 |
| Trading assets | 303,463 | | | | | | 730 | | 304,193 |
| Financial assets designated at fair value | 244 | 399 | 417 | 346 | 208 | 1,825 | 4,634 | 20,964 | 29,033 |
| Derivatives | 341,558 | 56 | 463 | 220 | 32 | 1,003 | 1,033 | 643 | 345,005 |
| Loans and advances to banks | 73,758 | 17,649 | 5,682 | 1,934 | 1,850 | 7,371 | 1,981 | 1,924 | 112,148 |
| Loans and advances to customers | 203,130 | 76,236 | 55,018 | 35,347 | 37,674 | 91,300 | 187,728 | 288,227 | 974,660 |
| Reverse purchase agreements | 116,002 | 30,490 | 9,076 | 2,230 | 582 | 868 | 2,465 | | 161,713 |
| Non-trading financial investments | 28,237 | 50,445 | 41,503 | 14,577 | 17,011 | 48,392 | 96,891 | 118,411 | 415,466 |
| Assets held for sale | 114 | 186 | 13 | 18 | 10 | 41 | 126 | 6,224 | 6,732 |

| | | | | | | | | | |
|---|-----------|---------|---------|--------|--------|---------|---------|---------|-----------|
| accrued income and other financial assets | 17,756 | 7,386 | 2,402 | 587 | 317 | 707 | 1,156 | 3,579 | 33,890 |
| total financial assets | 1,246,820 | 182,847 | 114,574 | 55,259 | 57,684 | 151,507 | 296,744 | 439,972 | 2,545,400 |
| non-financial assets | | | | | | | | 88,732 | 88,732 |
| total assets at December 31, 2014 | 1,246,820 | 182,847 | 114,574 | 55,259 | 57,684 | 151,507 | 296,744 | 528,704 | 2,634,132 |
| financial liabilities | | | | | | | | | |
| long term debt | | | | | | | | | |
| currency derivatives in circulation | 27,674 | | | | | | | | 27,674 |
| deposits by banks | 66,829 | 2,890 | 2,539 | 511 | 810 | 621 | 2,963 | 263 | 77,425 |
| customer accounts | 1,216,574 | 57,127 | 32,925 | 15,023 | 13,586 | 9,278 | 5,819 | 310 | 1,350,642 |
| repurchase agreements | | | | | | | | | |
| non-trading items in the course of transmission | 95,243 | 5,029 | 4,054 | 1,392 | 714 | | | 1,000 | 107,432 |
| other banks | 5,990 | | | | | | | | 5,990 |
| trading liabilities | 155,604 | 2,041 | 2,636 | 1,439 | 2,918 | 5,744 | 9,603 | 10,587 | 190,572 |
| financial liabilities | | | | | | | | | |
| designated at fair value | 981 | 912 | 4,264 | 972 | 1,557 | 8,500 | 15,037 | 43,930 | 76,153 |
| derivatives | 335,802 | 23 | 86 | 223 | 54 | 621 | 1,121 | 2,739 | 340,668 |
| debt | | | | | | | | | |
| securities in issue | 14,741 | 15,424 | 13,027 | 7,854 | 6,050 | 14,209 | 19,481 | 5,161 | 95,946 |
| liabilities of disposal | | | | | | | | | |
| groups held for sale | 191 | 28 | 56 | 55 | 63 | 213 | 551 | 2,837 | 3,996 |
| accruals and other financial liabilities | 20,893 | 9,170 | 3,013 | 1,166 | 1,757 | 1,355 | 1,674 | 818 | 39,842 |
| subordinated liabilities | | 150 | | 3 | 167 | 113 | 3,607 | 22,624 | 26,660 |

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| | | | | | | | | | |
|---|-----------|--------|--------|--------|--------|--------|--------|---------|-----------|
| total financial liabilities | 1,940,522 | 92,794 | 62,600 | 28,638 | 27,676 | 40,654 | 59,856 | 90,269 | 2,343,000 |
| non-financial liabilities | | | | | | | | 91,152 | 91,152 |
| total liabilities at December 31, 2014 | 1,940,522 | 92,794 | 62,600 | 28,638 | 27,676 | 40,654 | 59,856 | 181,421 | 2,434,152 |

HSBC HOLDINGS PLC

Table of Contents**Notes on the Financial Statements (unaudited) (continued)****17 Provisions**

| | Legal proceedings | | | | | Total \$m |
|--|--|--------------------|----------------------------------|--------------------------------|----------------------------|--------------|
| | Restructuring Contractual costs \$m | commitments \$m | and regulatory matters \$m | Customer remediation \$m | Other provisions \$m | |
| At 1 January 2015 | 197 | 234 | 2,184 | 1,831 | 552 | 4,998 |
| Additional provisions/increase in provisions | 92 | 35 | 1,432 | 155 | 45 | 1,759 |
| Provisions utilised | (47) | (1) | (145) | (450) | (71) | (714) |
| Amounts reversed | (13) | (10) | (86) | (13) | (50) | (172) |
| Unwinding of discounts | | | 24 | 4 | | 28 |
| Exchange differences and other movements | (34) | (89) | (441) | (173) | (37) | (774) |
| At 30 June 2015 | 195 | 169 | 2,968 | 1,354 | 439 | 5,125 |
| At 1 January 2014 | 271 | 177 | 1,832 | 2,382 | 555 | 5,217 |
| Additional provisions/increase in provisions | 51 | 38 | 188 | 299 | 67 | 643 |
| Provisions utilised | (77) | (1) | (214) | (1,085) | (51) | (1,428) |
| Amounts reversed | (20) | (14) | (157) | (64) | (46) | (301) |
| Unwinding of discounts | | | 22 | 3 | 3 | 28 |
| Exchange differences and other movements | 1 | (6) | 94 | 37 | (2) | 124 |
| At 30 June 2014 | 226 | 194 | 1,765 | 1,572 | 526 | 4,283 |
| At 1 July 2014 | 226 | 194 | 1,765 | 1,572 | 526 | 4,283 |
| Additional provisions/increase in provisions | 96 | 98 | 1,564 | 1,141 | 87 | 2,986 |
| Provisions utilised | (66) | (1) | (895) | (684) | (61) | (1,707) |
| Amounts reversed | (23) | (32) | (124) | (120) | (20) | (319) |
| Unwinding of discounts | | 1 | 21 | 7 | 8 | 37 |
| Exchange differences and other movements | (36) | (26) | (147) | (85) | 12 | (282) |
| At 31 December 2014 | 197 | 234 | 2,184 | 1,831 | 552 | 4,998 |

Further details of Legal proceedings and regulatory matters are set out in Note 19. Legal proceedings include civil court, arbitration or tribunal proceedings brought against HSBC companies (whether by way of claim or counterclaim) or civil disputes that may, if not settled, result in court, arbitration or tribunal proceedings. Regulatory matters refer to investigations, reviews and other actions carried out by, or in response to the actions of, regulators or law enforcement agencies in connection with alleged wrongdoing by HSBC.

Customer remediation refers to activities (root cause analysis, customer contact, case reviews, decision making and redress calculations) carried out by HSBC to compensate customers for losses or damages associated with a failure to comply with regulations or to treat customers fairly. Customer remediation is often initiated by HSBC in response to customer complaints and/or industry developments in sales practices, and is not necessarily initiated by regulatory action.

Payment Protection Insurance

At 30 June 2015, a provision of \$903m (30 June 2014: \$759m; 31 December 2014: \$1,079m) was held relating to the estimated liability for redress in respect of the possible mis-selling of payment protection insurance (PPI) policies in previous years. An increase in provisions of \$91m was recognised during the half-year to 30 June 2015, primarily reflecting higher expected levels of inbound complaints by claims management companies compared with previous forecasts.

The estimated liability for redress is calculated on the basis of the total premiums paid by the customer plus simple interest of 8% per annum (or the rate inherent in the related loan product where higher). The basis for calculating the redress liability is the same for single premium and regular premium policies. Future estimated redress levels are based on historically observed redress per policy.

A total of 5.4m PPI policies have been sold by HSBC since 2000 which generated estimated gross written premiums of approximately \$4.9bn and revenues of approximately \$4.0bn at first half of 2015 average exchange rates. At 30 June 2015, the estimated total complaints expected to be received were 2.0m, representing 36% of total policies sold. It is estimated that contact will be made with regard to 2.3m policies, representing 43% of total policies sold. This estimate includes inbound complaints as well as HSBC's proactive contact exercise on certain policies (outbound contact).

The following table details the cumulative number of complaints received at 30 June 2015 and the number of claims expected in the future:

| | Cumulative to 30 June 2015 | Future expected |
|--|-------------------------------|--------------------|
| Inbound complaints ¹ (000s of policies) | 1,293 | 300 |
| Outbound contact (000s of policies) | 571 | 167 |
| Response rate to outbound contact | 51% | 51% |
| Average uphold rate per claim ² | 73% | 73% |
| Average redress per claim (\$) | 2,595 | 2,604 |

1 Excludes invalid claims where the complainant has not held a PPI policy.

2 Claims include inbound and responses to outbound contact.

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The main assumptions involved in calculating the redress liability are the volume of inbound complaints, the projected period of inbound complaints, the decay rate of complaint volumes, the population identified as systemically mis-sold and the number of policies per customer complaint. The main assumptions are likely to evolve over time as root cause analysis continues, more experience is available regarding customer initiated complaint volumes received, and we handle responses to our ongoing outbound contact.

A 100,000 increase/decrease in the total inbound complaints would increase/decrease the redress provision by approximately \$194m. Each 1% increase/decrease in the response rate to our outbound contact exercise would increase/decrease the redress provision by approximately \$13m.

A 2014 decision of the UK Supreme Court (Plevin) held that, judged on its own facts, non-disclosure of the amount of commissions payable in connection with the sale of PPI to a customer created an unfair relationship under the provisions of the UK Consumer Credit Act (CCA). The FCA is considering whether additional rules and/or guidance are required to deal with the effect of the Plevin decision on complaints about PPI, and the Financial Ombudsman Service is reviewing the implications for complaints referred to it. HSBC is assessing any possible consequences of the case on its historical sales of PPI; at 30 June 2015 no adjustment to the PPI provision had been recorded in relation to the matter.

In addition to these factors and assumptions, the extent of the required redress will also depend on the facts and circumstances of each individual customer's case. For these reasons, there is currently a high degree of uncertainty as to the eventual costs of redress.

Interest rate derivatives

At 30 June 2015, a provision of \$210m (30 June 2014: \$317m; 31 December 2014: \$312m) was held relating to the estimated liability for redress in respect of the possible mis-selling of interest rate derivatives in the UK. The provision relates to the estimated redress payable to customers in respect of historical payments under derivative contracts, the expected write-off by the bank of open derivative contract balances and the estimated project costs. There was no increase to the provision recorded in the period (30 June 2014: \$38m; 31 December 2014: \$250m).

UK Consumer Credit Act

HSBC has undertaken a review of compliance with the fixed-sum unsecured loan agreement requirements of the CCA. \$334m was recorded within Accruals, deferred income and other liabilities for the repayment of interest to customers (30 June 2014: \$367m; 31 December 2014: \$379m), primarily where annual statements did not remind them of their right to partially prepay the loan, notwithstanding that the customer loan documentation did refer to this right. The cumulative liability to date was \$588m (30 June 2014: \$339m; 31 December 2014: \$591m), of which payments of \$245m (30 June 2014: nil; 31 December 2014: \$212m) were made to customers. There is some uncertainty as to whether other technical requirements of the CCA have been met.

Brazilian labour, civil and fiscal claims

Brazilian labour, civil and fiscal litigation provisions were \$451m (30 June 2014: \$404m; 31 December 2014: \$501m) as at 30 June 2015. Of these provisions, \$207m (30 June 2014: \$256m; 31 December 2014: \$246m) was in respect of labour and overtime litigation claims brought by past employees against HSBC operations in Brazil following their departure from the bank. The main assumptions involved in estimating the liability are the expected number of departing employees, individual salary levels and the facts and circumstances of each individual case. These provisions form part of the Brazilian disposal group and were classified as held for sale at 30 June 2015 (see Note 12).

