

HSBC HOLDINGS PLC  
Form 6-K  
August 03, 2007

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**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 OF  
THE SECURITIES EXCHANGE ACT OF 1934**

For the month of August, 2007

**HSBC Holdings plc**

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

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

Form 20-F

Form 40-F

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

Yes

No

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

This Report on Form 6-K with respect to our Interim Financial Statements and Notes thereon for the six-month period ended June 31, 2006, other than page 149 thereof, is hereby incorporated by reference in the following HSBC Holdings plc registration statements: file numbers 333-10474, 333-92024, 333-102027, 333-103887, 333-104203, 333-109288, 333-113427, 333-127327, 333-126531 and 333-135007.

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HSBC HOLDINGS PLC

**Interim Report 2007**

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. Its international network comprises over 10,000 properties in 83 countries and territories in Europe; Hong Kong; Rest of Asia-Pacific, including the Middle East and Africa; North America and Latin America.

With listings on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by about 200,000 shareholders in over 100 countries and territories. The shares are traded on the New York Stock Exchange in the form of American Depositary Shares.

HSBC provides a comprehensive range of financial services to more than 125 million customers through four customer groups and global businesses: Personal Financial Services (including consumer finance); Commercial Banking; Corporate, Investment Banking and Markets; and Private Banking.

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<sup>1</sup> Supplementary contents are provided on the referenced pages.

## **Certain defined terms**

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

*The Interim Report 2007 of HSBC Holdings has been prepared in accordance with the requirements of English law, and liability in respect thereof is also governed by English law. In particular, the liability of the Directors for these reports is solely to HSBC Holdings. HSBC's interim Financial Statements and Notes thereon, as set out on pages 132 to 155, have been prepared in accordance with International Accounting Standard ( IAS ) 34 Interim Financial Reporting . HSBC prepares its annual consolidated financial statements in accordance with International Financial Reporting Standards ( IFRSs ) as endorsed by the European Union ( EU ). At 30 June 2007, there is no difference between IFRSs as endorsed by the EU and IFRSs as issued by the International Accounting Standards Board ( IASB ) in terms of their application by HSBC.*

*HSBC uses the US dollar as its presentation currency because the US dollar and currencies linked to it form the major currency bloc in which HSBC transacts its business. Unless otherwise stated, all figures are presented in this document on a consolidated basis.*

*When reference is made to underlying or underlying basis in tables or commentaries, comparative information has been expressed at constant currency (see page 3) and adjusted for the effects of acquisitions and disposals.*

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HSBC HOLDINGS PLC

## Financial Highlights

### For the half-year

- Total operating income up 23 per cent to US\$42,092 million (US\$34,334 million in the first half of 2006).
- Group pre-tax profit up 13 per cent to US\$14,159 million (US\$12,517 million in the first half of 2006).
- Profit attributable to shareholders of the parent company up 25 per cent to US\$10,895 million (US\$8,729 million in the first half of 2006).
- Return on average invested capital of 18.4 per cent (17.2 per cent in the first half of 2006).
- Earnings per share up 22 per cent to US\$0.95 (US\$0.78 in the first half of 2006).

### Dividends and capital position

- Tier 1 capital ratio of 9.3 per cent and total capital ratio of 13.2 per cent.
- Second interim dividend for 2007 of US\$0.17 per share which, together with the first interim dividend for 2007 of US\$0.17 per share already paid, represents an increase of 13 per cent over the first and second interim dividends for 2006.

### Cautionary statement regarding forward-looking statements

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This *Interim Report 2007* contains certain forward-looking statements with respect to the financial condition, results of operations and business of HSBC. These forward-looking statements represent HSBC's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. For example, certain of the market risk disclosures, some of which are only estimates and, therefore, could be materially different from actual results, are dependent on key model characteristics and assumptions and are subject to various limitations. Certain statements, such as those that include the words potential, value at risk, estimated, expects, anticipates, objective, intends, plans, believes, estim, expressions or variations on such expressions may be considered forward-looking statements.

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

Forward-looking statements involve inherent risks and uncertainties. Readers should be cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they have been reviewed or updated in the light of new information or future events. Trends and factors that are expected to affect HSBC's results of operations are described in the Business Review, the Financial Review, and The Management of Risk. A more detailed cautionary statement is given on pages 4 and 5 of *Annual Report and Accounts 2006*.



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HSBC HOLDINGS PLC

**Financial Highlights** (continued)**Profitability and balance sheet data**

	Half-year to		
	30 June 2007 US\$m	30 June 2006 US\$m	31 December 2006 US\$m
<b>For the period</b>			
Total operating income	42,092	34,334	35,736
Profit before tax	14,159	12,517	9,569
Profit attributable to shareholders of the parent company	10,895	8,729	7,060
Dividends	(6,192)	(5,270)	(3,499)
<b>At the period-end</b>			
Total equity	126,491	107,370	114,928
Total shareholders' equity	119,780	101,381	108,352
Capital resources <sup>1</sup>	137,042	116,636	127,074
Customer accounts	980,832	833,742	896,834
Total assets	2,150,441	1,738,138	1,860,758
Risk-weighted assets	1,041,540	872,893	938,678
	US\$	US\$	US\$
<b>Per ordinary share</b>			
Basic earnings	0.95	0.78	0.62
Diluted earnings	0.94	0.77	0.62
Dividends	0.53	0.46	0.30
Net asset value at period end	10.10	8.71	9.24
<b>Capital and performance ratios (annualised)</b>			
	%	%	%
<b>Capital ratios</b>			
Tier 1 capital	9.3	9.4	9.4
Total capital	13.2	13.4	13.5
<b>Performance ratios</b>			
Return on average invested capital <sup>2</sup>	18.4	17.2	12.8
Return on average total shareholders' equity <sup>3</sup>	19.1	18.1	13.4
Post-tax return on average total assets	1.19	1.12	0.88
Post-tax return on average risk-weighted assets	2.30	2.21	1.65
<b>Credit coverage ratios</b>			
Loan impairment charges as a percentage of total operating income	15.0	11.3	18.6
Loan impairment charges as a percentage of average gross customer advances	1.53	1.04	1.73
Total impairment allowances outstanding as a percentage of impaired loans at period end	98.4	92.5	98.5
<b>Efficiency and revenue mix ratios</b>			
Cost efficiency ratio <sup>4</sup>	48.3	50.1	52.5

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As a percentage of total operating income:

net interest income	<b>43.3</b>	48.7	49.7
net fee income	<b>24.9</b>	24.4	24.6
net trading income	<b>13.1</b>	12.4	11.1

### Financial ratio

Average total shareholders' equity to average total assets	<b>5.9</b>	5.9	6.1
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- 1 *Capital resources are total regulatory capital, the calculation of which is set out on page 127.*
- 2 *The definition of return on average invested capital and a reconciliation to the equivalent Generally Accepted Accounting Principles ( GAAP ) measures are set out on page 92.*
- 3 *The return on average total shareholders' equity is defined as profit attributable to shareholders of the parent company divided by average total shareholders equity.*
- 4 *The cost efficiency ratio is defined as total operating expenses divided by net operating income before loan impairment charges and other credit risk provisions.*

[Back to Contents](#)**Share information**

	At 30 June 2007	At 30 June 2006	At 31 December 2006
US\$0.50 ordinary shares in issue (million)	11,713	11,481	11,572
Market capitalisation (billion)	US\$215	US\$202	US\$212
Closing market price per ordinary share:			
London	£9.15	£9.52	£9.31
Hong Kong	HK\$142.50	HK\$136.10	HK\$142.40
Closing market price per American Depositary Share ( ADS <sup>1</sup> )	US\$91.77	US\$88.35	US\$91.65
	<b>Over 1 year</b>	<b>Over 3 years</b>	<b>Over 5 years</b>
HSBC total shareholder return to 30 June 2007 <sup>2</sup>	101.2	129.1	156.6
Benchmarks:			
FTSE 100 <sup>3</sup>	117.1	163.8	168.5
MSCI World <sup>4</sup>	124.2	161.4	197.2

1 Each ADS represents five ordinary shares.

2 Total shareholder return is defined on page 282 of the Annual Report and Accounts 2006.

3 The Financial Times-Stock Exchange 100 Index.

4 The Morgan Stanley Capital International World Index.

**Constant currency**

Constant currency comparatives for the half-years to 30 June 2006 and 31 December 2006, used in the 2007 commentaries, are computed by retranslating into US dollars:

- the income statements for the half-years to 30 June 2006 and 31 December 2006 of non-US dollar branches, subsidiaries, joint ventures and associates at the average rates of exchange for the half-year to 30 June 2007; and
- the balance sheets at 30 June 2006 and 31 December 2006 for non-US dollar branches, subsidiaries, joint ventures and associates at the rates of exchange ruling at 30 June 2007.

