HSBC HOLDINGS PLC
Form 6-K
August 09, 2013
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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a - 16 or 15d - 16 of

the Securities Exchange Act of 1934

For the month of August 2013

Commission File Number: 001-14930

HSBC Holdings plc

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

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

Form 20-F x Form 40-F ¨

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

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

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

Yes ¨ No x

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

This Report on Form 6-K with respect to our Interim Financial Statements and Notes thereon for the six-month period ended June 30, 2013 is hereby incorporated by reference in the following HSBC Holdings plc registration statements: file numbers 333-10474, 333-92024, 333-102027, 333-103887, 333-104203, 333-109288, 333-113427, 333-127327, 333-126531, 333-135007, 333-143639, 333-145859, 333-155338, 333-158054, 333-158065, 333-162565, 333-17025, 333-176732, 333-180288 and 333-183806.

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SIGNATURES

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

HSBC Holdings plc

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

Dated: 9 August 2013

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HSBC HOLDINGS PLC

Interim Report 2013

Certain defined terms

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

Interim financial statements and notes

HSBC s Interim Consolidated Financial Statements and Notes thereon, as set out on pages 208 to 263, have been prepared in accordance with the Disclosure Rules and Transparency Rules of the Financial Conduct Authority and International Accounting Standard (IAS) 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU). The consolidated financial statements of HSBC at 31 December 2012 were prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the IASB, and as endorsed by the EU. EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2012, there were no unendorsed standards effective for the year ended 31 December 2012 affecting the consolidated financial statements at that date, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC. Accordingly, HSBC s financial statements for the year ended 31 December 2012 were prepared in accordance with IFRSs as issued by the IASB. At 30 June 2013, there were no unendorsed standards effective for the period ended 30 June 2013 significantly affecting these interim consolidated financial statements, and there was no significant difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC.

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

When reference to underlying is made in tables or commentaries, the comparative information has been expressed at constant currency (see page 17), the impact of fair value movements in respect of credit spread changes on HSBC s own debt has been eliminated and the effects of acquisitions, disposals and dilutions have been adjusted as reconciled on page 19. Underlying return on risk-weighted assets (RoRWA) is defined and reconciled on page 43.

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

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Who we are and what we do

HSBC is one of the world s largest banking and financial services organisations. With around 6,600 offices in both established and faster-growing markets, we aim to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

We serve around 55 million customers through our four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 80 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America. Our aim is to be acknowledged as the world s leading international bank.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by about 216,000 shareholders in 130 countries and territories.

Highlights

Profit before tax was up 10% to US$14.1bn on a reported basis.

Underlying profit before tax was up 47% to US$13.1bn.

Return on average ordinary shareholders equity was 12.0%, up from 10.5% in the first half of 2012.

We continued to make progress on delivering our strategy and grew revenues in key areas including in our Financing and Equity Capital Markets and Credit businesses, in residential mortgages in our home markets of Hong Kong and the UK, and from collaboration between our global businesses.

We achieved additional sustainable cost savings of US$0.8bn, taking annualised savings to US$4.1bn since 2011, exceeding our target for the end of 2013.

We continued to reshape the business, announcing 11 disposals and closures of non-strategic businesses since the start of the year.

Core tier 1 capital ratio increased during the period from 12.3% at the end of 2012 to 12.7%.

Cover image

Financing trade has always been at the heart of HSBC s business, especially in our home market of Hong Kong. Today, Hong Kong International Airport is the world s busiest air cargo hub, with its freight volume accounting for over one-third of the total value of Hong Kong s external trade.

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HSBC HOLDINGS PLC

Overview

Financial highlights

Earnings per share	Dividends per ordinary share[1]	Net assets per share
US$0.54 *up 20%*	US$0.28	US$8.96
30 June 2012: US$0.45	30 June 2012: US$0.23	30 June 2012: US$8.73
31 December 2012: US$0.29	31 December 2012: US$0.18	31 December 2012: US$9.09

For the half-year to 30 June 2013

Profit before taxation	Underlying profit before taxation	Total operating income
US$14,071m *up 10%*	US$13,078m *up 47%*	US$40,523m *down 7%*
30 June 2012: US$12,737m	30 June 2012: US$8,896m	30 June 2012: US$43,672m
31 December 2012: US$7,912m	31 December 2012: US$6,546m	31 December 2012: US$38,873m

Net operating income before loan impairment charges and other credit risk provisions	Profit attributable to the ordinary shareholders of the parent company

US$34,372m *down 7%*

30 June 2012: US$36,897m

31 December 2012: US$31,433m

US$9,998m *up 23%*

30 June 2012: US$8,152m

31 December 2012: US$5,302m

At 30 June 2013

Loans and advances to customers	Customer accounts	Ratio of customer advances to customer accounts
US$969bn *down 3%*	US$1,316bn *down 2%*	73.7%
30 June 2012: US$975bn	30 June 2012: US$1,278bn	30 June 2012: 76.3%
31 December 2012: US$998bn	31 December 2012: US$1,340bn	31 December 2012: 74.4%

Total equity	Average total shareholders equity to average total assets	Risk-weighted assets
US$182bn *unchanged*	6.4%	US$1,105bn *down 2%*
30 June 2012: US$174bn	30 June 2012: 5.9%	30 June 2012: US$1,160bn
31 December 2012: US$183bn	31 December 2012: 6.4%	31 December 2012: US$1,124bn

Capital ratios

Core tier 1 ratio	Total capital ratio	Common equity tier 1 ratio[2]
12.7%	16.6%	10.1%
30 June 2012: 11.3%	30 June 2012: 15.1%	30 June 2012: n/a

31 December 2012: 12.3%	31 December 2012: 16.1%	31 December 2012: 9.5%

Percentage growth rates compare with figures for the half year ended 30 June 2012 for income statement items and 31 December 2012 for balance sheet items.

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Overview (continued)

Performance ratios (annualised)

Credit coverage ratios

Loan impairment charges to total operating income	Loan impairment charges to average gross customer advances	Total impairment allowances to impaired loans at period-end
7.9%	0.7%	40.9%
30 June 2012: 10.4%	30 June 2012: 1.0%	30 June 2012: 42.3%
31 December 2012: 9.4%	31 December 2012: 0.8%	31 December 2012: 41.7%

Return ratios

Return on average ordinary shareholders equity[3]	Return on average invested capital[4]	Post-tax return on average total assets	Pre-tax return on average risk-weighted assets
12.0%	11.6%	0.8%	2.6%
30 June 2012: 10.5%	30 June 2012: 9.9%	30 June 2012: 0.7%	30 June 2012: 2.1%
31 December 2012: 6.5%	31 December 2012: 6.2%	31 December 2012: 0.5%	31 December 2012: 1.4%

Efficiency and revenue mix ratios

Cost efficiency ratio[5]	Net interest income to total operating income	Net fee income to total operating income	Net trading income to total operating income

53.5%	44.0%	20.7%	15.7%
30 June 2012: 57.5%	30 June 2012: 44.4%	30 June 2012: 19.0%	30 June 2012: 10.3%
31 December 2012: 69.1%	31 December 2012: 47.1%	31 December 2012: 20.9%	31 December 2012: 6.6%

Share information at 30 June 2013

		Closing market price		
US$0.50 ordinary shares in issue	**Market capitalisation**	London	Hong Kong	American Depositary Share[6]
18,627m	US$196bn	£6.82	HK$81.25	US$51.90
30 Jun 2012: 18,164m	30 Jun 2012: US$160bn	30 Jun 2012: £5.61	30 Jun 2012: HK$68.55	30 Jun 2012: US$44.13
31 Dec 2012: 18,476m	31 Dec 2012: US$194bn	31 Dec 2012: £6.47	31 Dec 2012: HK$81.3	31 Dec 2012: US$53.07

	Total shareholder return[7]		
	Over 1 year	Over 3 years	Over 5 years
To 30 June 2013	127.7	127.9	128.3
Benchmarks:			
FTSE 100[8]	115.8	140.8	133.4
MSCI World[9]	123.4	147.6	154.3
MSCI Banks[9]	128.0	127.3	118.3

For footnotes, see page 100.

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HSBC HOLDINGS PLC

Overview (continued)

Cautionary Statement Regarding Forward-looking Statements

The *Interim Report 2013* contains certain forward-looking statements with respect to HSBC s financial condition, results of operations and business.

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

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

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. These include, but are not limited to:

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

changes in government policy and regulation, including the monetary, interest rate and other policies of central banks and other regulatory authorities; initiatives to change the size, scope of activities and interconnectedness of financial institutions in connection with the implementation of stricter regulation of financial institutions in key markets worldwide; revised capital and liquidity benchmarks which could serve to deleverage bank balance sheets and lower returns available from the current business model and portfolio mix; imposition of levies or taxes designed to change business mix and risk appetite; the practices, pricing or responsibilities of financial institutions serving their consumer markets; expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; changes in bankruptcy legislation in the principal markets in which we operate and the consequences thereof; general changes in government policy that may significantly influence investor decisions; extraordinary government actions as a result of current market turmoil; other unfavourable political or diplomatic developments producing social instability or legal uncertainty which in turn may affect demand for our products and services; the costs, effects and outcomes of product regulatory reviews, actions or litigation, including any additional compliance requirements; and the effects of competition in the markets where we operate including increased competition from non-bank financial services companies, including securities firms; and factors specific to HSBC, including our success in adequately identifying the risks we face, such as the incidence of loan losses or delinquency, and managing those risks (through account management, hedging and other techniques). Effective risk management depends on, among other things, our ability through stress testing and other techniques to prepare for events that cannot be captured by the statistical models it uses; and our success in addressing operational, legal and regulatory, and litigation challenges, notably compliance with the DPAs.

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HSBC HOLDINGS PLC

Overview (continued)

Group Chairman s Statement

HSBC delivered a solid financial performance in the first half of 2013.

Pre-tax profit on a reported basis was US$14.1bn, US$1.3bn or 10% higher than in the first half of 2012. On an underlying basis, the profit before tax was 47% ahead of the comparable period. Earnings per ordinary share rose by 20% to US$0.54.

These results confirm the value which is being delivered from the continuing reshaping of the Group and from enforcing appropriate cost discipline.

Driven by capital retention from operating performance, the Group s capital position strengthened further and the core tier 1 ratio improved to 12.7% compared with 12.3% at the beginning of the year and 11.3% a year ago.

A second interim dividend of US$0.10 per ordinary share was declared by the Board on 5 August taking the total dividends declared in respect of the first half of 2013 to US$0.20 per ordinary share as foreshadowed in last year s *Annual Report and Accounts;* this is US$0.02 per ordinary share or some 11% higher than in the comparable period in 2012.

The Group Chief Executive s Business Review covers this performance in some detail. From the Board s perspective I want to highlight three points.

Strategy implementation is progressing well

The strategic direction approved by the Board has been to reduce complexity, improve business co-operation, maximise the value of the Group s long heritage in faster-growing markets, concentrate resources on businesses where scale and connectivity

are competitive strengths, and apply and enforce Global Standards to control the risks faced by the Group.

The application of this strategic direction has been most immediately seen in the number of disposals and closures, now 54 since the beginning of 2011, which have sharpened the focus of the Group and eliminated areas of comparative weakness. As important but less obvious, are the steps being taken to build revenues from opportunities hitherto not fully exploited. Two illustrations make this point.

Firstly, as many peer institutions have withdrawn from overseas markets in recent years, HSBC s scale and connectivity has become a more distinctive competitive strength. This has been built upon most notably in transaction banking, where our Payments and Cash Management, Securities Services and Global Trade and Receivables Finance businesses have grown strongly.

Secondly, our leading positions in Hong Kong in debt and foreign exchange products were not matched historically in equity and mergers and acquisitions products. By committing greater resource and relationship management to these areas, we have driven our market share and positioning to top tier status.

Diversification and scale remain core strengths

At a time of intense international focus on the resolvability of systemically important financial institutions such as HSBC, the Board continues to believe strongly in the benefits that accrue both to customers and to the Group from a diversified universal banking model and from scale.

In the first half of 2013, there was a good balance between our global businesses with the largest, Global Banking and Markets, representing just over 40% of pre-tax profit. Geographically, profits were well spread with the largest proportion generated in markets recognised to have sustainably higher growth prospects. All regions were profitable in the period.

The advantage of having both intermediation businesses within retail and commercial banking and debt capital markets activities within Global Banking and Markets was again clearly illustrated in the period. While demand for bank credit remained muted, continuing low interest rates drove primary issuance through our debt capital markets operations, notably in Europe and Hong Kong. As emerging market customers increased their participation in debt capital markets, our well-established presence

Overview (continued)

and relationships successfully channelled business opportunities.

Implementing and enforcing Global Standards remains a key priority

HSBC s Global Standards programme is a centrepiece of our strategy to ensure HSBC is well-positioned to succeed. Our stated objective of being the world s leading international bank means that we also must be a leader in implementing the most effective standards globally. We are devoting significant resources and attention to this effort as we know we must back our strong commitment with capability. Over the past six months, we have increased resources in our Regulatory and Financial Crime Compliance units by over 1,600 headcount and are delivering mandatory training to all of our employees globally on critical compliance subjects on an ongoing basis.

With regard to the Deferred Prosecution Agreement (DPA) entered into with the US Department of Justice on 11 December 2012 and the associated legal and regulatory undertakings, the outstanding procedural arrangements have now been finalised.

On 1 July 2013, the US District Court Judge to whom the case was assigned formally approved the DPA, subject to a continued monitoring of its execution and implementation.

On 22 July, Michael Cherkasky began his work as the Monitor charged with evaluating and reporting upon, over a five-year period, the effectiveness of the Group s internal controls, policies and procedures as they relate to ongoing compliance with applicable anti-money laundering and sanctions laws. Mr Cherkasky s career has been characterised by his service to law enforcement in the US, both as a public servant and in private life through support and oversight roles. Further details about the role of the Monitor are provided on page 108.

Regulatory update

Strategy implementation continues to be executed within an evolving regulatory landscape. I drew attention in my report at the end of last year to the extensive programme of work still to be completed within the regulatory reform agenda. This remains the case. We continue to commit significant resources to work with public policy, regulatory and industry bodies to deliver the outcomes we jointly seek in terms of greater stability of the financial system and the restoration of society s trust and confidence in our industry.

Much of the reform programme has to date addressed the structural and financial underpinnings of our industry.