18 Contingent liabilities, contractual commitments and guarantees

| | 30 June | At 30 June | 31 December |
|---|----------------|----------------------|--------------------|
| | 2015 | 2014 | 2014 |
| | \$m | \$m | \$m |
| Guarantees and contingent liabilities | | | |
| Guarantees | 88,103 | 87,800 | 86,385 |
| Other contingent liabilities | 297 | 394 | 346 |
| | 88,400 | 88,194 | 86,731 |
| Commitments | | | |
| Documentary credits and short-term trade-related transactions | 11,720 | 12,986 | 12,082 |
| Forward asset purchases and forward deposits placed | 1,174 | 2,353 | 823 |
| Undrawn formal standby facilities, credit lines and other commitments to lend | 637,558 | 626,729 | 638,475 |
| | 650,452 | 642,068 | 651,380 |

The above table discloses the nominal principal amounts of commitments, guarantees and other contingent liabilities. Contingent liabilities arising from legal proceedings, regulatory and other matters against the Group are disclosed in Note 19. Nominal principal amounts represent the amounts at risk should contracts be fully drawn upon and clients default. As a significant proportion of guarantees and commitments is expected to expire without being drawn upon, the total of the nominal principal amounts is not indicative of future liquidity requirements.

HSBC HOLDINGS PLC

Table of Contents**Notes on the Financial Statements (unaudited) (continued)****Capital commitments**

In addition to the commitments disclosed above, at 30 June 2015 HSBC had \$468m (30 June 2014: \$513m; 31 December 2014: \$656m) of capital commitments contracted but not provided for and \$174m (30 June 2014: \$232m; 31 December 2014: \$101m) of capital commitments authorised but not contracted for.

19 Legal proceedings and regulatory matters

HSBC is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, HSBC considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 29 of the *Annual Report and Accounts 2014*. While the outcome of legal proceedings and regulatory matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters as at 30 June 2015 (see Note 17). Where an individual provision is material, the fact that a provision has been made is stated and quantified, except to the extent doing so would be seriously prejudicial. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

Securities litigation

As a result of an August 2002 restatement of previously reported consolidated financial statements and other corporate events, including the 2002 settlement with 46 states and the District of Columbia relating to real estate lending practices, Household International, Inc. (Household International) and certain former officers were named as defendants in a class action lawsuit, *Jaffe v. Household International, Inc., et al.*, filed in August 2002 in the US District Court for the Northern District of Illinois (the Illinois District Court). The complaint asserted claims under the US Securities Exchange Act and alleged that the defendants knowingly or recklessly made false and misleading statements of material fact relating to Household International's Consumer Lending operations, including collections, sales and lending practices, some of which ultimately led to the 2002 state settlement agreement, and facts relating to accounting practices evidenced by the restatement. Ultimately, a class was certified on behalf of all persons who acquired and disposed of Household International common stock between July 1999 and October 2002.

A jury trial concluded in April 2009, which was decided partly in favour of the plaintiffs. Various legal challenges to the verdict were raised in post-trial briefing.

In December 2011, following the submission of claim forms by class members, the court-appointed claims administrator to the Illinois District Court reported that the total number of claims that generated an allowed loss was 45,921, and that the aggregate amount of these claims was approximately \$2.2bn. The defendants filed legal challenges regarding the presumption of reliance as to the class and compliance with the claim form requirements,

which the Illinois District Court, in September 2012, rejected for the most part. The Illinois District Court directed further proceedings before a court-appointed Special Master to address certain claims submission issues.

In October 2013, the Illinois District Court denied the defendants' additional post-trial motions for judgment as a matter of law or, in the alternative, for a new trial, and granted plaintiffs' motions for a partial final judgment and awarded pre-judgment interest at the prime rate, compounded annually. Subsequently, in October 2013, the Illinois District Court entered a partial final judgment against the defendants in the amount of approximately \$2.5bn (including pre-judgment interest).

In addition to the partial judgment that has been entered, there also remain approximately \$625m in claims, prior to imposition of pre-judgment interest, that still are subject to objections that have not yet been ruled upon by the Illinois District Court.

The defendants filed a Notice of Appeal of the partial final judgment, and oral argument was heard by the US Court of Appeals for the Seventh Circuit (the Court of Appeals) in May 2014. In May 2015, the Court of Appeals issued a decision reversing the partial final judgment of the Illinois District Court and remanding the case for a new trial on loss causation, which ultimately will entail a reassessment of the quantum of damages. In July 2015, the Court of Appeals denied plaintiffs' petition for a panel rehearing of the decision of the Court of Appeals.

The timing and ultimate resolution of this matter remains highly uncertain, and given the complexity and uncertainties associated with a new trial on loss causation and a reassessment of the quantification of damages, there continues to be a wide range of possible outcomes. Depending on whether and to what extent the plaintiffs are able to demonstrate loss causation, the amount of damages, based upon the claims included in the reversed partial final judgment, and other pending claims and the application of pre-judgment interest on all pending claims, may lie in a range from a relatively insignificant amount to an amount up to or exceeding \$3.6bn. A provision has been recognised based on management's best estimate of probable outflows, but the amount of such provision is not disclosed as it would prejudice seriously the position of HSBC in the resolution of this matter.

Bernard L. Madoff Investment Securities LLC

Bernard L. Madoff (Madoff) was arrested in December 2008, and ultimately pleaded guilty to running a Ponzi scheme. He has acknowledged, in essence, that while purporting to invest his customers' money in securities, he in fact never invested in

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securities and used other customers' money to fulfil requests to return investments. His firm, Bernard L. Madoff Investment Securities LLC (Madoff Securities), is being liquidated in the US by a trustee (the Trustee).

Various non-US HSBC companies provided custodial, administration and similar services to a number of funds incorporated outside the US whose assets were invested with Madoff Securities. Based on information provided by Madoff Securities, as at 30 November 2008, the purported aggregate value of these funds was \$8.4bn, an amount that includes fictitious profits reported by Madoff. Based on information available to HSBC, we have estimated that the funds' actual transfers to Madoff Securities minus their actual withdrawals from Madoff Securities during the time that HSBC serviced the funds totalled approximately \$4bn. Various HSBC companies have been named as defendants in lawsuits arising out of Madoff Securities' fraud.

US/UK litigation: The Trustee has brought suits against various HSBC companies in the US Bankruptcy Court and in the English High Court. The Trustee's US actions included common law claims, alleging that HSBC aided and abetted Madoff's fraud and breach of fiduciary duty. Those claims were dismissed on grounds of lack of standing. The Trustee's remaining US claims seek recovery of prepetition transfers pursuant to US bankruptcy law. The amount of these remaining claims has not been pleaded or determined as against HSBC.

Alpha Prime Fund Ltd (Alpha Prime) and Senator Fund SPC (Senator), co-defendants in the Trustee's US actions, have brought cross-claims against HSBC. These funds have also sued HSBC in Luxembourg (discussed below).

The Trustee's English action seeks recovery of unspecified transfers from Madoff Securities to or through HSBC. HSBC has not yet been served with the Trustee's English action. The Trustee's deadline for serving the claim has been extended through the third quarter of 2015.

Fairfield Sentry Limited, Fairfield Sigma Limited and Fairfield Lambda Limited (collectively, Fairfield), funds whose assets were invested with Madoff Securities, commenced multiple suits in the US and the British Virgin Islands (the BVI) against fund shareholders, including various HSBC companies that acted as nominees for HSBC clients, seeking restitution of payments made in connection with share redemptions. The US actions brought by Fairfield are stayed pending the outcome of the Fairfield cases in the BVI (discussed below).

In September 2013, the US Court of Appeals for the Second Circuit (Court of Appeals) affirmed the dismissal of purported class action claims against HSBC and others brought by investors in three Madoff-invested funds on grounds of *forum non conveniens*. The plaintiffs filed petitions for certiorari to the US Supreme Court which were denied in March 2015. In May 2015, plaintiffs filed a motion asking the Court of Appeals to restore their class action claims on the basis of an alleged change of law governing the claims. In June 2015, the Court of Appeals denied plaintiffs' motion.

In December 2014, three new Madoff-related actions were filed in the US. The first is a purported class action brought in New York federal court by direct investors in Madoff Securities who were holding their investments as of December 2008, asserting various common law claims and seeking to recover damages lost to Madoff Securities' fraud on account of HSBC's purported knowledge and alleged furtherance of the fraud. This matter has been stayed pending the outcome of a similar case not involving HSBC. The other two actions were filed by SPV Optimal SUS Ltd (SPV OSUS), the purported assignee of the Madoff Securities-invested company, Optimal Strategic US Equity Ltd. One of these actions was filed in New York state court and the other in New York federal court. In January 2015, SPV OSUS dismissed its federal lawsuit against HSBC. The state court action against HSBC remains pending.

In May 2015, a new action was filed in New York federal court by two investors in Hermes International Fund Limited (Hermes) asserting various common law claims against HSBC and seeking to recover damages lost to Madoff

Securities fraud. A preliminary conference is scheduled to take place in October 2015.

BVI litigation: Beginning in October 2009, the Fairfield funds, whose assets were directly or indirectly invested with Madoff Securities, commenced multiple suits in the BVI against numerous fund shareholders, including various HSBC companies that acted as nominees for clients of HSBC's private banking business and other clients who invested in the Fairfield funds. The Fairfield funds are seeking restitution of redemption payments made by the funds to defendants on the grounds that they were mistakenly based on inflated net asset values. In April 2014, the UK Privy Council issued a ruling on two preliminary issues in favour of other defendants in the BVI actions, and issued its order in October 2014. A motion was brought by other defendants before the BVI court challenging the Fairfield liquidator's authorisation to pursue its claims in the US. That motion was heard in March 2015 and judgement is pending.

Bermuda litigation: In January 2009, Kingate Global Fund Limited and Kingate Euro Fund Limited (collectively, Kingate), funds whose assets were directly or indirectly invested with Madoff Securities, commenced an action in Bermuda against HSBC Bank Bermuda Limited for recovery of funds held in Kingate's accounts, fees and dividends. This action is currently pending, but is not expected to move forward until there is a resolution as to the Trustee's separate US actions against Kingate and HSBC Bank Bermuda Limited.

Thema Fund Limited (Thema) and Hermes, funds invested with Madoff Securities, each also brought three actions in Bermuda in 2009. The first set of actions were brought against HSBC Institutional Trust Services (Bermuda) Limited and seek recovery of funds in frozen accounts held at HSBC. The second set of actions asserts liability against HSBC Institutional Trust Services (Bermuda) Limited in relation to claims for mistake, recovery of fees and damages for breach of contract. The third set of actions seeks return of fees from HSBC Bank Bermuda Limited and HSBC Securities Services (Bermuda). There has been little

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progress in these actions for several years, although in January 2015, Thema and Hermes served notice of intent to proceed in respect of the second set of actions referred to above. A hearing has not yet been scheduled.

Cayman Islands litigation: In February 2013, Primeo Fund, a Cayman Islands-based fund invested in Madoff Securities, brought an action against the fund administrator, Bank of Bermuda (Cayman), and the fund custodian, HSBC Securities Services (Luxembourg) (HSSL), alleging breaches of contract. Primeo Fund claims damages from defendants to compensate it for alleged losses, including loss of profit and any liability to the Trustee. Trial is scheduled to begin in November 2016.

Luxembourg litigation: In April 2009, Herald Fund SPC (Herald) (in official liquidation since July 2013) commenced action against HSSL before the Luxembourg District Court seeking restitution of all cash and securities Herald purportedly lost because of Madoff Securities' fraud, or in the alternative, money damages in the same amount. In March 2013, the Luxembourg District Court dismissed Herald's restitution claim for the return of the securities. Herald's restitution claim for return of the cash and claim for money damages were reserved. Herald appealed this judgement in May 2013. In May 2015, the Luxembourg Court of Appeal held that Herald must pay security for costs before its claim can be pursued on appeal. Herald filed a request for correction of material errors with respect to the amount of the security, to which HSSL has responded. The parties are awaiting a hearing on Herald's request. Proceedings on the reserved restitution claim were suspended pending resolution of the appeal.

In October 2009, Alpha Prime commenced an action against HSSL before the Luxembourg District Court, alleging breach of contract and negligence in the appointment of Madoff Securities as a sub-custodian of Alpha Prime's assets. Alpha Prime was ordered to provide a judicial bond. Alpha Prime requested a stay of these proceedings pending its negotiations with the Trustee in the US proceedings. The matter has been temporarily suspended at Alpha Prime's request. The parties are awaiting the next hearing date.

