

HSBC HOLDINGS PLC  
Form 6-K  
August 05, 2005

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**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 6-K**

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

For the month of August, 2005

**HSBC Holdings plc**

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

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

Form 20-F

Form 40-F

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

Yes

No

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

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## Cautionary Statement Regarding Forward-Looking Statements

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

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

Forward-looking statements involve inherent risks and uncertainties. Readers should be cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they have been reviewed or updated in the light of new information or future events. Trends and factors that are expected to affect HSBC's results of operations are described in the *Financial Review*. A more detailed cautionary statement is given on pages 5 and 6 of the *Annual Report and Accounts 2004*.

## Certain Defined Terms

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

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**Financial Highlights**

HSBC's interim Financial Statements and Notes thereon, as set out on pages 115 to 159, comply with all current International Financial Reporting Standards (IFRSs). Current IFRSs that have been adopted by HSBC in preparing these interim Financial Statements have been endorsed by the European Union (EU) except for Amendment to International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement: The Fair Value Option, Amendment to IAS 19 Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures and International Financial Reporting Interpretations Committee (IFRIC) 4 Determining whether an arrangement contains a lease. It is expected that these amendments will be endorsed by the EU and be effective for HSBC's reporting for the year ended 31 December 2005. This is the first time HSBC's results have been prepared under IFRSs: its first such set of annual financial statements will be published in the *Annual Report and Accounts* for the year ending 31 December 2005 (*Annual Report and Accounts 2005*). In moving to IFRSs, HSBC has applied a number of available transition options which means that prior year figures are not fully comparable with those presented in respect of 2005. Details of HSBC's transition to IFRSs are set out on page 158.

HSBC published its *IFRS 2004 Comparative Financial Information* on 5 July 2005, which summarised the principal effects of IFRSs on the comparative financial information for 2004 and included a reconciliation between data previously reported in respect of 2004 under UK Generally Accepted Accounting Principles (UK GAAP) and under IFRSs. HSBC's consolidated balance sheet at 1 January 2005 differs from the closing balance sheet dated 31 December 2004 as the former reflects first-time adoption of IAS 32 Financial Instruments: Disclosure and Presentation (IAS 32), IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) and IFRS 4 Insurance Contracts (IFRS 4).

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

	Half-year to		
	30 June 2005 US\$m	30 June 2004 US\$m	31 December 2004 US\$m
<b>For the period</b>			
Total operating income	29,859	27,289	28,737
Profit before tax	10,640	10,120	8,823
Profit attributable to shareholders	7,596	6,940	5,978
Dividends	(4,575)	(4,052)	(2,862)
<b>At period-end</b>			
Total equity	91,681	89,633	99,197
Total shareholders' equity	86,713	77,066	85,522
Capital resources	101,722	81,075	90,780
Customer accounts and deposits by banks	841,075	731,929	777,127
Total assets	1,466,810	1,157,108	1,279,978
Risk-weighted assets	794,834	655,695	759,210
	US\$	US\$	US\$
<b>Per ordinary share</b>			
Basic earnings	0.69	0.64	0.55
Diluted earnings	0.68	0.63	0.54
Dividends	0.41	0.37	0.26
Net asset value at period end	7.73	6.99	7.66
	At 30 June	At 30 June	At 31 December

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	2005	2004	2004
<b>Share information</b>			
US\$0.50 ordinary shares in issue (million)	<b>11,222</b>	11,026	11,172
Market capitalisation (billion)	<b>US\$179</b>	US\$165	US\$190
Closing market price per ordinary share:			
London	<b>£8.90</b>	£8.20	£8.79
Hong Kong	<b>HK\$125.00</b>	HK\$117.50	HK\$133.00
Closing market price per American Depositary Share ( ADS )	<b>US\$79.65</b>	US\$74.91	US\$85.14

1 Each ADS represents five ordinary shares.

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**Financial Highlights** (continued)**Capital and performance ratios (annualised)**

	Half-year to		
	30 June 2005 %	30 June 2004 %	31 December 2004 %
<b>Capital ratios</b>			
Tier 1 capital	8.7	9.3	8.9
Total capital	12.8	12.4	12.0
<b>Performance ratios</b>			
Return on average invested capital <sup>1</sup>	16.5	16.7	13.3
Return on average total shareholders' equity	17.6	18.2	14.5
Post-tax return on average total assets	1.18	1.37	1.08
Post-tax return on average risk-weighted assets	2.09	2.41	1.89
<b>Credit coverage ratios</b>			
Loan impairment charges as a percentage of total operating income	11.0	9.9	12.1
Loan impairment charges as a percentage of average gross customer advances	1.0	0.9	1.1
Total allowances for loan impairment charges outstanding as a percentage of non-performing loans at period end	101.3	97.8	98.4
<b>Efficiency and revenue mix ratios</b>			
Cost:income ratio <sup>3</sup>	48.5	46.2	48.4
constant currency basis	48.5	46.4	48.7
Cost efficiency ratio <sup>4</sup>	51.6	49.7	53.5
constant currency basis	51.6	50.0	53.6
As a percentage of total operating income:			
net interest income	55.9	55.4	55.6
net fee income	23.6	23.5	21.9
trading income	7.8	5.1	4.2
	<b>Over 1 year</b>	<b>Over 3 years</b>	<b>Over 5 years</b>
HSBC total shareholder return (TSR) to 30 June 2005	113.7	137.9	149.7
<b>Benchmarks:</b>			
FTSE 100 <sup>7</sup>	118.6	122.0	94.6
MSCI World <sup>8</sup>	111.9	114.9	77.7

1 The definition of return on average invested capital and a reconciliation to the equivalent GAAP measures are set out on page 26.

2 The return on average total shareholders' equity is defined as profit attributable to shareholders divided by average total shareholders' equity.

3 The cost:income ratio is defined as total operating expenses divided by total operating income.

4 The cost efficiency ratio is defined as total operating expenses divided by net operating income before loan impairment charges and other credit risk provisions.

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- 5 *TSR is defined on page 220 of the Annual Report and Accounts 2004.*
- 6 *The current TSR of its peer group benchmark is defined on page 4 of the Annual Report and Accounts 2004.*
- 7 *The Financial Times-Stock Exchange 100 Index.*
- 8 *The Morgan Stanley Capital International World Index.*

### Comparison of financial information

When reference to constant currency or constant exchange rates is made, comparative data, as reported in the functional currencies of HSBC's operations, have been translated at the exchange rates applied in the current period in respect of the income statement or balance sheet as appropriate. When reference to underlying basis is made, comparative data have been expressed at constant currency and adjusted for the impact of acquisitions and for the change in presentation of non-equity minority interests.

As the transition to IFRSs affects the strict comparability of the financial information presented in this document (see page 158), the commentary that follows identifies the specific impact where this is material to a reader's understanding of the underlying business trends.

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**Distribution of Results****By geographical region**

	Half-year to					
	30 June 2005		30 June 2004		31 December 2004	
	US\$m	%	US\$m	%	US\$m	%
Profit before tax						
Europe	2,886	27.2	2,969	29.3	2,787	31.5
Hong Kong	2,419	22.7	2,609	25.8	2,221	25.2
Rest of Asia-Pacific	1,280	12.0	969	9.6	878	10.0
North America	3,713	34.9	3,417	33.8	2,653	30.1
South America	342	3.2	156	1.5	284	3.2
	<b>10,640</b>	<b>100.0</b>	<b>10,120</b>	<b>100.0</b>	<b>8,823</b>	<b>100.0</b>
Tax expense	(2,658)		(2,513)		(2,172)	
Profit for the period	<b>7,982</b>		<b>7,607</b>		<b>6,651</b>	
Profit attributable to shareholders	<b>7,596</b>		<b>6,940</b>		<b>5,978</b>	
Profit attributable to minority interests	<b>386</b>		<b>667</b>		<b>673</b>	

**By customer group**

	Half-year to					
	30 June 2005		30 June 2004		31 December 2004	
	US\$m	%	US\$m	%	US\$m	%
Profit before tax						
Personal Financial Services	5,470	51.4	4,536	44.8	3,961	44.9
Commercial Banking	2,373	22.3	2,175	21.5	1,882	21.3
Corporate, Investment Banking and Markets	2,298	21.6	2,791	27.6	2,497	28.3
Private Banking	451	4.2	362	3.6	335	3.8
Other	48	0.5	256	2.5	148	1.7
	<b>10,640</b>	<b>100.0</b>	<b>10,120</b>	<b>100.0</b>	<b>8,823</b>	<b>100.0</b>
Constant currency						



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Constant currency comparatives for the half-years to 30 June 2004 and 31 December 2004, used in the 2005 commentaries, are computed by retranslating into US dollars:

- the income statements for the half-years to 30 June 2004 and 31 December 2004 of non-US dollar branches, subsidiaries, joint ventures and associates at the average rates of exchange for the half-year to 30 June 2005; and
- the balance sheets at 30 June 2004 and 31 December 2004 for non-US dollar branches, subsidiaries, joint ventures and associates at the rates of exchange ruling at 30 June 2005.

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

Growth in revenue and costs:  
half-year to 30 June 2005 compared with the half-year  
to

	30 June 2004		31 December 2004	
	As reported %	Constant currency %	As reported %	Constant currency %
<b>Operating income and cost growth</b>				
Total operating income	9	7	4	2
Net operating income before loan impairment charges and other credit risk provisions	11	9	8	6
Total operating expenses	15	12	4	2
				<b>3</b>

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## Group Chairman's Comment

The first half of 2005 was one of continued progress for HSBC. In aggregate, we grew net operating income by US\$2.2 billion or 10 per cent compared with the first half of 2004. We achieved profit attributable to shareholders of US\$7.6 billion, an increase of 9 per cent. Earnings per share of US\$0.69 was 8 per cent higher than in the first half of 2004. In line with our schedule of paying quarterly dividends, the Directors have approved a second interim dividend of US\$0.14 per share, which will be payable on 5 October 2005. Total dividends declared to date in respect of 2005 amount to US\$0.28 per share and are US\$0.02, or 8 per cent, higher than in the prior period.

In many of our major markets, the rate of economic growth was slightly lower than in the first half of 2004. To a large extent our results are a measure of our success in expanding our personal financial services and commercial banking businesses in new and emerging markets. The results also reflect robust profit growth in our European Commercial Banking business from productivity improvements and stronger performance in our US consumer finance business as our reshaping of that portfolio has contributed to lower credit costs. In addition, the value of our deposit base in the Hong Kong SAR improved as Hong Kong dollar interest rates rose to track US rates once again.

Much of 2004 was devoted to the integration of acquisitions in the US and Mexico. Having completed those tasks successfully, we have again concentrated on organic growth during the first six months of this year. One particularly encouraging feature of our progress has been the extent to which our operations in emerging markets have harnessed HSBC's global capabilities to enhance their competitive position. One of HSBC's inherent strengths is its ability to collect from, and share best practices within, a network that spans 77 countries and territories. In each of Argentina, Indonesia, the Middle East and Turkey, we achieved growth in pre-tax profits of 50 per cent or more. Growth in pre-tax profits in Mexico and Brazil exceeded 20 per cent. In mainland China, our profits have grown five-fold following our investment in 2004 in Bank of Communications.

### Investing for the future

Our strong capital generation allows us to fund the development of our existing operations while laying the foundations for the long-term growth of our business. We estimate that, at any one time, up to 10 per cent of our capital is earmarked for investments in businesses of the future which will help to secure HSBC's strong position in a rapidly

changing industry. Although our strong balance sheet gives us the ability to make acquisitions, provided they meet certain strict criteria, our preferred use of the capital we retain after servicing dividends is for investment in our own business. Our strategy is to identify markets with the greatest future profit potential around the world and those customers who will benefit from HSBC's competitive advantages. This way we can create opportunities for growth.

Many of our achievements in the first half of 2005 illustrate the strength of our approach.

- Our cards businesses in Asia outside Hong Kong, and the Middle East, generated income of US\$228 million, 38 per cent up on the comparative period and 287 per cent up on the same period five years ago. In the course of those five years, we have appointed over 8,750 sales agents to distribute cards, and invested substantially in marketing to grow our cards business. Cards in force reached five million compared to 1.6 million five years ago, with our card receivables and spending both achieving some 300 per cent growth, a compound annual growth rate of more than 30 per cent.
- We acquired Demirbank (now HSBC Bank A.S.) in 2001 to develop our presence in Turkey. In aggregate, our profits in Turkey in constant currency have risen from US\$84 million in the first full year of acquisition to US\$133 million in the first half of 2005. This has been driven by the expansion in personal financial services, commercial banking and in treasury as HSBC in Turkey has increasingly made use of the Group's relationships and capabilities.
- In euro denominated bond issuance for corporate customers, HSBC ranked 14<sup>th</sup> in 2000 when CCF was acquired. In the first half of 2005, HSBC ranked fourth, reflecting the success of creating centres of excellence in different product areas in both Paris and London.
- In 1998, we took the decision to grow our fund administration business in Europe and Asia to augment our custody business. Its skills set was complementary to that of Bank of Bermuda and the synergies achieved from combining the businesses in mid-2004 led to revenues in the first half of 2005 of US\$536 million, 74 per cent above that achieved in the comparable period in 2004.

- Over the past four years we have made a significant commitment to developing our cash management capabilities in Asia. As a result, and supported by our market-leading suite of cash

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management products, we won the mandate for one of the world's largest consumer products companies, and first half 2005 revenues in this area were 39 per cent higher than in the corresponding period in 2004.

- In 2003 and 2004, we repositioned our UK bank's service platform for personal and commercial business customers in a drive for higher productivity. Against essentially flat cost growth we have gained market share in all core product areas and through better customer segmentation and channel management are now addressing underlying profitability.
- Over the last five years we have integrated HSBC's private banking businesses following the acquisitions of Republic New York Corporation and Safra Republic Holdings in 1999, of CCF in 2000 and of Bank of Bermuda in 2004. In the first half of 2005, this business achieved record results, 25 per cent above the comparable period in 2004 and more than double its first half performance in 2001.
- In Brazil, HSBC continued the expansion of its Losango consumer finance business acquired in late 2003. Loan assets increased by 60 per cent in the first half of 2005, compared with the same period in 2004. This growth was driven by an increase in the number of branches from 121 to 320. Approximately half of this growth, 112 branches, was obtained with the acquisition of Valeu Promotora de Vendas and CrediMatone S.A. in late 2004.

### Corporate, Investment Banking and Markets

The examples above illustrate our commitment to invest where the opportunity is clear and strategically important despite constraints on short-term profitability. That is where we stand today as we press ahead with the build-out of new business streams within our Corporate, Investment Banking and Markets (CIBM) business. Although we are only two and a half years into a five-year strategic plan, we are encouraged, nevertheless, by clear evidence of sustained progress:

- Within Global Markets, the product areas we augmented in 2003 and 2004 all showed positive revenue trends and improved rankings in client surveys. In particular, revenues grew in structured derivatives, credit products and in equities while the core business captured for the first time the premier position in London in *Euromoney's* 2005 foreign exchange survey and, for the eighth year in a row, remained Best at Treasury and Risk Management in Asia in the same publication. In Europe, our market share of government bond trading improved significantly as we continued to extend our primary dealership network. Globally, we now rank fourth in market share of interest rate derivatives, up from 17<sup>th</sup> in 2002.
- In Global Investment Banking, revenues rose, reflecting our progress in doing more business with existing clients, a strong performance in project and asset finance, and an increase in advisory work. We have been particularly successful in engaging clients on China-related assignments and we have continued to build our cross-border and cross-regional franchises. Key advisory transactions included advising Dubai International Capital on its £800 million acquisition of Tussauds Group in the UK and Bank of America on its US\$3 billion acquisition of a strategic stake in China Construction Bank.
- Our share of international bond issuance rose to 5.1 per cent from 4.5 per cent. Notable transactions included the €6 billion, 50-year benchmark bond for the French government and the €1 billion, 10-year bond for Hutchison Whampoa. We continue to add to our capabilities in asset-backed securities, equity capital markets and high yield debt. Notable transactions included a €1.5 billion covered bond for Northern Rock in the UK; the €858 million initial public offering for French autoroute operator Sanef; and a high yield bond and senior debt financing for Rexel, also in France.

Cost growth in CIBM in the first half of 2005 was in line with our plans. However, in common with many of our peers, we achieved lower than projected revenues due mostly to reduced income from balance sheet management activities as yield curves in most major currencies flattened markedly. As the cost base in CIBM now reflects most of the investment in building the business, future cost growth will consequently be significantly lower. We remain confident that the strategy we have set for the development of this business is the right one for HSBC's clients and shareholders, and that it is far less expensive and far less risky than growth by acquisition.

### Progress in China

HSBC is well positioned in China. Apart from our proprietary branches, we own significant stakes in Bank of Communications, the country's fifth largest bank, and in Ping An, its second largest life insurance company.



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## Group Chairman's Comments (continued)

We are encouraged by our progress in China and by the performance of the strategic investments we have made. Co-operation with both Ping An and with BoCom is excellent. We now have 16 staff working with BoCom, primarily focused on the joint credit card launch which was announced on 15 July. In June, we responded positively to the opportunity to acquire, for the equivalent of US\$1.04 billion, a further 9.9 per cent interest in Ping An from two private equity firms and to take our aggregate stake to 19.9 per cent. Subject to shareholder and regulatory approvals, we expect this to close in the third quarter.

The US\$2.17 billion initial public offering of BoCom on the Hong Kong Stock Exchange in June was a conspicuous success, with HSBC jointly lead managing the listing and equity distribution. We invested US\$430 million to maintain our investment at 19.9 per cent.

We welcome the initiative taken recently by China to target the renminbi to a currency basket. We believe it represents further progress in exchange rate reform and that it will give China's authorities more flexibility in managing their currency.

### The credit environment

Globally, the credit environment remained mainly benign. There was a notable improvement in credit behaviour in the US, reflecting a positive trend in employment and rising average earnings. The most difficult credit market currently remains the UK where interest rate rises in 2004, combined with slower growth in employment and a subdued property sector, have contributed to an increased loan impairment charge in unsecured personal lending. In late 2004, we took actions to address these trends and they are now beginning to be reflected in our credit outlook. Additionally, from this month HSBC will become the UK's first clearing bank to implement positive data sharing. We will share the full credit records of the five million personal customers for whom we hold consent with other regulated lenders via the country's largest credit reference agency. In commercial banking in the UK, we continue to monitor closely how the slowdown in consumer spending is affecting the retail supply chain and the service and property sectors that support it.

### Acquisitions and disposals

Apart from our continued expansion in China described above, we made only a few small acquisitions during the first half of 2005. These were principally in the US where among HSBC Finance Corporation's acquisitions were the private label

credit card portfolios of both Neiman Marcus, the department store chain, and of The Bon-Ton Stores, Inc.

More significantly, we took steps to divest ourselves of a number of businesses where we lacked critical mass and where disposals best served our shareholders' interests. Included in this category were our property and casualty insurance business in Brazil, HSBC Dewaay in Belgium, Netvalor in France, our asset management business in Australia, and our interest in Framlington in the UK, which was announced last week. These transactions, including those which are due to complete during the second half of 2005, will realise an aggregate consideration of over US\$550 million.

### Outlook

When we reported our results for 2004, we highlighted certain trends which will shape our business in the years ahead. These remain central to our assessment of future opportunities and challenges. As economies become more open, world prosperity, including that of the international financial system, will depend increasingly on continuing growth in trade, not least because of the increasing disparity between the physical location of the world's resources and those who consume them.

Long-term, this trend will encourage growth but in the short-term it may create challenges as economies adjust to a different competitive environment. Where political systems are unable or unwilling to make the necessary adjustments there is a risk of protectionism.