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

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

**Growth in operating income and costs**

Half-year to 30 June 2007 compared with the half-year  
to

30 June 2006		31 December 2006	
As reported	Constant currency on an underlying basis	As reported	Constant currency on an underlying basis
%	%	%	%



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Growth in net operating income before loan impairment charges and other credit risk provisions	20	15	16	13
Growth in total operating expenses	15	10	7	4

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HSBC HOLDINGS PLC

## Group Chairman's Statement

HSBC produced record results for the first half of 2007, delivering profit before tax of US\$14.2 billion, up 13 per cent, and earnings per share of US\$0.95, up 22 per cent.

The Directors have approved a second interim dividend of US\$0.17 per share, which will be payable on 4 October 2007 with a scrip alternative, in accordance with our planned schedule of quarterly dividends.

The results were driven by excellent performances across Asia, and in Corporate, Investment Banking and Markets (CIBM) and Commercial Banking, which offset the impact of higher consumer finance impairment charges in the US and a challenging environment for our Personal Financial Services business in Europe.

Our results benefited from two specific items. First, we recognised a gain of US\$1 billion in attributable profit, as a result of the dilution of our holdings in our mainland China associates. Excluding this exceptional gain, profit before tax rose by 5 per cent and attributable profit by 13 per cent. Second, our effective tax rate was unusually low at 18.7 per cent in this period. The following comments exclude the impact of the dilution gain.

Revenues grew by US\$5.2 billion, or 16 per cent, against cost growth of US\$2.5 billion, or 15 per cent, contributing to an improved cost-efficiency ratio of 49.7 per cent.

Asia drove profit growth, with Hong Kong ahead by 25 per cent and Rest of Asia-Pacific by 37 per cent. Latin America and Europe delivered results ahead of the prior year period by 16 per cent and 13 per cent, respectively. As expected, North

America was lower by 35 per cent as a consequence of higher impairment reserves. It is worth noting that our results for the first half of 2006 benefited from exceptionally low impairment charges in the US as a result of changes in US bankruptcy law.

At a customer group level, Commercial Banking delivered pre-tax profits 20 per cent ahead of last year, and both CIBM and Private Banking were at least 30 per cent ahead. Our Personal Financial Services businesses in Asia also delivered very strong results, with pre-tax profits 38 per cent ahead of the interim stage last year. However, pre-tax profits in Personal Financial Services as a whole declined by 20 per cent overall compared with the first half of 2006, owing to challenging conditions in the UK and to the weaknesses we have already highlighted in our US correspondent mortgage business. The actions taken to restructure and manage down our exposure in this business are progressing well. The charge for impairments was lower than in the second half of last year and, importantly, was in line with our expectations.

Within these results, the Group's Insurance operations made a significant contribution and we see insurance as a growth opportunity for the future.

From a strategic perspective, these results illustrate the value we are creating from our position as the world's largest and most profitable international emerging markets bank, and from our unique global reach which allows us to act as a bridge between developed and developing markets for our customers.

The strong growth we achieved in operating revenues reflects our focus on seeking out growth markets and has allowed us to continue to invest in organic expansion while maintaining a strong capital position and growing dividends to shareholders.

Average invested capital rose by US\$17 billion as we pursued expansion opportunities around the world. Our tier one capital ratio remained strong at 9.3 per cent. We see this as a competitive advantage, particularly in the current economic environment, and in light of the opportunities we see to deploy this capital within our businesses.

In an increasingly globalised world, the success we have reported today is supported by the integrity that is part of our global brand, and which we believe constitutes a distinct competitive advantage. In less than a decade, we have made HSBC the 23rd most valuable brand in the world, according to Interbrand, and we are the fastest growing financial services brand. We will continue to invest in developing our brand and the

experience it promises

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for the customers and communities we serve around the world. We will also extend our brand to new markets and new business streams.

As I set out earlier this year, we are refocusing our business to make the most of the opportunities presented by three major trends that are reshaping the world economy. First, emerging markets are growing faster than mature economies. Second, world trade is growing significantly faster than world GDP. Third, longevity is increasing around the world.

As a result, we have positioned our business so that it is broadly balanced between Asia, Latin America, the Middle East and other developing economies, and slower-growing developed economies. As the world economy evolves, and trade and investment flows from and into emerging markets expand, HSBC has an excellent platform for growth. It is the linkages between our business operations across 83 countries and territories which deliver unique revenue opportunities and a distinctive competitive position. Increasing longevity is also creating opportunities to grow our insurance and retirement businesses. All these factors contributed to the growth we delivered in the first half of 2007.

I want to thank all my colleagues for their contribution to these results. Our progress is clear evidence of the value we are delivering through our strategy of joining up the company for our customers, our shareholders and our people.

As the world's local bank, our responsibilities extend beyond how successfully we run our business. Climate change is one of the most significant issues of our time, which is why we announced in May the US\$100 million HSBC Climate Partnership, working with four world-class organisations to support initiatives by individuals, businesses and governments around the world to address this issue. I am also delighted that Sir Nicholas Stern – author of the *Stern Report* on the economics of climate change – has agreed to become an adviser on economic development and climate change to HSBC.

## Outlook

The world economy remains remarkably buoyant. There is growing evidence of economic decoupling, with US weakness not constraining economic activity elsewhere. Even in the US, which faces considerable housing and sub-prime-related difficulties, consumer spending has remained encouragingly robust and the labour market has been firm. The financial markets continue to enjoy record

levels of activity, though muted in the past couple of months by nervousness about credit markets, and more sophisticated product structuring and risk management services are enabling the diversification and spread of risk on an unprecedented scale. This buoyancy is supporting economic activity.

We estimate that global growth this year will be close to last year's 3.8 per cent. We believe emerging markets will remain particularly strong, stimulating global demand for capital goods, providing an economic boost to Germany, Japan and other major exporters. The weakness in the housing market is likely to hold back US growth for 2007, which may be as low as 2 per cent.

There are risks, however. Excess liquidity in global financial markets could lead to further asset price dislocation. Perceptions of risk can change very rapidly, affecting both credit spreads and liquidity, and history shows that when market participants simultaneously seek to adjust risk exposures, market instability can follow. Among the potential triggers are higher global interest rates with a return to higher inflation, moves towards protectionism and greater spillover effects from US housing market weakness. HSBC has always emphasised balance sheet strength to maintain strong liquidity and a sound capital base to take advantage of opportunities that arise in such circumstances. We remain cautious in our risk appetite.

Our strategy is clear. We have well diversified earnings by both geography and customer. Our distribution network provides compelling opportunities for serving our customers around the world. We will continue to improve both customer experience and operating efficiency through technology, especially in our direct channels. The outlook for HSBC is buoyed by our expectation of continuing strong growth in our developing markets businesses and their greater linkages internationally. We are on a journey with great opportunities to build on our strong current position, and I look forward to reporting our future progress.

Stephen Green, *Group Chairman*

30 July 2007



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HSBC HOLDINGS PLC

## Group Chief Executive's Review

Our first half results demonstrate sustainable growth and significant progress in working through the challenges of sub-prime lending, whilst also unlocking real value from our world-class distribution network through Joining up the company .

### The world's largest and most profitable international emerging markets bank

Our emerging markets operations continue to perform exceptionally well. We prioritise investment in growing these businesses organically and we continue to extract value from strategic investments. This month our integration of Grupo Banistmo continued as we rebranded operations to HSBC in five Latin American countries.

We have a strong presence in the world's most dynamic economies. In the BRIC countries – forecast to account for 40 per cent of world growth by 2025 – we are the largest international bank in mainland China, the second largest and growing impressively in India, and the third largest in Brazil. In Russia, we received a banking licence in May to start retail banking activities.

### Joining up the company for our customers

The breadth of our international network means we can offer our customers compelling global propositions that cannot be matched by purely domestic or regional competitors. Increasingly, we are joining up our businesses for our customers across borders and across businesses. Our Corporate, Investment Banking and Markets ( CIBM ) business achieved record results for the period by successfully

executing its emerging markets-led and financing-focused strategy. Our Commercial Banking business also grew strongly as customers benefited from our international orientation and the direct channels we are building for them.

Personal Financial Services' profit before tax declined by 20 per cent, largely as a consequence of our experience with sub-prime correspondent mortgages in the US and weakness in the UK. Meanwhile in Asia, pre-tax profit grew by 38 per cent.