In March 2010, Herald (Lux) SICAV (Herald (Lux)) (in official liquidation since April 2009) commenced an action against HSSL before the Luxembourg District Court seeking restitution of securities, or the cash equivalent, or money damages in the alternative. Herald (Lux) has also requested the restitution of fees paid to HSSL as custodian and service agent of the fund. The next preliminary hearing is scheduled to take place in September 2015.

In December 2014, Senator commenced an action against HSSL before the Luxembourg District Court, seeking the restitution of securities held as of the latest net asset value statement from November 2008, or in the alternative, money damages. The matter has been temporarily suspended at Senator's request. The parties are awaiting the next hearing date.

In April 2015, Senator commenced an action against the Luxembourg branch of HSBC Bank plc before the Luxembourg District Court asserting identical claims to those asserted in Senator's action against HSSL. This action is at an early stage.

HSSL has been sued in various actions by shareholders in the Primeo Select Fund, Herald, Herald (Lux), and Hermes. These actions are in different stages, most of which have been dismissed, suspended or postponed.

Ireland litigation: In November 2013, Defender Limited, a fund invested with Madoff securities, commenced an action against HSBC Institutional Trust Services (Ireland) Limited (HTIE), alleging breach of the custodian agreement and claiming damages and indemnification for claims against Defender Limited for fund losses. The action also includes four non-HSBC parties, who served as directors and investment managers to Defender Limited. This matter is ongoing.

In July 2013 and December 2013, settlements were reached in respect of claims filed against HTIE in the Irish High Court by Thema International Fund plc (Thema International) and Alternative Advantage Plc (AA), respectively. Two actions by individual Thema International shareholders against HTIE and Thema International remain active. A hearing on preliminary matters relating to the plaintiffs' entitlement to bring the actions is scheduled to take place in December 2015.

In December 2014, a new proceeding against HTIE and HSBC Securities Services (Ireland) Limited was brought by SPV OSUS, alleging breach of the custodian agreement and claiming damages and indemnification for fund losses.

There are many factors that may affect the range of possible outcomes, and the resulting financial impact, of the various Madoff-related proceedings described above, including but not limited to the multiple jurisdictions in which the proceedings have been brought and the number of different plaintiffs and defendants in such proceedings. Based upon the information currently available, management's estimate of possible aggregate damages that might arise as a result of all claims in the various Madoff-related proceedings is up to or exceeding \$800m. Due to uncertainties and limitations of this estimate, the ultimate damages could differ significantly from this amount.

US mortgage-related investigations

In April 2011, following completion of a broad horizontal review of industry residential mortgage foreclosure practices, HSBC Bank USA N.A. (HSBC Bank USA) entered into a consent cease-and-desist order with the Office of the Comptroller of the Currency (the OCC). HSBC Finance Corporation (HSBC Finance) and HSBC North America Holdings Inc. (HNAH) also entered into a similar consent order with the Federal Reserve Board (the FRB) (together with the OCC order, the Servicing Consent Orders). The Servicing Consent Orders require prescribed actions to address the deficiencies noted in the joint examination and described in the consent orders. HSBC Bank USA, HSBC Finance and HNAH continue to work with the OCC and the FRB to align their processes with the requirements of the consent orders and are implementing operational changes as required. In June 2015, HSBC Bank USA entered into an amendment to the OCC order (Amended OCC Order) setting forth, inter alia, that HSBC Bank USA is not yet in compliance with all requirements of the OCC order and imposing business restrictions related to

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residential mortgage servicing. The business restrictions, which include a prohibition against the bulk acquisition of residential mortgage servicing or residential mortgage servicing rights and a requirement to seek OCC supervisory non-objection to outsource any residential mortgage servicing activities that are not already outsourced as of the date of the Amended OCC Order, will remain in place until the OCC order is terminated. A failure to satisfy all requirements of the OCC order may result in a variety of regulatory consequences for HSBC Bank USA, including the imposition of civil money penalties.

Pursuant to the Servicing Consent Orders, an independent consultant was retained to conduct an independent review of foreclosures pending or completed between January 2009 and December 2010 (the Independent Foreclosure Review) to determine if any borrower was financially injured as a result of an error in the foreclosure process. In February 2013, HSBC Bank USA entered into an agreement with the OCC, and HSBC Finance and HNAH entered into an agreement with the FRB (together, the IFR Settlement Agreements), pursuant to which the Independent Foreclosure Review was replaced by a broader framework under which HSBC and 12 other participating servicers agreed to provide, in the aggregate, over \$9.3bn in cash payments and other assistance to help eligible borrowers. Pursuant to the IFR Settlement Agreements, HNAH made a cash payment of \$96m into a fund used to make payments to borrowers that were in active foreclosure during 2009 and 2010, and in addition, is providing other assistance (e.g. loan modifications) to help eligible borrowers. Borrowers who receive compensation will not be required to execute a release or waiver of rights and will not be precluded from pursuing litigation concerning foreclosure or other mortgage servicing practices. For participating servicers, including HSBC Bank USA and HSBC Finance, fulfilment of the terms of the IFR Settlement Agreements will satisfy the Independent Foreclosure Review requirements of the Servicing Consent Orders, including the wind-down of the Independent Foreclosure Review.

The Servicing Consent Orders do not preclude additional enforcement actions against HSBC Bank USA, HSBC Finance or HNAH by bank regulatory, governmental or law enforcement agencies, such as the US Department of Justice (the DoJ) or state Attorneys General, which could include the imposition of civil money penalties and other sanctions relating to the activities that are the subject of the Servicing Consent Orders. Pursuant to the IFR Settlement Agreement with the OCC, however, the OCC has agreed that it will not assess civil money penalties or initiate any further enforcement action with respect to past mortgage servicing and foreclosure-related practices addressed in the Servicing Consent Orders, provided the terms of the IFR Settlement Agreements are fulfilled. The OCC's agreement not to assess civil money penalties is further conditioned on HNAH making payments or providing borrower assistance pursuant to any agreement that may be entered into with the DoJ in connection with the servicing of residential mortgage loans. The FRB has agreed that any assessment of civil money penalties by the FRB will reflect a number of adjustments, including amounts expended in consumer relief and payments made pursuant to any agreement that may be entered into with the DoJ in connection with the servicing of residential mortgage loans. The IFR Settlement Agreements do not preclude private litigation concerning these practices.

Separate from the Servicing Consent Orders and the settlements related to the Independent Foreclosure Review discussed above, in February 2012, five of the largest US mortgage servicers (not including any HSBC companies) reached a settlement with the DoJ, the US Department of Housing and Urban Development and state Attorneys General of 49 states with respect to foreclosure and other mortgage servicing practices. Following the February 2012 settlement, these government agencies initiated discussions with other mortgage industry servicers, including HSBC, HSBC Bank USA, HSBC Finance and HNAH, and discussions have been held with US bank regulators and other governmental agencies regarding a potential resolution. Any such settlement, however, may not completely preclude other enforcement actions by state or federal agencies, bank regulators or law enforcement bodies related to foreclosure and other mortgage servicing practices including, but not limited to, matters relating to the securitisation of mortgages for investors. These practices have in the past resulted in private litigation, and such a settlement would not preclude further private litigation concerning these practices.

US mortgage securitisation activity and litigation

HSBC Bank USA has been involved as a sponsor/seller of loans used to facilitate whole loan securitisations underwritten by HSBC Securities (USA) Inc. (HSI). From 2005 to 2007, HSBC Bank USA purchased and sold \$24bn of such loans to HSI which were subsequently securitised and sold by HSI to third parties. The outstanding principal balance on these loans was approximately \$5.5bn as at 30 June 2015.

Participants in the US mortgage securitisation market that purchased and repackaged whole loans have been the subject of lawsuits and governmental and regulatory investigations and inquiries, which have been directed at groups within the US mortgage market such as servicers, originators, underwriters, trustees or sponsors of securitisations, and at particular participants within these groups. As the industry's residential mortgage foreclosure issues continue, HSBC Bank USA has taken title to an increasing number of foreclosed homes as trustee on behalf of various securitisation trusts. As nominal record owner of these properties, HSBC Bank USA has been sued by municipalities and tenants alleging various violations of law, including laws regarding property upkeep and tenants' rights. While HSBC believes and continues to maintain that the obligations at issue and any related liabilities are properly those of the servicer of each trust, HSBC continues to receive significant adverse publicity in connection with these and similar matters, including foreclosures that are serviced by others in the name of HSBC, as trustee .

Between June and December 2014, a number of lawsuits were filed in state and federal court in New York against HSBC Bank USA as trustee of over 250 mortgage securitisation trusts. These lawsuits are brought derivatively on behalf of the trusts by a class of investors including, amongst others, BlackRock and PIMCO funds. Similar lawsuits were filed simultaneously against other non-HSBC financial institutions that served as mortgage securitisation pool trustees. The complaints against HSBC Bank

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USA allege that the trusts have sustained losses in collateral value of over \$34bn. The lawsuits seek unspecified damages resulting from alleged breaches of the US Trust Indenture Act, breach of fiduciary duties, negligence, breach of contract and breach of the common law duty of trust. HSBC filed a motion to dismiss three of these lawsuits in January 2015, which was unsuccessful.

Various HSBC companies have also been named as defendants in a number of actions in connection with residential mortgage-backed securities (RMBS) offerings, which generally allege that the offering documents for securities issued by securitisation trusts contained material misstatements and omissions, including statements regarding the underwriting standards governing the underlying mortgage loans. In June 2015, HSBC's motion to dismiss in one of these actions was granted in its entirety.

HSBC Bank USA, HSBC Finance and Decision One Mortgage Company LLC (an indirect subsidiary of HSBC Finance) have been named as defendants in various mortgage loan repurchase actions brought by trustees of securitisation trusts. In the aggregate, these actions seek to have the HSBC defendants repurchase mortgage loans, or pay compensatory damages in lieu of repurchase totalling at least \$1bn. Motions to dismiss have been filed in two of these actions. In respect of one of these actions, the motion to dismiss was denied and a trial is scheduled to take place in February 2016. The other motion to dismiss remains pending. In addition to actions brought by trustees of securitisation trusts, HSBC Bank USA and Decision One Mortgage Company LLC have been named as defendants in two separate actions filed by Residential Funding Company LLC (RFC), a mortgage loan purchase counterparty. These actions seek unspecified damages in relation to alleged losses suffered by RFC as a result of approximately 25,000 mortgage loans purchased from HSBC between 1986-2007. These actions are at an early stage.

Since 2010, various HSBC entities have received subpoenas and requests for information from US authorities seeking the production of documents and information regarding HSBC's involvement, and the involvement of its affiliates, in particular private-label RMBS transactions as an issuer, sponsor, underwriter, depositor, trustee, custodian or servicer. HSBC continues to cooperate with these US authorities. In November 2014, HNAH, on behalf of itself and various subsidiaries including, but not limited to, HSBC Bank USA, HASCO, HSI, HSI Asset Loan Obligation, HSBC Mortgage Corporation (USA), HSBC Finance and Decision One Mortgage Company LLC, received a subpoena from the US Attorney's Office for the District of Colorado, pursuant to the Financial Industry Reform, Recovery and Enforcement Act, concerning the origination, financing, purchase, securitisation and servicing of subprime and non-subprime residential mortgages. This matter is at an early stage and HSBC is cooperating fully.

HSBC expects the focus on mortgage securitisations to continue. As a result, HSBC companies may be subject to additional claims, litigation and governmental or regulatory scrutiny relating to its participation in the US mortgage securitisation market, either as a member of a group or individually.

There are many factors that may affect the range of possible outcomes, and the resulting financial impact, of these private lawsuits. Any liabilities that might arise as a result of the claims in these actions could, however, be significant.

Anti-money laundering and sanctions-related matters

In October 2010, HSBC Bank USA entered into a consent cease-and-desist order with the OCC, and HNAH entered into a consent cease-and-desist order with the FRB (the Orders). These Orders required improvements to establish an effective compliance risk management programme across HSBC s US businesses, including risk management related to US Bank Secrecy Act (the BSA) and anti-money laundering (AML) compliance. Steps continue to be taken to address the requirements of the Orders.