With progress in these areas solidly on track, it is good to see greater focus now being directed to the more complex areas, such as cross-border resolution issues, bail-in hierarchies and conduct and behaviour regulation.

In the latter area, the UK Parliamentary Commission on Banking Standards delivered its report on 12 June 2013. Their report is the most comprehensive study so far anywhere in the world to address the conduct and behavioural issues that, in truth, lie at the heart of the restoration of confidence and trust.

The report is hard-hitting and uncomfortable to read. Contained within the report are many constructive proposals to help fix the issues which have afflicted the industry, most importantly through re-establishing core values of personal responsibility and accountability. Some of the recommendations will be challenging to implement and there are some that we believe could have unintended consequences.

This notwithstanding, the report s analysis and recommendations have, as the UK Government recognised in its response, provided a formidable evidence base from which to implement the further changes needed to return banking to its core role within society of financing economic growth. We believe this is the right objective to emphasise and it has our full support.

Turning to progress on resolution planning, important proposals were published during the period by the EU authorities concerning a framework for bank resolution. Within this framework were proposals around a hierarchy for debt bail-in, designed to prevent any future call upon taxpayer support for a failed financial institution. The use of bail-in of unsecured debt in resolution carries broad industry backing in principle. However, we support industry calls for a careful study of the impact that any alteration of the hierarchy of claims will have on market behaviour, before any such hierarchy is finalised. At a time when it is critical to ensure that the fullest extent of financial industry capacity is ready to support economic growth initiatives, any changes that could affect bank funding markets need to be understood fully at both industry and individual bank levels.

Finally, a word on the requirements within the EU s latest Capital Requirements Directive (CRD IV) that will put a cap on the ratio of variable pay to fixed pay for defined employees

Overview (continued)

across the whole of the HSBC Group from the start of next year. These legislative changes, which are not supported by either the UK Government or the Prudential Regulation Authority, could have a highly damaging impact on our competitive position in many of our key markets, including those outside Europe. The Board is committed to protecting the competitive position of these operations which are critical to the continued success of your Group. We will therefore be consulting on how best to achieve this aim while seeking to preserve the essence of the remuneration framework supported by shareholders two years ago.

Audit arrangements

As was noted in last year s *Annual Report and Accounts*, KPMG Audit plc has been the auditor to HSBC Holdings since it became the ultimate holding company of the Group in 1991. Annual re-appointment of KPMG has been approved by shareholders during this period following successive Board recommendations. Your Board announced earlier this year that it intended to put the external audit contract out to tender, responding both to shareholder feedback and emerging regulatory proposals on auditor rotation. That tender process has now been conducted and concluded. As a consequence of this process, the Group Audit Committee has recommended to the Board that PricewaterhouseCoopers LLP be appointed auditor of the HSBC Group with effect from the year ending 31 December 2015. The Board intends to put this recommendation with its endorsement to shareholders at the 2015 Annual General Meeting.

Board changes

Since we reported the full-year results for 2012 there are three changes to report with regard to the Board.

On 31 May 2013, Sir Jonathan Evans (55) was appointed as an independent non-executive Director of HSBC Holdings plc with effect from 6 August. He will also be a member of the Financial System Vulnerabilities Committee.

Sir Jonathan s career in the Security Service (MI5) spanned 33 years, the last six of which as Director General. During his career, Sir Jonathan s experience included counter-espionage, protection of classified information and the security of critical national infrastructure. His main focus was, however, counter-terrorism, both international and domestic including, increasingly, initiatives against cyber threats.

Sir Jonathan s experience and expertise gained from a career at the highest level of public service

will be of considerable value to the Board as it addresses its governance of systemic threats.

On 20 May, John Thornton, who had served the Group as an independent non-executive Director of HSBC Holdings plc since December 2008 and as Chairman of the Group Remuneration Committee since May 2010, announced that he would not seek re-election as a Director at the 2013 Annual General Meeting in view of recently expanded responsibilities within his other business interests.

John made an invaluable contribution to the Group during his tenure, not least in his work with shareholders in his position as Chairman of the Group Remuneration Committee. On behalf of the Board and shareholders I would like to take this opportunity once again to thank him for his wise counsel and wish him all the best in his future endeavours.

Finally, Jim Comey, who joined the Board on 4 March this year was nominated by President Obama on 21 June to serve as the next Director of the FBI. Jim was confirmed by the US Senate on 29 July. He will take up his new post on 4 September and accordingly he will step down from the Board with effect from that date. Albeit serving for a very short period on the Board, Jim brought a fresh focus to Board discussions by virtue of his extensive experience accumulated in prior public and private roles at the highest level. We wish him well in his new role.

Looking ahead

Under the leadership of Stuart Gulliver, HSBC has assembled a first rate executive team which, within the strategic mandate and risk appetite approved by the Board, is working tirelessly to place HSBC at the forefront of the industry in terms both of banking standards and shareholder return. They could not succeed in these endeavours without the support, commitment and loyalty of HSBC s staff across the 80 countries and territories in which we operate and, once again, I pay tribute to them for their dedication at a time of great change in our industry.

D J Flint, *Group Chairman*

5 August 2013

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HSBC HOLDINGS PLC

Overview (continued)

Group Chief Executive s

Business Review

HSBC s performance during the first six months of 2013 reflected the trends we saw in the first quarter. Economic growth remained muted and regulatory changes continued to impact available returns but, by focusing on the markets and business areas where we have comparative strength and competitive advantage, we have successfully progressed the repositioning of the business to accommodate these factors.

Reported profit before tax in the first half was US$14.1bn, an increase of 10% compared with the same period in 2012. Underlying profit before tax increased by 47%. Return on average ordinary shareholders equity of 12.0% was up from 10.5% in the first half of 2012.

We made further progress on delivering our strategy in three key areas.

First, we grew revenues in key areas during the first half of the year, led by our Financing and Equity Capital Markets and Credit businesses, residential mortgages in the UK and Hong Kong, and from collaboration between our global businesses.

Second, we continued to pursue our aim of improving costs to invest in the business, achieving US$0.8bn of additional sustainable cost savings during the period. This takes the annualised total sustainable cost savings to US$4.1bn since the start of 2011, exceeding our original target for the end of 2013. In addition, we achieved a positive gap between underlying revenue and cost growth of 12% in the first half.

Third, we continued to reshape HSBC. In April 2013, we sold a US$3.7bn non-real estate loan portfolio, recording a loss on disposal of US$0.3bn

which was considerably lower than initially expected. This accelerated the run-off of the Consumer and Mortgage Lending portfolio in the US where we continue to refocus our business. We have announced a further 11 disposals or closures of non-strategic businesses since the beginning of the year, bringing the total number of transactions announced since the beginning of 2011 to 54. The rate of such transactions will now slow as the first phase of strategic delivery draws to a close.

The steps we have taken to reshape HSBC have released around US$80bn in risk-weighted assets to date, with a further potential release of around US$15bn to come. Alongside internal capital generation, this will add further support to investment in organic growth opportunities which are a strategic fit. These include priority areas such as transaction banking and trade finance, where we are already recognised as a market leader globally and, as mentioned by the Group Chairman in his statement, opportunities such as the development of equities in Hong Kong and our debt capital markets platforms in faster-growing markets, where our well-established presence and strong relationships give us a highly competitive position on which to build.

External recognition of the progress being made is now also evident. HSBC achieved the best showing of any bank at the *Euromoney Awards for Excellence 2013*. Of particular satisfaction were first time awards for Best Global Emerging Market Investment Bank and Best Equity House and Best M&A House both in Hong Kong as well as repeat awards for Best Global Emerging Market Debt House and Best Global Risk Adviser. Our investment in, and continued commitment to, transactional banking also saw HSBC recognised as Best Global Transaction Banking House.

In addition, as the internationalisation of China s currency continues apace, HSBC has again been recognised as the market leader for renminbi business. In the recent *Asiamoney Offshore Renminbi Poll* HSBC was ranked first in all product categories.

In May 2013, we set out our plans for the next phase of delivering our strategy, covering the period from 2014 to 2016. Our strategic direction is unchanged and our priorities are clear to grow the business and dividends, implement the highest Global Standards of conduct and compliance, and streamline our processes and procedures.

We remain committed to our values, and to ensuring that they are reflected in everything we do. Our values are to be dependable, open to different ideas and cultures, and connected to customers,

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Overview (continued)

communities, regulators and each other; they form a key part of the annual performance review for everyone who works at HSBC. By implementing Global Standards we are reinforcing the expectation that our employees will do the right thing, act with courageous integrity and maintain the most effective financial crime controls everywhere that we operate.

Group performance headlines

Reported profit before tax was US$14.1bn in the first half of 2013, up US$1.3bn, or 10%, on the same period in 2012. This reflected minimal fair value movements on our own debt compared with adverse movements of US$2.2bn in the first half of 2012, and lower operating expenses. This was partly offset by lower net gains from disposals, primarily as 2012 included a gain from the disposal of the US Cards and Retail Services business of US$3.1bn.

Underlying profit before tax was US$13.1bn, up US$4.2bn compared with the first half of 2012, due to higher revenues, lower loan impairment charges and lower costs. It is on an underlying basis that we measure our performance.

Underlying revenue was up US$1.2bn, or 4%, compared with the first half of 2012, and within this we achieved revenue growth in key areas of our global businesses. Commercial Banking achieved average balance sheet growth, primarily from term and trade-related lending, partially offset by spread compression. In addition, a rise in lending fees and collaboration revenues from closer co-operation with other parts of the Group led to an increase in net fee income. In Global Banking and Markets, revenues were up mainly in Financing and Equity Capital Markets and Credit, while in Retail Banking and Wealth Management we achieved growth in mortgage balances and wider spreads in our home markets of the UK and Hong Kong.

Underlying revenue included net favourable fair value movements on non-qualifying hedges of US$0.8bn, a net gain of US$0.6bn on completion of the disposal of our investment in Ping An and a US$0.5bn favourable debit valuation adjustment on derivative contracts.

Underlying loan impairment charges were down US$1.3bn, or 29%, compared with the first half of 2012. We saw declines in the majority of our regions, notably in North America, where the decrease primarily reflected improvements in housing market conditions, the continued run-off of the US Consumer and Mortgage Lending portfolio and lower delinquency levels. These factors were partly offset by an increase in individually assessed and collective impairment charges in Latin America.

Underlying operating expenses were down US$1.6bn, or 8%, compared with the same period last year. This mainly reflected the non-recurrence of provisions for fines and penalties recorded in the first half of last year, lower charges relating to UK customer redress programmes and lower restructuring costs. Excluding these items, operating expenses increased, mainly reflecting higher litigation-related costs. We continued to pursue our strategic focus on cost improvement to release funds to invest in the growing parts of our business and in our Global Standards governance and programmes. As stated above, during the first half of 2013 we also achieved additional sustainable cost savings.

After adjusting for portfolios which we are in the process of disposing of as part of reshaping our business, we grew loans and advances to customers. This principally reflected a rise in term and trade-related lending to Commercial Banking and Global Banking and Markets customers in Hong Kong and Rest of Asia-Pacific, together with continued growth in residential mortgages in the UK, Hong Kong and Rest of Asia-Pacific. These movements were partially offset by the continued run-off of the Consumer and Mortgage Lending portfolio in the US.

The core tier 1 ratio was 12.7%, with a common equity tier 1 ratio (Basel III end point) of 10.1% at 30 June 2013, we are well positioned with respect to the implementation of Basel III capital standards and remain one of the best-capitalised banks in the world which provides capacity for both organic growth and dividend return to shareholders.

Outlook

Despite slower growth in the short term, the long-term economic trends remain intact. The global economy will continue to rebalance towards the faster-growing markets and trade and capital flows will continue to expand.

Growth remains subdued in the Western economies. As such, any tapering of monetary stimuli will be approached with considerable caution. Sustained recovery is likely to depend on structural reform.

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Overview (continued)

In mainland China, the new emphasis on the quality rather than the quantity of growth is shifting the policy balance away from stimulus and towards reform. We believe this is likely to limit the pace of China s growth to 7.4% for 2013 and 2014, which is already being reflected in more modest growth figures in other markets, particularly in Asia.

However, we believe that China s reform agenda, which covers financial, fiscal, deregulation and urbanisation reforms, will provide the basis for more sustainable growth in the medium to long term.

With our network covering 80 countries and territories, and strong market shares across the faster-growing markets, HSBC remains well-positioned to benefit from the long-term trends in the global economy.

S T Gulliver, *Group Chief Executive*

5 August 2013

Overview (continued)

HSBC s vision

For footnote, see page 100.

Principal activities

Our purpose is to enable businesses to thrive and economies to prosper, helping people fulfil their hopes and realise their ambitions.

HSBC is one of the largest banking and financial services organisations in the world, with a market capitalisation of US$196bn at 30 June 2013.

Through our subsidiaries and associates, we provide a comprehensive range of banking and related financial services. Headquartered in London, we operate through long-established businesses and have an international network of around 6,600 offices in 80 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa (MENA), North America and Latin America. Within these regions, a comprehensive range of financial services is offered to personal, commercial, corporate, institutional, investment and private banking clients. Services are delivered primarily by domestic banks, typically with large retail deposit bases.

HSBC Values

Embedding global standards across HSBC in a consistent manner is a top priority and is shaping the way we do business.

The role of HSBC Values in daily operating practice is fundamental to our culture in the context of the financial services sector and the wider economy. This is particularly so in the light of developments and changes in regulatory policy, investor confidence and society s view of the role of banks. We expect our executives and employees to act with

courageous integrity in the execution of their duties by being:

- dependable and doing the right thing;
- open to different ideas and cultures; and

connected with our customers, communities, regulators and each other.

We continue to enhance our values-led culture by embedding HSBC Values into how we conduct our business, and in the selection, assessment, recognition and training of staff.

Ensuring our conduct matches our values

In line with our ambition to be recognised as the world s leading international bank, we aspire to lead the industry in our standards of conduct. As international markets become more interconnected and complex, and as threats to the global financial system grow, we are strengthening further the policies and practices which govern how we do business and with whom.

Like any business, we greatly value our reputation. HSBC s success over the years is due in no small part to our reputation for trustworthiness and integrity.

Under the supervision of the Group Management Board s (GMB s) Global Standards Steering Meetings, we are already strengthening policies and processes in a number of important areas.