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For the foreseeable future, we believe the main drivers of economic growth will continue to be NAFTA, led by the US, and Asia, with China increasingly important. The impact of monetary and fiscal policy in the US in correcting the recent slowdown of its economy has been remarkable and is reflected in strengthening consumer confidence and resilient spending. China's economic growth in the first half of 2005 has again been exceptionally strong.

Our results in the first half of 2005 have again highlighted the importance of our presence in emerging markets. Our performance in Mexico has been particularly pleasing. We continue to see exciting opportunities to build on our results there and also to grow large and successful businesses in Brazil, Turkey, the Middle East, India and South Korea.

Personal and small business lending will be at the core of our plans for growth as we deploy technology and human expertise developed in more

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mature markets. This transfer of skills is well under way and is accelerating. There are fewer opportunities to generate profits from treasury activities in the current interest rate environment and so our ability to increase revenues from our retail and commercial banking businesses will be particularly important in the near term. We also remain focused on the fact that credit charges are currently low against historical experience and we expect these to increase.

The range of opportunities available to us to expand is more balanced geographically than ever before. We are, therefore, concentrating our capital and other resources on key strategic priorities and divesting ourselves of certain businesses where the returns are less attractive. At the same time, we will maintain the strong financial position that has served HSBC well throughout its history and which, going forward, will allow us to both grow our business and pursue a progressive dividend policy.

Sir John Bond, *Group Chairman*  
1 August 2005



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## Board of Directors and Senior Management

### Directors

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#### **Sir John Bond**, Group Chairman

Age 64. An executive Director since 1990; Group Chief Executive from 1993 to 1998. Joined HSBC in 1961; a non-executive Director of The Hongkong and Shanghai Banking Corporation Limited, having been an executive Director from 1988 to 1992. A Director of HSBC North America Holdings Inc. A Director of HSBC Bank plc from 1993 to 1997 and Chairman from 1998 to 2004. A non-executive Director of Ford Motor Company and of Vodafone Group Plc.

#### \* **The Baroness Dunn**, DBE, Deputy Chairman and senior non-executive Director

Age 65. An executive Director of John Swire & Sons Limited and a Director of Swire Pacific Limited. A non-executive Director since 1990 and a non-executive Deputy Chairman since 1992. A member of the Nomination Committee. A non-executive Director of The Hongkong and Shanghai Banking Corporation Limited from 1981 to 1996. A former non-executive Director of Marconi p.l.c. and a former Senior Member of the Hong Kong Executive Council and Legislative Council.

#### † **Sir Brian Moffat**, OBE, Deputy Chairman and senior independent non-executive Director

Age 66. Former Chairman of Corus Group plc. A non-executive Director since 1998 and a non-executive Deputy Chairman since 2001. Chairman of the Group Audit Committee and of the Nomination Committee. A member of the Court of the Bank of England. A non-executive Director of Macsteel Global BV.

#### **S K Green**, Group Chief Executive

Age 56. An executive Director since 1998. Executive Director, Corporate, Investment Banking and Markets from 1998 to 2003. Joined HSBC in 1982. Group Treasurer from 1992 to 1998. Chairman of HSBC Bank plc, HSBC Bank USA, N.A., HSBC Bank Middle East Limited, HSBC Group Investment Businesses Limited, HSBC Private Banking Holdings (Suisse) S.A. and HSBC USA Inc. A Director of The Bank of Bermuda Limited, CCF S.A., The Hongkong and Shanghai Banking Corporation Limited, Grupo Financiero HSBC, S.A. de C.V., HSBC North America Holdings Inc. and HSBC Trinkaus & Burkhardt KGaA.

#### **A W Jebson**, Group Chief Operating Officer

Age 55. An executive Director since 2000. Group IT Director from 2000 to 2003. Group General Manager, Information Technology from 1996 to 2000. Joined HSBC in 1978. A Director of HSBC Finance Corporation.

#### † **The Rt Hon the Lord Butler of Brockwell**, KG, GCB, CVO

Age 67. Master, University College, Oxford. A non-executive Director since 1998. Chairman of the Corporate Social Responsibility Committee, a member of the Nomination Committee and Chairman of the HSBC Education Trust. A non-executive Director of Imperial Chemical Industries plc. Chaired the UK Government Review of Intelligence on Weapons of Mass Destruction. Secretary of the Cabinet and Head of the Home Civil Service in the United Kingdom from 1988 to 1998.

#### † **R K F Chien**, CBE

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Age 53. Executive Chairman and Chief Executive Officer of CDC Corporation and Chairman of its subsidiary, China.com Inc. A non-executive Director since 1998. A member of the Group Audit Committee. Non-executive Chairman of HSBC Private Equity (Asia) Limited, and a non-executive Director of The Hongkong and Shanghai Banking Corporation Limited since 1997. Non-executive Chairman of MTR Corporation Limited and a non-executive Director of Convenience Retail Asia Limited, Inchcape plc, VTech Holdings Limited and The Wharf (Holdings) Limited.

### † **J D Coombe**

Age 60. Former executive Director and Chief Financial Officer of GlaxoSmithKline plc. A non-executive Director since 1 March 2005. A member of the Group Audit Committee since 1 July 2005. A non-executive Director of the Supervisory Board of Siemens AG and a non-executive Director of GUS plc. A member of The Code Committee of the Panel on Takeovers and Mergers. A former Chairman of The Hundred Group of Finance Directors and a former member of the Accounting Standards Board.

### † **R A Fairhead**

Age 43. Finance Director of Pearson plc. A non-executive Director since March 2004. A member of the Group Audit Committee. Former Executive Vice President, Strategy and Group Control of Imperial Chemical Industries plc.

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**D J Flint**, Group Finance Director

Age 50. Joined HSBC as an executive Director in 1995. A Director of HSBC Bank Malaysia Berhad. A non-executive Director of BP p.l.c. Chairman of the Financial Reporting Council's review of the Turnbull Guidance on Internal Control. Served on the Accounting Standards Board and the Standards Advisory Council of the International Accounting Standards Board from 2001 to 2004. A former partner in KPMG.

† **W K L Fung**, OBE

Age 56. Group Managing Director of Li & Fung Limited. A non-executive Director since 1998. A member of the Corporate Social Responsibility Committee and of the Remuneration Committee. A non-executive Director of The Hongkong and Shanghai Banking Corporation Limited since 1995. A non-executive Director of Bank of Communications Limited. Former Chairman of the Hong Kong General Chamber of Commerce, the Hong Kong Exporters' Association and the Hong Kong Committee for the Pacific Economic Cooperation Council.

**M F Geoghegan**, CBE, Chief Executive, HSBC Bank plc

Age 51. An executive Director since March 2004. Joined HSBC in 1973. A Director and Chief Executive of HSBC Bank plc. A Director of CCF S.A. and HSBC Private Banking Holdings (Suisse) S.A. President of HSBC Bank Brasil S.A.-Banco Múltiplo from 1997 to 2003 and responsible for all of HSBC's business throughout South America from 2000 to 2003. A non-executive Director and Chairman of Young Enterprise.

† **S Hintze**

Age 60. Former Chief Operating Officer of Barilla S.P.A. A non-executive Director since 2001. A member of the Corporate Social Responsibility Committee and of the Remuneration Committee. A non-executive Director of Premier Foods plc and the Society of Genealogists, a registered charity. A former Senior Vice President of Nestlé S.A. With Mars Incorporated from 1972 to 1993, latterly as Executive Vice President of M&M/Mars in New Jersey. A former non-executive Director of Safeway plc.

**J W J Hughes-Hallett**

Age 55. Chairman of John Swire & Sons Limited. A non-executive Director since 1 March 2005. A non-executive Director of The Hongkong and Shanghai Banking Corporation Limited from 1999 to 2004. A non-executive Director and formerly Chairman of Cathay Pacific Airways Limited and Swire Pacific Limited. A Trustee of the Dulwich Picture Gallery, the Hong Kong Maritime Museum and the Esmée Fairbairn Foundation.

**Sir John Kemp-Welch**

Age 69. Former Joint Senior Partner of Cazenove & Co and former Chairman of the London Stock Exchange. A non-executive Director since 2000. A member of the Group Audit Committee and of the Remuneration Committee. A Deputy Chairman of the Financial Reporting Council and a member of the Panel on Takeovers and Mergers from 1994 to 2000.

**Sir Mark Moody-Stuart**, KCMG

Age 64. Chairman of Anglo American plc. A non-executive Director since 2001. Chairman of the Remuneration Committee and a member of the Corporate Social Responsibility Committee. A non-executive Director of Accenture Limited, a Governor of Nuffield Hospitals, President of the Liverpool School of Tropical Medicine and Chairman of the Global Business Coalition on HIV/AIDS. A former Director and Chairman of The Shell Transport and Trading Company, plc and former Chairman of the Committee of Managing Directors of the Royal Dutch/Shell Group of Companies.

**S W Newton**

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Age 63. Chairman of The Real Return Holdings Company Limited. A non-executive Director since 2002. A Member of the Advisory Board of the East Asia Institute at Cambridge University. Founder of Newton Investment Management, from which he retired in 2002.

\* **H Sohmen, OBE**

Age 65. Chairman and President of World-Wide Shipping Group Limited and Chairman of Bergesen d.y. ASA and Bergesen Worldwide Limited. A non-executive Director since 1990. A non-executive Director of The Hongkong and Shanghai Banking Corporation Limited from 1984 to May 2005 and Deputy Chairman from 1996 to May 2005.

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## Board of Directors and Senior Management (continued)

### **Sir Brian Williamson, CBE**

Age 60. Chairman of Electra Investment Trust plc and Resolution Life Group Limited. A non-executive Director since 2002. A member of the Nomination Committee. A member of the Supervisory Board of Euronext NV. Senior adviser to Fleming Family and Partners. Former Chairman of London International Financial Futures and Options Exchange and Gerrard Group plc. A former non-executive Director of the Financial Services Authority and of the Court of The Bank of Ireland.

\* *Non-executive Director*  
*Independent non-executive Director*

### **Adviser to the Board**

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#### **D J Shaw**

Age 59. An Adviser to the Board since 1998. Solicitor. A partner in Norton Rose from 1973 to 1998. A Director of The Bank of Bermuda Limited and HSBC Private Banking Holdings (Suisse) S.A.

### **Secretary**

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#### **R G Barber**

Age 54. Group Company Secretary since 1990. Joined HSBC in 1980; Corporation Secretary of The Hongkong and Shanghai Banking Corporation Limited from 1986 to 1992. Company Secretary of HSBC Bank plc from 1994 to 1996.

### **Group Managing Directors**

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#### **V H C Cheng, OBE**

Age 57. Chairman of The Hongkong and Shanghai Banking Corporation Limited. A Group Managing Director since 25 May 2005. Joined HSBC in 1978. Appointed a Group General Manager in 1995. Deputy Chairman and Chief Executive Officer of Hang Seng Bank Limited from 1998 to May 2005.

#### **C-H Filippi**

Age 52. Chairman and Chief Executive Officer of CCF S.A. A Group Managing Director since 2004. A Director of HSBC Bank plc. Joined CCF S.A. in 1987 having previously held senior appointments in the French civil service. Appointed a Group General Manager in 2001. Global Head of Corporate and Institutional Banking from 2001 to 2004.

#### **S T Gulliver**

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Age 46. Co-Head Corporate, Investment Banking and Markets. A Group Managing Director since 2004. Joined HSBC in 1980. Appointed a Group General Manager in 2000. Head of Treasury and Capital Markets in Asia-Pacific from 1996 to 2002 and Head of Global Markets from 2002 to 2003.

### **S N Mehta**

Age 47. Chief Executive of HSBC North America Holdings Inc, and Chairman and Chief Executive Officer of HSBC Finance Corporation. A Group Managing Director since 30 April 2005. Joined HSBC Finance Corporation in 1998 and was appointed Vice Chairman in April 2004.

### **Y A Nasr**

Age 50. President, HSBC Bank Brasil S.A.-Banco Múltiplo. A Group Managing Director since 2004. Joined HSBC in 1976. Appointed a Group General Manager in 1998. President and Chief Executive Officer of HSBC USA Inc. and HSBC Bank USA from 1999 to 2003. President and Chief Executive Officer of HSBC Bank Canada from 1997 to 1999.

### **J J Studzinski**

Age 49. Co-Head Corporate, Investment Banking and Markets. A Group Managing Director since 2004. Joined HSBC in 2003 as a Group General Manager, having previously been with Morgan Stanley from 1980 to 2003, most recently as Deputy Chairman of Morgan Stanley International.

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HSBC HOLDINGS PLC

**Financial Review****Summary**

	Half-year to		
	30 June 2005 US\$m	30 June 2004 US\$m	31 December 2004 US\$m
Interest income	29,992	23,616	26,855
Interest expense	(13,302)	(8,486)	(10,886)
Net interest income	16,690	15,130	15,969
Fee income	8,428	7,846	7,826
Fee expense	(1,376)	(1,422)	(1,532)
Net fee income	7,052	6,424	6,294
Trading income	2,328	1,400	1,219
Net income from financial instruments designated at fair value	(354)		
Net investment income on assets backing policyholder liabilities		194	818
Gains less losses from financial investments	354	330	443
Dividend income	95	339	283
Net earned insurance premiums	2,312	2,584	2,784
Other operating income	1,382	888	927
<b>Total operating income</b>	<b>29,859</b>	<b>27,289</b>	<b>28,737</b>
Net insurance claims incurred and movement in policyholder liabilities	(1,760)	(1,945)	(2,690)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>28,099</b>	<b>25,344</b>	<b>26,047</b>
Loan impairment charges and other credit risk provisions	(3,277)	(2,740)	(3,451)
<b>Net operating income</b>	<b>24,822</b>	<b>22,604</b>	<b>22,596</b>
Employee compensation and benefits	(8,007)	(6,963)	(7,649)
General and administrative expenses	(5,322)	(4,539)	(5,149)
Depreciation of property, plant and equipment	(831)	(799)	(932)
Amortisation of intangible assets and impairment of goodwill	(330)	(301)	(193)
<b>Total operating expenses</b>	<b>(14,490)</b>	<b>(12,602)</b>	<b>(13,923)</b>
<b>Operating profit</b>	<b>10,332</b>	<b>10,002</b>	<b>8,673</b>
Share of profit in associates and joint ventures	308	118	150
<b>Profit before tax</b>	<b>10,640</b>	<b>10,120</b>	<b>8,823</b>
Tax expense	(2,658)	(2,513)	(2,172)

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<b>Profit for the period</b>	<b>7,982</b>	<b>7,607</b>	<b>6,651</b>
Attributable to shareholders	<b>7,596</b>	6,940	5,978
Attributable to minority interests	<b>386</b>	667	673

HSBC made a profit before tax of US\$10,640 million, a rise of US\$520 million, or 5 per cent, over the same period in 2004. Of this increase, US\$58 million was attributable to the acquisition of M&S Money and an additional two months' contribution from the Bank of Bermuda, and US\$116 million was attributable to the contribution from Bank of Communications and Industrial Bank in China.

As a result of the transition to full IFRSs, the format of the income statement has changed. Of particular note, US\$280 million of what would historically have been included within non-equity minority interest has now moved within the income statement and is included in Interest expense or as

an expense within Net income from financial instruments designated at fair value in 2005, as distinct from Profit attributable to minority interests.

On an underlying basis, profit before tax increased by 4 per cent.

Total operating income of US\$29,859 million was US\$2,570 million or 9 per cent higher than the same period in 2004. On an underlying basis, total operating income increased by 7 per cent.

Loan impairment charges and other credit risk provisions of US\$3,277 million in the first half of 2005 were US\$537 million, or 20 per cent, higher than the same period in 2004. On an underlying



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HSBC HOLDINGS PLC

**Financial Review** (continued)

basis, loan impairment charges and other credit risk provisions increased by 16 per cent. Essentially, this reflected growth in lending and the absence of the net general provision release of US\$290 million in the first half of 2004.

Total operating expenses of US\$14,490 million were US\$1,888 million or 15 per cent higher than in the first half of 2004. On an underlying basis, operating expenses were 11 per cent higher. A significant proportion of the cost growth reflects the investment in Corporate, Investment Banking and Markets, much of which took place in the second half of 2004. In addition, business expansion in the US, Mexico, Brazil and the Rest of Asia-Pacific (in particular the Middle East) also led to growth in expenses.

HSBC's cost:income ratio, which is defined as total operating expenses divided by total operating income, was 48.5 per cent in the first half of 2005 compared with 46.2 per cent in the first half of 2004 and 48.4 per cent in the second half of 2004. HSBC's cost efficiency ratio, which is calculated as total operating expenses divided by net operating income before loan impairment charges and other credit risk provisions, was 51.6 per cent in the first half of 2005 compared with 49.7 per cent in the first half of 2004 and 53.5 per cent in the second half of 2004.

HSBC's share of profit in associates and joint ventures was US\$190 million higher than in the first half of 2004, reflecting the contribution from Bank of Communications and Industrial Bank in China, increased income from the Saudi British Bank and distribution from HSBC's investment in AEA Investors LP.

**Net interest income**

	Half-year to					
	30 June 2005		30 June 2004		31 December 2004	
	US\$m	%	US\$m	%	US\$m	%
<b>By geographical region</b>						
Europe	4,733	28.4	4,307	28.5	4,791	30.0
Hong Kong	2,019	12.1	1,781	11.8	1,857	11.7
Rest of Asia-Pacific	1,157	6.9	984	6.5	1,076	6.7
North America	7,976	47.8	7,452	49.2	7,541	47.2
South America	805	4.8	606	4.0	704	4.4
<b>Net interest income</b>	<b>16,690</b>	<b>100.0</b>	<b>15,130</b>	<b>100.0</b>	<b>15,969</b>	<b>100.0</b>

	Half-year to		
	30 June 2005	30 June 2004	31 December 2004
	US\$m	US\$m	US\$m
Net interest income	16,690	15,130	15,969
Average interest-earning assets	1,001,443	930,051	1,022,218

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Gross interest yield (per cent) <sup>1</sup>	<b>6.04</b>	5.11	5.23
Net interest spread (per cent) <sup>2</sup>	<b>3.13</b>	3.07	2.87
Net interest margin (per cent) <sup>3</sup>	<b>3.36</b>	3.27	3.11

1 *Gross interest yield is the average annualised interest rate earned on average interest-earning assets ( AIEA ).*

2 *Net interest spread is the difference between the average annualised interest rate earned on average interest-earning assets, net of amortised premiums and loan fees, and the average annualised interest rate paid on average interest-bearing funds.*

3 *Net interest margin is net interest income expressed as an annualised percentage of average interest-earning assets.*

Net interest income of US\$16,690 million was US\$1,560 million, or 10 per cent higher than in the first half of 2004.

The adoption of IFRSs affected net interest income mainly through the reclassification of preference dividends and non-equity minority interests as an interest expense, and the effect of including in net interest income certain loan origination fees and expenses amortised over the life of the related loan (previously the whole amount of such fees and expenses had been included in fee

income up front) which are now part of an effective interest rate ( EIR ) calculation. In addition, interest income and expenses on trading assets and liabilities are now included within Trading income and the interest element of assets and liabilities designated at fair value are included in

Net income from financial instruments designated at fair value . In total this accounted for just over 10 per cent of the increase in net interest income, and acquisitions added approximately US\$200 million. Excluding these adjustments and, on an underlying basis, net interest income increased by 6 per cent.

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The commentary below highlights the key business drivers of this increase.

Balance sheet growth in lending was strong in Personal Financial Services in Europe, the US, Mexico, Brazil and parts of the Rest of Asia-Pacific. In Europe, strong growth in mortgages and unsecured lending was funded by corresponding deposit growth. Strong credit card loan growth in Asia benefited margins. Lending growth in the US consumer finance business was strong at 18 per cent although yields continued to decline, reflecting a more benign credit outlook, increased competition, and a change in mix towards higher credit-quality customers.