We are increasingly connecting this business globally and in May rolled-out in 35 countries our market-leading Premier proposition – a signature account for international HSBC Premier customers. First indications are encouraging and there is an opportunity to gain significant global market share in this valuable segment. We believe that, over time, we will add four million new mass-affluent customers.

Private Banking achieved very strong results and continued to leverage closer links with other customer groups, particularly Commercial Banking, generating almost US\$2 billion in total client assets from referrals. When our investment business recently launched the first multi-manager Chinese equity fund in Hong Kong, we were able to raise over US\$1 billion from our retail and private banking customer base in the region.

We also benefit from the ability to deliver global world-class propositions for our customers through the effective use of our technology. By building core systems for use across the Group, we can share the development and support costs across our operations, close down old systems, and share best practice in sales and service.

In our cards business, the introduction of our Whirl global credit card platform across the world, which now services 86 million accounts across 16 countries, has allowed us to improve services for our card customers and to cut our IT costs per account by 16 per cent. We are adding 40,000 credit card customers to the system each day.

We are also introducing a new personal and business internet platform across the Group. This has been implemented in 25 countries so far. Internet sales have risen 68 per cent compared to the first half of 2006. The new infrastructure is allowing us to launch new services, including direct banking. Following earlier successes in the US and Taiwan, HSBC Direct, our online direct banking and savings proposition, was launched in South Korea and Canada during the first half of 2007. In Asia, the



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service has attracted over 120,000 customers, with total savings balances exceeding US\$900 million. The US business has continued to perform strongly; online savings balances have now reached US\$12 billion with over 225,000 new accounts added this year. One of the compelling features of the HSBC Direct model is that it allows us to attract new customers who we do not reach through our existing channels. We continue to develop the HSBC Direct model, with a view to rolling it out in other markets.

In Latin America, we are introducing HSBC's systems into the newly acquired Grupo Banistmo companies, starting with Panama. We are also implementing HSBCnet throughout Latin America to provide a full cash management system across the region.

### **Number one international bank in Asia**

We produced record results in Asia. Profit before tax grew impressively in all our major markets, with our operations in Hong Kong up by 25 per cent, our businesses in mainland China by 69 per cent, in India by 39 per cent, in Indonesia by 115 per cent, in Malaysia by 13 per cent and in Singapore by 44 per cent.

Hong Kong produced very strong results. As a result of its leading position in wealth management, our business there was well-positioned to benefit from the buoyant stock market activity during the period and the steady flow of mainland China companies listing on the Hong Kong Stock Exchange. We also continued to leverage our position as the leading financial institution in Hong Kong in trade finance and in insurance. Increased foreign investment through Hong Kong into mainland China boosted Hong Kong's services and property sectors, and provided further opportunities for HSBC to generate revenue growth.

Strong domestic interest in stock market investments within mainland China also encouraged listings on the Shanghai Stock Exchange during this period, and our three associates, Bank of Communications, Ping An Insurance and Industrial Bank, all successfully raised new capital. The resulting dilution of our interests was considerably less than our share of the new monies raised, and our results reflect aggregate gains at the attributable profit level of some US\$1 billion, or US\$0.09 per share, which should be regarded as exceptional.

We reinforced HSBC's position as the leading international bank in mainland China. Our domestic operations in mainland China, following local incorporation, grew strongly, with deposit and asset

growth of over 50 per cent and 26 per cent respectively, compared with the same period last year. Pre-tax profits grew by 69 per cent to US\$473 million. We added seven outlets to what is already the largest international branch network and recruited over 800 new staff to support business growth.

In India, strong performance in CIBM drove the 39 per cent rise in profit before tax. We significantly expanded our customer base and continued to invest heavily in growing our business organically, particularly in consumer finance, while maintaining a largely unchanged cost efficiency ratio at 55 per cent.

In Indonesia, where we are also investing in developing our consumer finance business and opened 20 new outlets in the period, profit before tax grew 115 per cent to US\$58 million. In Vietnam, a market with great long-term potential, we agreed to increase our stake in Techcombank and we are also growing our own business rapidly there. We grew profit before tax by 117 per cent to US\$21 million in the first half, and increased headcount by a third.

Across Asia as a whole, our Commercial Banking business performed very well, thanks in part to our success in growing the customer base. Commercial Banking customers in Asia have increased by 6 per cent in the past year, with particularly strong growth in mainland China and South Korea.

Our success in Asia is being driven in large part by our success in joining up the Group to leverage skills transfer and international reach. In particular, in our investment business, our Asian operations are capturing the leading share of securities services revenues from custody and administration for international funds groups. Reciprocally, we are producing developing market products, both for our own asset management group and for third parties to distribute in the developed world. Similar linkages exist in capital markets activities, remittance services, cross-referral of commercial customers transacting overseas and in consumer finance expansion throughout Asia.

### **Integration and development in Latin America on track**

Profit before tax for Latin America grew by 16 per cent. From a handful of offices a decade ago to some 4,000 in the region today, our operations now account for 8 per cent of Group profit. We are one of the largest international banks in the region, and we continue to develop our businesses in our major





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HSBC HOLDINGS PLC

## Group Chief Executive's Review (continued)

markets in Mexico, Brazil, Argentina and now across Central America. This was the first complete half-year contribution from Grupo Banistmo, the leading bank in Central America, following its acquisition in 2006. Pre-tax contribution of US\$49 million was in line with our expectations and integration is proceeding well.

Improved credit performance in Brazil, coupled with strong asset growth, contributed to a rise in pre-tax profit of 43 per cent. Growth in secured lending and invoice financing has set the scene for sustained revenue growth, and insurance sales in the existing customer base were also stronger.

Revenue growth in Mexico remained strong at just over 23 per cent as we improved market share. We have built a highly successful business in the last five years, which has already returned profits in excess of our total investment. In the first half of 2007, customer acquisition grew at a higher rate than forecast, and related costs affected profits through a rise in provisions which largely offset the expansion in revenues. HSBC in Mexico continued to build market share with credit cards, *Tu Cuenta* packaged accounts and Premier accounts all growing by over 45 per cent compared with the previous year.

In Argentina, the successful integration of Banca Nazionale del Lavoro, a well-timed acquisition in May 2006, contributed to a 14 per cent rise in pre-tax profits to US\$95 million. Once again CIBM, working with local management, helped HSBC in Argentina maintain leading positions in foreign exchange and trade services for multinational companies operating there.

### Benefiting from organic growth in the Middle East

Our Middle East businesses, excluding Saudi Arabia, grew strongly, with profit before tax up by 31 per cent. Our operations in the United Arab Emirates and in Egypt performed well as the region expanded its infrastructure development and its outward investment, supported by sustained high oil prices.

Commercial Banking enjoyed higher revenues as a result of the region's high growth and increased trade flows. High liquidity in the region and demand from institutional customers led to strong sales of structured derivatives and other products in CIBM.

The rollout of additional branches and customer service units, the expansion of the direct sales force and sales of Premier products drove increased personal customer numbers and higher revenues.

The contribution from Saudi Arabia was, however, lower as the stock market declines which

occurred in the second half of last year dampened market activity in the first half of 2007.

### Europe: investing in emerging markets and strong returns from UK Commercial Banking

Within emerging Europe, profits in Turkey grew by 34 per cent, even as we opened 25 new branches and installed 101 ATMs to develop our retail platform. Further expansion is planned for the second half of the year. We obtained a licence to begin retail business in Russia, where we aim to open over 35 branches in the next three years.

We intend to expand our operations in Poland, the Czech Republic and Slovakia for personal customers, and we are looking at other markets in Central and Eastern Europe. We will also be opening more branches in Armenia, expanding in Kazakhstan, and we have applied for a licence to begin operations in Georgia.

In continental Europe, our French operations were strongly ahead of the comparable prior period, with profits growing by US\$219 million, driven by CIBM revenue growth.

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UK Commercial Banking continued to perform well. Profit before tax rose by 18 per cent, our customer base expanded, and we are now the bank most recommended by our start-up customers. Investment in technology is improving customer service and productivity; the successful positioning of Business Direct has attracted over 40,000 customers since its launch in September 2006, of which 60 per cent are new to the Group.

Our Personal Financial Services business in Europe was, however, 34 per cent down on the comparable period in 2006. This was largely due to two factors. First, a deliberate reduction in credit exposure to sectors whose pricing, in our view, inadequately reflects risk. Second, the impact in the UK of unauthorised overdraft fee refunds, which increased our costs by US\$236 million. This is an industry-wide issue and the size of the refunds that we have made demonstrates our commitment to treating our customers in a fair and transparent manner. Indeed, we very much welcome the agreement with the Office of Fair Trading to take the case to court to achieve legal clarity and a resolution for our customers and our business. In Group terms, our Personal Financial Services business in the UK typically represents less than 7 per cent of our worldwide profits.