In December 2012, HSBC Holdings, HNAH and HSBC Bank USA entered into agreements with US and UK government agencies regarding past inadequate compliance with the BSA, AML and sanctions laws. Among those agreements, HSBC Holdings and HSBC Bank USA entered into a five-year deferred prosecution agreement with the DoJ, the US Attorney s Office for the Eastern District of New York, and the US Attorney s Office for the Northern District of West Virginia (the US DPA); HSBC Holdings entered into a two-year deferred prosecution agreement with the New York County District Attorney (the DANY DPA); and HSBC Holdings consented to a cease-and-desist order and HSBC Holdings and HNAH consented to a civil money penalty order with the FRB. In addition, HSBC Bank USA entered into a civil money penalty order with a bureau of the US Treasury Department known as the Financial Crimes Enforcement Network (FinCEN) and a separate civil money penalty order with the OCC. HSBC Holdings also entered into an agreement with the Office of Foreign Assets Control (OFAC) regarding historical transactions involving parties subject to OFAC sanctions and an undertaking with the UK FCA to comply with certain forward-looking AML and sanctions-related obligations.

Under these agreements, HSBC Holdings and HSBC Bank USA made payments totalling \$1.9bn to US authorities and are continuing to comply with ongoing obligations. In July 2013, the US District Court for the Eastern District of New York approved the US DPA and retained authority to oversee implementation of that agreement. Under the agreements with the DoJ, FCA, and FRB, an independent monitor (who is, for FCA purposes, a skilled person under Section 166 of the Financial Services and Markets Act) is evaluating and regularly assessing the effectiveness of HSBC s AML and sanctions compliance function and HSBC s progress in implementing its remedial obligations under the agreements.

HSBC Holdings has fulfilled all of the requirements imposed by the DANY DPA, which expired by its terms at the end of the two-year period of that agreement in December 2014. If HSBC Holdings and HSBC Bank USA fulfil all of the requirements imposed by the US DPA, the DoJ charges against those entities will be dismissed at the end of the five-year period of that

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agreement. The DoJ may prosecute HSBC Holdings or HSBC Bank USA in relation to any matters that are the subject of the US DPA if HSBC Holdings or HSBC Bank USA breaches the terms of the US DPA.

HSBC Bank USA also entered into a separate consent order with the OCC, requiring it to correct the circumstances and conditions as noted in the OCC's then most recent report of examination, and imposing certain restrictions on HSBC Bank USA directly or indirectly acquiring control of, or holding an interest in, any new financial subsidiary, or commencing a new activity in its existing financial subsidiary, unless it receives prior approval from the OCC. HSBC Bank USA also entered into a separate consent order with the OCC requiring it to adopt an enterprise-wide compliance programme.

These settlements with US and UK authorities have led to private litigation, and do not preclude further private litigation related to HSBC's compliance with applicable BSA, AML and sanctions laws or other regulatory or law enforcement actions for BSA, AML, sanctions or other matters not covered by the various agreements.

In May 2014, a shareholder derivative action was filed by a shareholder of HSBC Holdings purportedly on behalf of HSBC Holdings, HSBC Bank USA, HNAH and HSBC USA Inc. (the Nominal Corporate Defendants) in New York State Supreme Court against certain current and former directors and officers of those HSBC companies (the Individual Defendants). The complaint alleges that the Individual Defendants breached their fiduciary duties to the Nominal Corporate Defendants and caused a waste of corporate assets by allegedly permitting and/or causing the conduct underlying the US DPA. Plaintiff filed an amended complaint in February 2015. In March 2015, the Nominal Corporate Defendants moved to dismiss the action, and the Individual Defendants who had been served also responded to the complaint. The motion was fully briefed in May 2015. Oral argument is scheduled to take place in August 2015.

In July 2014, a claim was filed in the Ontario Superior Court of Justice against HSBC Holdings and a former employee purportedly on behalf of a class of persons who purchased HSBC common shares and American Depositary Shares between July 2006 and July 2012. The complaint, which seeks monetary damages of up to CA\$20bn, alleges that the defendants made statutory and common law misrepresentations in documents released by HSBC Holdings and its wholly owned subsidiary, HSBC Bank Canada, relating to HSBC's compliance with BSA, AML, sanctions and other laws.

In November 2014, a complaint was filed in the US District Court for the Eastern District of New York on behalf of representatives of US persons killed or injured in Iraq between April 2004 and November 2011. The complaint was filed against HSBC Holdings, HSBC Bank plc, HSBC Bank USA and HSBC Bank Middle East, as well as other non-HSBC banks and the Islamic Republic of Iran (together, the Defendants). The plaintiffs allege that defendants conspired to violate the US Anti-Terrorism Act, by altering or falsifying payment messages involving Iran, Iranian parties and Iranian banks for transactions processed through the US. Plaintiffs filed an amended complaint in April 2015. Defendants filed a motion to dismiss in May 2015. The motion will be fully briefed in August 2015.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of these private lawsuits, including the timing or any possible impact on HSBC, which could be significant.

Tax-related investigations

HSBC continues to cooperate in ongoing investigations by the DoJ and the US Internal Revenue Service regarding whether certain HSBC companies and employees acted appropriately in relation to certain customers who had US tax reporting obligations. In connection with these investigations, HSBC Private Bank (Suisse) SA (HSBC Swiss Private Bank), with due regard for Swiss law, has produced records and other documents to the DoJ. In August 2013, the DoJ

informed HSBC Swiss Private Bank that it was not eligible for the Program for Non-Prosecution Agreements or Non-Target Letters for Swiss Banks since a formal investigation had previously been authorised. The DoJ has requested additional information from HSBC Swiss Private Bank and other Swiss banks regarding the transfer of assets to and from US person-related accounts and employees who serviced those accounts. HSBC Swiss Private Bank is preparing this data, in a manner consistent with Swiss law.

Other HSBC companies have received subpoenas and requests for information from US and other authorities, including with respect to US-based clients of an HSBC company in India.

In addition, various tax administration, regulatory and law enforcement authorities around the world, including in Belgium, France, Argentina and India, are conducting investigations and reviews of HSBC Swiss Private Bank in connection with allegations of tax evasion or tax fraud, money laundering and unlawful cross-border banking solicitation. HSBC Swiss Private Bank has been placed under formal criminal examination by magistrates in both Belgium and France. In February 2015, HSBC was informed that the French magistrates are of the view that they have completed their investigation with respect to HSBC Swiss Private Bank and have referred the matter to the public prosecutor for a recommendation on any potential charges to be brought, whilst reserving the right to continue investigating other conduct at HSBC. In April 2015, HSBC Holdings was informed that it has been placed under formal criminal investigation by the French magistrates in connection with the conduct of HSBC Swiss Private Bank in 2006 and 2007 for alleged tax offences, and a 1bn bail was imposed. HSBC Holdings appealed the magistrates decision and, in June 2015, bail was reduced to 100m. The ultimate financial impact could differ significantly from the bail amount of 100m. In Argentina, in November 2014, the Argentine tax authority filed a complaint alleging an unlawful association between HSBC Swiss Private Bank, HSBC Bank Argentina, HSBC Bank USA and certain current and former HSBC officers, which allegedly enabled HSBC customers to evade Argentine tax obligations. In February 2015, a public prosecutor in Switzerland commenced an investigation of HSBC Swiss Private Bank, and the Indian tax authority issued a

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summons and request for information to an HSBC company in India. In June 2015, the public prosecutor's investigation in Switzerland was closed.

With respect to each of these ongoing matters, HSBC is cooperating with the relevant authorities. There are many factors that may affect the range of outcomes, and the resulting financial impact, of these investigations and reviews, which could be significant.

In light of the recent media attention regarding these matters, it is possible that other tax administration, regulatory or law enforcement authorities will also initiate or enlarge similar investigations or regulatory proceedings.

London interbank offered rates, European interbank offered rates and other benchmark interest rate investigations and litigation

Various regulators and competition and law enforcement authorities around the world, including in the UK, the US, the EU, Switzerland and elsewhere, are conducting investigations and reviews related to certain past submissions made by panel banks and the processes for making submissions in connection with the setting of London interbank offered rates (Libor), European interbank offered rates (Euribor) and other benchmark interest rates. As certain HSBC companies are members of such panels, HSBC has been the subject of regulatory demands for information and is cooperating with those investigations and reviews.

In December 2013, the European Commission (the Commission) announced that it had imposed fines on eight financial institutions under its cartel settlement procedure for their participation in illegal activity related to euro interest rate derivatives and/or yen interest rate derivatives. Although HSBC was not one of the financial institutions fined, the Commission announced that it had opened proceedings against HSBC in connection with its Euribor-related investigation of euro interest rate derivatives only. This investigation will continue under the standard Commission cartel procedure. In May 2014, HSBC received a Statement of Objections from the Commission, alleging anti-competitive practices in connection with the pricing of euro interest rate derivatives. The Statement of Objections sets out the Commission's preliminary views and does not prejudice the final outcome of its investigation. HSBC responded to the Commission's Statement of Objections in March 2015. The hearing before the Commission took place in June 2015.

In addition, HSBC and other US dollar Libor panel banks have been named as defendants in a number of private lawsuits filed in the US with respect to the setting of US dollar Libor. The complaints assert claims under various US laws, including US antitrust and racketeering laws, the US Commodity Exchange Act (CEA), and state law. The lawsuits include individual and putative class actions, most of which have been transferred and/or consolidated for pre-trial purposes before the New York District Court.

In March 2013, the New York District Court overseeing the consolidated proceedings related to US dollar Libor issued a decision in the six oldest actions, dismissing the plaintiffs' federal and state antitrust claims, racketeering claims, and unjust enrichment claims in their entirety, but allowing certain of their CEA claims that were not barred by the applicable statute of limitations to proceed. Some of those plaintiffs appealed the New York District Court's decision to the US Court of Appeals for the Second Circuit, which later dismissed those appeals. In January 2015, the

US Supreme Court reversed the Court of Appeals' decision and remanded the case to the Court of Appeals for consideration of the merits of the plaintiffs' appeal. Briefing is ongoing in the Court of Appeals.

Other plaintiffs sought to file amended complaints in the New York District Court to assert additional allegations. In June 2014, the New York District Court issued a decision that, amongst other things, denied the plaintiffs' request for leave to amend their complaints to assert additional theories of Libor manipulation against HSBC and certain non-HSBC banks, but granted leave to assert such manipulation claims against two other banks; and granted defendants' motion to dismiss certain additional claims under the CEA as barred by the applicable statute of limitations. Proceedings with respect to all other actions in the consolidated proceedings were stayed pending this decision. The stay was lifted in September 2014. Amended complaints were filed in previously stayed non-class actions in October 2014; and amended complaints were filed in several of the previously stayed class actions in November 2014. Motions to dismiss were filed in November 2014 and January 2015, respectively, and remain pending.

Separately, HSBC and other panel banks have also been named as defendants in a putative class action filed in the New York District Court on behalf of persons who transacted in euroyen futures and options contracts related to the euroyen Tokyo interbank offered rate (Tibor). The complaint alleges, amongst other things, misconduct related to euroyen Tibor, although HSBC is not a member of the Japanese Bankers Association's euroyen Tibor panel, as well as Japanese yen Libor, in violation of US antitrust laws, the CEA, and state law. In March 2014, the New York District Court issued an opinion dismissing the plaintiffs' claims under US antitrust law and state law, but sustaining their claims under the CEA. In June 2014, the plaintiffs moved for leave to file a third amended complaint. That motion was denied in March 2015, except insofar as it granted leave to add certain defendants not affiliated with HSBC and reserving on the question of whether the California State Teachers Retirement System may be added as a plaintiff.

In November 2013, HSBC and other panel banks were also named as defendants in a putative class action filed in the New York District Court on behalf of persons who transacted in euro futures contracts and other financial instruments related to Euribor. The complaint alleges, amongst other things, misconduct related to Euribor in violation of US antitrust laws, the CEA and state law. The plaintiffs filed a second and later third amended complaint in May 2014 and October 2014. The court previously

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stayed proceedings until May 2015. The court has set a deadline for plaintiffs to file a fourth amended complaint in August 2015, and for defendants to respond in September 2015.

In September and October 2014, HSBC Bank plc and other panel banks were named as defendants in a number of putative class actions that were filed and consolidated in the New York District Court on behalf of persons who transacted in interest rate derivative transactions or purchased or sold financial instruments that were either tied to US dollar International Swaps and Derivatives Association fix (ISDAfix) rates or were executed shortly before, during, or after the time of the daily ISDAfix setting window. The complaint alleges, amongst other things, misconduct related to these activities in violation of US antitrust laws, the CEA and state law. In October 2014, the plaintiffs filed a consolidated amended complaint, and in February 2015, plaintiffs filed a second consolidated amended complaint replacing HSBC Bank plc with HSBC Bank USA. A motion to dismiss that complaint was filed in April 2015 and remains pending.