Average lending growth in Commercial Banking was also strong globally. Of particular note were the trade sector in Hong Kong; project and infrastructure lending in the Middle East; property and services financing in Europe; and the manufacturing and service industry sectors in North America. In the US, expanding HSBC's business coverage beyond the north-east added to loan growth. In the UK, the restructuring of the Commercial Banking teams in 2004 and revised incentive structures contributed to the strong growth.

Rising interest rates in Hong Kong and the US benefited deposit spreads in Personal Financial Services and Commercial Banking, and an emphasis on deposit generation in the US grew deposits faster than in 2004. In Mexico, HSBC benefited from continued growth in low cost deposit balances; market share increased by 1 per cent to 14.6 per cent.

Partly offsetting the benefits of the above, rising short-term US dollar interest rates reduced spreads, where short-term funding was financing fixed rate loans. Interest rate yield curves in the major currencies flattened, reducing opportunities in HSBC's treasury operations to enhance margin through placing surplus liquidity longer term than the behaviouralised deposit funding base.

Average interest-earning assets increased by US\$71.4 billion, or 8 per cent, compared with the first half of 2004. At constant exchange rates, average interest-earning assets increased by 17 per cent. Decreases reported in some entities reflected the IFRS changes referred to above, notably the change in treatment of trading assets.

HSBC's net interest margin was 3.36 per cent in the first half of 2005, compared with 3.27 per cent in the comparable period of 2004.

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HSBC HOLDINGS PLC

**Financial Review** (continued)

## Net interest margin

	Half-year to					
	<b>30 June 2005</b> (Local currency)	30 June 2004	31 December 2004	<b>30 June 2005</b> US\$m	30 June 2004 US\$m	31 December 2004 US\$m
<b>Europe</b>						
HSBC Bank						
margin (per cent)	<b>2.28</b>	2.48	2.34			
AIEA (£m)	<b>153,996</b>	132,456	146,953	<b>285,586</b>	241,393	270,542
CCF						
margin (per cent)	<b>1.27</b>	1.57	1.32			
AIEA (€m)	<b>58,000</b>	72,748	82,222	<b>72,929</b>	89,292	103,423
HSBC Private Bank (Suisse)						
margin (per cent)	<b>1.02</b>	0.78	0.86			
AIEA (US\$m)	<b>28,709</b>	25,652	25,912	<b>28,709</b>	25,652	25,912
HSBC Finance Corporation						
margin (per cent)	<b>6.09</b>	7.02	6.96			
AIEA (£m)	<b>5,999</b>	4,942	5,255	<b>11,125</b>	9,007	9,674
<b>Hong Kong</b>						
The Hongkong and Shanghai Banking Corporation excluding Hang Seng Bank						
margin (per cent)	<b>2.22</b>	1.76	1.73			
AIEA (HK\$m)	<b>999,604</b>	1,007,476	1,048,614	<b>128,344</b>	129,375	134,609
Hang Seng Bank						
margin (per cent)	<b>2.13</b>	2.02	2.07			
AIEA (HK\$m)	<b>497,987</b>	470,141	478,253	<b>63,939</b>	60,373	61,393
<b>Rest of Asia-Pacific</b>						
The Hongkong and Shanghai Banking Corporation						
margin (per cent)	<b>2.00</b>	1.95	1.96			
AIEA (HK\$m)	<b>590,709</b>	525,162	551,130	<b>75,844</b>	67,439	70,748
HSBC Bank Malaysia						
margin (per cent)	<b>2.78</b>	2.52	2.59			
AIEA (ringgit m)	<b>31,545</b>	29,000	29,809	<b>8,301</b>	7,632	7,844
HSBC Bank Middle East						
margin (per cent)	<b>3.61</b>	3.59	3.78			
AIEA (US\$m)	<b>13,307</b>	9,770	10,921	<b>13,307</b>	9,770	10,921

**North America****HSBC Bank USA**

margin (per cent)	<b>3.41</b>	3.15	2.70			
AIEA (US\$m)	<b>112,494</b>	79,330	97,423	<b>112,494</b>	79,330	97,423

**HSBC Bank Canada**

margin (per cent)	<b>2.36</b>	2.46	2.36			
AIEA (C\$m)	<b>40,743</b>	36,447	38,984	<b>32,744</b>	27,227	30,837

**HSBC Mexico**

margin (per cent)	<b>7.97</b>	5.37	6.48			
AIEA (Mexican peso m)	<b>199,306</b>	211,726	209,248	<b>18,166</b>	18,929	18,372

**HSBC Finance**

margin (per cent)	<b>7.93</b>	9.06	8.43			
AIEA (US\$m)	<b>120,306</b>	116,418	121,946	<b>120,306</b>	116,418	121,946

**South America****Brazilian operations**

margin (per cent)	<b>12.12</b>	13.63	12.99			
AIEA (Brazilian reais m)	<b>29,620</b>	24,611	29,134	<b>11,936</b>	8,287	10,102

**HSBC Bank Argentina**

margin (per cent)	<b>9.40</b>	4.16	6.34			
AIEA (peso m)	<b>4,213</b>	4,224	3,848	<b>1,457</b>	1,453	1,293

Data is reported above for the following entities: HSBC Bank plc ( HSBC Bank ); CCF S.A. ( CCF ); HSBC Private Bank (Suisse) S.A. ( HSBC Private Bank (Suisse) ); HSBC Finance Corporation ( HSBC Finance ), formerly Household International, Inc; The Hongkong and Shanghai Banking Corporation Limited ( The Hongkong and Shanghai Banking Corporation ); Hang Seng Bank Limited ( Hang Seng Bank ); HSBC Bank Malaysia Berhad ( HSBC Bank Malaysia ); HSBC Bank Middle East Limited ( HSBC Bank Middle East ); HSBC Bank USA N.A ( HSBC Bank USA ); HSBC Bank Canada; Grupo Financiero HSBC S.A. de C.V. ( HSBC Mexico ); HSBC Bank Brasil S.A.-Banco Múltiplo and subsidiaries, plus Banco Lloyds TSB S.A. and Losango Promotora de Vendas Limitada ( Brazilian operations ); and HSBC Bank Argentina S.A. ( HSBC Bank Argentina ).

[Back to Contents](#)**Net fee income**

	Half-year to					
	30 June 2005		30 June 2004		31 December 2004	
	US\$m	%	US\$m	%	US\$m	%
<b>By geographical region</b>						
Europe	3,243	45.9	2,902	45.1	3,078	48.9
Hong Kong	842	11.9	888	13.8	815	12.9
Rest of Asia-Pacific	632	9.0	499	7.8	542	8.6
North America	2,070	29.4	1,906	29.7	1,629	25.9
South America	265	3.8	229	3.6	230	3.7
<b>Net fee income</b>	<b>7,052</b>	<b>100.0</b>	<b>6,424</b>	<b>100.0</b>	<b>6,294</b>	<b>100.0</b>

Net fee income of US\$7,052 million was US\$628 million, or 10 per cent, higher than in the first half of 2004. Under IFRSs, certain fees are now amortised and accounted for in net interest income which has resulted in a reduction in net fee income of approximately 5 per cent. Excluding this effect and on an underlying basis, growth in net fee income was 11 per cent. The six principal drivers to this growth were:

- Card fee income increased, driven by broadly based growth in personal credit card sales across the Group, increased transaction volumes and higher fee rates.
- Corporate finance fee income grew reflecting the successful broadening of customer relationships within Global Investment Banking.
- Rising equity markets and renewed interest in emerging markets drove higher global custody fees and asset management fees.
- The packaging of account services into customer-based products expanded with notable success in Mexico, where the *tu Cuenta* account generated in excess of 300,000 new customers.
- In Private Banking, expansion into a greater range of alternative investment products and services generated growth in related fee income.
- Offsetting these positive trends, after a strong run of growth, fee income from unit trust sales in Hong Kong fell as rising interest rates made traditional deposit products more attractive and reduced customer demand for structured products.

**Analysis of net fee income**

	Half-year to		
	30 June 2005	30 June 2004	31 December 2004
	US\$m	US\$m	US\$m
Account services	1,522	1,336	1,443
Credit facilities	504	579	600
Remittances	193	166	187
Cards	1,955	1,826	1,931
Imports/exports	357	332	360
Underwriting	147	117	117
Insurance	558	499	502

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Mortgage servicing rights	37	39	41
Trust income	108	98	105
Broking income	529	517	426
Global custody	310	279	285
Maintenance income on operating leases	99	95	95
Funds under management	874	792	687
Unit trusts	223	296	202
Corporate finance	124	100	111
Other	888	775	734
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total fee income</b>	<b>8,428</b>	7,846	7,826
Less: fee expense	(1,376)	(1,422)	(1,532)
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net fee income</b>	<b>7,052</b>	6,424	6,294
	<u>          </u>	<u>          </u>	<u>          </u>

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HSBC HOLDINGS PLC

**Financial Review** (continued)**Trading income**

	Half-year to					
	30 June 2005		30 June 2004		31 December 2004	
	US\$m	%	US\$m	%	US\$m	%
<b>By geographical region</b>						
Europe	1,068	45.9	508	36.3	489	40.1
Hong Kong	380	16.3	380	27.1	279	22.9
Rest of Asia-Pacific	387	16.6	265	18.9	229	18.8
North America	275	11.8	221	15.8	194	15.9
South America	218	9.4	26	1.9	28	2.3
Trading income	2,328	100.0	1,400	100.0	1,219	100.0

**Analysis of trading income**

	Half-year to		
	30 June 2005	30 June 2004	31 December 2004
	US\$m	US\$m	US\$m
Total trading activities	2,488	1,400	1,219
Other trading income:			
Hedge ineffectiveness:			
on cash flow hedges	(68)		
on fair value hedges	37		
Non-qualifying hedges	(129)		
Total trading income	2,328	1,400	1,219

Trading income of US\$2,328 million was 66 per cent higher than in the first half of 2004. The adoption of IFRSs affected the presentation of trading income, mainly through the reclassification into trading income of interest and dividend income on trading assets and interest expense on trading liabilities. The funding of long trading positions, however, remains mainly internal and these interest costs, therefore, continued to be included within net interest income and excluded from trading income. The net effect of these adjustments added approximately US\$1.1 billion to trading income.

Excluding these presentational adjustments and on an underlying basis, income from trading activities was broadly in line with the first half of 2004. Higher revenues from structured derivatives reflected a significant number of new deals against

the backdrop of a strengthening US dollar, particularly in Asia and Europe. Strong customer demand drove an increase in currency options business, while foreign exchange activity benefited from a weakening of the euro and increased market volatility following the general election in the UK and the French referendum on the EU constitutional treaty. The flattening of interest rate curves facilitated the trading activities of the credit and rates business as customer volumes increased.



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Further analysis on the trading performance of the Global Markets business is provided in the regional business commentaries on Corporate, Investment Banking and Markets.

[Back to Contents](#)**Net income from financial instruments designated at fair value**

	<b>Half-year to 30 June 2005</b>	
	US\$m	%
<b>By geographical region</b>		
Europe	(136)	38.5
Hong Kong	(21)	5.9
Rest of Asia-Pacific	14	(4.0)
North America	(257)	72.6
South America	46	(13.0)
	<hr/>	<hr/>
Net income from financial instruments designated at fair value	(354)	100.0
	<hr/>	<hr/>

**Analysis of net income from financial instruments designated at fair value**

	<b>Half-year to 30 June 2005 US\$m</b>
Income from assets designated at fair value held to meet liabilities under insurance and investment contracts	571
Change of fair value of liabilities under investment contracts designated at fair value	(414)
Expense of own debt designated at fair value	(538)
Income from other instruments designated at fair value	27
	<hr/>
Net income from financial instruments designated at fair value	(354)
	<hr/>
Expense of own debt designated at fair value comprises:	
floating rate interest	(901)
change in own credit spread on long-term debt	(91)
other changes	454
	<hr/>
Net expense on own debt/related swaps	(538)
	<hr/>

HSBC has adopted the Amendment to IAS 39 Financial Instruments: Recognition and Measurement: the Fair Value Option with effect from 1 January 2005. All income and expense on financial instruments for which the fair value option has been taken is included in this line.

HSBC has used the fair value designation principally in the following cases:

- for fixed rate long-term debt issues whose interest rate characteristic has been changed to floating through interest rate swaps as part of an effective interest rate management strategy. Approximately US\$48 billion of the Group's debt issues have been accounted for using the option. Included in the expense of these debt issues are the cost of changes in credit spread and interest expense. The expense also includes the ineffectiveness inherent in the economic relationship between the offsetting swaps and own debt. This arises from the different credit characteristics of the swap and own debt coupled with the sensitivity of the floating leg of the swap to changes in short-term interest rates. Additionally, this economic relationship will be affected by relative movements in market factors, such as bond and swap rates, and the relative bond and swap rates at inception. The size and direction of these other changes will be volatile from period to period.
- certain assets held by insurance operations to meet related liabilities under insurance and investment contracts (approximately US\$12 billion of assets); and
- liabilities under investment contracts where the change in value of a pool of assets is correlated with the change in value of the liability to policyholders (approximately US\$9 billion of liabilities).

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The introduction of the new categories of financial instruments under IAS 39 on 1 January 2005 has led to a change in income statement presentation for the results of HSBC's life assurance business. In 2005, income from assets designated at fair value and held to meet liabilities under insurance and investment contracts of US\$571 million is reported under Net income from financial instruments designated at fair value. In 2004, the corresponding amounts were reported within Net investment income on assets backing policyholder liabilities.

The income from assets designated at fair value held to meet liabilities under insurance and investment contracts during 2005 is correlated with increases in liabilities under investment contracts,

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HSBC HOLDINGS PLC

**Financial Review** (continued)

and the element of the increase in liabilities under insurance contracts that reflects investment performance (reported within Net insurance claims incurred and movements in policyholder liabilities ). In 2004, net investment income on assets backing

**Net earned insurance premiums**

policyholder liabilities was correlated with the elements of Net insurance claims incurred and movements in policyholder liabilities that reflect investment performance (no distinction existed in 2004 between insurance and investment contracts).

	Half-year to					
	30 June 2005		30 June 2004		31 December 2004	
	US\$m	%	US\$m	%	US\$m	%
<b>By geographical region</b>						
Europe	786	34.0	931	36.0	944	33.9
Hong Kong	866	37.5	1,063	41.2	1,184	42.5
Rest of Asia-Pacific	29	1.3	57	2.2	40	1.4
North America	290	12.5	267	10.3	286	10.3
South America	341	14.7	266	10.3	330	11.9
Net earned insurance premiums	<b>2,312</b>	<b>100.0</b>	2,584	100.0	2,784	100.0

## Analysis of net earned insurance premiums

	Half-year to		
	30 June 2005	30 June 2004	31 December 2004
	US\$m	US\$m	US\$m
Gross insurance premium income	2,640	2,878	3,144
Reinsurance premiums	(328)	(294)	(360)
Net earned insurance premiums	<b>2,312</b>	2,584	2,784

Net earned insurance premium income in the first half of 2005 was US\$272 million, or 11 per cent, lower than in the first half of 2004.

The reduction in Europe and Hong Kong was in large part due to the reclassification of certain insurance contracts upon transition to IFRSs. The introduction of IFRS 4 caused US\$9 billion of contracts to be reclassified as investment contracts, with a consequent reduction in reported premiums

earned. Correspondingly, net insurance claims have fallen, largely as a result of the same reclassification. The reclassification had no significant effect on net operating income.

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In Hong Kong, a fall in customer demand for index-linked products reflected the growing attractiveness of traditional deposit products in the rising interest rate environment. On a like-for-like basis, Europe experienced growth across the product range.

[Back to Contents](#)**Other operating income**

	Half-year to					
	30 June 2005		30 June 2004		31 December 2004	
	US\$m	%	US\$m	%	US\$m	%
<b>By geographical region</b>						
Europe	731	40.6	541	46.5	521	40.7
Hong Kong	423	23.5	259	22.2	233	18.2
Rest of Asia-Pacific	131	7.3	63	5.4	83	6.5
North America	476	26.5	299	25.6	419	32.7
South America	38	2.1	4	0.3	24	1.9
	<b>1,799</b>	<b>100.0</b>	1,166	100.0	1,280	100.0
Intra-HSBC elimination	(417)		(278)		(353)	
Other operating income	<b>1,382</b>		888		927	

**Analysis of other operating income**

	Half-year to		
	30 June 2005	30 June 2004	31 December 2004
	US\$m	US\$m	US\$m
Rent received	461	399	394
Profit/(loss) on disposal of assets held for resale	11	(85)	(8)
Revaluation of investment properties	111	57	42
Profit on disposal of fixed assets	8	22	12
Profit on disposal of operating leases	26		
Change in present value of in-force life assurance business	54	46	25
Other	711	449	462
Other operating income	<b>1,382</b>	888	927

Other operating income of US\$1,382 million was US\$494 million, or 56 per cent, higher than in the first half of 2004. There was no material effect on the results arising from the adoption of IFRS 4, IAS 32 and IAS 39. On an underlying basis, other operating income grew by 53 per cent.

The commentary that follows is at constant currency.

In Europe, the increase in other operating income was driven by higher rental income on the leasing of train rolling stock and a number of venture capital realisations.

Other operating income increased by 63 per cent in Hong Kong, largely driven by the revaluation of investment properties reflecting higher property

prices and the profit on the disposal of a leasehold residential property.

In North America, an absence of losses on the sale of real estate owned assets, together with higher rental income and sundry asset sales, led to the improvement in other operating income.

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The increase in other operating income in the Rest of Asia-Pacific was attributable in part to profit realised on the sale of the Group's asset management operations in Australia, while the increase in South America mainly arose in Argentina from the receipt of compensation bonds.

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HSBC HOLDINGS PLC

**Financial Review** (continued)**Net insurance claims incurred and movement in policyholder liabilities**

	Half-year to					
	30 June 2005		30 June 2004		31 December 2004	
	US\$m	%	US\$m	%	US\$m	%
<b>By geographical region</b>						
Europe	502	28.5	642	33.0	986	36.7
Hong Kong	751	42.7	897	46.1	1,257	46.7
Rest of Asia-Pacific	37	2.1	46	2.4	36	1.3
North America	173	9.8	157	8.1	155	5.8
South America	297	16.9	203	10.4	256	9.5
Net insurance claims incurred and movement in policyholder liabilities	<b>1,760</b>	<b>100.0</b>	1,945	100.0	2,690	100.0

**Analysis of net insurance claims incurred and movement in policyholder liabilities**

	Half-year to		
	30 June 2005	30 June 2004	31 December 2004
	US\$m	US\$m	US\$m
Gross insurance claims and movement in policyholder liabilities	1,952	2,160	3,060
Reinsurance recoveries	(192)	(215)	(370)
Net insurance claims incurred and movement in policyholder liabilities	<b>1,760</b>	1,945	2,690

Net insurance claims incurred and movement in policyholder liabilities in the first half of 2005 was US\$185 million, or 10 per cent, lower than in the first half of 2004. As with net earned insurance premiums, the principal reason for the reduction was the introduction of IFRS 4 on 1 January 2005, under

which US\$9 billion of policyholder liabilities under long-term assurance contracts in Europe and Hong Kong were reclassified as liabilities to customers under investment contracts. As a consequence, reported net insurance claims incurred and movement in policyholder liabilities have reduced.