Nevertheless, this remains a highly challenging operating environment. We continue to focus on customer acquisition and retention, and we see

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growth opportunities in wealth management and insurance to counterbalance the challenges posed by competition and regulation for current account pricing.

We grew strongly in packaged fee-based accounts, in Premier accounts, and in retail savings products, which helped to offset the reduction in lending margin. Average savings balances increased by 14 per cent in the first half to US\$83 billion. In First Direct we have the UK's most recommended bank for every one of the 15 years the measure has existed and we will learn from its expertise as we build direct channels around the world.

### **Good progress in managing down the mortgage services portfolio in North America**

Within North America, our Canadian and Bermudian businesses grew pre-tax profits by 22 per cent and, although our US businesses were 43 per cent below the pre-tax performance achieved in the first half of 2006, they recovered strongly against the second half of last year, delivering pre-tax profits of US\$1.8 billion – an improvement of US\$1.5 billion.

This recovery in profitability reflected the success of the steps we have taken to manage loss exposure within the correspondent channel mortgage business. There was no significant change to the levels of loan impairment reserves established at the end of last year. Credit impairment charges in mortgage services in the half year were US\$760 million and we wrote off loans of US\$715 million against allowances already raised. As a result our impairment allowances remained largely unchanged at US\$2.1 billion. We have stopped underwriting sub-prime mortgages within the mortgage services correspondent business, centralised collection activities at one centre for the most at-risk customers, made management changes in key accountabilities, and put in place a proactive calling programme to reach out to customers facing interest rate resets in the coming months. In contrast to many lenders, we are able to manage these relationships directly because we own the loan and the servicing. This means that we can have a more positive dialogue with customers and can actively manage our portfolio in this challenging environment. Since we started the contact programme at the end of 2006, we have contacted 19,000 customers, and have modified the loans for over 5,000 of them, benefiting both our customers and our business.

With the benefit of a resilient US economy, we have managed down the mortgage services exposure

to US\$41.4 billion, a reduction of some US\$8 billion from the beginning of the year, a trend we hope to continue in the second half. We have also managed down the value of resets in the mortgage services portfolio due in the second half by almost a quarter to US\$5.3 billion.

The remaining US consumer finance businesses continued to meet expectations, led by branch-based consumer lending. There is growing evidence that the reduction of capacity in the sub-prime mortgage industry, coupled with curtailment of most of the structured affordability products offered, is leading to more disciplined underwriting and pricing across the industry. This is reducing acquisition costs and improving customer retention. As a result, our US consumer finance revenues were 2 per cent and 5 per cent higher compared with the first and second halves of 2006, respectively.

In our US retail bank, we continued to expand beyond residential mortgage lending. We are growing our branch network in California, Connecticut, New Jersey, Florida and the Metro DC Area, and continuing to roll out HSBC Direct, our highly successful online business.

### **Record results in CIBM reflecting focus on emerging markets and financing**

Our strategy of positioning our CIBM business as emerging markets-led and financing-focused is paying off, with profits growing by 32 per cent to a new high of US\$4 billion. Asian (including Middle Eastern) and Latin American operations contributed 49 per cent of CIBM's pre-tax profits in the first half of 2007.

In Asia, success in financing and providing structuring and hedging solutions for the growing investment flows into and from the region, together with growth in traditional foreign exchange and securities activities, delivered an additional US\$479 million of pre-tax profits, a rise of 36 per cent. Europe also achieved strong growth as CIBM's product hubs in London and Paris delivered a full spectrum of products both within Europe and to the global HSBC network.

Especially encouraging was the growing number of notable mandates in sizeable cross-border financing transactions which leveraged HSBC's presence in both countries. These included: Saudi Basic Industries Corp.'s US\$11.6 billion acquisition of GE Plastics; Singapore Telecommunications Ltd.'s US\$758 million acquisition of 30 per cent of Warid Telecom (Pvt) Ltd. of Pakistan; National Titanium Dioxide Co. of Saudi Arabia's US\$1.2 billion acquisition of Lyondell Chemical



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HSBC HOLDINGS PLC

## Group Chief Executive's Review (continued)

Co.'s inorganic chemicals business in the US; and Dubai Drydocks' S\$650 million acquisition of Pan-United Marine Ltd. of Singapore.

HSBC also acted as lead arranger of financing facilities for Macquarie of £1.8 billion for the acquisition of O2 Airwave and £3.4 billion for the acquisition of National Grid Wireless.

We were pleased to be recognised in industry awards: HSBC was named global Best Risk Management House in *the Economist* magazine 2007 Awards for Excellence. We also won global Best Cash Management House in *the Economist* awards. In debt capital markets, HSBC ranked first in the Asian local currency Bloomberg bond league table, first in the sterling bond league table and sixth in the international bond league table.

### Developing our income stream in Insurance

Less than 15 per cent of HSBC customers currently take an insurance product from us. Our insurance operations across our customer groups are making an important contribution to the Group and we believe that insurance has the potential over time to represent a fifth of Group pre-tax profits.

We have started our work towards this by strengthening the management team and launching the HSBC Insurance brand, repositioning for growth and aiming to be a top-10 player. We are committed to the life, pensions and investments business and to working with preferred strategic partners in general insurance, and to raising the Group's retention levels.

We announced three insurance deals in three months. In France, where we are building our life, pensions, investments and retirement services business, we acquired the remaining 50 per cent of Erisa, the life, property and casualty insurer, from our former joint venture partner, Swiss Life, for a consideration of 229 million. In the UK, HSBC Bank plans to partner with Aviva to create a joint venture under the HSBC Insurance brand. In India, we plan to create a joint venture life insurance company Canara HSBC Life Insurance with Canara Bank and the Oriental Bank of Commerce. The new company will have access to the customers of both banks – 40 million people in total – and provides a platform for growth in India's expanding life insurance market.

### Global wealth creation supporting strong growth in private banking

Given the strong economic background and buoyant property and stock markets in many parts of the

world, increasing wealth accumulation drove strong growth in client assets and sales of structured investment products within our private banking operations. Client assets grew by 11 per cent to reach US\$370 billion. Fee revenues within the private bank were up by 15 per cent to a record US\$811 million. In part, this reflected improved cooperation between our commercial bank and the private bank in terms of customer referral, and the use of our in-house structuring capabilities in CIBM to build the products demanded by the private bank's customers.

### Global credit environment

Apart from US sub-prime mortgages, the credit environment generally remained favourable globally in the first half of the year, with continuing low levels of impairment emerging across our corporate and commercial lending books. Encouragingly, more recent underwriting of unsecured personal lending in the UK has performed better, although credit impairment has remained at the elevated levels experienced in the past two years.

High levels of liquidity and demand for higher yielding debt, combined with investor appetite for higher leverage, have historically supported the restructuring of corporate balance sheets. We remain alert, however, to the probability of a change in sentiment, in particular as risk premia are rising and interest rates move on an upward trend across much of the world.

### A clear way forward

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The management team has a clear strategy to execute and we have produced strong results for the half-year. We will build on these results during the rest of the year. We are focused on growing revenues by joining up the company for the benefit of our customers. We are intent on slowing cost growth by using technology to re-engineer our processes in a meaningful way. We believe there is great potential to unlock further value from HSBC and we aim to do precisely that.

Michael Geoghegan, *Group Chief Executive*

30 July 2007

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HSBC HOLDINGS PLC

**Business Review**

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**Principal activities**

HSBC is one of the largest banking and financial services organisations in the world, with a market capitalisation of US\$215 billion at 30 June 2007.

Through its subsidiaries and associates, HSBC provides a comprehensive range of banking and related financial services. Headquartered in London, HSBC operates through long-established businesses and has an international network of over 10,000 properties in 83 countries and territories in five geographical regions: Europe; Hong Kong; Rest of Asia-Pacific, including the Middle East and Africa; North America; and Latin America. Within these regions, a comprehensive range of financial services is offered to personal, commercial, corporate, institutional, investment and private banking clients. Services are delivered primarily by domestic banks, typically with large retail deposit bases, and consumer finance operations.

**Strategic direction**

HSBC's strategic direction is to be the world's leading financial services company, with 'leading' meaning the HSBC brand is preferred to others and HSBC's corporate character is admired, its earnings per share growth is dynamic and it holds leadership positions in selected markets. Financial success is measured in terms of earnings growth and by comparing the Group's total shareholder return (TSR) target against a weighted TSR benchmark composed of a peer group of banks.