We are also reinforcing the status of compliance and standards as an important element of how we assess and reward senior executives, and rolling out communication, training and assurance programmes to ensure that our staff understand and meet their responsibilities.

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HSBC HOLDINGS PLC

Overview (continued)

We have adopted the UK Code of Practice for the Taxation of Banks and seek to apply the spirit as well as the letter of the law in all the territories in which we operate. We deal with tax authorities in an open and honest manner. We are strengthening our policies and controls with the objective of ensuring our services are not used by clients seeking to evade their tax obligations.

A committee of the HSBC Holdings Board, the Financial System Vulnerabilities Committee, provides governance, oversight and policy guidance over the framework of controls and procedures designed to identify areas where HSBC may become exposed and through that exposure, subject the financial system more broadly to financial crime or system abuse.

Business and operating models

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

Our businesses are organised to serve a cohesive portfolio of markets, as tabulated below.

Business model

We take deposits from our customers and use these funds to make loans, either directly or through the capital markets. Our direct lending includes unsecured lending, residential and commercial mortgages and overdrafts, and term loan facilities.

We finance importers and exporters engaged in international trade and provide advances to companies secured on amounts owed to them by their customers.

In addition, we offer a wide variety of products and financial services including broking, asset management, financial advisory, life insurance manufacturing, corporate finance, markets, securities services and alternative investments. We provide these products for clients ranging from governments to large and mid-market corporates, small and medium-sized enterprises (SME s), high net worth individuals and retail customers.

Our operating income is primarily derived from:

- net interest income interest income we earn on customer loans and advances and on our surplus funds, less interest expense we pay on interest-bearing customer accounts and debt securities in issue;
- net fee income fee income we earn from the provision of financial services and products to customers; and
- net trading income income from trading activities primarily conducted in Global Markets, including Foreign Exchange, Credit, Rates and Equities trading.

We have identified the markets where we expect future growth opportunities to be concentrated.

The structure is illustrated below.

HSBC s market structure

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HSBC HOLDINGS PLC

Overview (continued)

The UK and Hong Kong are our home markets, and a further 20 countries are our priority growth markets. These 22 markets accounted for over 90% of our profit before tax in the first half of 2013, and are the primary focus of capital deployment. Network markets are markets with strong international relevance which serve to complement our international network, operating mainly through CMB and GB&M. Our combination of home, priority growth and network markets covers around 85-90% of all international trade and financial flows.

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

Operating model

HSBC has a matrix management structure which includes global businesses, geographical regions and global functions.

Holding company

HSBC Holdings plc, the holding company of the Group, is listed in London, Hong Kong, New York, Paris and Bermuda. HSBC Holdings is the primary provider of equity capital to its subsidiaries and provides non-equity capital to them when necessary.

Under authority delegated by the Board of HSBC Holdings, GMB is responsible for the management and day-to-day running of the Group within the risk appetite set by the Board. The Board,

through the GMB, works to ensure that there are sufficient cash resources to pay dividends to shareholders, interest to bondholders, expenses and taxes.

HSBC Holdings does not provide core funding to any subsidiary, nor is it a lender of last resort and does not carry out any banking business in its own right. HSBC has a legal entity-based Group structure, with subsidiaries operating under their own boards of directors as separately capitalised, ring-fenced entities, implementing Group strategy and delivering Group products and services, in most cases in the country or territory in which they are domiciled.

Global businesses

Our four global businesses, Retail Banking and Wealth Management (RBWM), Commercial Banking (CMB), Global Banking and Markets (GB&M) and Global Private Banking (GPB), are responsible for developing, implementing and managing their business propositions consistently across the Group, focusing on profitability and efficiency. They set their strategies within the parameters of the Group strategy in liaison with the geographical regions, are responsible for issuing planning guidance regarding their businesses, are accountable for their profit and loss performance, and manage their headcount.

The main business activities of our global business are summarised below.

Main business activities by global business

For footnotes, see page 100.

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HSBC HOLDINGS PLC

Overview (continued)

Geographical regions

The geographical regions share responsibility for executing the strategies set by the global businesses. They represent the Group to clients, regulators, employee groups and other stakeholders, allocate capital, manage risk appetite, liquidity and funding by legal entity and are accountable for profit and loss performance in line with global business plans.

Within the geographical regions, the Group is structured as a network of regional banks and locally incorporated regulated banking entities. Each bank is separately capitalised in accordance with applicable prudential reporting requirements and is required to consider its risk and maintain a capital buffer consistent with the Group s risk appetite for the relevant country or region. The banking entities manage their own funding and liquidity within parameters set centrally.

Global functions

Our global functions are Communications, Company Secretaries, Corporate Sustainability, Finance, Human Resources, Internal Audit, Legal, Marketing, Risk (including Regulatory and Financial Crime Compliance), Strategy and Planning, and HSBC Technology and Services, our global service delivery organisation. The global functions establish and manage all policies, processes and delivery platforms relevant to their activities, are fully accountable for their costs globally, and are responsible for managing their headcount while delivering their services to the global businesses and geographical regions.

Strategic direction

Our strategic objective is to become the world s leading international bank.

Our strategic direction is aligned to two long-term trends:

International trade and capital flows the world economy is becoming ever more connected. Financial flows between countries and regions are highly concentrated, and over the next decade we expect 35 markets to generate 90% of world trade growth with a similar degree of concentration in cross-border capital flows.

Economic development and wealth creation we expect the GDP of economies currently deemed emerging to have increased five-fold in size by 2050, benefiting from demographics and urbanisation, by which time they will be larger than the developed world. By then, we expect 19 of the 30 largest economies will be markets that are currently described as emerging.

HSBC is one of the few truly international banks and our advantages lie in the extent to which our network corresponds with markets relevant to international financial flows, our access and exposure to high growth markets and businesses, and our strong balance sheet, which helps to generate a resilient stream of earnings.

Based on these long-term trends and our competitive position, we have developed a strategy in two parts:

A network of businesses connecting the world HSBC is well positioned to capture the growing international financial flows. Our global reach and range of services place us in a strong position to serve corporate clients as they grow from small enterprises into large and international corporates.

Wealth management and retail with local scale we will capture opportunities arising from social mobility and wealth creation in the faster-growing markets in which we are present. We will invest in retail businesses only in markets where we can achieve profitable scale.

To implement this strategy we have set three priorities for the Group: grow the business and dividends; implement Global Standards; and streamline processes and procedures.

Grow the business and dividends

We continue to position HSBC for growth, generating capital to invest in mostly organic opportunities in our home and priority growth markets, while progressively growing the dividend.

We have adopted six filters, which serve as a tool to determine which businesses fit or do not fit in our portfolio. They help to address fragmentation in our business portfolio by identifying which non-strategic businesses to dispose of.

In deciding where to invest additional resources going forward, we will follow this stringent framework to assess investment opportunities using strategic, risk and financial criteria. Decisions on how we allocate our resources are made by the GMB under authority delegated from the Board.

For examples of the measures taken by the global businesses to implement the Group s growth priorities, see pages 48 to 56.

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HSBC HOLDINGS PLC

Overview (continued)

Implement Global Standards

We believe that implementing Global Standards gives HSBC a distinct competitive advantage. We continue to build a more sustainable business model by investing in best-in-class risk and compliance capabilities, while de-risking operations in higher-risk areas.

The Group s specific programme to enhance Global Standards with respect to financial crime risk continues to make progress. With a focus on managing execution risk, the various workstreams have been consolidated under a governance framework.

A Global Standards Execution Committee, reporting to the Global Standards Steering Meeting (GSSM part of the Group Management Board) and the Financial System Vulnerabilities Committee, provides execution controls based on the direction and priorities set by the GSSM.

Under this governance structure, a global deployment approach has been developed to manage execution risk and oversee a prioritised implementation programme. The three primary areas of focus are:

customer due diligence: developing an integrated framework to manage financial crime risk more effectively across the complete customer lifecycle. This includes Know Your Customer programmes, affiliate due diligence programmes and work on areas such as tax transparency and bearer shares;

financial crime compliance: creating a consistent, flexible and scalable Compliance organisation and the financial crime risk controls to make sure we meet all DPA and other regulatory obligations. This includes implementing a comprehensive anti-money laundering and sanctions compliance programme globally; and

financial intelligence: building our capabilities in the capture and use of customer and transactional level data to identify suspicious transactions, activity or connections.

Streamline processes and procedures

We have put in place a structure to manage the bank globally, moving from a federated business to a globally driven business model. Our aim is to continue to streamline, globalise and simplify our processes and procedures to generate sustainable savings. This will release capacity to further invest in growing the business.

If we are successful in executing our strategy we will be regarded as the world s leading international bank.

Risk

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

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

Overview (continued)

Exposure to risks arising from the business activities of global businesses

For footnote, see page 100.

In carrying out our business activities, we incur a range of risks, some of which are measured and managed via capital, and some by other mechanisms. For the risks assessed via capital, we use both regulatory and economic capital methodologies. Our risk appetite is most shaped by regulatory capital, as it currently exceeds economic capital and therefore bounds risk capacity and risk appetite to a greater degree in the current environment. The table above shows the Pillar 1 regulatory capital demand for those risks and is represented by RWAs. Under this regulatory capital framework, the capital invested in our Insurance business, which at 30 June 2013 was US$9.5bn, is deducted from regulatory capital. HSBC is also exposed to other risks as shown in the table above. The regulatory capital required against these other risks is covered within the total capital that HSBC holds.

Risk factors

Our businesses are exposed to a variety of risk factors that could potentially affect the results of our operations or financial condition. These are summarised on page 20 of the *Annual Report and*

Accounts 2012. They inform our ongoing assessment of our top and emerging risks.

Top and emerging risks

We classify certain risks as top or emerging . We define a top risk as being a current, extant risk which has arisen across any of our risk categories, regions or global businesses and has the potential to have a material impact on our financial results or our reputation and the sustainability of our long-term business model, and which may form and crystallise within a one-year horizon. We consider an emerging risk to be one which has large uncertain outcomes which may form and crystallise beyond a one-year horizon and which, if they were to crystallise, could have a material effect on our long-term strategy.

All our activities involve, to varying degrees, the measurement, evaluation, acceptance and management of risk or combinations of risks which we assess on a Group-wide basis. Top and emerging risks fall under the following three broad categories:

- macroeconomic and geopolitical risk;

Overview (continued)

- macro-prudential, regulatory and legal risks to our business model; and
- risks related to our business operations, governance and internal control systems.

During the first half of 2013, our senior management paid particular attention to a number of top and emerging risks which are summarised below:

Macroeconomic and geopolitical risk

- Emerging markets slowdown
- Increased geopolitical risk and changes in energy markets
- Threats to the global economy from a disorderly exit from quantitative easing

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

- Regulatory developments affecting our business model and Group profitability
- Regulatory investigations and requirements relating to conduct of business and financial crime negatively affecting our results and brand
- Dispute risk

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

- Regulatory commitments and consent orders including under the Deferred Prosecution Agreements
- Internet crime and fraud
- Data management

Disposals

Level of change in the Compliance function

Information security risk

Model risk

All the above risks are regarded as top risks.

A detailed account of these risks is provided on page 105. Further comments on expected risks and uncertainties are made throughout the *Annual Report and Accounts 2012*, particularly in the section on Risk, pages 123 to 249.

Risk appetite

Risk appetite is a key component of our management of risk and describes the types and level of risk we

are prepared to accept in delivering our strategy. Our risk appetite is set out in the Group s Risk Appetite Statement and is central to the annual planning process. Global businesses, geographical regions and global functions are required to articulate their risk appetite statements.

Our risk appetite may be revised in response to our assessment of the top and emerging risks we have identified.

Quantitative and qualitative metrics are assigned to nine key categories: earnings, capital, liquidity and funding, securitisations, cost of risk, intra-Group lending, strategic investments, risk categories and risk diversification and concentration. Measurement against the metrics:

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

informs risk-adjusted remuneration;

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

promptly identifies business decisions needed to mitigate risk.

Some of the core metrics that are measured, monitored and presented monthly to the Board are tabulated below:

Risk appetite metrics

	Target[10]	**At 30 June 2013**
Core tier 1 ratio	9.5% to 10.5%	**12.7%**
Return on equity	12% to 15%	**12.0%**

Return on RWAs	2.1% to 2.7%	**2.6%**
Cost efficiency ratio	48% to 52%	**53.5%**
Advances to customer accounts ratio	Below 90%	**73.7%**
Cost of risk (LICs)	Below 15% of operating income	**7.9%**

For footnote, see page 100.

HSBC HOLDINGS PLC

Interim Management Report

Financial summary

Use of non-GAAP financial measures

Our reported results are prepared in accordance with IFRSs as detailed in the Financial Statements starting on page 208. When we measure performance, the financial measures that we use include those which have been derived from our reported results in order to eliminate factors which distort year-on-year comparisons. These are considered non-GAAP financial measures. Constant currency and underlying performance are non-GAAP

financial measures that we use throughout our Interim Management Report and are described below. Other non-GAAP financial measures are described and reconciled to the closest reported financial measure when used.

Constant currency

Constant currency adjusts the period-on-period effects of foreign currency translation differences on performance by comparing reported results for the half-year to 30 June 2013 with reported results for the half-years to 30 June 2012 and 31 December 2012 retranslated at average exchange rates for the half-year to 30 June 2013. Except where stated otherwise, commentaries are on a constant currency basis, as reconciled in the table overleaf.

The foreign currency translation differences reflect the movements of the US dollar against most major currencies during the six months and the year to 30 June 2013.

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

Constant currency

Constant currency comparatives for the half-year to 30 June 2012 and 31 December 2012 referred to in the commentaries below are computed by retranslating into US dollars for non-US dollar branches, subsidiaries, joint ventures and associates:

- the income statements for the half-years to 30 June 2012 and 31 December 2012 at the average rates of exchange for the half-year to 30 June 2013; and
- the balance sheets at 30 June 2012 and 31 December 2012 at the prevailing rates of exchange ruling at 30 June 2013.