[Back to Contents](#)**Loan impairment charges and other credit risk provisions**

	Half-year to					
	30 June 2005		30 June 2004		31 December 2004	
	US\$m	%	US\$m	%	US\$m	%
<b>By geographical region</b>						
Europe	933	28.5	454	16.5	579	16.8
Hong Kong	56	1.7	(222)	(8.1)	2	0.1
Rest of Asia-Pacific	23	0.7	(9)	(0.3)	98	2.8
North America	2,023	61.7	2,377	86.8	2,645	76.6
South America	242	7.4	140	5.1	127	3.7
<b>Total loan impairment charges and other credit risk provisions</b>	<b>3,277</b>	<b>100.0</b>	<b>2,740</b>	<b>100.0</b>	<b>3,451</b>	<b>100.0</b>

	Half-year to		
	30 June 2005	30 June 2004	31 December 2004
	US\$m	US\$m	US\$m
Loan impairment charges <sup>1</sup>			
New allowances	4,404	4,134	4,739
Reversal of allowances no longer required	(895)	(707)	(559)
Recoveries of amounts previously written off	(222)	(429)	(485)
	<b>3,287</b>	<b>2,998</b>	<b>3,695</b>
Individually assessed allowances	162		
Collectively assessed allowances	3,125		
General provisions		(290)	(208)
Other credit risk (provisions)/releases	(10)	32	(36)
<b>Total loan impairment charges and other credit risk provisions</b>	<b>3,277</b>	<b>2,740</b>	<b>3,451</b>
Customer non-performing loans	11,935	12,264	12,427
Customer loan impairment allowances	12,091	12,352	12,542

<sup>1</sup> Loan impairment charges in 2004 refer to specific provisions.

At 30 June 2005, 79 per cent of customer lending was located in Europe and North America, with 11 per cent in Hong Kong. Personal lending accounted for 52 per cent of the customer loan portfolio, broadly in line with last year.

At constant exchange rates and excluding loans to the financial sector, there was an overall increase in customer lending of 6 per cent. Personal lending accounted for half of this increase, predominantly in mortgages, credit cards and other personal products.

The charge for loan impairment adjusts the balance sheet allowance for loan impairment to the level that management deems adequate to absorb actual and inherent losses in the Group's loan portfolio from portfolios of homogeneous assets and individually assessed customer loans. The majority of the Group's loan impairment charges are determined on a portfolio basis, employing statistical calculations using roll rate methodologies. The total loan impairment charges and other credit risk provisions for the first half of 2005 was US\$3,277 million, compared with US\$2,740 million in the first half of 2004 and US\$3,451 million in the second half of 2004.

There were releases of general provisions of US\$290 million and US\$208 million in the first and second halves of 2004, respectively. There was no similar release in the first half of 2005.

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In the US, the charge for loan impairment in the first half of 2005 benefited from improving credit conditions in the economy together with higher levels of secured lending and improved collection activity. This was partly offset by growth in impairment allowances against the unsecured personal loan portfolio in the UK, which reflected recent growth in unsecured lending, a higher rate of delinquencies in the market and rising levels of bankruptcy. A small number of delinquent accounts in the UK commercial loan book added to the impairment charge following a period in which the incidence of commercial credit weakness had been abnormally low.

The aggregate customer loan impairment allowances at 30 June 2005 of US\$12.1 billion represented 1.8 per cent of gross customer advances (net of reverse repos, settlement accounts and netting) compared with 2.0 per cent at 31 December 2004. As in 2004, HSBC's cross-border exposures did not necessitate significant allowances.

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HSBC HOLDINGS PLC

**Financial Review** (continued)

Non-performing loans to customers were US\$11.9 billion at 30 June 2005 compared with US\$12.4 billion at 31 December 2004. At constant exchange rates, non-performing loans were broadly

flat compared with the end of 2004, following improvements in credit quality in most countries in Asia, and in the US, partly offset by higher provisioning requirements in the UK and Brazil.

**Operating expenses**

	Half-year to					
	30 June 2005		30 June 2004		31 December 2004	
	US\$m	%	US\$m	%	US\$m	%
<b>By geographical region</b>						
Europe	6,364	42.7	5,728	44.5	6,300	44.2
Hong Kong	1,381	9.3	1,241	9.6	1,317	9.2
Rest of Asia-Pacific	1,264	8.5	967	7.5	1,120	7.8
North America	5,026	33.7	4,277	33.2	4,793	33.6
South America	872	5.8	667	5.2	746	5.2
	<b>14,907</b>	<b>100.0</b>	<b>12,880</b>	<b>100.0</b>	<b>14,276</b>	<b>100.0</b>
Intra-HSBC elimination	(417)		(278)		(353)	
Total operating expenses	<b>14,490</b>		<b>12,602</b>		<b>13,923</b>	

	Half-year to		
	30 June	30 June	31
	2005	2004	December
	US\$m	US\$m	2004
	US\$m	US\$m	US\$m
<b>By expense category</b>			
Employee compensation and benefits	8,007	6,963	7,649
Premises and equipment (excluding depreciation)	1,448	1,246	1,369
General and administrative expenses	3,874	3,293	3,780
Administrative expenses	13,329	11,502	12,798
Depreciation of property, plant and equipment	831	799	932
Amortisation of intangible assets and impairment of goodwill	330	301	193
Total operating expenses	<b>14,490</b>	<b>12,602</b>	<b>13,923</b>

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	%	%	%
Cost:income ratio	<b>48.5</b>	46.2	48.4
Cost efficiency ratio	<b>51.6</b>	49.7	53.5

  

	At 30 June 2005	At 30 June 2004	At 31 December 2004
<b>Staff numbers (full-time equivalent)</b>			
Europe	<b>73,146</b>	74,798	74,861
Hong Kong	<b>25,260</b>	24,680	25,552
Rest of Asia-Pacific	<b>48,026</b>	34,828	41,031
North America	<b>72,638</b>	68,521	69,781
South America	<b>31,644</b>	29,553	32,108
<b>Total staff numbers</b>	<b>250,714</b>	232,380	243,333

Operating expenses of US\$14,490 million were US\$1,888 million, or 15 per cent, above the comparable period in 2004. On an underlying basis, cost growth was 11 per cent. The growth in costs compared with the first half of 2004 reflects, in part, the build-up of costs during the second half of 2004 in Corporate, Investment Banking and Markets as its product range was enhanced and customer-facing profile augmented. Compared with the second half of 2004, excluding acquisitions and expressed in constant currency, cost growth was 2 per cent. The

three main elements to the cost performance were as follows:

- Following the build-up of senior hires in 2004 in Corporate, Investment Banking and Markets, there was a consequential investment in operations and technology to support core revenue growth. Global Markets technology spending was US\$280 million, approximately 30 per cent higher than in the first half of 2004;

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- Volume expansion in many markets drove both revenue and costs. In Personal Financial Services and Commercial Banking, business expansion drove cost growth by 8 per cent and 5 per cent respectively, but this was exceeded by growth in net operating income before loan impairment charges of 10 per cent and 11 per cent, respectively; and
- HSBC continued to achieve productivity improvement in mature markets. In the UK, in particular, reorganisations in Personal Financial Services and Commercial Banking in HSBC Bank in 2004 resulted in essentially flat costs compared with growth of 8 per cent in net operating income before loan impairment. This was delivered through greater utilisation of direct channels, improved training and increased incentives. As a result, the cost efficiency ratios of the two businesses in the UK improved by 4 percentage points and 6 percentage points, respectively.

## Cost:income ratios

	Half-year to		
	30 June 2005 %	30 June 2004 %	31 December 2004 %
<b>Personal Financial Services</b>	<b>44.8</b>	44.9	46.4
Europe	55.6	57.6	57.9
Hong Kong	23.7	28.6	27.3
Rest of Asia-Pacific	66.6	65.4	68.7
North America	41.5	40.0	42.4
South America	61.0	66.5	64.5
<b>Commercial Banking</b>	<b>46.0</b>	44.5	42.6
Europe	50.2	50.9	48.7
Hong Kong	28.1	24.1	18.5
Rest of Asia-Pacific	42.3	43.6	40.9
North America	47.6	44.3	52.5
South America	58.1	58.2	60.3

## Cost efficiency ratios

	Half-year to		
	30 June 2005 %	30 June 2004 %	31 December 2004 %
<b>Personal Financial Services</b>	<b>48.5</b>	48.7	51.7
Europe	60.5	64.0	67.3
Hong Kong	32.8	39.0	39.4
Rest of Asia-Pacific	69.4	69.8	71.6
North America	42.3	40.6	43.4
South America	67.3	71.1	73.7
<b>Commercial Banking</b>	<b>46.8</b>	49.4	50.6
Europe	51.2	54.9	55.6
Hong Kong	28.8	35.5	32.2
Rest of Asia-Pacific	42.7	44.1	41.4

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North America	47.6	44.3	52.5
South America	59.4	62.9	62.9

HSBC's cost efficiency ratio on an underlying basis increased from 50.0 per cent to 50.9 per cent, mainly attributable to the continuing investment in Corporate, Investment Banking and Markets coupled with weaker revenues in balance sheet management.

Excluding the effect of Corporate, Investment Banking and Markets, the underlying cost efficiency ratio improved by about 1 per cent, driven essentially by productivity gains in Europe, Hong Kong, the Rest of Asia-Pacific and South America. The apparent deterioration in the cost efficiency ratio in North America reflected the different structure of the income statement for the consumer finance business. Its lower net interest margin on assets increased the cost efficiency ratio, but this was compensated for by lower credit charges, leading to an improvement in the risk adjusted margin.

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HSBC HOLDINGS PLC

**Financial Review** (continued)**Asset deployment**

	At 30 June 2005		At 30 June 2004		At 31 December 2004	
	US\$m	%	US\$m	%	US\$m	%
Loans and advances to customers	756,332	51.9	599,241	52.3	672,891	53.2
Loans and advances to banks	184,766	12.7	140,813	12.3	143,449	11.3
Trading assets	136,068	9.4	111,703	9.7	122,160	9.6
Financial investments	188,687	13.0	172,675	15.1	185,332	14.6
Derivatives	63,594	4.4	22,724	2.0	32,190	2.5
Goodwill and intangible assets	32,500	2.2	31,934	2.8	34,495	2.7
Other	92,667	6.4	67,034	5.8	77,583	6.1
	<b>1,454,614</b>	<b>100.0</b>	1,146,124	100.0	1,268,100	100.0
Hong Kong Government certificates of indebtedness	12,196		10,984		11,878	
	<b>1,466,810</b>		1,157,108		1,279,978	
Loans and advances to customers include:						
reverse repos	35,362		28,535		29,346	
settlement accounts	20,650		21,093		13,819	
Loans and advances to banks include:						
reverse repos	55,094		35,519		36,543	
settlement accounts	20,947		16,574		6,086	

**Asset deployment**

HSBC's total assets (excluding Hong Kong Government certificates of indebtedness) at 30 June 2005 were US\$1,454.6 billion, an increase of US\$186.5 billion or 15 per cent since 31 December 2004. At constant exchange rates and excluding the US\$89.8 billion accounting impact of transition to full IFRSs on 1 January 2005 (see page 158), total assets grew by US\$141.6 billion, or 12 per cent.

At 30 June 2005, HSBC's balance sheet remained highly liquid. The proportion of assets deployed in customer advances fell to 52 per cent. Customer advances increased by 12 per cent, largely lending to finance consumer spending, mortgage financing and cards, which grew in response to competitive pricing and marketing initiatives in parts of Asia-Pacific, the UK, and the US. Growth in corporate lending was concentrated in Commercial Banking, while increased financial lending and settlement balances largely reflected expansion of the fixed income business.

The application of IAS 32 and IAS 39 at 1 January 2005 resulted in an increase of US\$65.6 billion in customer loans and advances. The main element of this transition was the grossing up of certain customer lending and current accounts in the UK, which added US\$48.8 billion of loans and advances, mainly in Corporate, Investment Banking and Markets, that would previously have been offset in reported loans and advances and customer accounts. At constant exchange rates and excluding this change in offsetting balances, loans and

advances to customers grew by US\$56 billion or 8 per cent during the first half of 2005.

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US\$10.6 billion of the underlying increase related to mortgages, with notably strong growth in the UK and the US. Other personal lending increased by US\$7.4 billion, or 5 per cent, compared with December 2004, mainly as a result of credit card and vehicle finance growth in North America, and increased credit card and other unsecured lending in the UK and the Rest of Asia-Pacific. Growth in underlying commercial and corporate lending was substantially due to increases in the commercial segment, notably in Asia, which benefited from robust economic conditions and the continued strong economic growth in mainland China.

In Europe, growth in assets was driven by increased mortgage and consumer lending in the UK, and demand from private banking clients for secured lending to finance investment activity. Lending to small and middle market companies also increased.

In Hong Kong, lending to commercial customers improved as trade flows with mainland China increased. Competition in the mortgage market remained intense, and the portfolio declined slightly, mainly as a result of the continued suspension of the Government Home Ownership Scheme ( GHOS ). Surplus funds from increased customer deposits were deployed in investment securities, enhancing HSBC's yields.

In the Rest of Asia-Pacific, the increase in assets was driven by higher mortgage and consumer lending balances, and a boost to commercial lending



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from strong regional trade flows. The rise in assets in North America was driven by growth in mortgage lending to the sub- and near- prime segments, and renewed demand for consumer credit. In Brazil, HSBC achieved strong lending growth across the retail network.

At 30 June 2005, assets held by HSBC as custodian amounted to US\$2,822 billion. This was broadly in line with balances at 31 December 2004, with growth dampened by the effect of the strengthening US dollar on the translation of non-dollar denominated assets. Custody is the safekeeping and administration of securities and financial instruments on behalf of others.

### Trading assets and financial investments

Trading assets are debt and equity instruments which have been acquired principally for the purpose of selling in the near term or are part of a portfolio that is managed together, and for which there is evidence of a recent pattern of short-term profit-taking. Securities classified as held-for-trading are carried in the balance sheet at fair value with movements in fair value reflected within the income statement.

Trading assets of US\$136 billion were 11 per cent higher than at 31 December 2004. This increase was primarily driven by expansion of the fixed income platform in Global Markets.

Financial investments are essentially debt and equity instruments which are classified as available-for-sale. These investments may be disposed of either to manage liquidity or in response to reinvestment opportunities arising from favourable movements in economic indicators, such as interest rates, foreign exchange rates and equity prices. These investments are carried at fair value and the unrealised gains and losses from movements in fair value are reported in equity. On disposal, the accumulated unrealised gain or loss is recognised in the income statement and reported as Gains less losses from financial investments .

Financial investments of US\$189 billion were broadly in line with the balance at 31 December 2004. Unrealised gains included in equity amounted to US\$1.6 billion.

### Funds under management

Funds under management of US\$512 billion were US\$36 billion, or 8 per cent, higher than at 31 December 2004. There were continued strong funds inflows in both Group Investment Businesses and Private Banking, with the latter benefiting from increased recognition of HSBC in the private

banking markets. Good performances by both businesses were partly offset by the effect of the strengthening US dollar on the translation of sterling and euro-denominated funds. At 30 June 2005, HSBC's Group Investment Businesses, including affiliates, reported funds under management of US\$246 billion, and Private Banking reported funds under management of US\$183 billion.

	US\$b
<b>Funds under management</b>	
At 1 January 2005	476
Net new money	32
Value change	12
Exchange and other	(8)
	<hr/>
At 30 June 2005	512
	<hr/>

### Economic profit

HSBC's internal performance measures include economic profit, a measure which compares the return on financial capital invested in HSBC by its shareholders with the cost of that capital. HSBC prices its cost of capital internally and the difference between that cost and post-tax profit attributable to ordinary shareholders represents the amount of economic profit generated. Economic profit is used by management as one of the measures to decide where to allocate resources so that they will be most productive. In order to concentrate on external factors rather than measurement bases, HSBC emphasises the trend in economic profit within business units rather than absolute amounts. In light of the current levels of world interest rates, and taking into account HSBC's geographical and customer group diversification, HSBC believes that its true cost of capital on a consolidated basis is 10 per cent. HSBC plans to continue using this cost until the end of the current five year strategic plan, which expires at the end of 2008, in order to ensure consistency and comparability.

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The impact of adopting IFRSs on the Group's financial results has been reflected in the calculation of economic profit shown below. For example, the absence of a periodic amortisation charge for goodwill removes the need for an adjustment to post-tax profit. In addition, the Group has modified its calculation of economic profit for the following:

- Unrealised gains and losses on the effective hedging of future cash flows essentially reflect the opportunity profit or loss on decisions taken to fix in monetary terms the yield on assets or the cost of liabilities when measured against current market rates. Given that these amounts are ultimately reflected in profit for the period, they are excluded from average invested capital,

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**Financial Review** (continued)

upon which the capital charge is based, during such time as they remain unrealised.

- Unrealised gains and losses on available-for-sale securities are excluded from the measure of average invested capital for the purpose of computing economic profit because the gains or losses are unrealised and may be offset or reversed in the future, and because there is accounting asymmetry in that the offsetting gain or loss on the liabilities taken out to fund these assets is not reflected.

On this basis, economic profit increased by US\$218 million compared with the first half of 2004, reflecting improved profitability.

## Economic profit

	Half-year to					
	30 June 2005		30 June 2004		31 December 2004	
	US\$m	% <sup>1</sup>	US\$m	% <sup>1</sup>	US\$m	% <sup>1</sup>
Average total shareholders' equity <sup>2</sup>	86,813		76,533		82,218	
Add: Goodwill previously amortised or written off	8,172		8,172		8,172	
Less: Property revaluation reserves	(1,092)		(1,092)		(1,092)	
Less:						
Reserves for unrealised gains on effective hedges <sup>3</sup>	(242)					
Reserves for unrealised gains on available-for-sale securities <sup>4</sup>	(975)					
<b>Average invested capital<sup>5</sup></b>	<b>92,676</b>		<b>83,613</b>		<b>89,298</b>	
Return on invested capital <sup>6</sup>	7,596	16.5	6,940	16.7	5,978	13.3
Benchmark cost of capital	(4,596)	(10.0)	(4,158)	(10.0)	(4,489)	(10.0)
<b>Economic profit/spread</b>	<b>3,000</b>	<b>6.5</b>	<b>2,782</b>	<b>6.7</b>	<b>1,489</b>	<b>3.3</b>

1 Expressed as a percentage of average invested capital.

2 Excludes dividends declared but not paid.

3 Gains and losses on the effective hedging of future cash flows essentially reflect the opportunity profit or loss on decisions taken to fix in monetary terms the yield on assets or the cost of liabilities when measured against current market rates. Given that these amounts are ultimately reflected in profit for the period, they are excluded from average invested capital, upon which the capital charge is based.

4 Unrealised gains and losses on available-for-sale securities are excluded from the measure of average invested capital for the purpose of computing economic profit because the gains or losses are unrealised and may be offset or reversed in the future, and because there is accounting asymmetry in that the offsetting gain or loss on the liabilities taken out to fund these assets is not reflected.

5 Average invested capital is measured as shareholders' equity after adding back goodwill previously written-off directly to reserves and adding or deducting reserves for unrealised gains/(losses) on effective hedges and available-for-sale securities, depending on their nature. This measure reflects capital initially invested and subsequent profit excluding goodwill.