To achieve its strategy, the Group has identified seven priorities or 'global pillars' that will guide the Group's strategic initiatives in 2007 and 2008. Success in achieving the priorities will be assessed by reviewing a suite of key performance indicators. The global pillars are:

- to exploit HSBC's global reach by more effectively joining up the company by country, distribution channel, customer group and global business;
- to improve its customer experience so that customers feel that HSBC is the best place to bank;



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- to invest in developing HSBC's brand and to encourage all staff to live HSBC's brand values in their day-to-day activities;
- to improve staff engagement by ensuring employment policies are progressive, perceptive, responsive, respectful and fair;
- to grow the business by focusing on deposit-taking and achieving the right balance between risk and reward;
- to enhance working practices and use technology more effectively to make it easier for customers to do business with the Group; and
- to clearly allocate responsibility for delivery of the above initiatives to country managers and heads of customer groups and global businesses, with Group Head Office and regional head offices providing guidance and, where appropriate, delegating authority.

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HSBC HOLDINGS PLC

**Business Review** (continued)**Customer groups and global businesses****Summary**

HSBC manages its business through two customer groups, Personal Financial Services and Commercial Banking, and two global businesses, Corporate, Investment Banking and Markets ( CIBM ), and

Private Banking. Personal Financial Services incorporates the Group's consumer finance businesses, reflecting their increasing integration within mainstream financial services around the world. The largest of these is HSBC Finance Corporation ( HSBC Finance ), one of the leading consumer finance companies in the US.

## Profit before tax

	Half-year to					
	30 June 2007		30 June 2006		31 December 2006	
	US\$m	%	US\$m	%	US\$m	%
Personal Financial Services	4,729	33.4	5,908	47.2	3,549	37.1
Commercial Banking	3,422	24.2	2,862	22.9	3,135	32.8
Corporate, Investment Banking and Markets	4,158	29.4	3,144	25.1	2,662	27.8
Private Banking	780	5.5	600	4.8	614	6.4
Other	1,070	7.5	3		(391)	(4.1)
	<b>14,159</b>	<b>100.0</b>	<b>12,517</b>	<b>100.0</b>	<b>9,569</b>	<b>100.0</b>

Total assets<sup>1</sup>

	At 30 June 2007		At 30 June 2006		At 31 December 2006	
	US\$m	%	US\$m	%	US\$m	%
Personal Financial Services	577,402	26.9	511,552	29.4	546,568	29.4
Commercial Banking	225,763	10.5	186,195	10.7	213,450	11.5
Corporate, Investment Banking and Markets	1,220,316	56.7	940,177	54.1	994,436	53.4
Private Banking	81,916	3.8	67,643	3.9	73,026	3.9
Other	45,044	2.1	32,571	1.9	33,278	1.8

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<b>2,150,441</b>	<b>100.0</b>	1,738,138	100.0	1,860,758	100.0
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*For footnotes, see page 22.*

[Back to Contents](#)**Personal Financial Services**

Profit before tax

	Half-year to		
	30 June 2007 US\$m	30 June 2006 US\$m	31 December 2006 US\$m
Net interest income	13,998	12,736	13,340
Net fee income	5,523	4,285	4,477
Trading income excluding net interest income	1	314	77
Net interest income on trading activities	92	103	117
Net trading income <sup>2</sup>	93	417	194
Net income from financial instruments designated at fair value	796	120	619
Gains less losses from financial investments	60	66	12
Dividend income	41	8	23
Net earned insurance premiums	3,735	2,517	2,613
Other operating income	255	343	439
<b>Total operating income</b>	<b>24,501</b>	<b>20,492</b>	<b>21,717</b>
Net insurance claims <sup>3</sup>	(3,605)	(1,975)	(2,390)
<b>Net operating income<sup>4</sup></b>	<b>20,896</b>	<b>18,517</b>	<b>19,327</b>
Loan impairment charges and other credit risk provisions	(5,928)	(3,709)	(6,240)
<b>Net operating income</b>	<b>14,968</b>	<b>14,808</b>	<b>13,087</b>
Total operating expenses	(10,452)	(9,073)	(9,745)
<b>Operating profit</b>	<b>4,516</b>	<b>5,735</b>	<b>3,342</b>
Share of profit in associates and joint ventures	213	173	207
<b>Profit before tax</b>	<b>4,729</b>	<b>5,908</b>	<b>3,549</b>
<b>By geographical region</b>			
Europe	604	912	997
Hong Kong	1,898	1,420	1,460
Rest of Asia-Pacific	351	205	272
North America <sup>5</sup>	1,488	3,017	374
Latin America <sup>5</sup>	388	354	446
Profit before tax	4,729	5,908	3,549
	%	%	%
Share of HSBC's profit before tax	33.4	47.2	37.1

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Cost efficiency ratio	<b>50.0</b>	49.0	50.4
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### Balance sheet data<sup>1</sup>

	US\$m	US\$m	US\$m
Loans and advances to customers (net)	<b>460,196</b>	424,796	448,545
Total assets	<b>577,402</b>	511,552	546,568
Customer accounts	<b>416,525</b>	355,627	388,468

*For footnotes, see page 22.*

### Business highlights

- Pre-tax profits from Personal Financial Services were US\$4,729 million, a decrease of 20 per cent compared with the first half of 2006. This was primarily caused by higher loan impairment charges in the US. Outside the US, pre-tax profits grew strongly in Hong Kong, Brazil, the United Arab Emirates and across the rest of Asia-Pacific. On an underlying basis, profit before tax was 22 per cent lower.
- HSBC Premier, the Group's personal banking service targeted at mass-affluent customers was relaunched simultaneously in 35 markets in May 2007. With a new logo and bespoke look and feel, HSBC Premier offers a comprehensive and consistent proposition to affluent customers across many markets, supported by 250 International Premier Centres worldwide. By the end of June 2007, some 75,000 new customers had signed up to the service.
- HSBC Direct, the Group's online banking and savings proposition, was launched in South Korea and Canada during the first half of 2007, following Taiwan in September 2006 and the US a year earlier.
- In Asia, over 120,000 customers are now using HSBC Direct with savings balances exceeding US\$900 million. The HSBC Direct business in the US attracted 225,000 new customers and US\$4.8 billion of balances in the first half of 2007. HSBC intends to introduce HSBC Direct in other markets in 2008.
- The Group's new strategic Internet Banking platform, developed to meet customer needs across all Personal Financial Services markets, was rolled out in Hong Kong, bringing the number of markets in which it is deployed to 21. The platform will continue to be rolled out to new markets over the next 18 months.
- In the UK, 12 per cent of personal loan applications are now being completed online using a new automated personal loan system which enables approved loans to be paid into customers' accounts within minutes of their application.
- In Hong Kong, over four million stock trades were completed in the first half of 2007, 83 per cent of which were online. Online trades were up 98 per cent on the second half of 2006.

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HSBC HOLDINGS PLC

**Business Review** (continued)**Commercial Banking**

Profit before tax

	Half-year to		
	30 June 2007 US\$m	30 June 2006 US\$m	31 December 2006 US\$m
Net interest income	4,286	3,515	3,999
Net fee income	1,904	1,555	1,652
Trading income excluding net interest income	121	91	113
Net interest income on trading activities	13	5	15
Net trading income <sup>2</sup>	134	96	128
Net income/(expense) from financial instruments designated at fair value	(24)	(40)	18
Gains less losses from financial investments	25	23	21
Dividend income	4	2	4
Net earned insurance premiums	205	128	130
Other operating income	2	126	124
<b>Total operating income</b>	<b>6,536</b>	<b>5,405</b>	<b>6,076</b>
Net insurance claims <sup>3</sup>	44	(42)	(54)
<b>Net operating income<sup>4</sup></b>	<b>6,580</b>	<b>5,363</b>	<b>6,022</b>
Loan impairment charges and other credit risk provisions	(431)	(260)	(437)
<b>Net operating income</b>	<b>6,149</b>	<b>5,103</b>	<b>5,585</b>
Total operating expenses	(2,907)	(2,385)	(2,594)
<b>Operating profit</b>	<b>3,242</b>	<b>2,718</b>	<b>2,991</b>
Share of profit in associates and joint ventures	180	144	144
<b>Profit before tax</b>	<b>3,422</b>	<b>2,862</b>	<b>3,135</b>
<b>By geographical region</b>			
Europe	1,236	1,076	1,158
Hong Kong	760	587	734
Rest of Asia-Pacific	597	498	536
North America <sup>5</sup>	477	464	493
Latin America <sup>5</sup>	352	237	214