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

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

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Reconciliation of reported and constant currency profit before tax

	Half-year to 30 June 2013 (1H13) compared with half-year to 30 June 2012 (1H12)					
HSBC	**1H12 as reported US$m**	**Currency translation adjustment[18] US$m**	**1H12 at 1H13 exchange rates US$m**	**1H13 as reported US$m**	**Reported change[19] %**	**Constant currency change[19] %**
Net interest income	19,376	(278)	19,098	17,819	(8)	(7)
Net fee income	8,307	(85)	8,222	8,404	1	2
Own credit spread[20]	(2,170)	8	(2,162)	(19)	99	99
Gains on disposal of US branch network and cards business	3,809		3,809		(100)	(100)
Other income[21]	7,575	(171)	7,404	8,168	8	10
Net operating income[22]	36,897	(526)	36,371	34,372	(7)	(5)
Loan impairment charges and other credit risk provisions	(4,799)	101	(4,698)	(3,116)	35	34
Net operating income	32,098	(425)	31,673	31,256	(3)	(1)
Operating expenses	(21,204)	313	(20,891)	(18,399)	13	12
Operating profit	10,894	(112)	10,782	12,857	18	19
Share of profit in associates and joint ventures	1,843	14	1,857	1,214	(34)	(35)
Profit before tax	12,737	(98)	12,639	14,071	10	11
By global business[23]						
Retail Banking and Wealth Management	6,410	2	6,412	3,267	(49)	(49)
Commercial Banking	4,429	(41)	4,388	4,133	(7)	(6)
Global Banking and Markets	5,047	(63)	4,984	5,723	13	15
Global Private Banking	527	(14)	513	108	(80)	(79)
Other	(3,676)	18	(3,658)	840		
Profit before tax	12,737	(98)	12,639	14,071	10	11
By geographical region[23]						
Europe	(667)	19	(648)	2,768		
Hong Kong	3,761		3,761	4,205	12	12
Rest of Asia-Pacific	4,372	(23)	4,349	5,057	16	16
Middle East and North Africa	772	(15)	757	909	18	20
North America	3,354	(7)	3,347	666	(80)	(80)
Latin America	1,145	(72)	1,073	466	(59)	(57)
Profit before tax	12,737	(98)	12,639	14,071	10	11

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HSBC HOLDINGS PLC

Interim Management Report (continued)

	Half-year to 30 June 2013 (1H13) compared with half-year to 31 December 2012 (2H12)					
	2H12 as reported	Currency translation adjustment[18]	2H12 at 1H13 exchange rates	1H13 as reported	Reported change[19]	Constant currency change[19]
HSBC	US$m	US$m	US$m	US$m	%	%
Net interest income	18,296	(102)	18,194	17,819	(3)	(2)
Net fee income	8,123	(48)	8,075	8,404	3	4
Own credit spread[20]	(3,045)	20	(3,025)	(19)	99	99
Gains on disposal of US branch network, US cards business and Ping An	3,215		3,215		(100)	(100)
Other income[21]	4,844	(251)	4,593	8,168	69	78
Net operating income[22]	31,433	(381)	31,052	34,372	9	11
Loan impairment charges and other credit risk provisions	(3,512)	9	(3,503)	(3,116)	11	11
Net operating income	27,921	(372)	27,549	31,256	12	13
Operating expenses	(21,723)	147	(21,576)	(18,399)	15	15
Operating profit	6,198	(225)	5,973	12,857	107	115
Share of profit in associates and joint ventures	1,714	13	1,727	1,214	(29)	(30)
Profit before tax	7,912	(212)	7,700	14,071	78	83
By global business[23]						
Retail Banking and Wealth Management	3,165	(15)	3,150	3,267	3	4
Commercial Banking	4,106	(3)	4,103	4,133	1	1
Global Banking and Markets	3,473	31	3,504	5,723	65	63
Global Private Banking	482	(1)	481	108	(78)	(78)
Other	(3,314)	(224)	(3,538)	840		
Profit before tax	7,912	(212)	7,700	14,071	78	83
By geographical region[23]						
Europe	(2,747)	(105)	(2,852)	2,768		
Hong Kong	3,821	(7)	3,814	4,205	10	10
Rest of Asia-Pacific	6,076	(75)	6,001	5,057	(17)	(16)
Middle East and North Africa	578	(13)	565	909	57	61
North America	(1,055)	(10)	(1,065)	666		
Latin America	1,239	(2)	1,237	466	(62)	(62)
Profit before tax	7,912	(212)	7,700	14,071	78	83

For footnotes, see page 100.

Underlying performance

Underlying performance:

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

eliminates the fair value movements on our long-term debt attributable to credit spread (own credit spread) where the net result of such movements will be zero upon maturity of the debt (see footnote 20 on page 100); and

adjusts for acquisitions, disposals and changes of ownership levels of subsidiaries, associates, joint ventures and businesses.

For acquisitions, disposals and changes of ownership levels of subsidiaries, associates, joint ventures and businesses, we eliminate the gain or loss on disposal or dilution and any associated gain or loss on reclassification or impairment recognised in the period incurred, and remove the operating profit or loss of the acquired, disposed of or diluted subsidiaries, associates, joint ventures and businesses from all the periods presented so we can view results on a like-for-like basis. For example, if a disposal was made in the current year, any gain or loss on disposal, any associated gain or loss on reclassification or impairment recognised and the results of the disposed-of business would be removed from the results of the current year and the previous year as if the disposed-of business did not exist in those years. Disposal of investments other than those included in the above definition do not lead to underlying adjustments.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

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

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

Disposal gains/(losses) affecting underlying performance

	Date	Disposal gain/(loss) US$m
HSBC Bank Canada s disposal of HSBC Securities (Canada) Inc s full service retail brokerage business[24]	Jan 2012	**83**
The Hongkong and Shanghai Banking Corporation Limited s disposal of RBWM operations in Thailand[24]	Mar 2012	**108**
HSBC Finance Corporation, HSBC USA Inc. and HSBC Technology and Services (USA) Inc. s disposal of US Card and Retail Services business[24]	May 2012	**3,148**
HSBC Bank USA, N.A. s disposal of 138 non-strategic branches[24]	May 2012	**661**
HSBC Argentina Holdings S.A. s disposal of its non-life insurance manufacturing subsidiary[24]	May 2012	**102**
The Hongkong and Shanghai Banking Corporation Limited s disposal of its private banking business in Japan[24]	Jun 2012	**67**
The Hongkong and Shanghai Banking Corporation Limited s disposal of its shareholding in a property company in the Philippines	Jun 2012	**130**
Hang Seng Bank Limited s disposal of its non-life insurance manufacturing subsidiary[24]	Jul 2012	**46**
HSBC Bank USA, N.A. s disposal of 57 non-strategic branches[24]	Aug 2012	**203**
HSBC Asia Holdings B.V. s investment loss on a subsidiary[24]	Aug 2012	**(85)**
HSBC Bank plc s disposal of HSBC Securities SA	Aug 2012	**(11)**
HSBC Europe (Netherlands) B.V. s disposal of HSBC Credit Zrt	Aug 2012	**(2)**
HSBC Europe (Netherlands) B.V. s disposal of HSBC Insurance (Ireland) Limited	Oct 2012	**(12)**
HSBC Europe (Netherlands) B.V. s disposal of HSBC Reinsurance Limited	Oct 2012	**7**
HSBC Private Bank (UK) Limited s disposal of Property Vision Holdings Limited	Oct 2012	**(1)**
HSBC Investment Bank Holdings Limited s disposal of its stake in Havas Havalimanlari Yer Hizmetleri Yatirim Holding Anonim Sirketi	Oct 2012	**18**
HSBC Insurance (Asia) Limited s disposal of its non-life insurance portfolios[24]	Nov 2012	**117**
HSBC Bank plc s disposal of HSBC Shipping Services Limited	Nov 2012	**(2)**
HSBC Bank (Panama) S.A. s disposal of its operations in Costa Rica, El Salvador and Honduras[24]	Dec 2012	**(62)**
HSBC Insurance Holdings Limited and The Hongkong and Shanghai Banking Corporation Limited s disposal of their shares in Ping An Insurance (Group) Company of China, Ltd.[24]	Dec 2012	**3,012**
The Hongkong and Shanghai Banking Corporation Limited s disposal of its shareholding in Global Payments Asia-Pacific Limited[24]	Dec 2012	**212**
Reclassification gain in respect of our holding in Industrial Bank Co., Limited following the issue of additional share capital to third parties[24]	Jan 2013	**1,089**
HSBC Insurance (Asia-Pacific) Holdings Limited s disposal of its shareholding in Bao Viet Holdings[24]	Mar 2013	**104**
Household Insurance Group Holding company s disposal of its insurance manufacturing business[24]	Mar 2013	**(99)**

HSBC Seguros, S.A. de C.V., Grupo Financiero HSBC disposal of its property and Casualty Insurance business in Mexico[24]	Apr 2013	**20**
HSBC Bank plc s disposal of its shareholding HSBC (Hellas) Mutual Funds Management SA (HSBC AEDAK)	Apr 2013	**(7)**
HSBC Insurance (Asia-Pacific) Holdings Limited disposal of its shareholding in Hana HSBC Life Insurance Company Limited[24]	May 2013	**28**
HSBC Bank plc s disposal of HSBC Assurances IARD	May 2013	**(4)**
The Hongkong and Shanghai Banking Corporation Limited s disposal of HSBC Life (International) Limited s Taiwan branch operations	June 2013	**(36)**

Acquisition gains/(losses) affecting underlying performance[25]

	Date	**Fair value gain on acquisition US$m**
Gain on the merger of Oman International Bank S.A.O.G. and the Omani operations of HSBC Bank Middle East Limited	Jun 2012	**3**
Gain on the acquisition of the onshore retail and commercial banking business of Lloyds Banking Group in the UAE by HSBC Bank Middle East Limited	Oct 2012	**18**

For footnotes, see page 100.

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The following table reconciles our reported revenue, loan impairment charges, operating expenses and profit before tax for the first half of 2013 and the two halves of 2012 to an underlying basis. Throughout this *Interim Report*, we reconcile other reported results to underlying results when

doing so results in a more useful discussion of operating performance. Equivalent tables are provided for each of our global businesses and geographical segments on pages 57a and 98a, which are available on www.hsbc.com.

Reconciliation of reported and underlying items

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Revenue[22]						
Reported revenue	**34,372**	36,897	(7)	**34,372**	31,433	9
Currency translation adjustment[18]		(534)			(401)	
Own credit spread[20]	**19**	2,170		**19**	3,045	
Acquisitions, disposals and dilutions	**(1,097)**	(6,439)		**(1,097)**	(3,688)	
Underlying revenue	**33,294**	32,094	4	**33,294**	30,389	10
Loan impairment charges and other credit risk provisions (LIC s)						
Reported LICs	**(3,116)**	(4,799)	35	**(3,116)**	(3,512)	11
Currency translation adjustment[18]		101			9	
Acquisitions, disposals and dilutions	**1**	331		**1**	8	
Underlying LICs	**(3,115)**	(4,367)	29	**(3,115)**	(3,495)	11
Operating expenses						
Reported operating expenses	**(18,399)**	(21,204)	13	**(18,399)**	(21,723)	15
Currency translation adjustment[18]		313			147	
Acquisitions, disposals and dilutions	**87**	964		**87**	180	
Underlying operating expenses	**(18,312)**	(19,927)	8	**(18,312)**	(21,396)	14
Underlying cost efficiency ratio	**55.0%**	62.1%		**55.0%**	70.4%	
Profit before tax						
Reported profit before tax	**14,071**	12,737	10	**14,071**	7,912	78
Currency translation adjustment[18]		(106)			(232)	
Own credit spread[20]	**19**	2,170		**19**	3,045	
Acquisitions, disposals and dilutions	**(1,012)**	(5,905)		**(1,012)**	(4,179)	
Underlying profit before tax	**13,078**	8,896	47	**13,078**	6,546	100
By global business[23]						
Retail Banking and Wealth Management	**3,340**	1,338	150	**3,340**	2,662	25
Commercial Banking	**4,131**	3,970	4	**4,131**	3,654	13
Global Banking and Markets	**5,729**	4,760	20	**5,729**	3,235	77

Global Private Banking	**108**	457	(76)	**108**	482	(78)
Other	**(230)**	(1,629)	86	**(230)**	(3,487)	93
Underlying profit before tax	**13,078**	8,896	47	**13,078**	6,546	100
By geographical region[23]						
Europe	**2,776**	949	193	**2,776**	(364)	
Hong Kong	**4,205**	3,733	13	**4,205**	3,422	23
Rest of Asia-Pacific	**3,940**	3,326	18	**3,940**	2,363	67
Middle East and North Africa	**910**	734	24	**910**	618	47
North America	**808**	(772)		**808**	(717)	
Latin America	**439**	926	(53)	**439**	1,224	(64)
Underlying profit before tax	**13,078**	8,896	47	**13,078**	6,546	100

For footnotes, see page 100.

Interim Management Report (continued)

Reconciliation of reported and underlying average risk weighted assets

Group

	Half year to					
	30 June 2013 US$bn	30 June 2012 US$bn	Change %	**30 June 2013 US$bn**	31 December 2012 US$bn	Change %
Average reported RWAs	**1,109**	1,194	(7)	**1,109**	1,146	(3)
Currency translation adjustment		(5)			(6)	
Acquisitions, disposals and dilutions	**(14)**	(96)		**(14)**	(57)	
Average underlying RWAs	**1,095**	1,093		**1,095**	1,083	1

US CML and other

	Half year to					
	30 June 2013 US$bn	30 June 2012 US$bn	Change %	**30 June 2013 US$bn**	31 December 2012 US$bn	Change %
Average reported RWAs	**99**	127	(22)	**99**	116	(15)
Average underlying RWAs	**99**	127	(22)	**99**	116	(15)

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Consolidated income statement

Summary income statement

	Half-year to		
	30 June	30 June	31 December
	2013	2012	2012
	US$m	US$m	US$m
Net interest income	**17,819**	19,376	18,296
Net fee income	**8,404**	8,307	8,123
Net trading income	**6,362**	4,519	2,572
Net expense from financial instruments designated at fair value	**(1,197)**	(1,183)	(1,043)
Gains less losses from financial investments	**1,856**	1,023	166
Dividend income	**107**	103	118
Net earned insurance premiums	**6,226**	6,696	6,348
Gains on disposal of US branch network, US cards business and Ping An		3,809	3,215
Other operating income	**946**	1,022	1,078
Total operating income	**40,523**	43,672	38,873
Net insurance claims incurred and movement in liabilities to policyholders	**(6,151)**	(6,775)	(7,440)
Net operating income before loan impairment charges and other credit risk provisions	**34,372**	36,897	31,433
Loan impairment charges and other credit risk provisions	**(3,116)**	(4,799)	(3,512)
Net operating income	**31,256**	32,098	27,921
Total operating expenses	**(18,399)**	(21,204)	(21,723)
Operating profit	**12,857**	10,894	6,198
Share of profit in associates and joint ventures	**1,214**	1,843	1,714
Profit before tax	**14,071**	12,737	7,912
Tax expense	**(2,725)**	(3,629)	(1,686)
Profit for the period	**11,346**	9,108	6,226
Profit attributable to shareholders of the parent company	**10,284**	8,438	5,589
Profit attributable to non-controlling interests	**1,062**	670	637
Average foreign exchange translation rates to US$:			
US$1: £	**0.648**	0.634	0.628
US$1:	**0.761**	0.771	0.786

Interim Management Report (continued)

Reported profit before tax of US$14.1bn in the first half of 2013 was US$1.3bn or 10% higher than in the first half of 2012, primarily due to minimal fair value movements on our own debt compared with adverse movements of US$2.2bn in the comparative period, and lower operating expenses. These factors were partially offset by lower gains (net of losses) from disposals and reclassifications of US$1.1bn compared with US$4.3bn in the first half of 2012. This mainly reflected the gain on disposal of the Card and Retail Services (CRS) business in North America in May 2012, which more than offset the accounting gain arising in the first quarter of 2013 from the reclassification of Industrial Bank Co., Ltd (Industrial Bank) as a financial investment following its issue of additional share capital to third parties.