6 Return on invested capital is based on the profit attributable to shareholders.



[Back to Contents](#)**Analysis by customer group and by geographical region****By customer group:**

Profit before tax

Half-year to 30 June 2005

<b>Total</b>	<b>Personal Financial Services US\$m</b>	<b>Commercial Banking US\$m</b>	<b>Corporate, Investment Banking &amp; Markets US\$m</b>	<b>Private Banking US\$m</b>	<b>Other<sup>4</sup> US\$m</b>	<b>Inter- segment elimination US\$m</b>	<b>Total US\$m</b>
Net interest income	12,049	3,003	1,170	414	54		16,690
Net fee income	3,572	1,420	1,384	531	145		7,052
Trading income/(expense)	171	75	1,998	126	(42)		2,328
Net expense from financial instruments designated at fair value	(144)	(41)	(56)		(113)		(354)
Gains less losses from financial investments	(2)	(2)	220	53	85		354
Dividend income	2	1	51		41		95
Net earned insurance premiums	1,811	118	42		341		2,312
Other operating income	555	178	638	39	1,227	(1,255)	1,382
<b>Total operating income</b>	<b>18,014</b>	<b>4,752</b>	<b>5,447</b>	<b>1,163</b>	<b>1,738</b>	<b>(1,255)</b>	<b>29,859</b>
Net insurance claims <sup>1</sup>	(1,403)	(78)	(31)		(248)		(1,760)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>16,611</b>	<b>4,674</b>	<b>5,416</b>	<b>1,163</b>	<b>1,490</b>	<b>(1,255)</b>	<b>28,099</b>
Loan impairment charges and other credit risk provisions	(3,163)	(204)	77	12	1		(3,277)
<b>Net operating income</b>	<b>13,448</b>	<b>4,470</b>	<b>5,493</b>	<b>1,175</b>	<b>1,491</b>	<b>(1,255)</b>	<b>24,822</b>
Total operating expenses	(8,064)	(2,186)	(3,315)	(724)	(1,456)	1,255	(14,490)
<b>Operating profit</b>	<b>5,384</b>	<b>2,284</b>	<b>2,178</b>	<b>451</b>	<b>35</b>		<b>10,332</b>
Share of profit in associates and joint ventures	86	89	120		13		308
<b>Profit before tax</b>	<b>5,470</b>	<b>2,373</b>	<b>2,298</b>	<b>451</b>	<b>48</b>		<b>10,640</b>
	%	%	%	%	%		%
Share of HSBC's profit before tax	51.4	22.3	21.6	4.2	0.5		100.0
Cost:income ratio	44.8	46.0	60.9	62.3	83.8		48.5
Cost efficiency ratio	48.5	46.8	61.2	62.3	97.7		51.6
	US\$m	US\$m	US\$m	US\$m	US\$m		US\$m

**Selected balance sheet data<sup>2</sup>**

Loans and advances to customers (net)	<b>376,760</b>	<b>136,514</b>	<b>214,873</b>	<b>25,949</b>	<b>2,236</b>	<b>756,332</b>
Total assets <sup>3</sup>	<b>447,289</b>	<b>167,526</b>	<b>749,867</b>	<b>57,944</b>	<b>31,988</b>	<b>1,454,614</b>
Customer accounts	<b>315,674</b>	<b>134,359</b>	<b>219,055</b>	<b>61,934</b>	<b>434</b>	<b>731,456</b>

The following assets and liabilities were significant to Corporate, Investment Banking and Markets:

Loans and advances to banks (net)	<b>162,769</b>
Trading assets, financial assets designated at fair value, and financial investments	<b>280,153</b>
Deposits by banks	<b>114,611</b>

*For footnotes, see page 36.*

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HSBC HOLDINGS PLC

**Financial Review** (continued)

Profit before tax (continued)

Half-year to 30 June 2004

Total	Personal Financial Services <sup>5</sup> US\$m	Commercial Banking US\$m	Corporate, Investment Banking & Markets <sup>5</sup> US\$m	Private Banking US\$m	Other <sup>4</sup> US\$m	Inter- segment elimination US\$m	Total US\$m
Net interest income	10,383	2,301	2,085	332	29		15,130
Net fee income	3,195	1,297	1,260	500	172		6,424
Trading income	69	70	1,027	138	96		1,400
Net investment income on assets backing							
policyholder liabilities	136	39	5		14		194
Gains less losses from financial investments	20	5	123	29	153		330
Dividend income	9	24	288	2	16		339
Net earned insurance premiums	1,732	519	37		296		2,584
Other operating income	309	290	434	20	949	(1,114)	888
<b>Total operating income</b>	<b>15,853</b>	<b>4,545</b>	<b>5,259</b>	<b>1,021</b>	<b>1,725</b>	<b>(1,114)</b>	<b>27,289</b>
Net insurance claims <sup>1</sup>	(1,224)	(452)	(33)		(236)		(1,945)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>14,629</b>	<b>4,093</b>	<b>5,226</b>	<b>1,021</b>	<b>1,489</b>	<b>(1,114)</b>	<b>25,344</b>
Loan impairment charges and other credit risk provisions	(3,003)	94	187	(9)	(9)		(2,740)
<b>Net operating income</b>	<b>11,626</b>	<b>4,187</b>	<b>5,413</b>	<b>1,012</b>	<b>1,480</b>	<b>(1,114)</b>	<b>22,604</b>
Total operating expenses	(7,119)	(2,021)	(2,674)	(650)	(1,252)	1,114	(12,602)
<b>Operating profit</b>	<b>4,507</b>	<b>2,166</b>	<b>2,739</b>	<b>362</b>	<b>228</b>		<b>10,002</b>
Share of profit in associates and joint ventures	29	9	52		28		118
<b>Profit before tax</b>	<b>4,536</b>	<b>2,175</b>	<b>2,791</b>	<b>362</b>	<b>256</b>		<b>10,120</b>
	%	%	%	%	%		%
Share of HSBC's profit before tax	44.8	21.5	27.6	3.6	2.5		100.0
Cost:income ratio	44.9	44.5	50.8	63.7	72.6		46.2
Cost efficiency ratio	48.7	49.4	51.2	63.7	84.1		49.7
	US\$m	US\$m	US\$m	US\$m	US\$m		US\$m

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Selected balance sheet data<sup>2</sup>

Loans and advances to customers (net)	316,467	117,229	142,411	20,870	2,264	599,241
Total assets <sup>3</sup>	377,681	144,843	542,486	52,617	28,497	1,146,124
Customer accounts	292,311	123,964	166,299	51,685	343	634,602

The following assets and liabilities were significant

to Corporate, Investment Banking and Markets:

Loans and advances to banks (net)	129,193
Trading assets, financial assets designated at fair value, and financial investments	227,890
Deposits by banks	93,332

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Half-year to 31 December 2004

	Personal Financial Services	Commercial Banking	Corporate, Investment Banking & Markets	Private Banking	Other <sup>4</sup>	Inter- segment elimination	Total
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Total							
Net interest income	11,039	2,574	1,909	386	61		15,969
Net fee income/(expense)	2,981	1,348	1,504	462	(1)		6,294
Trading income/(expense)	84	164	908	119	(56)		1,219
Net investment income on assets backing policyholder liabilities	499	285	4		30		818
Gains less losses from financial investments	97	3	191	9	143		443
Dividend income	7	13	260	3			283
Net earned insurance premiums	1,920	553	49		262		2,784
Other operating income	448	221	478	5	1,024	(1,249)	927
<b>Total operating income</b>	<b>17,075</b>	<b>5,161</b>	<b>5,303</b>	<b>984</b>	<b>1,463</b>	<b>(1,249)</b>	<b>28,737</b>
Net insurance claims <sup>1</sup>	(1,729)	(812)	(26)		(123)		(2,690)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>15,346</b>	<b>4,349</b>	<b>5,277</b>	<b>984</b>	<b>1,340</b>	<b>(1,249)</b>	<b>26,047</b>
Loan impairment charges and other credit risk provisions	(3,497)	(294)	312	20	8		(3,451)
<b>Net operating income</b>	<b>11,849</b>	<b>4,055</b>	<b>5,589</b>	<b>1,004</b>	<b>1,348</b>	<b>(1,249)</b>	<b>22,596</b>
<b>Total operating expenses</b>	<b>(7,928)</b>	<b>(2,199)</b>	<b>(3,135)</b>	<b>(669)</b>	<b>(1,241)</b>	<b>1,249</b>	<b>(13,923)</b>
<b>Operating profit</b>	<b>3,921</b>	<b>1,856</b>	<b>2,454</b>	<b>335</b>	<b>107</b>		<b>8,673</b>
Share of profit in associates and joint ventures	40	26	43		41		150
<b>Profit before tax</b>	<b>3,961</b>	<b>1,882</b>	<b>2,497</b>	<b>335</b>	<b>148</b>		<b>8,823</b>
	%	%	%	%	%		%
Share of HSBC's profit before tax	44.9	21.3	28.3	3.8	1.7		100.0
Cost:income ratio	46.4	42.6	59.1	68.0	84.8		48.4
Cost efficiency ratio	51.7	50.6	59.4	68.0	92.6		53.5
	US\$m	US\$m	US\$m	US\$m	US\$m		US\$m
<b>Selected balance sheet data<sup>2</sup></b>							
Loans and advances to customers (net)	370,576	130,160	145,353	24,463	2,339		672,891
Total assets <sup>3</sup>	441,106	159,246	584,775	56,751	26,222		1,268,100
Customer accounts	319,485	137,801	177,449	57,780	557		693,072
The following assets and liabilities were significant to Corporate, Investment Banking and Markets:							
Loans and advances to banks (net)			128,032				
Trading assets, financial assets designated at fair value, and financial investments			252,459				
Deposits by banks			80,443				

*For footnotes, see page 36.*

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HSBC HOLDINGS PLC

**Financial Review** (continued)**Personal Financial Services**

Profit before tax

	Half-year to		
	30 June 2005 US\$m	30 June 2004 US\$m	31 December 2004 US\$m
Net interest income	12,049	10,383	11,039
Net fee income	3,572	3,195	2,981
Trading income	171	69	84
Net expense from financial instruments designated at fair value	(144)		
Net investment income on assets backing policyholder liabilities		136	499
Gains less losses from financial investments	(2)	20	97
Dividend income	2	9	7
Net earned insurance premiums	1,811	1,732	1,920
Other operating income	555	309	448
<b>Total operating income</b>	<b>18,014</b>	<b>15,853</b>	<b>17,075</b>
Net insurance claims <sup>1</sup>	(1,403)	(1,224)	(1,729)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>16,611</b>	<b>14,629</b>	<b>15,346</b>
Loan impairment charges and other credit risk provisions	(3,163)	(3,003)	(3,497)
<b>Net operating income</b>	<b>13,448</b>	<b>11,626</b>	<b>11,849</b>
Total operating expenses	(8,064)	(7,119)	(7,928)
<b>Operating profit</b>	<b>5,384</b>	<b>4,507</b>	<b>3,921</b>
Share of profit in associates and joint ventures	86	29	40
<b>Profit before tax</b>	<b>5,470</b>	<b>4,536</b>	<b>3,961</b>
<b>By geographical region:</b>			
Europe	887	913	708
Hong Kong	1,331	1,020	1,043
Rest of Asia-Pacific	252	167	169
North America	2,933	2,394	1,990
South America	67	42	51
<b>Profit before tax</b>	<b>5,470</b>	<b>4,536</b>	<b>3,961</b>

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	%	%	%
Share of HSBC's profit before tax	51.4	44.8	44.9
Cost:income ratio	44.8	44.9	46.4
Cost efficiency ratio	48.5	48.7	51.7

	US\$m	US\$m	US\$m
<b>Selected balance sheet data<sup>2</sup></b>			
Loans and advances to customers (net)	376,760	316,467	370,576
Total assets <sup>3</sup>	447,289	377,681	441,106
Customer accounts	315,674	292,311	319,485

Business highlights

- For the first time Personal Financial Services and Consumer Finance are presented in aggregate. This approach reflects the increasing integration of these businesses around the world and the transfer of certain customer relationships and loan balances between HSBC Finance Corporation and HSBC Bank USA to optimise customer service and funding cost.
- Pre-tax profits from the aggregated Personal Financial Services grew by 21 per cent to US\$5,470 million, a record performance.
- Globally, the importance of direct sales channels increased during the period and this, allied with greater application of differential risk-based pricing, greater customer segmentation and a simplified and streamlined product range, improved sales and margin.
- Improved profitability of the US consumer finance business reflected an improving mix of business and a continuing strategy to optimise risk and return, and led to a higher proportion of near-prime customers. This, together with more focused underwriting and improved collections, contributed to an improvement in performance.
- In Hong Kong, deposit spreads widened progressively as interest rates rose and resumed tracking US rates following a prolonged period of exceptionally low rates.
- In the UK, following on from the business restructuring in 2004, HSBC further developed its sales and marketing capabilities, gaining market share in most major products and several awards, including the prestigious Best National Bank award from *What Mortgage* magazine and Best Current Account Provider in the 2005 *Personal Finance and Savings* magazine readership awards.
- Increasingly, HSBC's developing markets businesses harnessed the Group's global capabilities to good effect to enhance their competitive position during the first half of 2005.
- Examples of sharing best practice and creating synergies throughout HSBC included the launch in Mexico of *tu Cuenta*, the first integrated package of financial services of its kind in the local market, and a 41 per cent year-on-year rise in credit cards in issue in the Rest of Asia-Pacific through leveraging Group systems and expertise.
- In France, development of HSBC International Personal Banking initiatives drove growth in internationally targeted mortgages by 27 per cent and added some 1,300 new accounts, of which 80 per cent were HSBC *Premier* customers.

For footnotes, see page 36.

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

Profit before tax

	Half-year to		
	30 June 2005 US\$m	30 June 2004 US\$m	31 December 2004 US\$m
Net interest income	3,003	2,301	2,574
Net fee income	1,420	1,297	1,348
Trading income	75	70	164
Net expense from financial instruments designated at fair value	(41)		
Net investment income on assets backing policyholder liabilities		39	285
Gains less losses from financial investments	(2)	5	3
Dividend income	1	24	13
Net earned insurance premiums	118	519	553
Other operating income	178	290	221
<b>Total operating income</b>	<b>4,752</b>	<b>4,545</b>	<b>5,161</b>
Net insurance claims <sup>1</sup>	(78)	(452)	(812)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>4,674</b>	<b>4,093</b>	<b>4,349</b>
Loan impairment charges and other credit risk provisions	(204)	94	(294)
<b>Net operating income</b>	<b>4,470</b>	<b>4,187</b>	<b>4,055</b>
Total operating expenses	(2,186)	(2,021)	(2,199)
<b>Operating profit</b>	<b>2,284</b>	<b>2,166</b>	<b>1,856</b>
Share of profit in associates and joint ventures	89	9	26
<b>Profit before tax</b>	<b>2,373</b>	<b>2,175</b>	<b>1,882</b>
<b>By geographical region:</b>			
Europe	976	845	818
Hong Kong	394	536	368
Rest of Asia-Pacific	406	266	217
North America	507	448	400
South America	90	80	79
<b>Profit before tax</b>	<b>2,373</b>	<b>2,175</b>	<b>1,882</b>
	%	%	%
Share of HSBC's profit before tax	22.3	21.5	21.3
Cost:income ratio	46.0	44.5	42.6
Cost efficiency ratio	46.8	49.4	50.6

	US\$m	US\$m	US\$m
<b>Selected balance sheet data<sup>2</sup></b>			
Loans and advances to customers (net)	<b>136,514</b>	117,229	130,160
Total assets <sup>2,3</sup>	<b>167,526</b>	144,843	159,246
Customer accounts	<b>134,359</b>	123,964	137,801

#### Business highlights

- Pre-tax profits increased by 9 per cent to US\$2,373 million, despite the non-recurrence of the loan impairment allowance releases which benefited results in 2004.
- Customer account balances and loans and advances to customers grew strongly following significant expansion in the UK and Hong Kong. Interest margins also increased.
- Income growth was supported by new product launches, a 10 per cent increase in commercial customers and continued segmentation of the customer base, with the establishment last year of commercial centres in the UK having the greatest impact. In addition, several high-profile marketing campaigns, including the 'Brand in action' television advertising campaign in Hong Kong and the Rest of Asia-Pacific, were launched.
- Progress continued to strengthen cross-border sales activity with a further referral programme launched between the US and the UK and the introduction of an online cross-border account opening tool.
- HSBC's ability to meet the needs of small business customers was enhanced by the introduction of a pre-approved loan product in Hong Kong, the launch of business call centres in Brazil and Argentina, and the expansion of Business Banking Centres in Malaysia.
- Internet banking customer numbers increased by over 20 per cent and both transaction volumes and revenues doubled. Revenue growth was driven by increased online payments and trade income in Hong Kong, increased subscription income in Mexico and on-line loan product sales in Brazil.
- Business insurance and commercial wealth management sales continued to advance, supported by the launch of new products including agricultural insurance in Mexico and Select Investor for business savings in the US.
- The non-recurrence of significant reversals and recoveries of loan impairment charges in Hong Kong in 2004, together with increased impairment allowances in Europe, Hong Kong and South America reflecting asset growth, led to an increase in credit charges compared with the same period last year.

*For footnotes, see page 36.*

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HSBC HOLDINGS PLC

**Financial Review** (continued)**Corporate, Investment Banking and Markets**

Profit before tax

	Half-year to		
	30 June 2005 US\$m	30 June 2004 US\$m	31 December 2004 US\$m
Net interest income	1,170	2,085	1,909
Net fee income	1,384	1,260	1,504
Trading income	1,998	1,027	908
Net expense from financial instruments designated at fair value	(56)		
Net investment income on assets backing policyholder liabilities		5	4
Gains less losses from financial investments	220	123	191
Dividend income	51	288	260
Net earned insurance premiums	42	37	49
Other operating income	638	434	478
<b>Total operating income</b>	<b>5,447</b>	<b>5,259</b>	<b>5,303</b>
Net insurance claims <sup>1</sup>	(31)	(33)	(26)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>5,416</b>	<b>5,226</b>	<b>5,277</b>
Loan impairment charges and other credit risk provisions	77	187	312
<b>Net operating income</b>	<b>5,493</b>	<b>5,413</b>	<b>5,589</b>
Total operating expenses	(3,315)	(2,674)	(3,135)
<b>Operating profit</b>	<b>2,178</b>	<b>2,739</b>	<b>2,454</b>
Share of profit in associates and joint ventures	120	52	43
<b>Profit before tax</b>	<b>2,298</b>	<b>2,791</b>	<b>2,497</b>
<b>By geographical region:</b>			
Europe	709	879	789
Hong Kong	598	839	764
Rest of Asia-Pacific	531	483	459
North America	378	547	419
South America	82	43	66
<b>Profit before tax</b>	<b>2,298</b>	<b>2,791</b>	<b>2,497</b>

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	%	%	%
Share of HSBC's profit before tax	<b>21.6</b>	27.6	28.3
Cost:income ratio	<b>60.9</b>	50.8	59.1
Cost efficiency ratio	<b>61.2</b>	51.2	59.4

*For footnotes, see page 36.*

### Business highlights

- Pre-tax profits decreased by 18 per cent to US\$2,298 million. Total operating income rose despite the impact of a difficult interest rate environment on balance sheet management revenues and a competitive lending market. Revenues increased in key product areas and client sectors where HSBC invested to expand and extend the capabilities of Corporate, Investment Banking and Markets. Operating expenses increased by 24 per cent compared with the first half of 2004 but only by 6 per cent compared with the second half of 2004. Some 3,330 people were recruited during the last twelve months and at the same time 1,735 people departed. Cost growth was in line with internal projections. The new investment in building business capabilities was largely completed and future cost growth will be markedly lower.
- In Global Markets, product areas where investment was made in 2003 and 2004 all showed positive revenue trends and improved rankings in client surveys.

Credit and rates revenues increased as the product offering was enhanced. HSBC is now a primary dealer in ten European government bond markets. Foreign exchange revenues rose following investment in the European franchise and electronic trading.

Structured derivatives revenues rose, reflecting new product capabilities added over the past two years. Equities revenues also rose, signifying the success of the implementation of HSBC's new business model, which began in the latter part of 2004.

In the *Euromoney* 2005 foreign exchange survey, HSBC was ranked first in London, up from fourth at the end of the first half of 2004. The strength of the Global Markets network was underscored by HSBC being named Best at Treasury and Risk Management in Asia in the *Euromoney* Awards for Excellence for the eighth consecutive year.

- Corporate and Institutional Banking made significant progress in cross-selling to HSBC's existing customer base and identifying new external revenue opportunities across the full product spectrum.
- In Global Investment Banking revenues increased, reflecting HSBC's success in developing customer relationships. HSBC was particularly successful in engaging clients on mainland China-related assignments and continued to build its cross-regional franchise. Additionally, in the US HSBC now has 54 advisory bankers.