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Profit before tax	<b>3,422</b>	2,862	3,135
	%	%	%
Share of HSBC's profit before tax	<b>24.2</b>	22.9	32.8
Cost efficiency ratio	<b>44.2</b>	44.5	43.1
<b>Balance sheet data<sup>1</sup></b>			
	<b>US\$m</b>	US\$m	US\$m
Loans and advances to customers (net)	<b>185,923</b>	152,318	172,976
Total assets	<b>225,763</b>	186,195	213,450
Customer accounts	<b>205,002</b>	165,706	190,853

*For footnotes, see page 22.*

### Business highlights

- Pre-tax profit increased by 20 per cent to US\$3,422 million, representing 24 per cent of Group profits. Revenue growth of 23 per cent resulted from improved income from loans and advances, fees and customer deposits. Cost growth reflected business expansion in India, mainland China and the Middle East. These figures also reflected the inclusion for the first time of Grupo Banistmo S.A.'s ( Grupo Banistmo ) operations in Latin America. The cost efficiency ratio improved from 44.5 per cent to 44.2 per cent. On an underlying basis, pre-tax profits were 14 per cent higher than in the first half of 2006.
- Total customer numbers rose by 3 per cent to 2.7 million, with the strongest growth in Latin America.
- Small business banking income growth was greatest in emerging markets, with Turkey benefiting from dedicated centres opened in 2006 and Mexico from product development. In addition, strong growth in Hong Kong resulted from promotions and a buoyant market. The Hong Kong Chamber for Small and Medium Business again recognised HSBC with its Best Partner Award. In the US, HSBC's Green Campaign targeted new customers with a package of incentives for customers switching to online bill payments.
- HSBC continued to develop direct channels. The number of customers actively using HSBC's internet banking services increased by 11 per cent. In Asia, internet banking migrated to a new platform with enhanced sales capabilities. In the UK, the Business Direct proposition, launched in September 2006, attracted 22,000 new customers in the first half of 2007. Globally, the number of Commercial Banking customers using HSBCnet also grew rapidly.
- In international business, HSBC added seven new International Banking Centres dedicated to cross-border account opening, a network that now covers 23 countries. The Global Links cross-border referral system generated 37 per cent more referrals. To support customers with cross-border operations, credit processes were further streamlined. HSBC's trade credentials were reinforced, winning Best Online Trade Finance Provider for the first time, and Best Factor for the fifth successive year, in *Euromoney* Trade Finance Awards for Excellence.

[Back to Contents](#)**Corporate, Investment Banking and Markets**

Profit before tax

	Half-year to		
	30 June	30 June	31 December
	2007	2006	2006
	US\$m	US\$m	US\$m
Net interest income	1,847	1,394	1,774
Net fee income	2,264	1,810	1,908
Trading income excluding net interest income	3,048	2,613	2,277
Net interest expense on trading activities	(151)	(117)	(262)
Net trading income <sup>2</sup>	2,897	2,496	2,015
Net income/(expense) from financial instruments designated at fair value	11	47	(27)
Gains less losses from financial investments	768	269	265
Dividend income	175	147	88
Net earned insurance premiums	46	41	32
Other operating income	529	578	800
<b>Total operating income</b>	<b>8,537</b>	<b>6,782</b>	<b>6,855</b>
Net insurance claims <sup>3</sup>	(38)	(31)	(31)
<b>Net operating income<sup>4</sup></b>	<b>8,499</b>	<b>6,751</b>	<b>6,824</b>
Net loan impairment recoveries and other credit risk provisions	24	109	10
<b>Net operating income</b>	<b>8,523</b>	<b>6,860</b>	<b>6,834</b>
Total operating expenses	(4,479)	(3,740)	(4,251)
<b>Operating profit</b>	<b>4,044</b>	<b>3,120</b>	<b>2,583</b>
Share of profit in associates and joint ventures	114	24	79
<b>Profit before tax</b>	<b>4,158</b>	<b>3,144</b>	<b>2,662</b>
<b>By geographical region</b>			
Europe	1,674	1,202	1,102
Hong Kong	697	477	478
Rest of Asia-Pacific	1,098	839	810
North America <sup>5</sup>	436	349	74
Latin America <sup>5</sup>	253	277	198
Profit before tax	4,158	3,144	2,662
	%	%	%



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Share of HSBC's profit before tax	29.4	25.1	27.8
Cost efficiency ratio	52.7	55.4	62.3

*For footnotes, see page 22.*

### Business highlights

- Pre-tax profit increased by 32 per cent to US\$4,158 million, driven by a 26 per cent rise in total operating income. Strong performance across major product lines was due to past investment in building the systems and sales infrastructure to support the continued successful delivery of HSBC's emerging markets-led and financing-focused wholesale banking strategy. Asia and Latin America accounted for 49 per cent of profit before tax. The cost efficiency ratio improved by 2.7 percentage points, reflecting a significant acceleration of revenue growth ahead of cost growth. The increase in operating expenses was partly driven by performance-related compensation, which rose in line with the robust revenue growth. Higher operational costs also reflected volume increases, particularly in securities services and payments and cash management. On an underlying basis, pre-tax profits were 27 per cent higher than in the first half of 2006.
- HSBC's extensive geographical network and its recently enhanced product capabilities enabled the tailored delivery of risk management, investment, financing and other solutions to clients around the world. HSBC was named global Best Risk Management House and Best Cash Management House in the *Euromoney* 2007 Awards for Excellence. In regional *Euromoney* awards, HSBC was also named Best Risk Management House in the Middle East, Best FX House in Asia and, for the 10th consecutive year, Best Risk Management House in Asia.
- In Global Markets, total operating income increased by 26 per cent. The structured derivatives business gained momentum as investment in technical expertise and systems enabled HSBC to address a broader spectrum of client needs.

Foreign exchange reported gains from growth in the core business and increased customer activity, against the backdrop of a weakening US dollar. Strong gains were reported across emerging markets as HSBC continued to harness the Group's global distribution network.

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HSBC HOLDINGS PLC

**Business Review** (continued)

Management view of total operating income

	Half-year to		
	30 June	30 June	31 December
	2007	2006	2006
	US\$m	US\$m	US\$m
<b>Global Markets</b>	<b>3,590</b>	2,849	2,684
Foreign exchange	909	848	704
Credit and rates	653	694	640
Structured derivatives	765	455	419
Equities <sup>2</sup>	408	196	201
HSBC Securities Services	855	656	720
<b>Global Banking</b>	<b>2,209</b>	1,996	2,100
Investment banking	592	491	674
Lending	685	713	560
Payments and cash management	751	609	648
Other transaction services	181	183	218
<b>Balance Sheet Management</b>	<b>521</b>	366	347
<b>Group Investment Businesses</b>	<b>636</b>	595	471
<b>Principal Investments</b>	<b>755</b>	292	394
<b>Other<sup>3</sup></b>	<b>826</b>	684	859
<b>Total operating income</b>	<b>8,537</b>	6,782	6,855

Balance sheet data<sup>4</sup>

Loans and advances to:

customers (net)	241,602	203,159	210,220
banks (net)	183,708	136,912	156,548
<b>Total assets</b>	<b>1,220,316</b>	940,177	994,436
Customer accounts	265,739	235,329	235,965
Trading assets, financial instruments designated at fair value, and financial investments	601,883	448,595	487,943
Deposits by banks	121,744	77,584	92,954

1 The comparatives have been restated to reflect the current management view. The results of HSBC Trinkaus & Burkhardt AG, previously reported in Other, are now included in the appropriate business lines above. Principal Investments includes private equity, and HSBC Specialist Investment Ltd previously reported in Group Investment Businesses.

2 Equities includes a total gain of US\$107 million from the disposal of HSBC's investments in Euronext N.V. and the Montreal Exchange.

3 Other includes net interest earned on free capital held in CIBM not assigned to products.

4 Third party only.

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Equities recorded a significant increase on the comparable period in 2006, partly driven by the strength of major stock indices. Revenue from the credit and rates business declined due to widening credit spreads. Securities services benefited from increased customer volumes in higher-value products and strong income growth in emerging markets. Assets under custody rose by 32 per cent.

- In Global Banking, total operating income rose by US\$213 million. Income from financing transactions rose partly due to higher fee income in leveraged and acquisition finance, principally in the UK. Payments and cash management delivered a strong performance across most regions, driven by growth in client deposits.

HSBC's strong focus on emerging markets and financing was highlighted by several notable transactions, including cross-border investment banking mandates for Singapore Telecommunications' US\$758 million acquisition of a 30 per cent stake in Warid Telecom of Pakistan; National Titanium Dioxide of Saudi Arabia's S\$1.2 billion acquisition of Lyondell Chemical's inorganic chemical business in the US; and Dubai Drydocks' S\$650 million acquisition of Pan-United Marine of Singapore.