On an underlying basis, profit before tax rose by 47%, primarily due to higher net operating income before loan impairment charges and other credit risk provisions (revenue), lower loan impairment charges and other credit risk provisions (LIC s), and lower operating expenses.

The following commentary is on an underlying basis, except where otherwise stated. The difference between reported and underlying results is explained and reconciled on page 21.

Revenue of US$33.3bn was US$1.2bn or 4% higher than in the first half of 2012, reflecting:

- favourable fair value movements on non-qualifying hedges of US$293m compared with adverse movements of US$462m in the first half of 2012;
- a net gain recognised on completion of the disposal of our investment in Ping An Insurance (Group) Company of China, Ltd. (Ping An) of US$553m;
- a favourable debit valuation adjustment (DVA) of US$451m in GB&M on derivative contracts (see page 28);
- foreign exchange gains on sterling debt issued by HSBC Holdings of US$442m;
- a loss following the reclassification of the Monaco business in GPB to held for sale of US$279m (see also Note 25 on the Financial statements); and
- a loss of US$138m on the sale of an HFC Bank UK secured loan portfolio.

Excluding these items, the main drivers of revenue movements in our global businesses were as follows:

- in GB&M, revenue increased in most of the businesses. Notably, there was a strong performance from Credit as clients sought funding from the debt capital markets, along with reserve releases compared with charges in the first half of 2012 and revaluation gains on assets in the legacy portfolio. In addition, income from Credit and Lending within Financing and Equity Capital Markets increased, benefiting from a rise in lending spreads and lower cost of funds compared with the same period last year. These factors were partly offset by a decline in revenue from Balance Sheet Management as expected due to reduced net interest income as proceeds from the sale and maturing of investments were reinvested at lower prevailing rates, coupled with a reduction in gains on the disposal of available-for-sale debt securities. In addition, revenue from Rates decreased as the first half of 2012 benefited from the significant tightening of spreads on eurozone bonds following the

European Central Bank s announcement of the Long-Term Refinancing Operation, although this reduction in revenue was partly offset by minimal fair value movements on structured liabilities compared with adverse movements in the first half of 2012;

in CMB, net interest income increased marginally, with growth in average customer loans and deposits largely offset by spread compression. Revenue also benefited from collaboration with other global businesses, particularly GB&M in Hong Kong, and a rise in lending fees;

in RBWM, revenue decreased, primarily reflecting losses on the sale of the non-real estate portfolio and the early termination of cash flow hedges, both in the US run-off portfolio. These factors were partly offset by higher net interest income from improved mortgage spreads and an increase in average mortgage balances, primarily in Hong Kong and the UK. In addition, net fee income increased reflecting higher investment product sales in Hong Kong, notably from unit trusts and retail brokerage; and

in GPB, revenue decreased as higher yielding positions matured and opportunities for reinvestment were limited by prevailing rates, lending and deposit spreads narrowed and average deposit balances fell.

LICs were US$1.3bn lower than in the first half of 2012, decreasing in the majority of our regions,

Interim Management Report (continued)

notably North America, where the decrease primarily reflected improvements in housing market conditions, the continued reduction in the Consumer Mortgage and Lending (CML) portfolio and lower delinquency levels. In Middle East and North Africa, we benefited from net releases of impairment charges, reflecting the improvement in the financial position of certain customers. In Europe, GB&M reported lower credit risk provisions following net releases on available-for-sale asset backed securities (ABS s), compared with charges in the first half of 2012. In Rest of Asia-Pacific, LICs were lower as the first half of 2012 included a large individually assessed impairment charge on a corporate exposure in CMB and a credit risk provision on an available-for-sale debt security in GB&M. By contrast, LICs were higher in Latin America, notably in Mexico reflecting an increase in collective impairments in RBWM and an increase in individually assessed provisions in CMB. In Brazil, higher LICs included charges mainly relating to impairment model changes and assumption revisions for restructured loan accounts in portfolios in RBWM and Business Banking in CMB (see page 113), although this was in part offset by an improvement in the quality of the portfolio.

Operating expenses were lower than in the first half of 2012. This primarily arose from the non-recurrence of a provision for US anti-money laundering, Bank Secrecy Act (BSA) and Office of Foreign Asset Control (OFAC) investigations, and lower charges relating to UK customer redress programmes, restructuring and related costs.

The charges for UK customer redress programmes include estimates in respect of possible mis-selling in previous years of payment protection insurance (PPI) policies of US$367m compared with US$1.0bn in the first half of 2012. The additional provision relating to PPI mainly reflects higher response rates than forecast as we progressed with our customer contact programmes. There are many factors which could affect these estimated

liabilities and there remains a high degree of uncertainty as to the eventual cost of redress for these matters.

Excluding these items, operating expenses were US$298m higher than in the first half of 2012, primarily due to increased litigation-related costs in GB&M and in GPB in Europe, and a customer remediation provision connected to our former CRS business. We increased investment costs in strategic initiatives and infrastructure, while we continued to invest in our Global Standards governance and programmes. In addition, other costs rose due to higher third party service costs, marketing expenses, credit card related costs and general inflationary pressures. These factors were partly offset by sustainable cost savings of around US$800m, as we maintained our strict cost control. Staff costs fell due to an accounting gain arising from a change in the basis of delivering ill-health benefits to certain employees in the UK of US$430m, and lower performance-related costs, although these reductions were in part offset by wage inflation.

On a constant currency basis, income from associates decreased, driven by the disposal of our investment in Ping An and the reclassification of Industrial Bank as a financial investment. These factors were partly offset by higher income from Bank of Communications Co., Limited (BoCom) due to balance sheet growth and higher fee income.

The reported profit after tax was US$11.3bn or 25% higher than in the first half of 2012, reflecting in part a lower tax charge in the first half of 2013. This was driven by the benefits arising from the non-taxable gains on profits associated with the reclassification of Industrial Bank as a financial investment and the disposal of our investment in Ping An, offset in part by the reduction in deferred tax assets recognised in Mexico following clarification of the tax law by the Mexican fiscal authority.

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Notable revenue items by geographical region

	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	MENA US$m	North America US$m	Latin America US$m	Total US$m
Half-year to 30 June 2013							
Net gain on completion of Ping An disposal[26]			**553**				**553**
Half-year to 31 December 2012							
Ping An contingent forward sale contract[27]			(553)				(553)

Notable revenue items by global business

	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Total US$m
Half-year to 30 June 2013						
Net gain on completion of Ping An disposal[26]					**553**	**553**
Half-year to 31 December 2012						
Ping An contingent forward sale contract[27]					(553)	(553)

For footnotes, see page 100.

Notable cost items by geographical region

	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	MENA US$m	North America US$m	Latin America US$m	Total US$m
Half-year to 30 June 2013							
Restructuring and other related costs	**103**	**2**	**10**	**3**	**78**	**42**	**238**
UK customer redress programmes	**412**						**412**
Half-year to 30 June 2012							
Restructuring and other related costs	201	23	113	3	151	72	563

UK customer redress programmes	1,345						1,345
Fines and penalties for inadequate compliance with anti-money laundering and sanction laws					700		700
Half-year to 31 December 2012							
Restructuring and other related costs	98	8	18	24	70	95	313
UK customer redress programmes	993						993
Fines and penalties for inadequate compliance with anti-money laundering and sanction laws	375				846		1,221

Notable cost items by global business

	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Total US$m
Half-year to 30 June 2013						
Restructuring and other related costs	**85**	**22**	**9**	**6**	**116**	**238**
UK customer redress programmes	**412**					**412**
Half-year to 30 June 2012						
Restructuring and other related costs	183	42	32	37	269	563
UK customer redress programmes	1,107	119	119			1,345
Fines and penalties for inadequate compliance with anti-money laundering and sanction laws					700	700
Half-year to 31 December 2012						
Restructuring and other related costs	83	20	31	21	158	313
UK customer redress programmes	644	139	212	(2)		993
Fines and penalties for inadequate compliance with anti-money laundering and sanction laws					1,221	1,221

Interim Management Report (continued)

Group performance by income and expense item

Net interest income

	Half-year to		
	30 June	30 June	31 December
	2013	2012	2012
	US$m	US$m	US$m
Interest income	**25,740**	29,549	27,153
Interest expense	**(7,921)**	(10,173)	(8,857)
Net interest income[28]	**17,819**	19,376	18,296
Average interest-earning assets	**1,657,555**	1,645,410	1,604,947
Gross interest yield[29]	**3.13%**	3.61%	3.37%
Cost of funds	**(1.15%)**	(1.45%)	(1.27%)
Net interest spread[30]	**1.99%**	2.16%	2.10%
Net interest margin[31]	**2.17%**	2.37%	2.27%

For footnotes, see page 100.

The commentary in the following sections is on a constant currency basis unless otherwise stated.

Reported net interest income of US$17.8bn decreased by 8% compared with the first half of 2012. On a constant currency basis, it fell by 7%.

On an underlying basis, which excludes the net interest income earned by the businesses sold during 2012 and the first half of 2013 (see page 20) from all periods presented (first half of 2013: US$14m; first half of 2012: US$1.6bn) and currency translation movements of US$278m, net interest income rose by 2%. This reflected balance sheet growth in Hong Kong together with higher yields on lending and lower cost of funds in Europe, partly offset by lower net interest income earned in North America as a result of the run-off of the CML portfolio in the US and the consumer finance business in Canada.

The fall in both net interest spread and net interest margin compared with the first half of 2012 was attributable to significantly lower yields on customer lending, reflecting the sale of the higher yielding CRS business, and lower yields on our surplus liquidity. This was partly offset by a reduction in our cost of funds, notably on customer accounts and debt issued by the Group.

On a constant currency basis, interest income earned in the first half of 2013 on interest-earning assets fell. This was driven by lower interest income from customer lending, including loans classified within Assets held for sale , as a consequence of business disposals, principally the CRS business in the US in 2012. Interest income from customer lending also declined in Latin America, as a result of lower yields in Brazil following the reduction in interest rates since the start of 2012. By contrast, interest income on customer lending in Hong Kong rose, driven by growth in residential mortgages in

RBWM, and term and trade-related lending in CMB from continued client demand. However, the benefit to interest income of this volume growth was partly offset by lower yields as interest rates declined in a number of countries in Asia.

Revenue in Balance Sheet Management also decreased. Yields on financial investments and cash placed with banks and central banks declined as the proceeds from maturities and sales of available-for-sale debt securities were reinvested at lower prevailing rates. This was partly offset by a rise in the size of the Balance Sheet Management portfolio, reflecting growth in customer deposits.

The decrease in interest income was offset in part by a reduction in interest expense. This was driven by a lower cost of funds on customer accounts, as the growth in average balances, notably in Europe, Hong Kong and Rest of Asia-Pacific, was more than offset by a reduction in the interest rate paid to customers. There was also a decline in the interest expense on customer accounts in Latin America, principally in Brazil, reflecting the managed reduction in term deposits and the transformation of the funding base, substituting wholesale customer deposits for medium-term notes, together with the decline in average interest rates.

Interest expense on debt issued by the Group also decreased. Average balances outstanding fell, mainly in North America, where funding requirements declined as a result of business disposals and the run-off of the CML portfolio, and in Europe, as a result of net redemptions. The effective interest rate also declined as new issuances were at lower prevailing rates.

Net interest income includes the expense of internally funding trading assets, while related revenue is reported in Net trading income . The

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internal cost of funding of these assets declined, reflecting a rise in third party funding of our trading book, together with a fall in average trading assets in Latin America, and interest rate reductions in a

number of countries. In reporting our global business results, this cost is included within Net trading income .

Net fee income

		Half-year to	
	30 June	30 June	31 December
	2013	2012	2012
	US$m	US$m	US$m
Account services	**1,701**	1,755	1,808
Funds under management	**1,347**	1,242	1,319
Cards	**1,304**	1,716	1,314
Credit facilities	**930**	867	894
Broking income	**734**	707	643
Imports/exports	**580**	606	590
Underwriting	**518**	377	362
Unit trusts	**481**	344	395
Remittances	**415**	399	420
Global custody	**364**	375	362
Insurance	**280**	425	271
Corporate finance	**171**	230	140
Trust income	**143**	141	142
Investment contracts	**66**	71	70
Mortgage servicing	**42**	47	39
Other	**1,072**	979	1,099
Fee income	**10,148**	10,281	9,868
Less: fee expense	**(1,744)**	(1,974)	(1,745)
Net fee income	**8,404**	8,307	8,123

Net fee income increased by US$97m on a reported basis, and by US$182m on a constant currency basis. This growth was mainly due to a rise in underwriting and wealth management activities.

On an underlying basis, which excludes the net fee income relating to the business disposals listed on page 20 (first half of 2013: expense of US$4m; first half of 2012: income of US$364m) and currency translation movements of US$85m, net fee income rose by US$550m, or 7%.