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## Management view of total operating income

	Half-year to		
	30 June	30 June	31 December
	2005	2004	2004
	US\$m	US\$m	US\$m
<b>Global Markets</b>			
Money market and balance sheet	786	1,231	1,145
Foreign exchange	601	561	564
Credit and rates	420	385	270
Structured derivatives	216	199	187
Equities	160	152	104
	<b>2,183</b>	<b>2,528</b>	<b>2,270</b>
<b>Corporate and Investment Banking</b>			
Global Investment Banking	471	353	524
Corporate and Institutional Banking and Global Transaction Banking	1,629	1,443	1,494
Private Equity	217	60	147
	<b>2,317</b>	<b>1,856</b>	<b>2,165</b>
<b>Other<sup>1</sup></b>	<b>947</b>	<b>875</b>	<b>868</b>
<b>Total operating income</b>	<b>5,447</b>	<b>5,259</b>	<b>5,303</b>

**Selected balance sheet data<sup>2</sup>**

Loans and advances to:

customers (net)	214,873	142,411	145,353
banks (net)	162,769	129,193	128,032
Total assets <sup>3</sup>	749,867	542,486	584,775
Customer accounts	219,055	166,299	177,449
Trading assets, financial instruments designated at fair value, and financial investments	280,153	227,890	252,459
Deposits by banks	114,611	93,332	80,443

1 *Other* includes the Corporate, Investment Banking and Markets business of HSBC Trinkaus & Burkhardt, Group Investment Businesses, and net interest earned on free capital held in Corporate, Investment Banking and Markets not assigned to products.

For other footnotes, see page 36.

- Key achievements in the advisory business included advising Dubai International Capital on its US\$1.5 billion acquisition of Tussauds Group in the UK, Bank of America on its US\$3 billion investment in China Construction Bank and Anglo American on its US\$150 million purchase of a strategic stake in China Shenhua Energy Company.

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The financing business benefited from strong revenue growth in project and export finance and asset and structured finance. HSBC maintained the top position in Hong Kong dollar bond issuance and its share of international bond issuance rose to 5.1 per cent from 4.5 per cent. Notable transactions included the €6 billion 50 year benchmark bond for the government of France. HSBC continued to add to its capabilities in asset-backed securities, equity capital markets and high yield debt. Notable transactions included the US\$2.2 billion initial public offering for Bank of Communications and a high yield bond and senior debt financing for Rexel. HSBC ranked first in the equity initial offerings league table in Asia excluding Japan.

- In Global Transaction Banking, all business lines performed well. The business was reorganised into two customer-facing divisions, financial institutions and corporates, to more closely align its services to ensure greater customer focus.

In financial institutions, alternative funds and the sub-custody and clearing businesses made strong progress.

The corporates division won several new mandates, including a cash management mandate from a major consumer products company covering 17 countries and territories in Asia. The supply chain business, launched in 2004, gained significant momentum as HSBC continued to develop complex solutions for multinationals seeking to improve the management of their Asian supplier networks.

- Private Equity revenues increased sharply and HSBC is now successfully leveraging this business to build strong relationships in the financial sponsors sector.
- Group Investment Businesses made substantial progress in implementing a new strategy separating the client solutions and active management businesses, thereby expanding the range of products to serve the investment needs of customers. Net new business from clients was US\$16 billion (compared with US\$5 billion for 2004), and assets under management grew 9 per cent to reach US\$246 billion at 30 June 2005.

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HSBC HOLDINGS PLC

**Financial Review** (continued)**Private Banking**

Profit before tax

	Half-year to		
	30 June 2005 US\$m	30 June 2004 US\$m	31 December 2004 US\$m
Net interest income	414	332	386
Net fee income	531	500	462
Trading income	126	138	119
Gains less losses from financial investments	53	29	9
Dividend income		2	3
Other operating income	39	20	5
<b>Total operating income</b>	<b>1,163</b>	<b>1,021</b>	<b>984</b>
Net insurance claims <sup>1</sup>			
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>1,163</b>	<b>1,021</b>	<b>984</b>
Loan impairment charges and other credit risk provisions	12	(9)	20
<b>Net operating income</b>	<b>1,175</b>	<b>1,012</b>	<b>1,004</b>
Total operating expenses	(724)	(650)	(669)
<b>Operating profit</b>	<b>451</b>	<b>362</b>	<b>335</b>
Share of profit in associates and joint ventures			
<b>Profit before tax</b>	<b>451</b>	<b>362</b>	<b>335</b>
<b>By geographical region:</b>			
Europe	236	209	229
Hong Kong	111	74	57
Rest of Asia-Pacific	43	29	31
North America	60	50	18
South America	1		
<b>Profit before tax</b>	<b>451</b>	<b>362</b>	<b>335</b>
	%	%	%
Share of HSBC's profit before tax	4.2	3.6	3.8
Cost:income ratio	62.3	63.7	68.0

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Cost efficiency ratio	62.3	63.7	68.0
	US\$m	US\$m	US\$m
<b>Selected balance sheet data<sup>2</sup></b>			
Loans and advances to customers (net)	25,949	20,870	24,463
Total assets <sup>3</sup>	57,944	52,617	56,751
Customer accounts	61,934	51,685	57,780

For footnotes, see page 36.

Business highlights

- Pre-tax profits grew by 25 per cent compared with the first half of 2004, supported by strong growth in funds under management, deposits and the lending book.
- Funds under management increased by 14 per cent to US\$183.2 billion, benefiting from US\$9.2 billion of net new money in the first half of 2005. In Asia, private banking assets under discretionary management increased by 85 per cent.
- Use of the Strategic Investment Solutions product grew strongly. Global assets under management invested in this product grew by US\$1.4 billion to US\$2.0 billion, including net new money of US\$1.1 billion in the first half of 2005.
- HSBC continued to develop alternative investment products. Total client investment in hedge funds reached US\$25 billion, and HSBC Private Bank was named the third largest global provider of fund of hedge funds by capital invested by *Institutional Investor* magazine. HSBC's G3 Euro Currency Hedge Fund was rated number one in its peer group for both the three- and five-year categories by Standard and Poors.
- The lending book grew strongly, as clients leveraged their investments in the low interest rate environments in North America, Europe and Asia. In the UK, lending book growth was buoyed by strong growth in mortgages.
- Bank of Bermuda's private client and trust businesses were integrated, following the consolidation of the European and Asian businesses last year.
- Work continued to strengthen links between Private Banking and the wider HSBC Group. A global cross-referral structure with Commercial Banking aided new client acquisition. Links with Personal Banking were evidenced primarily through customer segmentation exercises in the UK and Americas.
- HSBC expanded the operations of its onshore Private Banking and Wealth and Tax Advisory Services (WTAS) businesses in North America. In Europe, preparations were made for the launching of regional offices in the UK and France, utilising the existing retail bank network.

[Back to Contents](#)**Other<sup>4</sup>**

Profit before tax

	Half-year to		
	30 June 2005 US\$m	30 June 2004 US\$m	31 December 2004 US\$m
Net interest income	54	29	61
Net fee income/(expense)	145	172	(1)
Trading income/(expense)	(42)	96	(56)
Net expense from financial instruments designated at fair value	(113)		
Net investment income on assets backing policyholder liabilities		14	30
Gains less losses from financial investments	85	153	143
Dividend income	41	16	
Net earned insurance premiums	341	296	262
Other operating income	1,227	949	1,024
<b>Total operating income</b>	<b>1,738</b>	<b>1,725</b>	<b>1,463</b>
Net insurance claims <sup>1</sup>	(248)	(236)	(123)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>1,490</b>	<b>1,489</b>	<b>1,340</b>
Loan impairment charges and other credit risk provisions	1	(9)	8
<b>Net operating income</b>	<b>1,491</b>	<b>1,480</b>	<b>1,348</b>
Total operating expenses	(1,456)	(1,252)	(1,241)
<b>Operating profit</b>	<b>35</b>	<b>228</b>	<b>107</b>
Share of profit in associates and joint ventures	13	28	41
<b>Profit before tax</b>	<b>48</b>	<b>256</b>	<b>148</b>
<b>By geographical region:</b>			
Europe	78	123	243
Hong Kong	(15)	140	(11)
Rest of Asia-Pacific	48	24	2
North America	(165)	(22)	(174)
South America	102	(9)	88
<b>Profit before tax</b>	<b>48</b>	<b>256</b>	<b>148</b>
	%	%	%
Share of HSBC's profit before tax	0.5	2.5	1.7
Cost:income ratio	83.8	72.6	84.8
Cost efficiency ratio	97.7	84.1	92.6
	US\$m	US\$m	US\$m
<b>Selected balance sheet data<sup>2</sup></b>			
Loans and advances to customers (net)	2,236	2,264	2,339
Total assets <sup>3</sup>	31,988	28,497	26,222
Customer accounts	434	343	557

For footnotes, see page 36.

Business highlights

- The Group Service Centres are included in Other .
- The US Technology Centre incurred and recharged US\$571 million of expense, an increase of 22 per cent over the first half of 2004.
- The Group Service Centres outside the US increased costs from US\$61 million in the first half of 2004 to US\$131 million in the current period as their contribution to the Group expanded.

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HSBC HOLDINGS PLC

**Financial Review** (continued)**By geographical region:**

In the analysis of profit by geographical region that follows, operating income and operating expenses include intra-HSBC items of US\$417 million (first half of 2004: US\$278 million; second half of 2004: US\$353 million).

## Profit before tax

	Half-year to					
	30 June 2005		30 June 2004		31 December 2004	
	US\$m	%	US\$m	%	US\$m	%
Europe	2,886	27.2	2,969	29.3	2,787	31.5
Hong Kong	2,419	22.7	2,609	25.8	2,221	25.2
Rest of Asia-Pacific	1,280	12.0	969	9.6	878	10.0
North America	3,713	34.9	3,417	33.8	2,653	30.1
South America	342	3.2	156	1.5	284	3.2
<b>Total</b>	<b>10,640</b>	<b>100.0</b>	<b>10,120</b>	<b>100.0</b>	<b>8,823</b>	<b>100.0</b>

## Total assets

	At		At		At	
	30 June 2005		30 June 2004		31 December 2004	
	US\$m	%	US\$m	%	US\$m	%
Europe	645,013	44.4	485,480	42.3	545,540	43.0
Hong Kong <sup>2</sup>	224,691	15.4	201,512	17.6	213,479	16.8
Rest of Asia-Pacific	134,693	9.3	107,665	9.4	120,530	9.5
North America	426,434	29.3	337,980	29.5	371,183	29.3
South America	23,783	1.6	13,487	1.2	17,368	1.4
<b>Total<sup>3</sup></b>	<b>1,454,614</b>	<b>100.0</b>	<b>1,146,124</b>	<b>100.0</b>	<b>1,268,100</b>	<b>100.0</b>

**Basis of preparation**

The results are presented in accordance with the accounting policies used in the preparation of HSBC's consolidated financial statements. HSBC's operations are closely integrated and, accordingly, the presentation of customer group data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and head office functions, to the extent that these can be meaningfully attributed

to operational business lines. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity.

Where relevant, income and expense amounts presented include the results of inter-segment funding as well as inter-company and inter-business line transactions. All such transactions are undertaken on arm's length terms. Inter-segment funding and placements of surplus funds are generally undertaken at market interest rates.

Footnotes to Analysis by customer group and by geographical region

1 *Net insurance claims incurred and movement in policyholder liabilities.*

2 *Excluding Hong Kong Government certificates of indebtedness.*

3 *Third party only.*

4 *The main items reported under Other are the income and expenses of wholesale insurance operations, certain property activities, unallocated investment activities including hsbc.com, centrally held investment companies and HSBC's holding company and financing operations. The results include net interest earned on free capital held centrally and operating costs incurred by the head office operations in providing stewardship and central management services to HSBC. Net operating income of the Group's wholesale insurance operations amounted to US\$260 million in the first half of 2005 (first half of 2004: US\$234 million; second half of 2004: US\$277 million). Other also includes the activities of Group Service Centres and Shared Service Organisation.*

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Profit/(loss) before tax by country within customer group

	Half-year to		
	30 June	30 June	31 December
	2005	2004	2004
	US\$m	US\$m	US\$m
<b>Personal Financial Services</b>	<b>887</b>	913	708
United Kingdom <sup>1</sup>	680	760	580
France <sup>2</sup>	90	102	103
Turkey	59	16	13
Other	58	35	12
<b>Commercial Banking</b>	<b>976</b>	845	818
United Kingdom	767	644	614
France <sup>2</sup>	142	130	142
Turkey	19	8	17
Other	48	63	45
<b>Corporate, Investment Banking and Markets</b>	<b>709</b>	879	789
United Kingdom	321	598	423
France <sup>2</sup>	178	113	224
Turkey	55	42	46
Other	155	126	96
<b>Private Banking</b>	<b>236</b>	209	229
United Kingdom	65	56	79
France <sup>2</sup>	14	(10)	(12)
Switzerland	98	95	108
Other	59	68	54
<b>Other</b>	<b>78</b>	123	243
United Kingdom	94	140	337
France <sup>2</sup>	(39)	(43)	(80)
Other	23	26	(14)
<b>Total</b>	<b>2,886</b>	2,969	2,787
United Kingdom	1,927	2,198	2,033
France <sup>2</sup>	385	292	377
Turkey	133	66	76
Switzerland	98	95	108

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Other	343	318	193
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- 1 In the UK, the Personal Financial Services business primarily comprises HSBC Bank and the UK subsidiary of HSBC Finance. The latter's results included within UK Personal Financial Services were a loss of US\$54 million in the half year to 30 June 2005, (half year to 30 June 2004: profit US\$34 million; half year to 31 December 2004: profit US\$63 million).
- 2 France principally comprises the domestic operations of CCF and the Paris branch of HSBC Bank.

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HSBC HOLDINGS PLC

**Financial Review** (continued)

Profit before tax

	Half-year to		
	30 June 2005 US\$m	30 June 2004 US\$m	31 December 2004 US\$m
<b>Europe</b>			
Net interest income	4,733	4,307	4,791
Net fee income	3,243	2,902	3,078
Trading income	1,068	508	489
Net expense from financial instruments designated at fair value	(136)		
Net investment income on assets backing policyholder liabilities		130	441
Gains less losses from financial investments	209	153	114
Dividend income	42	304	254
Net earned insurance premiums	786	931	944
Other operating income	731	541	521
<b>Total operating income</b>	<b>10,676</b>	<b>9,776</b>	<b>10,632</b>
Net insurance claims incurred and movement in policyholder liabilities	(502)	(642)	(986)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>10,174</b>	<b>9,134</b>	<b>9,646</b>
Loan impairment charges and other credit risk provisions	(933)	(454)	(579)
<b>Net operating income</b>	<b>9,241</b>	<b>8,680</b>	<b>9,067</b>
Total operating expenses	(6,364)	(5,728)	(6,300)
<b>Operating profit</b>	<b>2,877</b>	<b>2,952</b>	<b>2,767</b>
Share of profit in associates and joint ventures	9	17	20
<b>Profit before tax</b>	<b>2,886</b>	<b>2,969</b>	<b>2,787</b>
	%	%	%
Share of HSBC's profit before tax	27.2	29.3	31.5
Cost:income ratio	59.6	58.6	59.3
Cost efficiency ratio	62.6	62.7	65.3
Period-end staff numbers (full-time equivalent)	73,146	74,798	74,861
	US\$m	US\$m	US\$m
<b>Selected balance sheet data<sup>1</sup></b>			
Loans and advances to customers (net)	332,750	243,194	277,560
Loans and advances to banks (net)	84,293	63,132	56,049
Financial investments, trading assets, and financial instruments			

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designated at fair value	<b>149,929</b>	121,783	139,183
Total assets	<b>645,013</b>	485,480	545,540
Deposits by banks	<b>80,360</b>	68,630	55,720
Customer accounts	<b>344,493</b>	262,025	292,568

1 *Third party only.*

Growth in the **UK** economy slowed in the first half of 2005, with activity particularly subdued during the second quarter. Consumer spending and activity in the housing market declined sharply, despite relatively high levels of employment and continuing low interest rates. HSBC expects the slowdown in consumer spending to persist during the remainder of the year. In addition, industrial and export recovery stalled in the first half of 2005, with companies reluctant to invest, and the boost to the economy from public sector expenditure in recent years was less significant. Although consumer price inflation rose towards the government's 2 per cent target, wage growth slowed in the first half of 2005,

suggesting that medium-term pressures on inflation were well contained. The Bank of England's Monetary Policy Committee kept interest rates unchanged during the period.

The **euro zone** saw continuing lacklustre recovery in the first half of 2005 with growth in gross domestic product ( GDP ) of around 1.2 per cent year-on-year, and still no sign of robust domestic growth. There was, however, considerable divergence between countries. GDP contracted in Italy by 0.3 per cent but grew by 3.5 per cent, 1.5 per cent and 1.0 per cent in Spain, France and Germany, respectively. HSBC expects that economic

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conditions will remain subdued throughout the rest of 2005.

Euro zone inflation, at around 2 per cent, stayed close to the upper limit of the European Central Bank's (ECB) target for 2005. Higher energy prices added roughly 0.5 per cent to the year-on-year inflation rate, offset by a slight easing in underlying price pressures during the period. Interest rates have not changed for two years.

HSBC's European operations reported a pre-tax profit of US\$2,886 million in the first half of 2005, compared with US\$2,969 million in the same period in 2004, representing a decrease of 3 per cent. On an underlying basis, pre-tax profits grew by 2 per cent compared with the first half of 2004. In the UK bank, HSBC's Personal Financial Services and Commercial Banking businesses grew pre-tax profits by 7 per cent.

The commentary that follows is on an underlying basis.

**Personal Financial Services** reported a pre-tax profit of US\$887 million, a decrease of 6 per cent compared with the first half of 2004. The principal driver of this was the consumer finance operations of HSBC Finance in the UK where credit impairment charges rose by US\$127 million against the first half of 2004, reflecting the impact of rising interest rates in 2004 and higher bankruptcies.

The productivity benefits of the 2004 restructuring in the UK bank, supplemented by the re-launch of major products and enhanced differentiation of customer segments, successfully grew net operating income before impairment charges by 10 per cent, whilst holding costs broadly in line with last year.

In the UK, considerable focus was given to sales and channel management, with the proportion of direct sales growing markedly. Marketing campaigns, including a January sale, helped improve awareness of HSBC products and customer retention and this contributed to market share gains across most major products. In France, successful marketing campaigns contributed to strong growth in mortgage lending, particularly to international customers buying property in France. The personal customer base in Turkey grew by 17 per cent to 2.2 million customers and strong credit and deposit growth contributed to pre-tax profits from this segment more than doubling to US\$59 million.

Net interest income increased by 15 per cent to US\$2,733 million.

Average mortgage balances in the UK grew by 25 per cent to US\$60.1 billion as targeted offerings and competitive pricing enabled HSBC to retain existing customers and increase its market share of gross advances to 4.9 per cent. Average personal lending increased by 16 per cent as a result of marketing, differentiated pricing initiatives and improved sales penetration, particularly through direct channels.

HSBC's credit card business in the UK continued to expand. Promotional campaigns, focused sales and pricing initiatives contributed to the increase of over 268,000 new customers. This was further boosted by the joint store-card management arrangement with the John Lewis Partnership. Market share of new credit card customers increased from 5 per cent at the end of 2004 to 8 per cent and card utilisation grew, with average card balances increasing by 22 per cent to US\$10 billion. As a consequence of highly competitive pricing initiatives designed to attract new customers, however, spreads on credit card products narrowed.

Net interest income in the UK also benefited from a 6 per cent growth in current account balances, in response to marketing campaigns and the effect of higher average base rates.

Savings balances in the UK grew by 8 per cent to US\$45.7 billion, due in part to the launch of innovative new products including new regular saver and online saver offerings. Pricing was maintained at a competitive level with some consequential reduction in margin.