HSBC acted as lead arranger of US\$9.2 billion of facilities for the acquisition of GE Plastics by Saudi Basic Industries; 2.25 billion of facilities backing the acquisition of Mölnlycke Health Care of Sweden by Investor AB; and facilities for Macquarie of £1.8 billion for the acquisition of O2 Airwave and £3.4 billion for the acquisition of National Grid Wireless.

In debt capital markets, HSBC ranked first in the Asian local currency bond league table compiled by Bloomberg, first in the sterling bond league table and sixth in the international bond league table. HSBC ranked sixth in the Asia (ex Japan) league table for equity initial public offerings (IPOs).

- In Balance Sheet Management, total operating income increased by 42 per cent. This was driven by a recovery in revenues in Asia.
- Gains from realisations increased in Principal Investments as a result of an increase in the number of disposals and higher exit multiples. The structure of Principal Investments was realigned to position the business for further development.
- Group Investment Businesses' operating income rose by 7 per cent due to continued strong contribution from performance fees coupled with a modest growth in funds under management, mainly relating to emerging market funds. Noteworthy successes included the development of Latin American equity fund sales in Europe and Asia-Pacific, multi-manager business globally and landmark pension fund mandates won in Europe and North America.

[Back to Contents](#)**Private Banking**

Profit before tax

	Half-year to		
	30 June 2007 US\$m	30 June 2006 US\$m	31 December 2006 US\$m
	Net interest income	567	482
Net fee income	811	705	618
Trading income excluding net interest income	255	209	153
Net interest income/ (expense) on trading activities	4	7	(5)
Net trading income <sup>2</sup>	259	216	148
Net income from financial instruments designated at fair value			1
Gains less losses from financial investments	45	28	138
Dividend income	5	4	1
Other operating income	31	25	36
<b>Total operating income</b>	<b>1,718</b>	<b>1,460</b>	<b>1,471</b>
Net insurance claims <sup>3</sup>			
<b>Net operating income<sup>4</sup></b>	<b>1,718</b>	<b>1,460</b>	<b>1,471</b>
Loan impairment charges and other credit risk provisions	(9)	(29)	(4)
<b>Net operating income</b>	<b>1,709</b>	<b>1,431</b>	<b>1,467</b>
Total operating expenses	(929)	(831)	(854)
<b>Operating profit</b>	<b>780</b>	<b>600</b>	<b>613</b>
Share of profit in associates and joint ventures			1
<b>Profit before tax</b>	<b>780</b>	<b>600</b>	<b>614</b>
<b>By geographical region</b>			
Europe	493	388	417
Hong Kong	161	123	78
Rest of Asia-Pacific	56	48	32
North America <sup>5</sup>	60	38	76
Latin America <sup>5</sup>	10	3	11
<b>Profit before tax</b>	<b>780</b>	<b>600</b>	<b>614</b>
	%	%	%
Share of HSBC's profit before tax	5.5	4.8	6.4
Cost efficiency ratio	54.1	56.9	58.1

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### Balance sheet data<sup>1</sup>

	US\$m	US\$m	US\$m
Loans and advances to customers (net)	<b>37,863</b>	31,903	34,297
Total assets	<b>81,916</b>	67,643	73,026
Customer accounts	<b>91,228</b>	76,496	80,303

For footnotes, see page 22.

### Business highlights

- Pre-tax profits grew by 30 per cent to US\$780 million, as HSBC's competitive offerings proved attractive to clients in an economic environment that continued to be conducive to wealth management services. On an underlying basis, profit before tax was 27 per cent higher than in the first half of 2006.
- Private Banking demonstrated success in implementing HSBC's strategy of joining up the Group and harnessing the strengths of its main businesses. Cross-referrals with other customer groups were positive, with almost US\$2 billion in total client assets referred into Private Banking, and anticipated fees for the Group from mandated deals referred by Private Banking to CIBM in the first six months of 2007 reaching US\$75 million.
- Client assets, which provide an indicator of overall Private Banking volumes and include funds under management, cash deposits and certain on-balance sheet trust assets, rose by 11 per cent, or 10 per cent on an underlying basis, compared with 31 December 2006, to reach US\$370 billion.

#### Half-year to

	<b>30 June 2007 US\$bn</b>	30 June 2006 US\$bn	31 December 2006 US\$bn
At beginning of period	<b>333</b>	273	305
Net new money	<b>17</b>	19	15
Value change	<b>12</b>	5	16
Exchange/other	<b>8</b>	8	(3)
At end of period	<b>370</b>	305	333

- Many of HSBC's competitors publish a measure of assets managed which also includes non-financial assets held off-balance sheet in client trusts. HSBC refers to this measure as total client assets and, at 30 June 2007, this amounted to US\$442 billion, an 8 per cent increase since 31 December 2006.
- Amanah Investment Solutions, a *shariah* (Islamic law)-compliant multi-manager fund product, was added to the successful Investment Solutions offerings.
- Private Banking clients took up approximately one-third of the US\$1.1 billion launch of HSBC's MultiAlpha China Fund.
- The HSBC Special Opportunities Fund, a fund of hedge funds that invests in long-term alternative strategies, raised over US\$465 million.

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HSBC HOLDINGS PLC

**Business Review** (continued)**Other**

Profit/(loss) before tax

	Half-year to		
	<b>30 June</b>	30 June	31 December
	<b>2007</b>	2006	2006
	US\$m	US\$m	US\$m
Net interest expense	(291)	(292)	(333)
Net fee income/(expense)	(7)	25	147
Trading expense excluding net interest income	(74)	(115)	(113)
Net interest income on trading activities	25	47	35
Net trading expense <sup>2</sup>	(49)	(68)	(78)
Net income/(expense) from financial instruments designated at fair value	91	133	(214)
Gains less losses from financial investments	101	107	40
Gains arising from dilution of interests in associates	1,076		
Dividend income	27	61	2
Net earned insurance premiums	(9)	148	59
Other operating income	1,667	1,544	1,710
<b>Total operating income</b>	<b>2,606</b>	1,658	1,333
Net insurance claims <sup>3</sup>		(101)	(80)
<b>Net operating income<sup>4</sup></b>	<b>2,606</b>	1,557	1,253
Loan impairment charges and other credit risk provisions	(2)	(1)	(12)
<b>Net operating income</b>	<b>2,604</b>	1,556	1,241
Total operating expenses	(1,650)	(1,573)	(1,686)
<b>Operating profit/(loss)</b>	<b>954</b>	(17)	(445)
Share of profit in associates and joint ventures	116	20	54
<b>Profit/(loss) before tax</b>	<b>1,070</b>	3	(391)
<b>By geographical region</b>			
Europe	43	22	(300)
Hong Kong	(186)	47	(222)
Rest of Asia-Pacific	1,242	67	220
North America <sup>5</sup>	(26)	(127)	(90)

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Latin America <sup>5</sup>	(3)	(6)	1
Profit/(loss) before tax	<b>1,070</b>	3	(391)
	%	%	%
Share of HSBC's profit before tax	<b>7.5</b>		(4.1)
Cost efficiency ratio	<b>63.3</b>	101.0	134.6
Balance sheet data <sup>1</sup>			
	US\$m	US\$m	US\$m
Loans and advances to customers (net)	<b>2,517</b>	2,033	2,095
Total assets	<b>45,044</b>	32,571	33,278
Customer accounts	<b>2,338</b>	584	1,245

For footnotes, see page 22.

Notes

- For a description of the main items reported under 'Other', see footnote 6 on page 22.
- HSBC recorded dilution gains of US\$1,076 million following share offerings made in Shanghai by HSBC's three associates: Ping An Insurance (Group) Company of China, Limited ('Ping An Insurance'), Bank of Communications Limited ('Bank of Communications') and Industrial Bank Co. Limited ('Industrial Bank'), which all successfully raised new capital. The consequent dilution of HSBC's interests was considerably less than its share of the new monies raised, resulting in the gains recognised. For further details see Note 19 on the Financial Statements.
- The results of the HSBC Insurance Brokers group were allocated to HSBC's customer groups in the first half of 2007, having been reported within Other in 2006. As a consequence, net operating income before loan impairment charges and operating expenses were US\$205 million and US\$178 million, respectively, lower than in the first half of 2006, resulting in a US\$27 million reduction in profit before tax.
- This segment includes fair value movements of US\$284 million on HSBC's own debt in issue and related swaps. This movement is largely a consequence of higher medium to longer-term interest rates in the UK and a widening of credit spreads in North America.
- The Group Service Centres continued to grow in the first half of 2007, their nearly 29,000 employees providing services to 40 different HSBC companies, handling on average 462,000 calls and processing 1.7 million transactions every day. The Group Service Centres provide a range of services from general processing work, telephone banking services and value-added services for analytical and financial modelling for certain lines of business. Costs rose by 32 per cent, substantially all of which were recharged to HSBC's customer groups and global businesses. During the first half of 2007, three additional Group Service Centres became operational, with a further two under development.