There are many factors that may affect the range of possible outcomes, and the resulting financial impact, of these private lawsuits. Based upon the information currently available, it is possible that any liabilities that might arise as a result of the claims in these actions could be significant.

Foreign exchange rate investigations and litigation

Various regulators and competition and law enforcement authorities around the world, including in the US, the EU, Brazil, South Korea and elsewhere, are conducting investigations and reviews into a number of firms, including HSBC, related to trading on the foreign exchange markets. These include a criminal investigation in the US, as well as investigations by the civil competition authorities in the EU, Brazil and South Korea.

HSBC has been cooperating with these ongoing investigations. In May 2015, the DOJ resolved its ongoing investigations against five non-HSBC financial institutions, resulting in four pleading guilty to a criminal charge for collusive efforts to influence foreign exchange benchmark rates and agreeing to pay criminal fines of more than \$2.5bn. Additional penalties were imposed by the Board of Governors of the FRB at the same time. HSBC was not a party to these resolutions, and investigations into HSBC by the DOJ, FRB and other authorities around the world continue.

In addition, in late 2013 and early 2014, HSBC Holdings, HSBC Bank plc, HNAH and HSBC Bank USA were named as defendants, amongst other banks, in various putative class actions filed in the New York District Court. In March 2014, the plaintiffs filed a consolidated amended complaint alleging, amongst other things, that defendants conspired to manipulate the WM/ Reuters foreign exchange benchmark rates by sharing customers' confidential order flow information, thereby injuring plaintiffs and others by forcing them to pay artificial and non-competitive prices for products based on these foreign currency rates (the Consolidated Action). Separate putative class actions were also brought on behalf of non-US plaintiffs (the Foreign Actions). Defendants moved to dismiss all actions. In January 2015, the court denied defendants' motion to dismiss as to the Consolidated Action, but granted defendants' motion to dismiss as to the Foreign Actions. Five additional putative class actions were subsequently filed in the New York District Court making similar allegations on behalf of persons who engaged in foreign exchange futures transactions on a US exchange. An additional putative class action was filed in the New York District Court making similar allegations on behalf of ERISA plan participants, and one was filed in California District Court that is similar to the Consolidated Action. HSBC has not yet responded to the new actions.

As at 30 June 2015, HSBC has recognised a provision in the amount of \$1.3bn in respect of these ongoing investigations and other actions. There are many factors that may affect the range of outcomes, and the resulting financial impact, of these matters. Due to uncertainties and limitations of these estimates, the ultimate penalties could

differ significantly from the amount provided.

Precious metals fix-related litigation and investigations

Since March 2014, numerous putative class actions have been filed in the US District Courts for the Southern District of New York, the District of New Jersey and the Northern District of California naming HSBC Bank USA, HSBC Bank plc, HSI and other members of The London Gold Market Fixing Limited as defendants. The complaints allege that, from January 2004 to the present, defendants conspired to manipulate the price of gold and gold derivatives during the afternoon London gold fix in order to reap profits on proprietary trades. These actions have been assigned to and consolidated in the New York District Court. An amended consolidated class action complaint was filed in December 2014, and defendants filed a consolidated response in February 2015. A second consolidated amended complaint was filed in March 2015. Defendants filed a consolidated response in April 2015.

Since July 2014, putative class actions were filed in the US District Court for the Southern District of New York and the Eastern District of New York naming HSBC Holdings, HNAH, HSBC Bank USA, HSBC USA Inc. and other members of The London Silver Market Fixing Ltd as defendants. The complaints allege that, from January 2007 to the present, defendants conspired to manipulate the price of physical silver and silver derivatives for their collective benefit in violation of US antitrust laws and the CEA. These actions have been assigned to and consolidated in the New York District Court. An amended consolidated class action complaint was filed in January 2015, and defendants filed a consolidated response in March 2015. Plaintiffs filed a second amended complaint in April 2015. Defendants consolidated response was filed in May 2015.

Between late 2014 and early 2015, numerous putative class actions were filed in the New York District Court naming HSBC Bank USA and other members of The London Platinum and Palladium Fixing Company Limited as defendants. The

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Table of Contents**Notes on the Financial Statements (unaudited) (continued)**

complaints allege that, from January 2007 to the present, defendants conspired to manipulate the price of physical Platinum Group Metals (PGM) and PGM-based financial products for their collective benefit in violation of US antitrust laws and the CEA. An amended consolidated class action complaint was filed in April 2015. Defendants consolidated response was filed in June 2015.

Various regulators and competition and law enforcement authorities in the US and the EU are conducting investigations and reviews related to HSBC's precious metals operations. In November 2014, the DoJ issued a document request to HSBC Holdings, seeking the voluntary production of certain documents relating to a criminal antitrust investigation that the DoJ is conducting in relation to precious metals. In January 2015, the CFTC issued a subpoena to HSBC Bank USA, seeking the production of certain documents related to HSBC Bank USA's precious metals trading operations. In April 2015, the European Commission issued a request for information seeking certain information related to HSBC's precious metals operations. HSBC is cooperating with the authorities.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of these matters, including the timing or any possible impact on HSBC, which could be significant.

Credit default swap regulatory investigation and litigation

In July 2013, HSBC received a Statement of Objections from the Commission relating to its ongoing investigation of alleged anti-competitive activity by a number of market participants in the credit derivatives market between 2006 and 2009. The Statement of Objections sets out the Commission's preliminary views and does not prejudice the final outcome of its investigation. HSBC has submitted a response and attended an oral hearing in May 2014. Following the oral hearing, the Commission decided to conduct a further investigation phase before deciding whether or how to proceed with the case. HSBC is cooperating with this further investigation. There are many factors that may affect the range of possible outcomes, and the resulting financial impact, of this matter. The amounts of any fines and/or penalties, however, could be significant.

In addition, HSBC Bank USA, HSBC Holdings and HSBC Bank plc have been named as defendants, amongst others, in numerous putative class actions filed in the New York District Court and the Illinois District Court. These class actions allege that the defendants, which include ISDA, Markit and several other financial institutions, conspired to restrain trade in violation of US antitrust laws by, amongst other things, restricting access to credit default swap pricing exchanges and blocking new entrants into the exchange market, with the purpose and effect of artificially inflating the bid/ask spread paid to buy and sell credit default swaps in the US. The plaintiffs in these suits purport to represent a class of all persons who purchased credit default swaps from or sold credit default swaps to defendants primarily in the US.

In October 2013, these cases were consolidated in the New York District Court. An amended consolidated complaint was filed in January 2014, naming HSBC Bank USA and HSBC Bank plc as defendants, amongst other non-HSBC defendants. Following the filing of defendants' initial motions to dismiss in March 2014, plaintiffs filed a second amended consolidated complaint, which defendants also moved to dismiss. In September 2014, the court granted in part and denied in part the defendants' motion to dismiss. Discovery is in process.

There are many factors that may affect the range of possible outcomes, and the resulting financial impact, of these private lawsuits. Any liabilities that might arise as a result of the claims in these actions could, however, be significant.

Economic plans: HSBC Bank Brasil S.A.

In the mid-1980s and early 1990s, certain economic plans were introduced by the government of Brazil to reduce escalating inflation. The implementation of these plans adversely impacted savings account holders, thousands of which consequently commenced legal proceedings against financial institutions in Brazil, including HSBC Bank Brasil S.A. (HSBC Brazil), alleging, amongst other things, that savings account balances were adjusted by a different price index than that contractually agreed, which caused them a loss of income. Certain of these cases have reached the Brazilian Supreme Court (the Supreme Court). The Supreme Court has suspended all cases pending before lower courts until it delivers a final judgement on the constitutionality of the changes resulting from the economic plans. It is anticipated that the outcome of the Supreme Court s final judgement will set a precedent for all cases pending before the lower courts. Separately, the Brazilian Superior Civil Court (the Superior Civil Court) is considering matters relating to, amongst other things, contractual and punitive interest rates to be applied to calculate any loss of income.

There is a high degree of uncertainty as to the terms on which the proceedings in the Supreme Court and Superior Civil Court will be resolved and the timing of such resolutions, including the amount of losses that HSBC Brazil may be liable to pay in the event of an unfavourable judgement. Such losses may lie in a range from a relatively insignificant amount to an amount up to \$700m, although the upper end of this range is considered unlikely.

Regulatory review of consumer enhancement services products

HSBC Finance, through its legacy Cards and Retail Services business, offered or participated in the marketing, distribution, or servicing of products, such as identity theft protection and credit monitoring products, that were ancillary to the provision of credit to the consumer. HSBC Finance ceased offering these products by May 2012. The offering and administration of these and other enhancement services products, such as debt protection products, has been the subject of enforcement actions against other institutions by regulators, including the Consumer Financial Protection Bureau, the OCC, and the Federal Deposit

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Insurance Corporation. Such enforcement actions have resulted in orders to pay restitution to customers and the assessment of penalties in substantial amounts. We have made restitution to certain customers in connection with certain enhancement services products, and we continue to cooperate with our regulators in connection with their ongoing review. In light of the actions that regulators have taken in relation to other non-HSBC credit card issuers regarding their enhancement services products, one or more regulators may order us to pay additional restitution to customers and/or impose civil money penalties or other relief arising from the prior offering and administration of such enhancement services products by HSBC Finance. There is a high degree of uncertainty as to the terms on which this matter will be resolved and the timing of such resolution, including the amount of any additional remediation which may lie in a range from zero to an amount up to \$500m.

20 Goodwill impairment

As described on page 407 of the *Annual Report and Accounts 2014*, we test goodwill for impairment as at 1 July each year and whenever there is an indication that goodwill may be impaired. At 30 June 2015, we reviewed the inputs used in our most recent impairment test in the light of current economic and market conditions and there was no indication of goodwill impairment.

At 30 June 2015, our operations in Brazil were classified as held for sale (see Note 12). The disposal group includes allocated goodwill of \$1.3bn which is included in *Assets held for sale* in the consolidated balance sheet. Goodwill was allocated to the disposal group based on the relative value of the operations in Brazil to the cash generating units in Latin America.

21 Transactions with related parties

There were no changes in the related party transactions described in the *Annual Report and Accounts 2014* that have had a material effect on the financial position or performance of HSBC in the half-year to 30 June 2015. All related party transactions that took place in the half-year to 30 June 2015 were similar in nature to those disclosed in the *Annual Report and Accounts 2014*.

22 Events after the balance sheet date

On 31 July 2015 we entered into an agreement to sell our entire business in Brazil, comprising HSBC Bank Brasil S.A., Banco Multiplo and HSBC Servicos e Participacoes Ltda (collectively *HSBC Brazil*), to Banco Bradesco S.A. for an all cash consideration of US\$5.2bn. The purchase price is subject to adjustments to reflect the net asset value of the businesses at completion. The transaction is subject to regulatory approval and is expected to complete by Q2 2016.

A second interim dividend for the financial year ending 31 December 2015 was declared by the Directors on 3 August 2015, as described in Note 3.