In Turkey, marketing initiatives and advertising campaigns aimed at attracting new customers contributed to a 122 per cent growth in net interest income. Card balances increased significantly by over 80 per cent to US\$0.9 billion and the number of cards in issue increased by 20 per cent to 1.9 million. Average mortgage balances increased by over 150 per cent giving HSBC in Turkey a 14 per cent share of the market. Market share growth in consumer lending was also notable.

In France, net interest income grew by 2 per cent. CCF achieved good growth in personal lending, notably from mortgage sales where average mortgage balances rose by 15 per cent, though the benefit of this was partly offset by a small reduction in spreads. Sight deposits and special regulated savings accounts were driven by strong sales activity, and overall average sight deposits grew significantly to US\$6.0 billion.



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HSBC HOLDINGS PLC

## Financial Review (continued)

Net fee income increased by 5 per cent to US\$1,194 million. Fee income rose, predominantly in the UK, from personal lending and credit card sales, plus increased lending in Turkey. HSBC continued to expand sales of investment products in the UK, following the launch of the depolarised investment proposition, and fee income increased as a consequence.

In France, strong growth in commissions from the sale of insurance products and retail broking were partly offset by a decline in sales of collective investment products.

Loan impairment charges increased by 90 per cent, of which 36 percentage points related to HFC Bank in the UK. The remaining increase came primarily from the historic strong growth in credit card and unsecured lending portfolios in the UK, but also reflected the impact of deteriorating economic conditions and a rise in personal bankruptcies. In part, the cost of increasing delinquency was met with higher credit-related charges. HSBC responded to the trends in delinquency by revising its credit scorecards, adopting positive credit reference data, further centralising underwriting, strengthening collections capabilities and adding resource to its retail credit function.

Operating expenses were 3 per cent higher compared with the same period last year. In the UK, underlying costs were broadly in line with the first half of 2004. In France, costs increased by 4 per cent partly as a result of the rebranding activity to establish the HSBC name. Marketing expenditure, including expanded television brand advertising and related costs, increased in Europe to support this initiative as well as business growth. The recruitment of additional sales and support staff led to increased staff costs. Increased IT costs reflected expenditure on installing HSBC's universal banking system, HUB.

**Commercial Banking** reported pre-tax profits of US\$976 million, an increase of 13 per cent. In the UK, a reorganisation in 2004 reduced the cost base, and improved training and incentives created a better motivated sales force. HSBC was, therefore, well positioned for the good market conditions which existed in the first half of 2005, and benefited from both lending growth and wider spreads to achieve a 16 per cent growth in pre-tax profits.

Net interest income increased by 19 per cent. In the UK, lending and overdraft balances increased by US\$6.4 billion due to strong customer demand for credit, particularly in the property and construction sectors. New lending business volumes increased by 19 per cent and average balances per customer

increased by 21 per cent as HSBC increased its market share in an expanding market. Invoice financing was also strong, with a 12 per cent increase in net interest income. Following a product relaunch in 2004, commercial mortgage balances increased by 46 per cent to US\$2.1 billion. Risk-based pricing improved overdraft spreads by 22 basis points, while term lending margins were in line with 2004.

UK liability balances in Commercial Banking increased by 8 per cent following a marketing campaign designed to secure a greater share of the savings market, together with a 10 per cent increase in current account balances. Customer numbers increased by 8 per cent to 933,000 and HSBC attracted 51,000 start-up accounts, maintaining its 20 per cent market share, partly as a result of a targeted small to medium-sized enterprise (SME) marketing campaign. Some 12,000 customers switched their business to HSBC in the first half of 2005. Sterling current account spreads continued to fall, as customers moved to interest-paying current accounts, though this was offset by improved spreads on international and foreign currency current accounts. The Business Money Manager account continued to attract new business, with balances increasing by 6 per cent to US\$6.7 billion.

Net interest income in Turkey increased by 31 per cent as HSBC deepened its relationships with its larger Commercial Banking customers and benefited from sustained spreads in a low rate environment. Business volumes in Payments and Cash Management grew well with over 6,500 users in Commercial Internet banking.

Net fee income of US\$819 million increased by 3 per cent compared with 2004, net of the accounting for effective interest rates which led to a 17 per cent reduction in fee income. In the UK, growth in lending and overdraft new business volumes contributed to a US\$43 million, or 28

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per cent, increase in loan and overdraft fee income. Despite lower consumer spending in the first half of the year, credit card fee income increased by 16 per cent, due to increased transaction volumes and fee rates. The introduction of a new small business tariff in January 2005, together with expansion of the current account base, led to an overall increase of 12 per cent in current account fee income. The revised charging structure for SMEs encouraged the use of low cost delivery channels such as business internet banking.

Loan impairment charges and other credit risk provisions increased by 34 per cent to US\$160 million. In the UK, allowances were made against a small number of accounts in the latter part



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of the period, though general credit quality remained stable. In France, credit quality was also stable and recoveries exceeded new individually assessed allowances. There were few changes in allowance requirements in other European countries.

Operating expenses decreased by 1 per cent. In the UK, costs decreased by 3 per cent due to the non-recurrence of expenses associated with cost reduction initiatives in 2004, which resulted in a fall in staff numbers. In France, costs increased by US\$11 million as a result of the rebranding to HSBC, the recruitment of additional sales and support staff and an increase in IT expenditure incurred to install HUB.

**Corporate, Investment Banking and Markets** reported a pre-tax profit of US\$709 million, 20 per cent lower than the comparable period in 2004. Excluding the effect of adverse mark-to-market movements on non-qualifying hedges and on financial instruments designated at fair value, which arose from the adoption of IAS 39, pre-tax profit increased by approximately 4 per cent. Revenues from core trading activities increased with improvements in a wide range of products, particularly structured derivatives, credit and rates and currency options. Higher operating expenses reflected HSBC's investment in expanding Corporate, Investment Banking and Markets capabilities, and the need to attract and retain high quality front-office and support staff.

Excluding the mark-to-market movements referred to above, total operating income increased by some 10 per cent on the equivalent period in 2004. The interest rate and trading environment for Global Markets in the first half of 2005 presented challenges to the money markets and balance sheet management business. In the UK, net interest income declined as higher-yielding money market assets matured and a flat yield curve limited reinvestment opportunities.

Globally, corporate lending spreads declined in response to strong liquidity in the banking system. Muted demand for credit from corporates and a higher proportion of fixed income investment within investing institutions added to the pressure on yields. Taking advantage of this environment, an increasing number of customers refinanced and negotiated better terms. Customer lending balances were stable in the UK. Global Transaction Banking, which includes Bank of Bermuda's securities services operations, experienced revenue growth from business created from the positive cash flow that many UK corporates are generating in excess of current investment requirements. Revenues from

payments and cash management business improved in the UK, driven by a 26 per cent increase in deposit balances.

A 9 per cent increase in net fees reflected a good performance in Global Investment Banking, particularly from advisory services and debt financing products.

Income from trading activities increased across all major products in Global Markets, reflecting the successful investment made in client-facing trading capabilities. Further benefit was derived from the development of the European franchise and electronic trading platforms over the past two years, together with the expansion of primary dealing activity in European government bond markets.

Gains from sales of financial investments increased significantly to US\$168 million. Private equity and venture capital gains were strong in the UK and France. In addition, Global Investment Banking generated gains from the restructuring and syndication of existing assets.

The overall credit quality remained stable and there were lower recoveries of loan and impairment charges.

Operating expenses increased by 11 per cent to US\$1,812 million. Higher staff costs reflected the full impact of additional people recruited in the UK during 2004, together with limited selective hiring during the first half of 2005. Additional investment was made in the development of the infrastructure and technology platform required to integrate and support business expansion.

**Private Banking** reported a pre-tax profit of US\$236 million, an increase of 13 per cent on the first half of 2004, reflecting growth in core fees and commissions and increased lending. A notably stronger performance than in 2004 was partially offset by a US\$20 million lower performance fee from the Hermitage Fund, a public equity fund dedicated to Russia.

Net interest income benefited from strong growth in both lending and deposit balances, mainly in the UK and Switzerland. Lending balances increased by 28 per cent to US\$15.7 billion, as clients borrowed on a secured basis in the low interest rate environment to make alternative investments. In the UK, mortgage balances increased by 45 per cent to US\$1.6 billion, in part reflecting synergy with HSBC's residential property advisory business. Strong growth in the receipt of cash from new clients prior to investment generated higher deposits in most countries.



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HSBC HOLDINGS PLC

**Financial Review** (continued)



Funds under management grew by 13 per cent to US\$109.3 billion, including net new money of US\$5.5 billion, in the first half of 2005. In Switzerland, the inflow of funds was generated by the recruitment of extra account officers, increased marketing and successful product positioning. In the UK, a cross-referral strategy with the retail bank aided client acquisition, particularly from within the owner-managed corporate segment. In Monaco, strong net new money inflows reflected a general expansion of the business and the success of a strategy to build onshore assets.

Net fee income of US\$364 million was 3 per cent higher than last year, or 9 per cent higher excluding the lower Hermitage Fund fees referred to above. Core fees and commissions increased in line with growth in funds under management. Brokerage

fees increased only slightly and trading income fell compared with a very buoyant first half of 2004. Gains from financial instruments of US\$34 million, 36 per cent higher than last year, were mainly from the sale of debt instruments in Switzerland and Monaco. There was a small reversal of loan impairment charges relating to specific clients, compared with a charge in 2004.

Operating expenses increased by 4 per cent, reflecting front office recruitment and increased performance-related remuneration. This was partly offset by back office efficiency savings and the non-recurrence of restructuring costs arising from last year's merger of HSBC's four French private banks.

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## Profit before tax by customer group

Half-year to 30 June  
2005

	Personal Financial Services US\$m	Commercial Banking US\$m	Corporate, Investment Banking & Markets US\$m	Private Banking US\$m	Other US\$m	Inter- segment elimination US\$m	Total US\$m
<b>Europe</b>							
Net interest income	2,733	1,348	163	264	225		4,733
Net fee income	1,194	819	660	364	206		3,243
Trading income	41	15	996	9	7		1,068
Net income/(expense) from financial instruments designated at fair value	48	3	(44)	–	(143)		(136)
Gains less losses from financial investments	(1)	2	168	34	6		209
Dividend income	–	1	22		19		42
Net earned insurance premiums	599	61	–	–	126		786
Other operating income	47	125	514	8	137	(100)	731
<b>Total operating income</b>	<b>4,661</b>	<b>2,374</b>	<b>2,479</b>	<b>679</b>	<b>583</b>	<b>(100)</b>	<b>10,676</b>
Net insurance claims <sup>1</sup>	(377)	(50)	–	–	(75)	–	(502)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>4,284</b>	<b>2,324</b>	<b>2,479</b>	<b>679</b>	<b>508</b>	<b>(100)</b>	<b>10,174</b>
Loan impairment charges and other credit risk provisions	(810)	(160)	32	5	–	–	(933)
<b>Net operating income</b>	<b>3,474</b>	<b>2,164</b>	<b>2,511</b>	<b>684</b>	<b>508</b>	<b>(100)</b>	<b>9,241</b>
Total operating expenses	(2,590)	(1,191)	(1,812)	(448)	(423)	100	(6,364)
<b>Operating profit</b>	<b>884</b>	<b>973</b>	<b>699</b>	<b>236</b>	<b>85</b>		<b>2,877</b>
Share of profit in associates and joint ventures	3	3	10		(7)		9
<b>Profit before tax</b>	<b>887</b>	<b>976</b>	<b>709</b>	<b>236</b>	<b>78</b>		<b>2,886</b>
	%	%	%	%	%		%
Share of HSBC's profit before tax	8.4	9.2	6.7	2.2	0.7		27.1
Cost:income ratio	55.6	50.2	73.1	66.0	72.6		59.6
Cost efficiency ratio	60.5	51.2	73.1	66.0	83.3		62.6

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	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
<b>Selected balance sheet data<sup>2</sup></b>						
Loans and advances to customers (net)	117,822	65,051	133,675	16,201		332,749
Total assets	141,058	79,713	382,936	38,652	2,654	645,013
Customer accounts	120,510	58,901	127,869	37,213		344,493
The following assets and liabilities were significant to Corporate, Investment Banking and Markets:						
Loans and advances to banks (net)			74,201			
Trading assets, financial instruments designated at fair value, and financial investments			129,447			
Deposits by banks			78,555			

1 *Net insurance claims incurred and movement in policyholder liabilities.*

2 *Third party only.*

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HSBC HOLDINGS PLC

**Financial Review** (continued)

Profit before tax by customer group (continued)

Half-year to 30 June 2004

	Personal Financial Services US\$m	Commercial Banking US\$m	Corporate, Investment Banking & Markets US\$m	Private Banking US\$m	Other US\$m	Inter- segment elimination US\$m	Total US\$m
<b>Europe</b>							
Net interest income	2,196	1,098	737	195	81		4,307
Net fee income	1,026	772	586	345	173		2,902
Trading income	14	16	362	58	58		508
Net investment income on assets backing policyholder liabilities	102	28					130
Gains less losses from financial investments	7	2	83	24	37		153
Dividend income		24	278	2			304
Net earned insurance premiums	617	197			117		931
Other operating income	25	149	345	5	87	(70)	541
<b>Total operating income</b>	<b>3,987</b>	<b>2,286</b>	<b>2,391</b>	<b>629</b>	<b>553</b>	<b>(70)</b>	<b>9,776</b>
Net insurance claims <sup>1</sup>	(398)	(166)			(78)		(642)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>3,589</b>	<b>2,120</b>	<b>2,391</b>	<b>629</b>	<b>475</b>	<b>(70)</b>	<b>9,134</b>
Loan impairment charges and other credit risk provisions	(383)	(116)	63	(9)	(9)		(454)
<b>Net operating income</b>	<b>3,206</b>	<b>2,004</b>	<b>2,454</b>	<b>620</b>	<b>466</b>	<b>(70)</b>	<b>8,680</b>
<b>Total operating expenses</b>	<b>(2,296)</b>	<b>(1,163)</b>	<b>(1,579)</b>	<b>(411)</b>	<b>(349)</b>	<b>70</b>	<b>(5,728)</b>
<b>Operating profit</b>	<b>910</b>	<b>841</b>	<b>875</b>	<b>209</b>	<b>117</b>		<b>2,952</b>
Share of profit in associates and joint ventures	3	4	4		6		17
<b>Profit before tax</b>	<b>913</b>	<b>845</b>	<b>879</b>	<b>209</b>	<b>123</b>		<b>2,969</b>
	%	%	%	%	%		%
Share of HSBC's profit before tax	9.0	8.3	8.7	2.1	1.2		29.3
Cost:income ratio	57.6	50.9	66.0	65.3	63.1		58.6
Cost efficiency ratio	64.0	54.9	66.0	65.3	73.5		62.7

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	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Selected balance sheet data <sup>2</sup>						
Loans and advances to customers (net)	93,669	59,108	76,939	13,477	1	243,194
Total assets	114,152	75,639	253,924	38,108	3,657	485,480
Customer accounts	106,884	51,231	72,366	31,554	(10)	262,025
The following assets and liabilities were significant to Corporate, Investment Banking and Markets:						
Loans and advances to banks (net)			56,701			
Trading assets, financial instruments designated at fair value, and financial investments			97,810			
Deposits by banks			66,178			

1 *Net insurance claims incurred and movement in policyholder liabilities.*

2 *Third party only.*

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Half-year to 31 December 2004

<b>Europe</b>	Personal Financial Services US\$m	Commercial Banking US\$m	Corporate, Investment Banking & Markets US\$m	Private Banking US\$m	Other US\$m	Inter- segment elimination US\$m	Total US\$m
Net interest income	2,448	1,207	666	226	244		4,791
Net fee income	1,084	821	675	313	185		3,078
Trading income/(expense)	(14)	100	373	46	(16)		489
Net investment income/(expense) on assets backing policyholder liabilities	343	99			(1)		441
Gains less losses from financial investments	(6)	1	113	8	(2)		114
Dividend income		12	248	3	(9)		254
Net earned insurance premiums	637	212	12		83		944
Other operating income		134	351	15	131	(110)	521
<b>Total operating income</b>	<b>4,492</b>	<b>2,586</b>	<b>2,438</b>	<b>611</b>	<b>615</b>	<b>(110)</b>	<b>10,632</b>
Net insurance claims <sup>1</sup>	(628)	(321)			(37)		(986)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>3,864</b>	<b>2,265</b>	<b>2,438</b>	<b>611</b>	<b>578</b>	<b>(110)</b>	<b>9,646</b>
Loan impairment charges and other credit risk provisions	(556)	(190)	144	13	10		(579)
<b>Net operating income</b>	<b>3,308</b>	<b>2,075</b>	<b>2,582</b>	<b>624</b>	<b>588</b>	<b>(110)</b>	<b>9,067</b>
Total operating expenses	(2,602)	(1,259)	(1,801)	(395)	(353)	110	(6,300)
<b>Operating profit</b>	<b>706</b>	<b>816</b>	<b>781</b>	<b>229</b>	<b>235</b>		<b>2,767</b>
Share of profit in associates and joint ventures	2	2	8		8		20
<b>Profit before tax</b>	<b>708</b>	<b>818</b>	<b>789</b>	<b>229</b>	<b>243</b>		<b>2,787</b>
	%	%	%	%	%		%
Share of HSBC's profit before tax	8.0	9.3	8.9	2.6	2.8		31.6
Cost:income ratio	57.9	48.7	73.9	64.6	57.4		59.3
Cost efficiency ratio	67.3	55.6	73.9	64.6	61.1		65.3
	US\$m	US\$m	US\$m	US\$m	US\$m		US\$m
<b>Selected balance sheet data<sup>2</sup></b>							
Loans and advances to customers (net)	118,796	67,458	75,628	15,676	2		277,560
Total assets	143,507	83,284	273,902	40,140	4,707		545,540
Customer accounts	121,599	57,798	78,031	35,140			292,568

The following assets and liabilities were significant to Corporate, Investment



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Banking and Markets:

Loans and advances to banks (net)	47,802
Trading assets, financial instruments designated at fair value, and financial investments	116,492
Deposits by banks	53,646

1 *Net insurance claims incurred and movement in policyholder liabilities.*

2 *Third party only.*

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HSBC HOLDINGS PLC

**Financial Review** (continued)**Hong Kong**

Profit before tax by customer group

	Half-year to		
	30 June 2005 US\$m	30 June 2004 US\$m	31 December 2004 US\$m
Personal Financial Services	1,331	1,020	1,043
Commercial Banking	394	536	368
Corporate, Investment Banking and Markets	598	839	764
Private Banking	111	74	57
Other	(15)	140	(11)
<b>Total</b>	<b>2,419</b>	<b>2,609</b>	<b>2,221</b>

Profit before tax

	Half-year to		
	30 June 2005 US\$m	30 June 2004 US\$m	31 December 2004 US\$m
Net interest income	2,019	1,781	1,857
Net fee income	842	888	815
Trading income	380	380	279
Net expense from financial instruments designated at fair value	(21)		
Net investment income on assets backing policyholder liabilities		24	290
Gains less losses from financial investments	65	110	109
Dividend income	29	17	10
Net earned insurance premiums	866	1,063	1,184
Other operating income	423	259	233
<b>Total operating income</b>	<b>4,603</b>	<b>4,522</b>	<b>4,777</b>
Net insurance claims incurred and movement in policyholder liabilities	(751)	(897)	(1,257)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>3,852</b>	<b>3,625</b>	<b>3,520</b>
Loan impairment charges and other credit risk provisions	(56)	222	(2)
<b>Net operating income</b>	<b>3,796</b>	<b>3,847</b>	<b>3,518</b>

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Total operating expenses	<b>(1,381)</b>	(1,241)	(1,317)
<b>Operating profit</b>	<b>2,415</b>	2,606	2,201
Share of profit in associates and joint ventures	<b>4</b>	3	20
<b>Profit before tax</b>	<b>2,419</b>	2,609	2,221
	<b>%</b>	<b>%</b>	<b>%</b>
Share of HSBC's profit before tax	<b>22.7</b>	25.8	25.2
Cost:income ratio	<b>30.0</b>	27.4	27.6
Cost efficiency ratio	<b>35.9</b>	34.2	37.4
Period-end staff numbers (full-time equivalent)	<b>25,260</b>	24,680	25,552
	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>
<b>Selected balance sheet data<sup>1</sup></b>			
Loans and advances to customers (net)	<b>80,664</b>	75,112	78,824
Loans and advances to banks (net)	<b>45,920</b>	37,002	45,710
Trading assets, financial instruments designated at fair value, and financial investments	<b>78,637</b>	76,033	75,721
Total assets <sup>2</sup>	<b>224,691</b>	201,512	213,479
Deposits by banks	<b>7,425</b>	4,888	4,325
Customer accounts	<b>166,956</b>	165,107	178,033

1 *Third party only.*

2 *Excluding Hong Kong Government certificates of indebtedness.*

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Hong Kong's economy saw a sustained expansion in the first half of the year, driven by both external trade and domestic demand. Mainland China's exports remained strong over the period despite increasing trade conflicts with its major western trading partners. Hong Kong also benefited from the robust trade flow with the mainland. Domestic demand was boosted by the buoyant property market in the first quarter, with the latter underpinned by the low local interest rate environment. The speculation on renminbi revaluation had attracted funds into Hong Kong, which suppressed local interest rates below the US level. But local interest rates swiftly realigned to the US level after the Hong Kong Monetary Authority introduced new measures to cap the upside of the Hong Kong currency. The rate increases cooled the property market subsequently. Income growth in the first half was favourable while further improvement in the job market was noted. Over the period, rising tourism receipts continued to support the economy.