[Back to Contents](#)**Analysis by customer group and global business**

Profit/(loss) before tax and balance sheet data

Half-year to 30 June 2007

Total	Personal	Commercial	Corporate,	Private	Other <sup>6</sup>	Inter-	Total
	Financial Services US\$m	Banking US\$m	Investment Banking & Markets US\$m	Banking US\$m	US\$m	segment elimination US\$m	US\$m
Net interest income/(expense)	13,998	4,286	1,847	567	(291)	(2,177)	18,230
Net fee income/(expense)	5,523	1,904	2,264	811	(7)		10,495
Trading income/(expense) excluding net interest income	1	121	3,048	255	(74)		3,351
Net interest income/(expense) on trading activities	92	13	(151)	4	25	2,177	2,160
Net trading income/(expense) <sup>2</sup>	93	134	2,897	259	(49)	2,177	5,511
Net income/(expense) from financial instruments designated at fair value	796	(24)	11		91		874
Gains less losses from financial investments	60	25	768	45	101		999
Gains arising from dilution of interests in associates					1,076		1,076
Dividend income	41	4	175	5	27		252
Net earned insurance premiums	3,735	205	46		(9)		3,977
Other operating income	255	2	529	31	1,667	(1,806)	678
<b>Total operating income</b>	<b>24,501</b>	<b>6,536</b>	<b>8,537</b>	<b>1,718</b>	<b>2,606</b>	<b>(1,806)</b>	<b>42,092</b>
Net insurance claims <sup>3</sup>	(3,605)	44	(38)				(3,599)
<b>Net operating income<sup>4</sup></b>	<b>20,896</b>	<b>6,580</b>	<b>8,499</b>	<b>1,718</b>	<b>2,606</b>	<b>(1,806)</b>	<b>38,493</b>
Loan impairment (charges)/recoveries and other credit risk provisions	(5,928)	(431)	24	(9)	(2)		(6,346)
<b>Net operating income</b>	<b>14,968</b>	<b>6,149</b>	<b>8,523</b>	<b>1,709</b>	<b>2,604</b>	<b>(1,806)</b>	<b>32,147</b>
Total operating expenses	(10,452)	(2,907)	(4,479)	(929)	(1,650)	1,806	(18,611)
<b>Operating profit</b>	<b>4,516</b>	<b>3,242</b>	<b>4,044</b>	<b>780</b>	<b>954</b>		<b>13,536</b>
Share of profit in associates and joint ventures	213	180	114		116		623
<b>Profit before tax</b>	<b>4,729</b>	<b>3,422</b>	<b>4,158</b>	<b>780</b>	<b>1,070</b>		<b>14,159</b>
	%	%	%	%	%		%
Share of HSBC's profit before tax	33.4	24.2	29.4	5.5	7.5		100.0
Cost efficiency ratio	50.0	44.2	52.7	54.1	63.3		48.3



**Balance sheet data**

	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Loans and advances to customers (net)	460,196	185,923	241,602	37,863	2,517	928,101
Total assets	577,402	225,763	1,220,316	81,916	45,044	2,150,441
Customer accounts	416,525	205,002	265,739	91,228	2,338	980,832
Loans and advances to banks (net) <sup>7</sup>			183,708			
Trading assets, financial assets designated at fair value, and financial investments <sup>7</sup>			601,883			
Deposits by banks <sup>7</sup>			121,744			

*For footnotes, see page 22.*

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HSBC HOLDINGS PLC

**Business Review** (continued)

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

Half-year to 30 June 2006

<b>Total</b>	Personal Financial Services US\$m	Commercial Banking US\$m	Corporate, Investment Banking & Markets US\$m	Private Banking US\$m	Other <sup>6</sup> US\$m	Inter- segment elimination US\$m	Total US\$m
Net interest income/(expense)	12,736	3,515	1,394	482	(292)	(1,104)	16,731
Net fee income	4,285	1,555	1,810	705	25		8,380
Trading income/(expense) excluding net interest income	314	91	2,613	209	(115)		3,112
Net interest income/(expense) on trading activities	103	5	(117)	7	47	1,104	1,149
Net trading income/(expense) <sup>2</sup>	417	96	2,496	216	(68)	1,104	4,261
Net income/(expense) from financial instruments designated at fair value	120	(40)	47		133		260
Gains less losses from financial investments	66	23	269	28	107		493
Dividend income	8	2	147	4	61		222
Net earned insurance premiums	2,517	128	41		148		2,834
Other operating income	343	126	578	25	1,544	(1,463)	1,153
<b>Total operating income</b>	<b>20,492</b>	<b>5,405</b>	<b>6,782</b>	<b>1,460</b>	<b>1,658</b>	<b>(1,463)</b>	<b>34,334</b>
Net insurance claims <sup>3</sup>	(1,975)	(42)	(31)		(101)		(2,149)
<b>Net operating income<sup>4</sup></b>	<b>18,517</b>	<b>5,363</b>	<b>6,751</b>	<b>1,460</b>	<b>1,557</b>	<b>(1,463)</b>	<b>32,185</b>
Loan impairment (charges)/recoveries and other credit risk provisions	(3,709)	(260)	109	(29)	(1)		(3,890)
<b>Net operating income</b>	<b>14,808</b>	<b>5,103</b>	<b>6,860</b>	<b>1,431</b>	<b>1,556</b>	<b>(1,463)</b>	<b>28,295</b>
<b>Total operating expenses</b>	<b>(9,073)</b>	<b>(2,385)</b>	<b>(3,740)</b>	<b>(831)</b>	<b>(1,573)</b>	<b>1,463</b>	<b>(16,139)</b>
<b>Operating profit/(loss)</b>	<b>5,735</b>	<b>2,718</b>	<b>3,120</b>	<b>600</b>	<b>(17)</b>		<b>12,156</b>
Share of profit in associates and joint ventures	173	144	24		20		361
<b>Profit before tax</b>	<b>5,908</b>	<b>2,862</b>	<b>3,144</b>	<b>600</b>	<b>3</b>		<b>12,517</b>
	%	%	%	%	%		%
Share of HSBC's profit before tax	47.2	22.9	25.1	4.8			100.0
Cost efficiency ratio	49.0	44.5	55.4	56.9	101.0		50.1

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Balance sheet data<sup>1</sup>

	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Loans and advances to customers (net)	424,796	152,318	203,159	31,903	2,033	814,209
Total assets	511,552	186,195	940,177	67,643	32,571	1,738,138
Customer accounts	355,627	165,706	235,329	76,496	584	833,742
Loans and advances to banks (net) <sup>7</sup>			136,912			
Trading assets, financial assets designated at fair value, and financial investments <sup>7</sup>			448,595			
Deposits by banks <sup>7</sup>			77,584			

*For footnotes, see page 22.*

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Half-year to 31 December 2006

<b>Total</b>	Personal Financial Services US\$m	Commercial Banking US\$m	Corporate, Investment Banking & Markets US\$m	Private Banking US\$m	Other <sup>6</sup> US\$m	Inter- segment elimination US\$m	Total US\$m
Net interest income/ (expense)	13,340	3,999	1,774	529	(333)	(1,554)	17,755
Net fee income	4,477	1,652	1,908	618	147		8,802
Trading income/(expense) excluding net interest income	77	113	2,277	153	(113)		2,507
Net interest income/(expense) on trading activities	117	15	(262)	(5)	35	1,554	1,454
Net trading income/(expense) <sup>2</sup>	194	128	2,015	148	(78)	1,554	3,961
Net income/(expense) from financial instruments designated at fair value	619	18	(27)	1	(214)		397
Gains less losses from financial investments	12	21	265	138	40		476
Dividend income	23	4	88	1	2		118
Net earned insurance premiums	2,613	130	32		59		2,834
Other operating income	439	124	800	36	1,710	(1,716)	1,393
<b>Total operating income</b>	<b>21,717</b>	<b>6,076</b>	<b>6,855</b>	<b>1,471</b>	<b>1,333</b>	<b>(1,716)</b>	<b>35,736</b>
Net insurance claims <sup>3</sup>	(2,390)	(54)	(31)		(80)		(2,555)
<b>Net operating income<sup>4</sup></b>	<b>19,327</b>						