23 *Interim Report 2015 and statutory accounts*

The information in this *Interim Report 2015* is unaudited and does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The *Interim Report 2015* was approved by the Board of Directors on 3 August 2015. The statutory accounts for the year ended 31 December 2014 have been delivered to the Registrar of Companies in England and Wales in accordance with section 447 of the Companies Act 2006. The Group's previous auditor, KPMG Audit Plc has reported on those accounts. Its report was unqualified; did not include a reference to any matters to which KPMG Audit Plc drew attention by way of emphasis without qualifying their report; and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

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Table of Contents**Shareholder information**

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1 Directors interests

According to the register of Directors interests maintained by HSBC Holdings pursuant to section 352 of the Securities and Futures Ordinance of Hong Kong, at 30 June 2015 the Directors of HSBC Holdings had the following interests, all beneficial unless otherwise stated, in the shares and loan capital of HSBC and its associates:

Directors' interests, shares and loan capital

| | At 30 June 2015 | | | | | Total |
|---|-----------------|------------|----------|---------|------------------------|-----------|
| | At | Child | with | | | |
| | 1 January | Beneficial | under 18 | another | Trustee | |
| 2015 | owner | or spouse | person | | interests ¹ | |
| HSBC Holdings ordinary shares | | | | | | |
| Phillip Ameen ³ | | 5,000 | | | | 5,000 |
| Kathleen Casey ³ | | 3,500 | | | | 3,500 |
| Safra Catz ³ | 20,045 | 20,515 | | | | 20,515 |
| Lord Evans of Weardale | 5,519 | 5,519 | | | | 5,519 |
| Joachim Faber | 24,105 | 45,778 | | | | 45,778 |
| Rona Fairhead | 76,524 | | | 77,063 | | 77,063 |
| Douglas Flint | 400,748 | 401,121 | | | | 401,121 |
| Stuart Gulliver | 2,611,188 | 2,558,148 | 176,885 | | | 2,735,033 |
| Sam Laidlaw | 36,768 | 35,352 | | | 1,416 ² | 36,768 |
| John Lipsky ³ | 15,820 | 15,820 | | | | 15,820 |
| Rachel Lomax | 15,500 | 18,900 | | | | 18,900 |
| Iain Mackay | 79,933 | 151,579 | | | | 151,579 |
| Heidi Miller ³ | 3,575 | 3,575 | | | | 3,575 |
| Marc Moses | 480,423 | 554,103 | | | | 554,103 |
| Sir Simon Robertson | 22,981 | 23,522 | | | | 23,522 |
| Jonathan Symonds | 20,553 | 16,314 | 4,721 | | | 21,035 |
| HSBC USA Inc. \$2.8575 Cumulative Preferred Shares, Series Z | | | | | | |
| Phillip Ameen | 31 | | | | | |
| | RMBm | RMBm | RMBm | RMBm | RMBm | RMBm |
| HSBC Bank plc 2.875% Notes 2015 | | | | | | |
| Joachim Faber ⁴ | 5.1 | | | | | |

1 Details of executive Directors' other interests in HSBC Holdings ordinary shares arising from the HSBC Holdings savings-related share option plans and the HSBC Share Plan 2011 are set out on the following pages. At 30 June 2015, the aggregate interests under the Securities and Futures Ordinance of Hong Kong in HSBC Holdings ordinary shares, including interests arising through employee share plans, were: Douglas Flint 406,056; Stuart Gulliver 5,679,222; Iain Mackay 1,363,678; and Marc Moses 2,048,335. Each Director's total interests represent less than 0.04% of the shares in issue.

2 Non-beneficial.

3 Interests in American Depositary Shares (ADS), which are categorised as equity derivatives under Part XV of the Securities and Futures Ordinance of Hong Kong. Each ADS represents five HSBC Holdings ordinary shares.

4 Non-beneficial interest in renminbi (RMB) 1.2m 2.875% Notes 2015.

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Table of Contents**Shareholder information** (continued)**Savings-related share option plans and the HSBC Share Plan 2011***HSBC Holdings savings-related share option plans*

| | Date of award | Exercise price (£) | Exercisable | | HSBC Holdings ordinary shares | |
|---------------|---------------|--------------------|-------------------|------------|-------------------------------|---------------------|
| | | | from ¹ | until | Held at 1 Jan 2015 | Held at 30 Jun 2015 |
| Douglas Flint | 24 Apr 2012 | 4.4621 | 1 Aug 2015 | 1 Feb 2016 | 2,016 | 2,016 |
| | 23 Sep 2014 | 5.1887 | 1 Nov 2019 | 1 May 2020 | 2,919 | 2,919 |
| Iain Mackay | 23 Sep 2014 | 5.1887 | 1 Nov 2017 | 1 May 2018 | 3,469 | 3,469 |

There are no performance criteria conditional upon which the outstanding options are exercisable and there have been no variations to the terms and conditions since the awards were made. See page 145 for more details on the HSBC Holdings savings-related share option plans. The market value per ordinary share at 30 June 2015 was £5.70. The highest and lowest market values per ordinary share during the period were £6.49 and £5.60. Market value is the mid-market price derived from the London Stock Exchange Daily Official List on the relevant date. Under the Securities and Futures Ordinance of Hong Kong, the options are categorised as unlisted physically settled equity derivatives.

1 May vest at an earlier date in certain circumstances, e.g. retirement.

Awards of Restricted Shares*HSBC Share Plan 2011*

| | Date of award | Year in which awards may vest | HSBC Holdings ordinary shares | | | |
|----------|--------------------------|-------------------------------|-------------------------------|---------------------------|-----------------------------|---|
| | | | Awards held at 1 Jan 2015 | Awards made during period | Awards vested during period | Awards held at 30 Jun 2015 ¹ |
| | | | Number | Monetary value £000 | Number | Monetary value £000 |
| Stuart | | | | | | |
| Gulliver | 12 Mar 2012 ² | 2013-2015 | 89,302 | | 91,298 | 511 |
| | 11 Mar 2013 ³ | 2018 | 87,007 | | | 89,051 |
| | 10 Mar 2014 ⁴ | 2015-2017 | 93,101 | | 31,411 | 176 |
| | 2 Mar 2015 ⁵ | 2015 | | 44,677 | 260 | 260 |

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| | | | | | | | | |
|-------------|--------------------------|-----------|---------------|---------------|------------|---------------|------------|---------------|
| Iain Mackay | 2 Mar 2015 ⁶ | 2016-2018 | | 67,016 | 391 | | | 68,590 |
| | 12 Mar 2012 ² | 2013-2015 | 44,966 | | | 45,972 | 257 | |
| | 11 Mar 2013 ³ | 2018 | 60,150 | | | | | 61,563 |
| | 10 Mar 2014 ⁴ | 2015-2017 | 54,536 | | | 18,399 | 103 | 37,357 |
| | 2 Mar 2015 ⁵ | 2015 | | 30,024 | 175 | 30,024 | 175 | |
| | 2 Mar 2015 ⁶ | 2016-2018 | | 45,037 | 263 | | | 46,095 |
| Marc Moses | 12 Mar 2012 ² | 2013-2015 | 46,738 | | | 47,784 | 268 | |
| | 11 Mar 2013 ³ | 2018 | 58,439 | | | | | 59,812 |
| | 10 Mar 2014 ⁴ | 2015-2017 | 54,531 | | | 18,397 | 103 | 37,353 |
| | 2 Mar 2015 ⁵ | 2015 | | 35,798 | 209 | 35,798 | 209 | |
| | 2 Mar 2015 ⁶ | 2016-2018 | | 53,698 | 313 | | | 54,959 |

Vesting of Restricted Share awards is normally subject to the Director remaining an employee on the vesting date. The awards may vest at an earlier date in certain circumstances. Under the Securities and Futures Ordinance of Hong Kong, interests in Restricted Share awards are categorised as the interests of a beneficial owner.

- 1 *Includes additional shares arising from scrip dividends.*
- 2 *At the date of the award, 12 March 2012, the market value per share was £5.56. 50% of these deferred awards were subject to a six month retention period upon vesting. The balance of these awards vested on 12 March 2015, the third anniversary of the award, and on that date the market value per share was £5.60.*
- 3 *Vesting of these awards is subject to satisfactory completion of the Deferred Prosecution Agreement with the US Department of Justice.*
- 4 *At the date of the award, 10 March 2014, the market value per share was £6.16. These deferred awards are subject to a six month retention period upon vesting. 33% of the award vested on 10 March 2015, the first anniversary of the award and on that date the market value per share was £5.60. A further 33% of the award will vest on the second anniversary and the balance will vest on the third anniversary of the award.*
- 5 *The non-deferred award vested immediately on 2 March 2015. The shares (net of tax) are subject to a six month retention period. At the date of vesting, the market value per share was £5.83.*
- 6 *At the date of the award, 2 March 2015, the market value per share was £5.83. These deferred awards are subject to a six month retention period upon vesting. 33% of the award will vest on the first anniversary of the award, 33% of the award will vest on the second anniversary and the balance will vest on the third anniversary of the award.*

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Table of Contents**Shareholder information (continued)****Conditional awards under the Group Performance Share Plan (GPSP)***HSBC Share Plan 2011*

| | Date of award | Year in which awards may vest | HSBC Holdings ordinary shares | | | |
|-----------------|-------------------------|-------------------------------|-------------------------------|--|------------------------|---|
| | | | Awards held at 1 Jan 2015 | Awards made during period ¹ Number | Monetary value £000 | Awards held at 30 Jun 2015 ¹ |
| Stuart Gulliver | 23 Jun 2011 | 2016 | 455,200 | | | 465,896 |
| | 12 Mar 2012 | 2017 | 772,331 | | | 790,478 |
| | 11 Mar 2013 | 2018 | 446,194 | | | 456,678 |
| | 10 Mar 2014 | 2019 | 620,680 | | | 635,264 |
| Iain Mackay | 2 Mar 2015 ² | 2020 | | 365,864 | 2,133 | 374,460 |
| | 23 Jun 2011 | 2016 | 127,262 | | | 130,252 |
| | 12 Mar 2012 | 2017 | 144,168 | | | 147,555 |
| | 11 Mar 2013 | 2018 | 208,224 | | | 213,116 |
| | 10 Mar 2014 | 2019 | 363,576 | | | 372,119 |
| Marc Moses | 2 Mar 2015 ² | 2020 | | 195,969 | 1,142 | 200,573 |
| | 23 Jun 2011 | 2016 | 118,158 | | | 120,934 |
| | 12 Mar 2012 | 2017 | 401,611 | | | 411,047 |
| | 11 Mar 2013 | 2018 | 232,020 | | | 237,472 |
| | 10 Mar 2014 | 2019 | 363,541 | | | 372,082 |
| | 2 Mar 2015 ² | 2020 | | 195,969 | 1,142 | 200,573 |

The GPSP is a long-term incentive plan governed by the rules of the HSBC Share Plan 2011. Vesting of GPSP awards is normally subject to the Director remaining an employee on the vesting date. Any shares (net of tax) which the Director becomes entitled to on the vesting date are subject to a retention requirement until cessation of employment. Under the Securities and Futures Ordinance of Hong Kong, interests in awards are categorised as beneficial.

1 Includes additional shares arising from scrip dividends.

2 At the date of award, 2 March 2015, the market value per share was £5.83.

No Directors held any short position (as defined in the Securities and Futures Ordinance of Hong Kong) in the shares and loan capital of HSBC Holdings and its associated corporations. Save as stated above, none of the Directors had an interest in any shares or debentures of HSBC Holdings or any associates at the beginning or at the end of the period, and none of the Directors or members of their immediate families were awarded or exercised any right to subscribe for any shares or debentures in any HSBC corporation during the period. Since 30 June 2015, the interests of each of the following Directors have increased by the number of HSBC Holdings ordinary shares shown against their name:

Increase in Directors' interests since 30 June 2015

| Beneficial owner | HSBC Holdings ordinary shares |
|-------------------------|--|
| Safra Catz | 220 ¹ |
| Rona Fairhead | 247 ² |
| Douglas Flint | 75 ³ |
| Stuart Gulliver | 31,005 ⁴ |
| Sam Laidlaw | 372 ² |
| Iain Mackay | 14,481 ⁵ |
| Heidi Miller | 35 ¹ |
| Marc Moses | 15,738 ⁴ |
| Sir Simon Robertson | 247 ² |
| Jonathan Symonds | 220 ² |

1 *Comprises interests in ADSs, which are categorised as equity derivatives under Part XV of the Securities and Futures Ordinance of Hong Kong. Each ADS represents five HSBC Holdings ordinary shares.*

2 *Scrip dividend.*

3 *Comprises the acquisition of shares in the HSBC Holdings UK Share Incentive Plan through regular monthly contributions (27 shares) and the automatic reinvestment of dividend income on shares held in the HSBC Holdings UK Share Incentive Plan (48 shares).*

4 *Comprises scrip dividend on Restricted Share awards and GPSP awards granted under the HSBC Share Plan 2011.*

5 *Comprises scrip dividend on Restricted Share awards and GPSP awards granted under the HSBC Share Plan 2011 and the automatic reinvestment of dividend income on shares held in a nominee account.*

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Table of Contents**Shareholder information** (continued)**2 Employee share plans**

Share options and discretionary awards of shares are granted under HSBC share plans to help align the interests of employees with those of shareholders. The following are particulars of outstanding options, including those held by employees working under employment contracts that are regarded as continuous contracts for the purposes of the Hong Kong Employment Ordinance. The options were granted for nil consideration. No options have been granted to substantial shareholders, suppliers of goods or services, or in excess of the individual limit for each share plan. No options were cancelled by HSBC during the period. No discretionary share options have been granted under the HSBC Share Plan 2011, which replaced the HSBC Share Plan on 27 May 2011.