Underwriting fees rose as we captured increased client demand for equity and debt capital financing in Europe and Hong Kong and, in part, from the enhanced collaboration between CMB and GB&M.

Fees from unit trusts and funds under management grew, notably in Hong Kong, reflecting improved market sentiment and strong customer demand. Fee income from Credit facilities also rose, most notably in Europe in CMB.

These factors were partly offset by the sale of the CRS business, which led to a reduction in cards and insurance fee income as well as fee expenses. As part of that transaction, we receive fee income relating to a transition service agreement made with the purchaser, this is reported in Other fee income while associated costs are reported in Operating expenses .

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Interim Management Report (continued)

Net trading income

	Half-year to		
	30 June	30 June	31 December
	2013	2012	2012
	US$m	US$m	US$m
Trading activities	**5,766**	3,622	1,627
Ping An contingent forward sale contract[26]	**(682)**		(553)
Net interest income on trading activities	**1,132**	1,385	1,298
Gain/(loss) on termination of hedges	**(200)**	3	(3)
Other trading income/(expense) hedge ineffectiveness:			
on cash flow hedges	**7**	3	32
on fair value hedges	**46**	(32)	5
Non-qualifying hedges	**293**	(462)	166
Net trading income[32,33]	**6,362**	4,519	2,572

For footnotes, see page 100.

Reported net trading income of US$6.4bn was US$1.8bn higher than in the first half of 2012. On a constant currency basis, it was US$1.9bn higher, notably in Europe.

The rise in net income from trading activities was due in part to favourable foreign exchange movements on assets held as economic hedges of foreign currency debt designated at fair value of US$1.1bn, compared with adverse movements of US$454m reported in the first half of 2012. These offset adverse foreign exchange movements on the foreign currency debt which are reported in Net expense from financial instruments designated at fair value . In addition, we reported foreign exchange gains of US$442m on sterling debt issued by HSBC Holdings, together with a favourable DVA of US$451m on derivative contracts reflecting a widening of spreads on HSBC credit default swaps and refinement of the calculation.

In addition, revenue from trading activities in Global Markets rose. Credit trading revenue increased as a result of reserve releases compared with charges in the first half of 2012, and revaluation gains on assets in the legacy portfolio. Foreign Exchange trading revenue rose as a result of higher client volumes reflecting improved electronic pricing and distribution capabilities, although this was offset in part by margin compression resulting from increased competition. Equities trading revenue also grew, reflecting fair value movements on assets in Europe together with minimal fair value movements on structured liabilities which contrasted with adverse fair value movements in the first half of 2012. These factors were partly offset by a fall in Rates revenue. Our Rates business benefited from a significant tightening of spreads on eurozone bonds in the first half of 2012 following the European Central Bank s Long-Term Refinancing Operation. Although performance in the first quarter of 2013 was resilient, the second quarter was adversely affected by more volatile market conditions as a

result of expectations that the scale of government repurchase schemes and quantitative easing measures may be reduced. We reported favourable fair value movements on structured liabilities totalling US$4m, compared with adverse fair value movements of US$330m, as reported in the first half of 2012.

In the first half of 2013, there were favourable movements on non-qualifying hedges compared with adverse movements in the comparable period. These types of hedges are discussed further on page 36 of the *Annual Report and Accounts 2012*. In North America, we reported favourable fair value movements on non-qualifying hedges as US long-term interest rates increased, compared with adverse fair value movements in the first half of 2012. There were also favourable fair value movements on non-qualifying hedges in Europe, driven by HSBC Holdings, as long-term sterling and euro interest rates rose to a lesser extent than US interest rates, compared with adverse movements in the first half of 2012.

In addition, net trading income was adversely affected by a loss of US$199m relating to the early termination of qualifying accounting hedges in HSBC Finance Corporation (HSBC Finance) as a result of anticipated changes in funding.

During the first half of 2013, we reported adverse fair value movements of US$682m on the contingent forward sale contract relating to Ping An in Rest of Asia-Pacific (see page 76). See footnote 26 on page 100 for a description of the overall effect of the transaction in the first half of 2013.

Net interest income from trading activities also declined. This was driven by significantly lower yields on debt securities and reverse repos held for trading, reflecting the downward movement in interest rates, partly offset by a reduction in funding costs.

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Net expense from financial instruments designated at fair value

	Half-year to		
	30 June 2013 US$m	30 June 2012 US$m	31 December 2012 US$m
Net income/(expense) arising from:			
financial assets held to meet liabilities under insurance and investment contracts	**717**	811	2,169
liabilities to customers under investment contracts	**(506)**	(260)	(736)
HSBC s long-term debt issued and related derivatives	**(1,419)**	(1,810)	(2,517)
Change in own credit spread on long-term debt[34]	**(19)**	(2,170)	(3,045)
Other changes in fair value[35]	**(1,400)**	360	528
other instruments designated at fair value and related derivatives	**11**	76	41
Net expense from financial instruments designated at fair value	**(1,197)**	(1,183)	(1,043)

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

	At		
	30 June 2013 US$m	30 June 2012 US$m	31 December 2012 US$m
Financial assets designated at fair value at period-end	**35,318**	32,310	33,582
Financial liabilities designated at fair value at period-end	**84,254**	87,593	87,720
Including:			
Financial assets held to meet liabilities under:			
insurance contracts and investment contracts with DPF[36]	**10,017**	7,884	8,376
unit-linked insurance and other insurance and investment contracts	**23,365**	20,968	23,655
Long-term debt issues designated at fair value	**71,456**	75,357	74,768

For footnotes, see page 100.

The majority of the financial liabilities designated at fair value relate to fixed-rate long-term debt issued and managed in conjunction with interest rate swaps as part of our interest rate management strategy. These liabilities are discussed further on page 37 of the *Annual Report and Accounts 2012.*

Net expense from financial instruments designated at fair value was US$1.2bn in the first half of 2013, in line with the same period in 2012. This included the credit spread-related movements in the fair value of our own long-term debt, which was broadly unchanged compared with an adverse movement of US$2.2bn in the first half of 2012.

Net income arising from financial assets held to meet liabilities under insurance and investment contracts was lower in the first half of 2013 than in the first half of 2012. This was driven by falling

equity markets and bond prices in Hong Kong and lower net income on the bond portfolio in Brazil, partly offset by improved market conditions in the UK.

The investment gains or losses arising from equity markets result in a corresponding movement in liabilities to customers (see page 38 of the *Annual Report and Accounts 2012* for details of the treatment of the movement in these liabilities).

Other changes in fair value included adverse foreign exchange movements in the first half of the year compared with favourable movements in the same period in 2012 on foreign currency debt designated at fair value issued as part of our overall funding strategy. An offset from assets held as economic hedges was reported in Net trading income .

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Interim Management Report (continued)

Gains less losses from financial investments

	Half-year to		
	30 June 2013	30 June 2012	31 December 2012
	US$m	US$m	US$m
Net gains/(losses) from disposal of:			
debt securities	**416**	672	109
Ping An equity securities classified as available-for-sale[26]	**1,235**		
other equity securities	**253**	456	367
other financial investments	**(2)**	5	
	1,902	1,133	476
Impairment of available-for-sale equity securities	**(46)**	(110)	(310)
Gains less losses from financial investments	**1,856**	1,023	166

In the first half of 2013, gains less losses from financial investments rose by US$833m on a reported basis and US$843m on a constant currency basis, driven by a significant increase in net gains from the disposal of available-for-sale equity securities in Rest of Asia-Pacific following the disposal of our investment in Ping An (see footnote 26 on page 100 for a description of the overall effect of the transaction in the first half of 2013). This was partly offset by the non-recurrence of gains in Hong Kong from the sale of our shares in two Indian banks in the first half of 2012.

The decline in impairments on available-for-sale equity securities also contributed to the rise in gains

less losses from financial investments. This reflected a write-down of a holding in the first half of 2012 within our direct investment business which is in run-off.

Net gains on the disposal of debt securities fell as the first half of 2012 included significant gains on the sale of available-for-sale government debt securities, notably in the UK, as part of Balance Sheet Management s structural interest rate risk management activities. The fall was partly offset by higher gains on disposal of available-for-sale debt securities in North America in the first half of 2013.

Net earned insurance premiums

	Half-year to		
	30 June 2013	30 June 2012	31 December 2012
	US$m	US$m	US$m

Gross insurance premium income	**6,451**	6,929	6,673
Reinsurance premiums	**(225)**	(233)	(325)
Net earned insurance premiums	**6,226**	6,696	6,348

In the first half of 2013, net earned insurance premiums decreased by US$470m and US$394m on a reported and constant currency basis, respectively.

This reduction was primarily driven by lower premiums in Latin America, Europe and North America, partly offset by an increase in Hong Kong.

In Latin America, net earned premiums decreased in Brazil due to lower sales of unit-linked pension products, primarily as a result of the restructuring of the distribution channel and the sale of the non-life business in Argentina in the first half of 2012.

The reduction in net earned premiums in North America was due to the sale of our life insurance business in the first half of 2013.

In Europe, net earned premiums decreased, mainly in France, as a result of lower sales of investments contracts with DPF. In addition, the first half of 2012 benefited from a number of large sales via independent financial advisers.

In Hong Kong, premium income increased compared with the first half of 2012 as a result of increased renewals of insurance contracts with DPF and unit-linked insurance contracts, partly offset by the disposal of the non-life business in the second half of 2012.

Interim Management Report (continued)

Gains on disposal of US branch network, US cards business and Ping An

	Half-year to		
	30 June 2013	30 June 2012	31 December 2012
	US$m	US$m	US$m
Gains on disposal of US branch network		661	203
Gains on disposal of US cards business		3,148	
Gains on disposal of Ping An[37]			3,012
Total		3,809	3,215

For footnote, see page 100.

In the second half of 2012, we entered into an agreement to dispose of our entire shareholding in Ping An in two tranches, details of which are described on page 472 of the *Annual Report and Accounts 2012*. The first tranche was completed on 7 December 2012 at which point we ceased to account for Ping An as an associate and recognised a gain on disposal of US$3.0bn. The remaining shareholding in respect of the second tranche was recognised as a financial investment. The fixing of the sale price in respect of the second tranche gave rise to a contingent forward sale contract, for which

there was an adverse fair value movement of US$553m recorded in Net trading income .

In the first half of 2013, we completed the disposal of our investment in Ping An realising a gain of US$1.2bn recorded in Gains less losses from financial investments . This was partly offset by the adverse fair value movement of US$682m on the contingent forward sale contract recorded in Net trading income , leading to a net gain in the period of US$553m.

Other operating income

	Half-year to		
	30 June 2013	30 June 2012	31 December 2012
	US$m	US$m	US$m
Rent received	**77**	100	110
Gains/(losses) recognised on assets held for sale	**(481)**	202	283
Valuation gains on investment properties	**110**	43	29

Gains on disposal of property, plant and equipment, intangible assets and non-financial investments	**14**	146	41
Gains arising from dilution of interest in Industrial Bank	**1,089**		
Change in present value of in-force long-term insurance business	**100**	401	336
Other	**37**	130	279
Other operating income	**946**	1,022	1,078

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

	Half-year to		
	30 June 2013	30 June 2012	31 December 2012
	US$m	US$m	US$m
Value of new business	**517**	530	497
Expected return	**(249)**	(216)	(204)
Assumption changes and experience variances	**(127)**	87	(18)
Other adjustments	**(41)**		61
Change in present value of in-force long-term insurance business	**100**	401	336

Reported other operating income of US$946m decreased by US$76m in the first half of 2013 and by US$45m on a constant currency basis.

Reported other operating income included net gains on the disposals and the reclassifications listed on page 20 of US$1.1bn in the first half of 2013,

largely relating to an accounting gain arising from the reclassification of Industrial Bank as a financial investment following its issue of additional share capital to third parties, compared with net gains of US$484m in the comparable period of 2012.

Interim Management Report (continued)

On an underlying basis, which excludes the net gains above and currency translation of US$30m, other operating income decreased, driven by a loss of US$271m following the sale of our CML non-real estate personal loan portfolio in April 2013, together with a loss of US$279m relating to the reclassification of our Monaco business to held for sale (see also Note 25 on the Financial Statements). In addition, we recognised a loss of US$138m on the sale of an HFC Bank UK secured loan portfolio in RBWM in Europe.

There were lower favourable movements in the present value of in-force (PVIF) long-term insurance business. This was largely due to favourable valuation of policyholder options and guarantees in Hong Kong in the first half of 2012, together with an increase in lapse rates and interest rate movements in Latin America in the first half of 2013.

Net insurance claims incurred and movement in liabilities to policyholders

	Half-year to		
	30 June 2013	30 June 2012	31 December 2012
	US$m	US$m	US$m
Insurance claims incurred and movement in liabilities to policyholders:			
gross	**6,239**	6,869	7,660
reinsurers share	**(88)**	(94)	(220)
net[38]	**6,151**	6,775	7,440

For footnote, see page 100.

Net insurance claims incurred and movement in liabilities to policyholders decreased by 9% on a reported basis, and by 8% on a constant currency basis.

The reduction in claims was primarily due to a decrease in new business written, notably in Latin America and North America, and includes the effect of business disposals partly offset by increased renewals in Hong Kong as explained under Net earned insurance premiums .

Further reductions in claims resulted from lower investment returns on the assets held to support policyholder contracts where the policyholder bears investment risk. This reflected adverse equity market movements in Hong Kong and lower investment gains in Brazil as a result of market movements, partly offset by favourable equity market movements in the UK and France. The gains or losses recognised on the financial assets designated at fair value held to support these insurance and investment contract liabilities are reported in Net income from financial instruments designated at fair value .

Interim Management Report (continued)

Loan impairment charges and other credit risk provisions

	Half-year to		
	30 June	30 June	31 December
	2013	2012	2012
	US$m	US$m	US$m
Loan impairment charges			
New allowances net of allowance releases	**3,828**	5,093	4,213
Recoveries of amounts previously written off	**(639)**	(568)	(578)
	3,189	4,525	3,635
Individually assessed allowances	**1,121**	1,103	1,036
Collectively assessed allowances	**2,068**	3,422	2,599
Impairment/(releases of impairment) of available-for-sale debt securities	**(82)**	243	(144)
Other credit risk provisions	**9**	31	21
Loan impairment charges and other credit risk provisions	**3,116**	4,799	3,512
	%	%	%
as a percentage of underlying revenue	**9.4**	13.8	12.2
Impairment charges on loans and advances to customers as a percentage of average gross loans and advances to customers (annualised)	**0.7**	1.0	0.9

On a reported basis, LICs reduced from US$4.8bn to US$3.1bn, a decrease of 35%. The percentage of impairment charges to average gross loans and advances in the first half of 2013 was 0.7% compared with 1.0% at 30 June 2012 and 0.9% at 31 December 2012. This improvement was due to decreases in North America and the Middle East and North Africa partly offset by increases in Latin America as a result of the movements described below.