A summary for each plan of the total number of options which were granted, exercised or lapsed during the period is shown in the following tables. Particulars of options held by Directors of HSBC Holdings are set out on page 144. Further details required to be disclosed pursuant to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited are available on our website at www.hsbc.com by selecting Investor Relations, then Governance then Share Plans, and on the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk. Copies may be obtained upon request from the Group Company Secretary, 8 Canada Square, London E14 5HQ.

All-employee share plans

The HSBC Holdings Savings-Related Share Option Plan and the HSBC Holdings Savings-Related Share Option Plan: International are all-employee share plans under which eligible employees have been granted options to acquire HSBC Holdings ordinary shares. There will be no further grant of options under the HSBC Holdings Savings-Related Share Option Plan: International; the final grant was in 2012. A new international all-employee share purchase plan was launched in the third quarter of 2013.

For options granted under the HSBC Holdings Savings-Related Option Plan, employees make contributions of up to £500 (or equivalent) each month over a period of three or five years which may be used within six months following the third or fifth anniversary of the commencement of the relevant savings contract, at the employee's election, to exercise the options. Alternatively, the employee may elect to have the savings, plus (where applicable) any interest or bonus, repaid in cash. In the case of redundancy, retirement including on grounds of injury or ill health, the transfer of the employing business to another party, or a change of control of the employing company, options may be exercised before completion of the relevant savings contract. In certain circumstances, the exercise period of options awarded under the all-employee share plans may be extended, for example, on the death of a participant, the executors may exercise the option up to six months beyond the normal exercise period.

Under the HSBC Holdings Savings-Related Share Option Plan and the HSBC Holdings Savings-Related Share Option Plan: International the option exercise price has been determined by reference to the average market value of the ordinary shares on the five business days immediately preceding the invitation date, then applying a discount of 20%. Where applicable, the US dollar, Hong Kong dollar and euro exercise prices were converted from the sterling exercise price at the applicable exchange rate on the working day preceding the relevant invitation date. The HSBC Holdings

Savings-Related Share Option Plan will terminate on 23 May 2025 unless the Directors resolve to terminate the plans at an earlier date.

HSBC Holdings All-employee Share Option Plans

| Dates of award | | Exercise price | | Exercisable | | HSBC Holdings ordinary shares | | | | |
|---|--------|----------------|---------|-------------|-------|-------------------------------|----------------|----------------|------------------|--|
| from | to | from | to | from | to | Awarded | Exercised | Lapsed | At | |
| | | | | | | 1 Jan 2015 | in period | in period | 30 Jun 2015 | |
| Savings-Related Share Option Plan¹ | | | | | | | | | | |
| 29 Apr | 23 Sep | (£) | (£) | 1 Aug | 1 May | | | | | |
| 2009 | 2014 | 3.3116 | 5.4738 | 2014 | 2020 | 53,743,955 | - | 891,541 | 2,314,304 | |
| Savings-Related Share Option Plan: International² | | | | | | | | | | |
| 29 Apr | 24 Apr | (£) | (£) | 1 Aug | 1 Feb | | | | | |
| 2009 | 2012 | 3.3116 | 5.4573 | 2014 | 2018 | 3,714,447 | 332,465 | 220,456 | 3,161,526 | |
| 29 Apr | 24 Apr | (\$) | (\$) | 1 Aug | 1 Feb | | | | | |
| 2009 | 2012 | 4.8876 | 8.2094 | 2014 | 2018 | 1,867,328 | 153,990 | 235,089 | 1,478,249 | |
| 29 Apr | 24 Apr | () | () | 1 Aug | 1 Feb | | | | | |
| 2009 | 2012 | 3.6361 | 6.0657 | 2014 | 2018 | 571,502 | 40,543 | 36,071 | 494,888 | |
| 29 Apr | 24 Apr | (HK\$) | (HK\$) | 1 Aug | 1 Feb | | | | | |
| 2009 | 2012 | 37.8797 | 63.9864 | 2014 | 2018 | 6,468,782 | 360,839 | 140,702 | 5,967,241 | |

1 The weighted average closing price of the shares immediately before the dates on which options were exercised was £6.07.

2 The weighted average closing price of the shares immediately before the dates on which options were exercised was £6.10.

HSBC HOLDINGS PLC

Table of Contents**Shareholder information** (continued)**Discretionary Share Option Plans**

There have been no awards of discretionary share options under employee share plans since 30 September 2005.

| Date of award | Exercise price (£) | Exercisable | | HSBC Holdings ordinary shares | | | |
|--|--------------------|-------------|-------------|-------------------------------|--|-----------------------|--------|
| | | | | Exercised in | | Lapsed | At |
| | | from | to | 1 Jan 2015 period | | in period 30 Jun 2015 | |
| HSBC Holdings Group Share Option Plan¹ | | | | | | | |
| 20 Apr 2005 | 7.2869 | 20 Apr 2008 | 20 Apr 2015 | 6,373,982 | | 6,373,982 | |
| HSBC Share Plan | | | | | | | |
| 30 Sep 2005 | 7.9911 | 30 Sep 2008 | 30 Sep 2015 | 86,046 | | | 86,046 |

1 The HSBC Holdings Group Share Option Plan expired on 26 May 2005. No options have been granted under the Plan since that date.

3 Notifiable interests in share capital

At 30 June 2015, HSBC Holdings had received the following notification of major holdings of voting rights pursuant to the requirements of Rule 5 of the Disclosure Rules and Transparency Rules:

BlackRock, Inc. gave notice on 9 December 2009 that on 7 December 2009 it had the following: an indirect interest in HSBC Holdings ordinary shares of 1,142,439,457; qualifying financial instruments with 705,100 voting rights that may be acquired if the instruments are exercised or converted; and financial instruments with similar economic effect to qualifying financial instruments which refer to 234,880 voting rights, each representing 6.56%, 0.0041% and 0.0013%, respectively, of the total voting rights at that date.

At 30 June 2015, according to the register maintained by HSBC Holdings pursuant to section 336 of the Securities and Futures Ordinance of Hong Kong:

JPMorgan Chase & Co. gave notice on 3 June 2015 that on 29 May 2015 it had the following interests in HSBC Holdings ordinary shares: a long position of 987,976,822 shares; a short position of 132,712,484 shares; and a lending pool of 634,037,110 shares, each representing 5.06%, 0.68% and 3.24%, respectively, of the ordinary shares in issue at that date; and

BlackRock, Inc. gave notice on 21 May 2015 that on 20 May 2015 it had the following interests in HSBC Holdings ordinary shares: a long position of 1,256,860,007 shares and a short position of 754,653 shares, each representing 6.44% and 0.00%, respectively, of the ordinary shares in issue at that date.

4 Dealings in HSBC Holdings listed securities

Except for dealings as intermediaries by HSBC Bank plc which is a member of a European Economic Area (EEA) exchange and The Hongkong and Shanghai Banking Corporation Limited which has direct access to a EEA exchange, neither HSBC Holdings nor any of its subsidiaries purchased, sold or redeemed any of its securities listed on the Stock Exchange of Hong Kong Limited during the six months to 30 June 2015.

5 First interim dividend for 2015

The first interim dividend for 2015 of \$0.10 per ordinary share was paid on 8 July 2015.

6 Second interim dividend for 2015

On 3 August 2015, the Directors declared a second interim dividend for 2015 of \$0.10 per ordinary share. The second interim dividend will be payable on 2 October 2015 to holders of record on 14 August 2015 on the Principal Register in the United Kingdom, Hong Kong and Bermuda Overseas Branch registers. The dividend will be payable in cash, US dollars, sterling or Hong Kong dollars, or a combination of these currencies, at the forward exchange rates quoted by HSBC Bank plc in London at or about 11.00am on 21 September 2015. A scrip dividend will also be offered. Particulars of these arrangements will be sent to shareholders on or about 26 August 2015 and elections must be received by 17 September 2015.

The dividend will be payable on ordinary shares held through Euroclear France, the settlement and central depository system for Euronext Paris, on 2 October 2015 to the holders of record on 14 August 2015. The dividend will be payable by Euroclear France in cash, in euros, at the forward exchange rate quoted by HSBC France on 21 September 2015, or as a scrip dividend. Particulars of these arrangements will be announced through Euronext Paris on 5 August 2015, 20 August 2015 and 21 September 2015.

The dividend will be payable on ADSs, each of which represents five ordinary shares, on 2 October 2015 to holders of record on 14 August 2015. The dividend of \$0.50 per ADS will be payable by the depository in cash, in US dollars or as a scrip dividend of new ADSs. Elections must be received by the depository on or before 11 September 2015. Alternatively, the cash dividend may be invested in additional ADSs for participants in the dividend reinvestment plan operated by the depository.

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Ordinary shares will be quoted ex-dividend in London, Hong Kong, Paris and Bermuda on 13 August 2015. The ADSs will be quoted ex-dividend in New York on 12 August 2015.

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Any person who has acquired ordinary shares registered on the Principal Register in the United Kingdom, the Hong Kong Overseas Branch register or the Bermuda Overseas Branch register but who has not lodged the share transfer with the Principal Registrar, the Hong Kong or Bermuda Branch Registrar should do so before 4.00pm local time on 14 August 2015 in order to receive the dividend.

Ordinary shares may not be removed to or from the Principal Register in the United Kingdom, the Hong Kong Overseas Branch register or the Bermuda Overseas Branch register on 14 August 2015. Any person wishing to remove ordinary shares to or from each register must do so before 4.00pm local time on 13 August 2015.

Transfers of ADSs must be lodged with the depository by 12 noon on 14 August 2015 in order to receive the dividend.

7 Proposed interim dividends for 2015

The Board has adopted a policy of paying quarterly dividends on the ordinary shares, under which it is intended to have a pattern of three equal interim dividends with a variable fourth interim dividend. The timetables for dividends payable on the ordinary shares in respect of 2015 that have not yet been declared are proposed as follows:

| | Third interim dividend for 2015 | Fourth interim dividend for 2015 |
|--|--|---|
| Announcement | 5 October 2015 | 22 February 2016 |
| ADSs quoted ex-dividend in New York | 21 October 2015 | 2 March 2016 |
| Shares quoted ex-dividend in London, Hong Kong, Paris and Bermuda | 22 October 2015 | 3 March 2016 |
| Record date in London, Hong Kong, New York, Paris and Bermuda ¹ | 23 October 2015 | 4 March 2016 |
| Payment date | 3 December 2015 | 20 April 2016 |

¹ *Removals to and from the Overseas Branch Register of shareholders in Hong Kong will not be permitted on these dates.*

8 Earnings Release

An *Earnings Release* for the three-month period ending 30 September 2015 is expected to be issued on 2 November 2015.

9 Final results

The results for the year to 31 December 2015 are expected to be announced on 22 February 2016.

10 Corporate governance

HSBC is committed to high standards of corporate governance.

Throughout the six months to 30 June 2015, HSBC Holdings has complied with the applicable code provisions of: (i) The UK Corporate Governance Code issued by the Financial Reporting Council in September 2014 and (ii) the Hong Kong Corporate Governance Code set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, save that the Group Risk Committee is responsible for the oversight of internal control (other than internal controls over financial reporting) and risk management systems (Hong Kong Corporate Governance Code provision C.3.3 paragraphs (f), (g) and (h)). In the absence of the Group Risk Committee, these matters would be the responsibility of the Group Audit Committee. The UK Corporate Governance Code is available at www.frc.org.uk and the Hong Kong Corporate Governance Code is available at www.hkex.com.hk.

The Board of HSBC Holdings has adopted a code of conduct for transactions in HSBC Group securities by Directors. The code of conduct complies with The Model Code in the Listing Rules of the Financial Conduct Authority and with The Model Code for Securities Transactions by Directors of Listed Issuers (Hong Kong Model Code) set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, save that The Stock Exchange of Hong Kong Limited has granted certain waivers from strict compliance with the Hong Kong Model Code. The waivers granted by The Stock Exchange of Hong Kong Limited primarily take into account accepted practices in the UK, particularly in respect of employee share plans. Following a specific enquiry, each Director has confirmed that he or she has complied with the code of conduct for transactions in HSBC Group securities throughout the period. All Directors are routinely reminded of their obligations under the code of conduct for transactions in HSBC Group securities.

There have been no material changes to the information disclosed in the *Annual Report and Accounts 2014* in respect of the number and remuneration of employees, remuneration policies, bonus and share option plans and training schemes.

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Shareholder information (continued)

11 Changes in Directors details

Changes in Directors details since the date of the *Annual Report and Accounts 2014* which are required to be disclosed pursuant to Rule 13.51(2) and Rule 13.51B(1) of the Hong Kong Listing Rules, are set out below.