On a constant currency basis, LICs fell by US$1.6bn, a reduction of 34%.

Collectively assessed charges decreased by US$1.3bn while individually assessed impairment charges increased by 3%. Credit risk provisions on available-for-sale debt securities fell by US$322m.

The fall in collectively assessed charges was driven in North America by improvements in housing market conditions, the continuing run-off of the CML portfolio in the first half of 2013 and lower delinquency levels. This was partially offset by increases in Latin America as a result of higher collective provisions mainly relating to impairment model changes and assumption revisions in Brazil for restructured loans in portfolios in RBWM and Business Banking in CMB.

The increase in individually assessed loan impairment charges was due to higher levels of impairment in Latin America, mainly on exposures to homebuilders in Mexico, and higher individually assessed provisions in CMB in the UK. These were partly offset by decreases in the Middle East and North Africa in GB&M, RBWM and CMB.

The reduction in credit risk provisions on available-for-sale debt securities was driven by

GB&M as a result of net releases in Europe and, in Rest of Asia-Pacific, the non-recurrence of a credit risk provision on an available-for-sale debt security in GB&M in the first half of 2012.

In North America, LICs decreased by 68% to US$696m, mainly in the US, driven by significant favourable market value adjustments in the value of underlying properties of US$603m reflecting improvements in housing market conditions, a reduction in CML lending balances as the portfolio continued to run off and lower delinquency levels. In addition, loan impairment charges declined by US$323m due to the sale of the CRS business in 2012. Partially offsetting these declines was an increase of US$130m related to a rise in the estimated average period of time from current status to write-off for real estate loans to 12 months (previously a period of 10 months was used). In CMB, loan impairment charges increased by US$105m due to individually assessed impairments on a small number of exposures in Canada and, in the US, due to higher provisions as a result of an increase in loans in key growth markets and a lower level of recoveries compared with the first half of 2012.

In the Middle East and North Africa, LICs decreased to a net credit of US$47m compared with a charge of US$134m in the first half of 2012. GB&M recorded a net release of impairment charges, compared with a charge in the first half of 2012, reflecting the improvement in the financial position of certain customers. CMB also recorded a net release in loan impairment charges due to a limited number of specific customer recoveries, fewer individually assessed loan impairments and lower collective impairment charges, reflecting

Interim Management Report (continued)

an improvement in the credit portfolio. Lower impairments in RBWM were attributable to a combination of the repositioning of the book towards higher quality lending in previous periods and improved property prices in the United Arab Emirates (UAE).

LICs in Europe decreased by 17% to US$846m. This was driven by net releases on available-for-sale ABSs within GB&M in the UK, compared with charges in the first half of 2012. RBWM in the UK also experienced a reduction in loan impairment charges as a result of improved delinquency rates and reductions in the size of the unsecured portfolio. This was partially offset by increases in collectively assessed provisions in RBWM in Turkey, mainly as a result of higher credit card balances reflecting business expansion. In addition, higher individually assessed provisions in CMB were driven by a small number of customers in the UK, and the challenging economic conditions in Spain.

In Rest of Asia-Pacific, LICs decreased by 49% to US$152m following a large individually assessed impairment charge on a corporate exposure in Australia and a credit risk provision on an available-for-sale debt security in GB&M in the first half of 2012.

In Latin America, LICs increased by 34% to US$1.4bn, driven by higher collective provisions in RBWM and CMB and higher individually assessed provisions. This included charges mainly relating to impairment model changes and assumption revisions in Brazil for restructured loans in portfolios in RBWM and Business Banking in CMB, although this was offset in part by an improvement in the quality of the portfolio following the modification of credit strategies in previous periods to mitigate rising delinquency rates. Collective impairments also rose in RBWM in Mexico reflecting the non-recurrence of a provision release in the first half of 2012, higher lending balances and a revision to the assumptions used in our collective assessment models in the first half of 2013. In addition, individually assessed provisions increased, in particular on exposures to homebuilders in CMB due to a change in external housing policy together with a specific exposure in GB&M, both in Mexico.

LICs in Hong Kong of US$46m were higher due to an increase in RBWM from a revision to the collective assessment model, partly offset by collective impairment releases in CMB due to changes in assumptions in respect of loss rates.

Operating expenses

		Half-year to	
	30 June	30 June	31 December
	2013	2012	2012
	US$m	US$m	US$m
Employee compensation and benefits	**9,496**	10,905	9,586
Premises and equipment (excluding depreciation and impairment)	**2,008**	2,086	2,240
General and administrative expenses	**5,719**	7,039	8,618
Administrative expenses	**17,223**	20,030	20,444
Depreciation and impairment of property, plant and equipment	**699**	706	778
Amortisation and impairment of intangible assets	**477**	468	501
Operating expenses	**18,399**	21,204	21,723

Staff numbers (full-time equivalent)

	At		
	30 June 2013	30 June 2012	31 December 2012
Europe	**69,599**	73,143	70,061
Hong Kong	**27,966**	27,976	27,742
Rest of Asia-Pacific	**85,665**	86,207	85,024
Middle East and North Africa	**8,667**	9,195	8,765
North America	**21,454**	23,341	22,443
Latin America	**46,046**	51,667	46,556
Staff numbers	**259,397**	271,529	260,591

Interim Management Report (continued)

Reported operating expenses of US$18.4bn were US$2.8bn or 13% lower than in the first half of 2012. On an underlying basis, costs fell by 8%.

On a constant currency basis, operating expenses in the first half of 2013 were US$2.5bn or 12% lower than in the comparable period in 2012, primarily resulting from the business disposals during 2012, including the CRS business and the non-strategic branches in the US. Costs also fell due to the non-recurrence of a provision for US anti-money laundering, BSA and OFAC investigations and a reduction of US$901m in UK customer redress programmes. The latter included a charge for additional estimated redress for possible mis-selling in previous years of PPI policies of US$367m (US$1.0bn in the first half of 2012), which increased the provision for the UK customer redress programmes at 30 June 2013 to US$1.8bn. Restructuring and other related costs of US$238m reduced by US$311m compared with the first half of 2012.

Excluding the above, expenses were US$298m higher than in the comparable period. Litigation-

related expenses increased by US$0.6bn, primarily due to higher costs in GB&M and GPB in Europe and a customer remediation provision connected to our former CRS business. We increased investment costs in strategic initiatives and infrastructure, while we continued to invest in our Global Standards governance and programmes. In addition, other costs increased due to higher third party service costs, marketing expenses, credit card related costs and general inflationary pressures.

These increases were partly offset by further sustainable cost savings of US$0.8bn from our on-going organisational effectiveness programmes. These, together with business disposals, resulted in a fall of 8% in average staff numbers compared with the first half of 2012.

Staff costs also fell due to an accounting gain arising from a change in the basis of delivering ill-health benefits to certain employees in the UK of US$430m (see Note 5 on the Financial Statements). In addition, performance-related costs fell by US$299m, primarily in GB&M. These reductions in staff costs were in part offset by wage inflation.

Cost efficiency ratios[5]

	Half-year to		
	30 June	30 June	31 December
	2013	2012	2012
	%	%	%
HSBC	**53.5**	57.5	69.1
Geographical regions			
Europe	**68.5**	96.1	123.5
Hong Kong	**36.4**	39.1	39.0
Rest of Asia-Pacific	**39.3**	48.2	38.5
Middle East and North Africa	**49.2**	43.4	52.7
North America	**70.7**	44.7	95.0
Latin America	**61.9**	59.0	58.4
Global businesses			
Retail Banking and Wealth Management	**63.6**	52.9	65.7

Commercial Banking	**42.4**	45.3	46.5
Global Banking and Markets	**47.0**	49.1	60.9
Global Private Banking	**89.9**	67.8	67.3

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Interim Management Report (continued)

Share of profit in associates and joint ventures

	Half-year to		
	30 June	30 June	31 December
	2013	2012	2012
	US$m	US$m	US$m
Associates			
Bank of Communications Co., Limited	**941**	829	841
Ping An Insurance (Group) Company of China, Ltd.		447	316
Industrial Bank Co., Limited		305	365
The Saudi British Bank	**208**	189	157
Other	**43**	41	31
Share of profit in associates	**1,192**	1,811	1,710
Share of profit in joint ventures	**22**	32	4
Share of profit in associates and joint ventures	**1,214**	1,843	1,714

The reported share of profit in associates and joint ventures was US$1.2bn, a decrease of 34% compared with the first half of 2012. On a constant currency basis, it decreased by 35%, driven by the non-recurrence of profits from our then associate, Ping An, in the first half of 2012 and the reclassification in the first half of 2013 of Industrial Bank as a financial investment.

The recognition of profits from Ping An ceased following the agreement to sell our shareholding on 5 December 2012 and from Industrial Bank following the issuance of additional share capital

to third parties on 7 January 2013 which resulted in our diluted shareholding being classified as a financial investment.

Our share of profit from BoCom rose as a result of balance sheet growth and increased fee income, partly offset by higher operating expenses and a rise in loan impairment charges.

Profits from The Saudi British Bank rose, reflecting strong balance sheet growth and effective cost management.

Tax expense

Half-year to		
30 June	30 June	31 December
		2012
2013	2012	

	US$m	US$m	US$m
Profit before tax	**14,071**	12,737	7,912
Tax expense	**(2,725)**	(3,629)	(1,686)
Profit after tax	**11,346**	9,108	6,226
Effective tax rate	**19.4%**	28.5%	21.3%

The effective tax rate for the first half of 2013 of 19.4% was lower than the UK corporation tax rate of 23.25%.

The lower tax rate reflected the benefits arising from the non-taxable gain on profits resulting from the reclassification of our shareholding in Industrial Bank as a financial investment and the disposal

of our investment in Ping An, and tax charged at different local statutory rates such as in Hong Kong. These factors were partly offset by a write-down of US$256m of deferred tax assets recognised in Mexico following clarification of the tax law by the Mexican fiscal authority.

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Interim Management Report (continued)

Consolidated balance sheet

Summary consolidated balance sheet

	At 30 June 2013 US$m	At 30 June 2012 US$m	At 31 December 2012 US$m
ASSETS			
Cash and balances at central banks	**148,285**	147,911	141,532
Trading assets	**432,601**	391,371	408,811
Financial assets designated at fair value	**35,318**	32,310	33,582
Derivatives	**299,213**	355,934	357,450
Loans and advances to banks	**185,122**	182,191	152,546
Loans and advances to customers[39]	**969,382**	974,985	997,623
Financial investments	**404,214**	393,736	421,101
Assets held for sale	**20,377**	12,383	19,269
Other assets	**150,804**	161,513	160,624
Total assets	**2,645,316**	2,652,334	2,692,538
LIABILITIES AND EQUITY			
Liabilities			
Deposits by banks	**110,023**	123,553	107,429
Customer accounts	**1,316,182**	1,278,489	1,340,014
Trading liabilities	**342,432**	308,564	304,563
Financial liabilities designated at fair value	**84,254**	87,593	87,720
Derivatives	**293,669**	355,952	358,886
Debt securities in issue	**109,389**	125,543	119,461
Liabilities under insurance contracts	**69,771**	62,861	68,195
Liabilities of disposal groups held for sale	**19,519**	12,599	5,018
Other liabilities	**117,716**	123,414	118,123
Total liabilities	**2,462,955**	2,478,568	2,509,409
Equity			
Total shareholders equity	**174,070**	165,845	175,242
Non-controlling interests	**8,291**	7,921	7,887
Total equity	**182,361**	173,766	183,129
Total equity and liabilities	**2,645,316**	2,652,334	2,692,538
Selected financial information			
Called up share capital	**9,313**	9,081	9,238
Capital resources[40,41]	**183,450**	175,724	180,806
Undated subordinated loan capital	**2,777**	2,778	2,778

Preferred securities and dated subordinated loan capital[42]	**44,539**	48,815	48,260
Risk-weighted assets and capital ratios[40]			
Risk-weighted assets	**1,104,764**	1,159,896	1,123,943
	%	%	%
Core tier 1 ratio	**12.7**	11.3	12.3
Total capital ratio	**16.6**	15.1	16.1
Financial statistics			
Loans and advances to customers as a percentage of customer accounts	**73.7**	76.3	74.4
Average total shareholders equity to average total assets	**6.4**	5.9	6.4
Net asset value per ordinary share at period-end[43] (US$)	**8.96**	8.73	9.09
Number of US$0.50 ordinary shares in issue (millions)	**18,541**	18,164	18,476
Closing foreign exchange translation rates to US$:			
US$1: £	**0.657**	0.638	0.619
US$1:	**0.767**	0.790	0.758

For footnotes, see page 100.

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

Interim Management Report (continued)

Movement from 31 December 2012 to 30 June 2013

Total reported assets were US$2.6 trillion, 2% lower than at 31 December 2012. On a constant currency basis, total assets remained broadly unchanged as shown on page 39.

The following commentary is on a constant currency basis.

Assets

Cash and balances at central banks increased by 9%, driven by the placement of surplus liquidity in Europe, arising from deposit growth in excess of lending growth and in North America from sales and maturities of available-for-sale government debt securities. This was partly offset by reductions in Hong Kong and Rest of Asia-Pacific as liquidity was redeployed to support growth in lending.

Trading assets increased by 9%, driven by a rise in settlement accounts. These balances vary according to customer trading activity, which is typically lower at the end of the year.

Financial assets designated at fair value increased by 9%, in part due to the investment of net premiums received during the period in our insurance businesses, notably in Hong Kong and Europe. Favourable market movements in our European insurance operations also contributed to the rise.

Derivative assets decreased by 13%. Upward movements in yield curves in major currencies led to a decline in the fair value of interest rate contracts, although this was partly offset by a reduction in netting reflecting lower fair values.