Kathleen Casey

Director of Penn State Milton S. Hershey Medical Center since 1 July 2015.

Chairman of Penn State Health since 1 March 2015.

Laura Cha

A member of the International Advisory Board of Sotheby's since 15 April 2015.

Lord Evans of Weardale

Member of the Advisory Board of Fluid IT Ltd since 1 June 2015.

Non-executive director of Ark Data Centres Ltd since 1 July 2015.

Non-executive director of the UK National Crime Agency until 13 March 2015.

Senior Advisor at Accenture until 6 June 2015.

Douglas Flint

Member of the Financial Services Trade and Investment Board until 20 July 2015.

Sam Laidlaw

Chairman of the National Centre for Universities and Business since 26 March 2015.

Heidi Miller

Independent Director of SRS Acquiom since 15 June 2015.

Sir Simon Robertson

Member of the International Advisory Board of Brown Advisory Ltd since 7 May 2015.

Director of Immodulon Therapeutics Limited since 20 May 2015.

Trustee of the Eden Trust until 31 March 2015.

12 Going concern basis

As mentioned in Note 1 Basis of preparation on page 107, the financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group and parent company have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources. Further information relevant to the assessment is provided elsewhere in this *Interim Report 2015*.

In particular, HSBC's principal activities, business and operating models, strategic direction and top and emerging risks are addressed in the *Overview* section; a financial summary, including a review of the consolidated income statement and consolidated balance sheet, is provided in the *Interim Management Report* section; HSBC's objectives, policies and processes for managing credit, liquidity and market risk are described in the *Risk* section of the *Annual Report and Accounts 2014*; and HSBC's approach to capital management and allocation is described in the *Capital* section of the *Annual Report and Accounts 2014*.

13 Telephone and online share dealing service

For shareholders on the Principal Register who are resident in the UK, with a UK postal address, and who hold an HSBC Bank plc personal current account, the HSBC InvestDirect share dealing service is available for buying and selling HSBC Holdings ordinary shares. Details are available from: HSBC InvestDirect, Forum 1, Parkway, Whiteley, PO15 7PA, UK telephone: 03456 080848, overseas telephone: +44 (0) 1226 261090, web: www.hsbc.co.uk/shares.

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Table of Contents**Shareholder information** (continued)**14 Stock symbols**

HSBC Holdings plc ordinary shares trade under the following stock symbols:

| | |
|--------------------------------|---------|
| London Stock Exchange | HSBA |
| Hong Kong Stock Exchange | 5 |
| New York Stock Exchange (ADSs) | HSBC |
| Euronext Paris | HSB |
| Bermuda Stock Exchange | HSBC.BH |

15 Copies of the *Interim Report 2015* and shareholder enquiries and communications

Further copies of the *Interim Report 2015* may be obtained from Global Communications, HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom; from Communications (Asia), The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong; or from Global Publishing Services, HSBC – North America, SC1 Level, 452 Fifth Avenue, New York, NY 10018, USA. The *Interim Report 2015* may also be downloaded from the HSBC website, www.hsbc.com.

Shareholders may at any time choose to receive corporate communications in printed form or to receive notifications of their availability on HSBC's website. To receive future notifications of the availability of a corporate communication on HSBC's website by email, or to revoke or amend an instruction to receive such notifications by email, go to www.hsbc.com/ecomms. If you provide an email address to receive electronic communications from HSBC, we will also send notifications of your dividend entitlements by email. If you received a notification of the availability of this document on HSBC's website and would like to receive a printed copy of it or, if you would like to receive future corporate communications in printed form, please write or send an email (quoting your shareholder reference number) to the appropriate Registrar at the address given below. Printed copies will be provided without charge.

Any enquiries relating to your shareholdings on the share register, for example transfers of shares, change of name or address, lost share certificates or dividend cheques, should be sent to the Registrar at the address given below. The Registrar offers an online facility, Investor Centre, which enables shareholders to manage their shareholding electronically.

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| | | |
|--|--|--|
| Principal Register | Hong Kong Overseas Branch Register | Bermuda Overseas Branch Register |
| Computershare Investor Services PLC | Computershare Hong Kong Investor Services Limited | Investor Relations Team |
| The Pavilions | Rooms 1712-1716, 17th Floor | HSBC Bank Bermuda Limited |
| Bridgwater Road | Hopewell Centre | 6 Front Street |
| Bristol BS99 6ZZ | 183 Queen's Road East | Hamilton HM 11 |
| United Kingdom | Hong Kong | Bermuda |
| Telephone: +44 (0) 370 702 0137 | Telephone: +852 2862 8555 | Telephone: +1 441 299 6737 |
| Email via website: | Email: | Email: |
| www.investorcentre.co.uk/contactus | hsbc.ecom@computershare.com.hk | hbbm.shareholder.services@hsbc.bm |
| Investor Centre: | Investor Centre: | Investor Centre: |
| www.investorcentre.co.uk | www.investorcentre.com/hk | www.investorcentre.co.uk/bm |
| Any enquiries relating to ADSs should be sent to the depositary at: | | |

BNY Mellon Shareowner Services

PO Box 30170

College Station, TX 77842-3170

USA

Telephone (US): +1 877 283 5786

Telephone (international): +1 201 680 6825

Email: shrrelations@cpushareownerservices.com

Website: www.mybnymdr.com

Any enquiries relating to shares held through Euroclear France, the settlement and central depository system for NYSE Euronext Paris, should be sent to the paying agent:

HSBC France

103, avenue des Champs Elysées

75419 Paris Cedex 08

Overnight correspondence should be sent to:

BNY Mellon Shareowner Services

211 Quality Circle, Suite 210

College Station, TX 77845

USA

France

Telephone: +33 1 40 70 22 56

Email: ost-agence-des-titres-hsbc-reims.hbfr-do@hsbc.fr

Website: www.hsbc.fr

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A Chinese translation of this and future documents may be obtained on request from the Registrar. Please also contact the Registrar if you have received a Chinese translation of this document and do not wish to receive such translations in future.

Persons whose shares are held on their behalf by another person may have been nominated to receive communications from HSBC pursuant to section 146 of the UK Companies Act 2006 (nominated person). The main point of contact for a nominated person remains the registered shareholder (for example your stockbroker, investment manager, custodian or other person who manages the investment on your behalf). Any changes or queries relating to a nominated person's personal details and holding (including any administration thereof) must continue to be directed to the registered shareholder and not HSBC's Registrar. The only exception is where HSBC, in exercising one of its powers under the UK Companies Act 2006, writes to nominated persons directly for a response.

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Table of Contents**Shareholder information** (continued)**Abbreviations**

| Abbreviation | Brief description |
|---------------------|---|
| 1H14 | First half of 2014 |
| 1H15 | First half of 2015 |
| A | |
| ABS | Asset-backed security |
| ADS | American Depositary Share |
| AML | Anti-money laundering |
| ARM | Adjustable-rate mortgage |
| B | |
| Basel Committee | Basel Committee on Banking Supervision |
| Basel III | Basel Committee's reforms to strengthen global capital and liquidity rules |
| BoCom | Bank of Communications Co., Limited, one of China's largest banks |
| BRRD | Bank Recovery and Resolution Directive (EU) |
| BSA | Bank Secrecy Act (US) |
| BSM | Balance Sheet Management |
| BVI | British Virgin Islands |
| C | |
| CA\$ | Canadian dollars |
| CAPM | Capital asset pricing model |
| CCB | Capital conservation buffer |
| CCyB | Countercyclical capital buffer |
| CEA | Commodity Exchange Act (US) |
| CET1 | Common equity tier 1 ratio |
| CMB | Commercial Banking, a global business |
| CML | Consumer and Mortgage Lending (US) |
| CRD | Capital Requirements Directive |
| CRS | Card and Retail Services |
| CVA | Credit valuation adjustment |
| D | |
| DANY DPA | Two-year deferred prosecution agreement with the New York County District Attorney (US) |
| DoJ | Department of Justice (US) |
| DPA | Deferred prosecution agreement (US) |
| DPF | Discretionary participation feature of insurance and investment contracts |
| E | |
| EBA | European Banking Authority |

| | |
|---------------|--|
| EU | European Union |
| Euribor | European Interbank Offered Rates |
| F | |
| FCA | Financial Conduct Authority (UK) |
| FPC | Financial Policy Committee (UK) |
| FRB | Federal Reserve Board (US) |
| G | |
| GB&M | Global Banking and Markets, a global business |
| GDP | Gross domestic product |
| GPB | Global Private Banking, a global business |
| Group | HSBC Holdings together with its subsidiary undertakings |
| G-SIB | Global systemically important bank |
| G-SII | Global systemically important institutions |
| H | |
| HNAH | HSBC North America Holdings Inc. |
| Hong Kong | Hong Kong Special Administrative Region of the People's Republic of China |
| HSBC | HSBC Holdings together with its subsidiary undertakings |
| HSBC Bank USA | HSBC Bank USA, N.A., HSBC's retail bank in the US |
| HSBC Colombia | HSBC Bank (Colombia) S.A. |
| HSBC Finance | HSBC Finance Corporation, the US consumer finance company (formerly Household International, Inc.) |
| HSBC France | HSBC's French banking subsidiary, formerly CCF S.A. |
| HSBC Holdings | HSBC Holdings plc, the parent company of HSBC |
| HSBC USA | The sub-group, HSBC USA Inc and HSBC Bank USA, consolidated for liquidity purposes |
| HSI | HSBC Securities (USA) Inc. |
| HSSL | HSBC Securities Services (Luxembourg) |
| HTIE | HSBC Institutional Trust Services (Ireland) Limited |

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Table of Contents**Shareholder information** (continued)

| Abbreviation | Brief description |
|-------------------|---|
| I | |
| IAS | International Accounting Standards |
| IASB | International Accounting Standards Board |
| IFRSs | International Financial Reporting Standards |
| Industrial Bank | Industrial Bank Co. Limited, a national joint-stock bank in mainland China in which Hang Seng Bank Limited has a shareholding |
| Investor Update | The Investor Update in June 2015 |
| IRB | Internal ratings-based |
| ISDA | International Swaps and Derivatives Association |
| L | |
| LCR | Liquidity coverage ratio |
| LFRF | Liquidity and funding risk management framework |
| LGD | Loss given default |
| Libor | London Interbank Offered Rate |
| LICs | Loan impairment charge and other credit risk provisions |
| LTV | Loan to value |
| M | |
| Madoff Securities | Bernard L Madoff Investment Securities LLC |
| Mainland China | People's Republic of China excluding Hong Kong and Macau |
| MBS | US mortgage-backed security |
| MENA | Middle East and North Africa |
| MREL | EU minimum requirements for own funds and eligible liabilities |
| N | |
| NII | Net interest income |
| NSFR | Net stable funding ratio |
| O | |
| OCC | Office of the Comptroller of the Currency (US) |
| ORMF | Operational risk management framework |
| P | |
| PBT | Profit before tax |
| PPI | Payment protection insurance product |
| PRA | Prudential Regulation Authority (UK) |
| Premier | HSBC Premier, HSBC's premium personal global banking service |
| PVIF | Present value of in-force long-term insurance business and long-term investment contracts with DPF |
| Q | |
| QIS | Quantitative impact study |

R

| | |
|--------------|---|
| RBWM | Retail Banking and Wealth Management, a global business |
| Repo | Sale and repurchase transaction |
| Reverse repo | Security purchased under commitments to sell |
| RMB | Renminbi |
| RMBS | Residential mortgage-backed securities |
| RoRWA | Return on average risk-weighted assets |
| RTS | Regulatory technical standards |
| RWA | Risk-weighted assets |

S

| | |
|--------------|---|
| ServCo group | Separately incorporated group of service companies planned in response to UK ring-fencing proposals |
| SRB | Systematic risk buffer |

T

| | |
|------|-------------------------------|
| TLAC | Total loss absorbing capacity |
|------|-------------------------------|

U

| | |
|--------|---|
| UAE | United Arab Emirates |
| UK | United Kingdom |
| US | United States of America |
| US DPA | Five-year deferred prosecution agreement with the Department of Justice and others (US) |

V

| | |
|-----|---------------|
| VaR | Value at risk |
| VIU | Value in use |

Glossary

Terminology used in this interim report is consistent with that used in our *Annual Report and Accounts 2014*, where a glossary of terms can be found.

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