Loans and advances to banks rose by 24% from the relatively low level seen in December 2012. This was driven by higher demand for reverse repo funding in Europe, and higher placements with financial institutions in Hong Kong and Rest of Asia-Pacific.

Loans and advances to customers remained broadly in line with December 2012 levels. During the first half of 2013, we reclassified customer lending balances of over US$10bn relating to the planned disposals of non-strategic businesses, notably in Latin America and Europe, to Assets held for sale .

Excluding this, customer lending balances grew by over US$15bn as continued demand for financing led to a rise in trade-related and term lending to CMB and GB&M customers in Hong Kong and CMB customers in Rest of Asia-Pacific. Residential mortgage lending remained broadly in

line with December 2012 levels as growth the UK, Hong Kong and Rest of Asia-Pacific was largely offset by the continued reduction in the US run-off portfolio.

Financial investments declined by 2%. This was driven by sales and maturities of available-for-sale government debt securities in North America as part of Balance Sheet Management s structural interest rate risk management activities, partly offset by net new purchases as surplus liquidity was deployed in Europe. The re-classification of our shareholding in Industrial Bank led to an increase in financial investments in Hong Kong.

Assets held for sale increased by 9%, driven by the re-classification of assets relating to the planned disposals of non-strategic businesses, notably in Latin America and Europe, to Assets held for sale . This was partly offset by the completion of the sales of our investment in Ping An and of the non-real estate personal lending portfolio in the US.

Other assets declined by 7%, driven in part by a reduction in the value of precious metals holdings in Europe, Hong Kong and North America reflecting a fall in commodity prices and withdrawals by customers.

Liabilities

Deposits by banks rose by 5% from the low levels seen in December 2012 due to a rise in repo balances in Europe to fund the increase in reverse repo activity.

Customer accounts increased by over US$15bn, a 1% rise. During the first half of 2013 we reclassified deposit balances of US$14bn relating to non-strategic businesses, notably in Europe and Latin America, to Liabilities of disposal groups held for sale .

Excluding this, customer accounts increased by US$29bn, driven by a rise in Europe, as customers in RBWM held higher balances in readily-accessible current and savings accounts in the uncertain economic environment, together with higher balances in our Payments & Cash Management business in GB&M and CMB. Repo balances also rose, largely in Europe, as a result of a significant short-term placement at the end of June. However, these factors were partly offset by declines in other parts of the Group, notably in Hong Kong and Latin America as customers in RBWM placed their cash in investments. Customer account balances in Latin America were also adversely affected by the withdrawal of short-term balances placed at the end of 2012 in RBWM, while in CMB

Interim Management Report (continued)

balances declined due to re-pricing strategies as interest rates fell. Maturing term deposits that were not replaced led to a decline in Rest of Asia-Pacific.

Trading liabilities increased by 16% largely due to higher settlement account balances, which vary according to customer trading activity.

Financial liabilities designated at fair value remained broadly unchanged since December 2012.

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

Debt securities in issue fell by 5%. This was driven by maturing debt that was not replaced in the

US as funding requirements declined, together with a net reduction in debt securities in issue in Europe.

Liabilities under insurance contracts rose by 4% as a result of liabilities to policyholders established for new business written, largely in Hong Kong.

Liabilities of disposal groups held for sale increased by 310%, or US$14.8bn, driven by the transfer of non-strategic businesses to this classification.

Equity

Total shareholders equity rose by 2%, driven by profits generated in the period, partly offset by dividends paid.

Reconciliation of reported and constant currency assets and liabilities

	30 June 2013 compared with 31 December 2012					
	31 Dec 12 as reported	Currency translation[44]	31 Dec 12 at 30 Jun 13 exchange rates	30 Jun 13 as reported	Reported change	Constant currency change
HSBC	**US$m**	**US$m**	**US$m**	**US$m**	**%**	**%**
Cash and balances at central banks	**141,532**	**(5,122)**	**136,410**	**148,285**	**5**	**9**
Trading assets	**408,811**	**(13,513)**	**395,298**	**432,601**	**6**	**9**
Financial assets designated at fair value	**33,582**	**(1,232)**	**32,350**	**35,318**	**5**	**9**
Derivative assets	**357,450**	**(13,357)**	**344,093**	**299,213**	**(16)**	**(13)**
Loans and advances to banks	**152,546**	**(3,764)**	**148,782**	**185,122**	**21**	**24**

Loans and advances to customers	997,623	(33,057)	964,566	969,382	(3)	0
Financial investments	421,101	(9,326)	411,775	404,214	(4)	(2)
Assets held for sale	19,269	(521)	18,748	20,377	6	9
Other assets	160,624	1,054	161,678	150,804	(6)	(7)
Total assets	2,692,538	(78,838)	2,613,700	2,645,316	(2)	1
Deposits by banks	107,429	(2,518)	104,911	110,023	2	5
Customer accounts	1,340,014	(39,118)	1,300,896	1,316,182	(2)	1
Trading liabilities	304,563	(8,517)	296,046	342,432	12	16
Financial liabilities designated at fair value	87,720	(2,531)	85,189	84,254	(4)	(1)
Derivative liabilities	358,886	(13,715)	345,171	293,669	(18)	(15)
Debt securities in issue	119,461	(4,363)	115,098	109,389	(8)	(5)
Liabilities under insurance contracts	68,195	(1,148)	67,047	69,771	2	4
Liabilities of disposal groups held for sale	5,018	(257)	4,761	19,519	289	310
Other liabilities	118,123	(2,604)	115,519	117,716		2
Total liabilities	2,509,409	(74,771)	2,434,638	2,462,955	(2)	1
Total shareholders equity	175,242	(3,984)	171,258	174,070	(1)	2
Non-controlling interests	7,887	(83)	7,804	8,291	5	6
Total equity	183,129	(4,067)	179,062	182,361		2
Total equity and liabilities	2,692,538	(78,838)	2,613,700	2,645,316	(2)	1

For footnote, see page 100.

Interim Management Report (continued)

In implementing our strategy, we have agreed to sell a number of businesses across the Group. Assets and liabilities of businesses, the sale of which is highly probable, are reported in held-for-sale categories on the balance sheet until the sale is closed.

We include loans and advances to customers and customer account balances reported in held-for-sale categories in our combined view of customer lending and customer accounts. We consider the combined view more accurately reflects the size of our lending and deposit books and growth thereof.

Combined view of customer lending and customer deposits

	At 30 June 2013 US$m	At 30 June 2012 US$m	Change %	**At 30 June 2013 US$m**	At 31 December 2012 US$m	Change %
Loans and advances to customers	**969,382**	974,985	(1)	**969,382**	997,623	(3)
Loans and advances to customers reported as held for sale[45]	**13,808**	5,496	151	**13,808**	6,124	125
US branches		528				
other	**13,808**	4,968	178	**13,808**	6,124	125
Combined customer lending	**983,190**	980,481		**983,190**	1,003,747	(2)
Customer accounts	**1,316,182**	1,278,489	3	**1,316,182**	1,340,014	(2)
Customer accounts reported as held for sale[45]	**17,280**	9,668	79	**17,280**	2,990	478
US branches		3,633				
other	**17,280**	6,035	186	**17,280**	2,990	478
Combined customer deposits	**1,333,462**	1,288,157	4	**1,333,462**	1,343,004	(1)

For footnote, see page 100.

Financial investments

	At 30 June 2013	At 31 December 2012

	Equity securities US$bn	Debt securities US$bn	Total US$bn	Equity securities US$bn	Debt securities US$bn	Total US$bn
Balance Sheet Management		**279.1**	**279.1**		293.4	293.4
Insurance entities		**44.0**	**44.0**		43.4	43.4
Structured entities	**0.1**	**23.5**	**23.6**		24.7	24.7
Principal Investments	**2.9**		**2.9**	2.9		2.9
Other	**6.4**	**48.2**	**54.6**	2.9	53.8	56.7
	9.4	**394.8**	**404.2**	5.8	415.3	421.1

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

Balance Sheet Management (page 169) for a description of the activities and an analysis of third-party assets in balance sheet management.

Risk management of insurance operations (page 175) includes an analysis of the financial investments within our insurance operations by the type of contractual liabilities that they back.

Structured entities (page 502 of the *Annual Report and Accounts 2012*) for further information about the nature of securities investment conduits in which the above financial investments are held.

Equity securities classified as available for sale (page 168) includes private equity holdings and other strategic investments.

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

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Customer accounts by country

	At 30 June 2013 US$m	At 30 June 2012 US$m	At 31 December 2012 US$m
Europe	**555,649**	529,529	555,009
UK	**412,161**	382,945	426,144
France[46]	**76,669**	62,891	55,578
Germany	**17,251**	14,935	15,611
Malta	**5,797**	5,899	5,957
Switzerland[47]	**18,779**	21,401	20,211
Turkey	**7,537**	7,171	7,629
Other	**17,455**	34,287	23,879
Hong Kong	**342,664**	318,820	346,208
Rest of Asia-Pacific	**174,050**	173,157	183,621
Australia	**18,240**	19,560	20,430
India	**9,852**	10,315	10,415
Indonesia	**6,559**	6,382	6,512
Mainland China	**37,843**	32,183	35,572
Malaysia	**16,965**	16,523	17,641
Singapore	**44,145**	46,560	47,862
Taiwan	**12,053**	11,822	12,497
Vietnam	**2,191**	1,870	2,147
Other	**26,202**	27,942	30,545
Middle East and North Africa (excluding Saudi Arabia)	**41,142**	39,029	39,583
Egypt	**7,158**	7,444	7,548
Qatar	**4,065**	3,031	2,704
UAE	**18,822**	17,727	18,448
Other	**11,097**	10,827	10,883
North America	**149,053**	148,360	149,037
US	**92,572**	91,525	90,627
Canada	**45,583**	46,113	47,049
Bermuda	**10,898**	10,722	11,361
Latin America	**53,624**	69,594	66,556
Argentina	**4,940**	4,862	5,351
Brazil	**26,251**	34,022	30,144
Mexico	**20,744**	22,491	22,724
Panama		5,696	5,940

Other	**1,689**	2,523	2,397
	1,316,182	1,278,489	1,340,014

For footnotes, see page 100.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Economic profit/(loss)

Our internal performance measures include economic profit/(loss), a calculation which compares the return on financial capital invested in HSBC by our shareholders with the cost of that capital. We price our cost of capital internally and the difference between that cost and the post-tax profit attributable to ordinary shareholders represents the amount of economic profit/(loss) generated.

Our long-term cost of capital is reviewed annually and is 10% for 2013; this has been revised from 11% in 2012, primarily due to a reduction in the risk-free rate, reflecting the continued intervention of central banks and quantitative easing, and greater banking sector stability through higher levels of capital and liquidity.

The following commentary is on a reported basis.

The return on invested capital increased by 1.7 percentage points to 11.6%, which was 1.6 percentage points higher than our benchmark cost of capital. Our economic profit was US$1.4bn, an increase of US$2.3bn compared with the loss for the first half of 2012. This reflected a decrease in the long-term cost of capital and an increase in profits attributable to ordinary shareholders, primarily due to minimal fair value movements on our own debt, compared with adverse movements of US$2.2bn in the first half of 2012, lower operating expenses and a lower tax charge. These factors were partially offset by higher average invested capital.

Economic profit/(loss)

	Half-year to					
	30 June 2013		30 June 2012		31 December 2012	
	US$m	**%[48]**	US$m	%[48]	US$m	%[48]
Average total shareholders equity	**175,024**		163,030		170,611	
Adjusted by:						
Goodwill previously amortised or written off	**8,399**		8,123		8,399	
Property revaluation reserves	**(916)**		(901)		(891)	
Reserves representing unrealised (gains)/losses on effective cash flow hedges	**(6)**		85		26	
Reserves representing unrealised (gains)/losses on available-for-sale securities	**(1,346)**		2,441		(71)	
Preference shares and other equity instruments	**(7,256)**		(7,256)		(7,256)	
Average invested capital[4]	**173,899**		165,522		170,818	
Return on invested capital[4]	**9,998**	**11.6**	8,152	9.9	5,302	6.2
Benchmark cost of capital	**(8,623)**	**(10.0)**	(9,054)	(11.0)	(9,446)	(11.0)
Economic profit/(loss) and spread	**1,375**	**1.6**	(902)	(1.1)	(4,144)	(4.8)

For footnotes, see page 100.

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Interim Management Report (continued)

Reconciliation of RoRWA measures

Performance Management

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

In addition to measuring return on average risk- weighted assets (RoRWA), we measure our performance internally using underlying RoRWA, which is underlying pre-tax return and reported average RWAs at constant currency and adjusted for the effects of business disposals. Underlying RoRWA adjusts performance for certain items which distort year-on-year performance as explained on page 19.

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

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

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

	Half-year to 30 June 2013		
	Pre-tax return	Average RWAs[49]	RoRWA[49,50]
	US$m	US$bn	%
Reported	14,071	1,109	2.6
Underlying[50]	13,078	1,095	2.4
Run-off portfolios	3	135	
Legacy credit in GB&M	153	36	0.9
US CML and other[51]	(150)	99	(0.3)

Card and Retail Services		**5**	
Underlying (excluding run-off portfolios and Card and Retail Services)	**13,075**	**955**	**2.8**

	Half-year to 30 June 2012			Half-year to 31 December 2012		
	Pre-tax return	Average RWAs[49]	RoRWA[49,50]	Pre-tax return	Average RWAs[49]	RoRWA[49,50]
	US$m	US$bn	%	US$m	US$bn	%
Reported	12,737	1,194	2.1	7,912	1,146	1.4
Underlying[50]	8,896	1,093	1.6	6,546	1,083	1.2
Run-off portfolios	(1,386)	175	(1.6)	(239)	159	(0.3)
Legacy credit in GB&M	(371)	48	(1.6)	96	43	0.4
US CML and other[51]	(1,015)	127	(1.6)	(335)	116	(0.6)
Card and Retail Services		3		(150)	9	(3.4)
Underlying (excluding run-off portfolios and Card and Retail Services)	10,282	915	2.3	6,935	915	1.5

For footnotes, see page 100.

Reconciliation of reported and underlying average risk-weighted assets

	Half-year to					
	30 Jun 2013	30 Jun 2012	Change	**30 Jun 2013**	31 Dec 2012	Change
	US$bn	US$bn	%	**US$bn**	US$bn	%
Average reported RWAs[49]	**1,109**	1,194				