HSBC's operations in Hong Kong reported a pre-tax profit of US\$2,419 million in the first half of 2005, a decrease of US\$190 million, or 7 per cent, compared with the first half of 2004.

**Personal Financial Services** reported a pre-tax profit of US\$1,331 million, 31 per cent higher than in the first half of 2004. This was primarily due to a combination of widening deposit spreads, deposit growth and improved credit quality. By contrast, fee income from unit trust sales fell as deposit rates rose, encouraging savings balances to move back into deposits from investment products.

The measures to cap the Hong Kong dollar referred to above removed the perceived likelihood of an upward realignment of the currency and prompted a reversal of much of the inward flows from investors in 2004 that had depressed local market rates. This led to a widening of deposit spreads to more normal levels after the exceptionally low spreads experienced in 2004, and contributed to an increase in net interest income of 30 per cent to US\$1,253 million. Interest rate rises were also a factor in the overall increase in net interest income, stimulating year-on-year growth in deposit balances. Cardholder balances increased by 9 per cent. Spending grew by 16 per cent and HSBC's market share of receivables increased. These volume benefits were partly offset by reduced spreads on mortgages, credit cards and personal loan portfolios following interest rate rises and reflecting competitive market conditions.

In the mortgage market, competition remained acute, reflecting the lack of lending opportunities

into which surplus market liquidity could be deployed. The rising interest rates led to a reassessment of mortgage lending rates, which steadily increased during the period. Against this backdrop, HSBC removed virtually all cash incentive payments in April, and adopted a selective approach to mortgage approvals, focusing on the overall value of the customer relationship to the bank. Average mortgage balances, excluding the reduction in balances under the GHOS, which remained suspended, rose by 1 per cent, reflecting the competitive lending rates offered. A combination of competitive pricing, higher funding costs and an increase in the value of mortgages being repriced resulted, however, in the average yield on mortgages falling by 13 basis points to 3 per cent.

Net fees fell by 10 per cent to US\$393 million, driven mainly by lower sales of unit trusts, which were partly offset by higher sales of structured products. The 42 per cent fall in unit trust fee income was driven largely by a change in market sentiment in the first half of 2005. Higher interest rates and a flattening yield curve had the effect of reducing customer demand for capital guaranteed funds. Sales of structured products, however, remained strong, more than tripling to US\$46 million due to the success of the Exclusive Placement Service launched in 2004 for HSBC *Premier* customers. The service offers an extensive product range of yield enhancement options, repriced daily and linked to foreign exchange or interest rates.

Recruitment of financial planning managers, who provide bespoke financial management services, continued with 147 new hires during the first half of 2005, bringing the total to 741.

Fee income from stockbroking and custody services fell by 24 per cent to US\$82 million, reflecting less favourable market conditions as interest rates rose. Fee income from credit cards increased by 6 per cent to US\$68 million. HSBC credit cards have been repeatedly voted market leader in terms of the rewards programme and usage benefits. This helped HSBC strengthen its position as the largest credit card issuer in Hong Kong, with an 8 per cent rise in the number of cards in circulation to 3.6 million.

HSBC continued to place significant emphasis on the growth and development of its insurance business, and continued to lead the market in sales of new regular premium insurance in the first quarter of the year, with a 23 per cent market share. There was also strong growth of insurance products offered online, with TravelSure sales rising by 125 per cent compared with the first half of 2004, and the



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HSBC HOLDINGS PLC

## Financial Review (continued)

launch of an online outpatient product. This led to an increase in insurance income of 10 per cent to US\$227 million.

There was a net release of loan impairment charges and other credit risk provisions of US\$47 million in the first half of 2005, compared with a net charge of US\$27 million for the same period in 2004. This was mainly driven by continued improvement in credit quality within the credit card business and a release of US\$20 million in respect of prior year impairment allowances on the restructured lending portfolio. Higher property prices also led to a release of US\$23 million in the mortgage portfolio. Credit conditions improved, benefiting from economic growth, higher property prices and lower bankruptcies.

Operating expenses fell by 7 per cent to US\$625 million, primarily driven by lower IT and marketing expenditures, and reduced staff costs. Staff costs declined by 2 per cent to US\$283 million. During the first half of the year, branch teams were restructured to place a greater emphasis on sales and customer service, and staff numbers dedicated to this initiative increased. Overall, however, headcount in the branch network fell by 7 per cent, reflecting operating efficiency improvements and higher utilisation of the Group Service Centres.

Pre-tax profits in **Commercial Banking** decreased by 27 per cent to US\$394 million, as higher net interest income resulting from loan and deposit growth and increased margins was more than offset by lower loan impairment allowance releases.

Net interest income increased by 62 per cent, following the appointment of a number of experienced relationship managers to service key accounts. Lending balances grew by 23 per cent, as both new lending and the usage of existing facilities increased. Customer deposits rose by 11 per cent to US\$36.8 billion, partly as a result of continuing weakness in local equity markets. Interest rate rises in the first half of the year benefited deposit spreads, contributing to the rise in net interest income. The number of BusinessVantage all-in-one account customers increased by 26 per cent and led to a 165 per cent increase in income. Overall, customer numbers increased by 3 per cent to 360,000.

Net fee income increased by 7 per cent to US\$196 million. Increased income from credit cards and derivatives was partly offset by reduced sales of investment products and lower insurance income. Credit card fees increased by 39 per cent following the success of targeted marketing campaigns while derivative income increased by 67 per cent, as the Group enhanced its capability to offer bespoke risk

management solutions to the SME and MME sectors. Sales growth also benefited from the recruitment of specialist Business Banking Officers.

Loan impairment charges and other credit risk provisions included a significant charge against a client in the manufacturing sector. Releases and recoveries were lower than in 2004, reflecting a more stable credit environment and the non-recurrence of a significant release of credit allowances during 2004.

Operating expenses were 3 per cent higher, principally as a result of staff recruitment to support business development and expansion. This was partly funded by cost saving initiatives to migrate business to low cost delivery channels, including cheque deposit machines, dedicated ATM deposit cards, incentive programmes and Business Internet Banking, which continued to grow.

**Corporate, Investment Banking and Markets** reported a pre-tax profit of US\$598 million, 29 per cent lower than the same period in 2004, primarily driven by a reduction in net interest income in Global Markets. Additionally, operating expenses increased, reflecting initiatives taken to extend the product range in Global Markets and to strengthen the Global Investment Banking advisory platform in Asia.

Total operating income was lower by 7 per cent, principally due to a decrease in net interest income. Revenues declined as high yielding treasury assets matured and re-investment opportunities were limited by flat yield curves.

In Corporate and Institutional Banking, total income increased by 12 per cent. Corporate lending benefited from an increase in spreads, reflecting the rise in interest rates and a moderate growth in balances. The upgraded cash management service delivered through HSBCnet generated an increase in new business volumes.

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A fall in net fees reflected a significant reduction in structured finance revenues, resulting from lower transaction volumes. However, debt and equity underwriting activities increased, resulting in higher fees of US\$19 million. Fee income from Group Investment businesses was boosted by sales of investment products and strong growth in funds under management.

Trading activities generated significant growth in revenues, due in part to private equity gains. In the early part of 2005, the trading of debt securities benefited from successful positioning against the contraction of credit spreads in the low Hong Kong dollar interest rate environment. These gains were,

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however, partly offset by losses arising from holdings of Asian high yield bonds, following the downgrading of certain companies in the automobile sector in the second quarter of 2005. Foreign exchange revenues declined due to the non-recurrence of gains in the early part of 2004 from a strengthening US dollar against the Hong Kong dollar, but this was partially offset by higher foreign exchange derivatives revenues. Derivatives revenues were higher as new structured product capabilities were added in the credit, interest rate and foreign exchange areas. However, sales of wealth management products were lower against a backdrop of rising interest rates, higher property prices and a subdued equity market, as investors switched to deposit products.

Operating expenses increased by 28 per cent. Employee compensation and benefits rose by 33 per cent, primarily driven by the cost of an additional 45 middle and senior managers resulting from the expansion of the Asia Global Investment Banking business in the latter part of 2004. Global Markets' operating expenses increased by 9 per cent, reflecting higher IT infrastructure and support costs associated with the increased range and sophistication of products offered.

There was a small net release in the first half of 2005 on the loan impairment allowances made following the Asian financial crisis. These were comparatively smaller than releases seen in the property, industrial and telecommunications sectors in the first half of 2004.

**Private Banking** contributed a pre-tax profit of US\$111 million, an increase of 50 per cent

compared with the first half of 2004, of which approximately two thirds arose from the adoption of full IFRSs. The benefit of strong growth in funds under management and higher sales of structured products was partly offset by the transfer of a trust business from Hong Kong to the Rest of Asia-Pacific region in the second half of 2004.

Net operating income was 21 per cent higher than in the same period last year, excluding the trust business transfer and effect of IFRSs noted above. Higher fees from increased funds under management, brokerage, and sales of structured products were partly offset by the non-recurrence of exceptional transactional revenue earned in the strong market recovery of the first quarter of last year. Expansion of the front office team and marketing campaigns helped double discretionary managed private banking assets, including growth of 95 per cent in the Strategic Investment Solutions product, and boosted related fees by 16 per cent. Gains from financial investments of US\$19 million were mainly from the sale of debt instruments.

Funds under management increased by 29 per cent to US\$32.4 billion. Expansion of the customer base, in part due to a cross-referral framework implemented with other Group entities, aided an inflow of US\$2.9 billion in net new funds during the first half of 2005. The recruitment of front office staff, and the success of last year's launch of the HSBC Private Bank brand, helped to increase business growth.

Operating expenses increased by US\$6 million, or 9 per cent, net of a US\$7 million decrease arising from the trust business transfer referred to above. Costs from front office recruitment and expenditure on marketing increased in support of the growing client base.



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HSBC HOLDINGS PLC

**Financial Review** (continued)

Profit/(loss) before tax by customer group

Half-year to 30 June 2005

Hong Kong	Personal Financial Services US\$m	Commercial Banking US\$m	Corporate, Investment Banking & Markets US\$m	Private Banking US\$m	Other US\$m	Inter- segment elimination US\$m	Total US\$m
Net interest income/(expense)	1,253	498	413	38	(183)		2,019
Net fee income	393	196	204	43	6		842
Trading income/(expense)	36	21	295	75	(47)		380
Net income/(expense) from financial instruments designated at fair value	16	(44)	16		(9)		(21)
Gains less losses from financial investments				19	46		65
Dividend income			13		16		29
Net earned insurance premiums	820	37	9				866
Other operating income	117	18	43	5	358	(118)	423
<b>Total operating income</b>	<b>2,635</b>	<b>726</b>	<b>993</b>	<b>180</b>	<b>187</b>	<b>(118)</b>	<b>4,603</b>
Net insurance claims <sup>1</sup>	(728)	(18)	(5)				(751)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>1,907</b>	<b>708</b>	<b>988</b>	<b>180</b>	<b>187</b>	<b>(118)</b>	<b>3,852</b>
Loan impairment charges and other credit risk provisions ..	47	(110)	4	3			(56)
<b>Net operating income</b>	<b>1,954</b>	<b>598</b>	<b>992</b>	<b>183</b>	<b>187</b>	<b>(118)</b>	<b>3,796</b>
Total operating expenses	(625)	(204)	(394)	(72)	(204)	118	(1,381)
<b>Operating profit/(loss)</b>	<b>1,329</b>	<b>394</b>	<b>598</b>	<b>111</b>	<b>(17)</b>		<b>2,415</b>
Share of profit in associates and joint ventures	2				2		4
<b>Profit/(loss) before tax</b>	<b>1,331</b>	<b>394</b>	<b>598</b>	<b>111</b>	<b>(15)</b>		<b>2,419</b>
	%	%	%	%	%		%
Share of HSBC's profit before tax	12.5	3.7	5.6	1.0	(0.1)		22.7
Cost: income ratio	23.7	28.1	39.7	40.0	109.1		30.0
Cost efficiency ratio	32.8	28.8	39.9	40.0	109.1		35.9

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	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
<b>Selected balance sheet data<sup>2</sup></b>						
Loans and advances to customers (net)	<b>33,649</b>	<b>20,399</b>	<b>21,420</b>	<b>3,443</b>	<b>1,753</b>	<b>80,664</b>
Total assets <sup>3</sup>	<b>38,588</b>	<b>26,241</b>	<b>130,848</b>	<b>8,721</b>	<b>20,293</b>	<b>224,691</b>
Customer accounts	<b>106,425</b>	<b>32,998</b>	<b>18,216</b>	<b>9,126</b>	<b>191</b>	<b>166,956</b>
The following assets and liabilities were also significant to Corporate, Investment Banking and Markets:						
Loans and advances to banks (net)			<b>42,107</b>			
Trading assets, financial instruments designated at fair value, and financial investments			<b>59,936</b>			
Deposits by banks			<b>7,202</b>			

1 *Net insurance claims incurred and movement in policyholder liabilities.*

2 *Third party only.*

3 *Excluding Hong Kong Government certificates of indebtedness.*

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Half-year to 30 June 2004

<b>Hong Kong</b>	Personal Financial Services US\$m	Commercial Banking US\$m	Corporate, Investment Banking & Markets US\$m	Private Banking US\$m	Other US\$m	Inter- segment elimination US\$m	Total US\$m
Net interest income/(expense)	963	307	549	43	(81)		1,781
Net fee income	436	183	222	44	3		888
Trading income	24	15	250	54	37		380
Net investment income on assets backing policyholder liabilities	13	11					24
Gains less losses from financial investments	(2)		2		110		110
Dividend income	2		1		14		17
Net earned insurance premiums	764	291	9		(1)		1,063
Other operating income	138	24	40		293	(236)	259
<b>Total operating income</b>	<b>2,338</b>	<b>831</b>	<b>1,073</b>	<b>141</b>	<b>375</b>	<b>(236)</b>	<b>4,522</b>
Net insurance claims <sup>1</sup>	(624)	(267)	(6)				(897)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>1,714</b>	<b>564</b>	<b>1,067</b>	<b>141</b>	<b>375</b>	<b>(236)</b>	<b>3,625</b>
Loan impairment charges and other credit risk provisions	(27)	172	79	(1)	(1)		222
<b>Net operating income</b>	<b>1,687</b>	<b>736</b>	<b>1,146</b>	<b>140</b>	<b>374</b>	<b>(236)</b>	<b>3,847</b>
Total operating expenses	(669)	(200)	(307)	(66)	(235)	236	(1,241)
<b>Operating profit</b>	<b>1,018</b>	<b>536</b>	<b>839</b>	<b>74</b>	<b>139</b>		<b>2,606</b>
Share of profit in associates and joint ventures	2				1		3
<b>Profit before tax</b>	<b>1,020</b>	<b>536</b>	<b>839</b>	<b>74</b>	<b>140</b>		<b>2,609</b>
	%	%	%	%	%		%
Share of HSBC's profit before tax	10.1	5.3	8.3	0.7	1.4		25.8
Cost: income ratio	28.6	24.1	28.6	46.8	62.7		27.4
Cost efficiency ratio	39.0	35.5	28.8	46.8	62.7		34.2
	US\$m	US\$m	US\$m	US\$m	US\$m		US\$m
<b>Selected balance sheet data<sup>2</sup></b>							
Loans and advances to customers (net)	33,217	16,552	20,868	2,632	1,843		75,112
Total assets <sup>3</sup>	36,506	21,428	119,245	6,396	17,937		201,512
Customer accounts	106,249	32,930	17,776	7,923	229		165,107
The following assets and liabilities were also significant to Corporate, Investment Banking and Markets:							
Loans and advances to banks (net)			34,968				
Trading assets, financial instruments designated at fair value, and financial investments			59,953				
Deposits by banks			4,686				

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- 1 *Net insurance claims incurred and movement in policyholder liabilities.*
- 2 *Third party only.*
- 3 *Excluding Hong Kong Government certificates of indebtedness.*

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HSBC HOLDINGS PLC

**Financial Review** (continued)

Profit/(loss) before tax by customer group (continued)

	Half-year to 31 December 2004						
	Personal Financial Services US\$m	Commercial Banking US\$m	Corporate, Investment Banking & Markets US\$m	Private Banking US\$m	Other US\$m	Inter- segment elimination US\$m	Total US\$m
<b>Hong Kong</b>							
Net interest income/(expense) ..	1,052	377	449	42	(63)		1,857
Net fee income/(expense)	350	182	307	31	(55)		815
Trading income/(expense)	23	24	226	47	(41)		279
Net investment income on assets backing policyholder liabilities	105	185					290
Gains less losses from financial investments			4		105		109
Dividend income		1	1		8		10
Net earned insurance premiums	856	318	10				1,184
Other operating income/(expense)	156	28	57	(2)	228	(234)	233
<b>Total operating income</b>	<b>2,542</b>	<b>1,115</b>	<b>1,054</b>	<b>118</b>	<b>182</b>	<b>(234)</b>	<b>4,777</b>
Net insurance claims <sup>1</sup>	(776)	(475)	(6)				(1,257)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>1,766</b>	<b>640</b>	<b>1,048</b>	<b>118</b>	<b>182</b>	<b>(234)</b>	<b>3,520</b>
Loan impairment charges and other credit risk provisions	(29)	(62)	85	5	(1)		(2)
<b>Net operating income</b>	<b>1,737</b>	<b>578</b>	<b>1,133</b>	<b>123</b>	<b>181</b>	<b>(234)</b>	<b>3,518</b>
<b>Total operating expenses</b>	<b>(695)</b>	<b>(206)</b>	<b>(367)</b>	<b>(66)</b>	<b>(217)</b>	<b>234</b>	<b>(1,317)</b>
<b>Operating profit/(loss)</b>	<b>1,042</b>	<b>372</b>	<b>766</b>	<b>57</b>	<b>(36)</b>		<b>2,201</b>
Share of profit/(loss) in associates and joint ventures	1	(4)	(2)		25		20
<b>Profit/(loss) before tax</b>	<b>1,043</b>	<b>368</b>	<b>764</b>	<b>57</b>	<b>(11)</b>		<b>2,221</b>
	%	%	%	%	%		%
Share of HSBC's profit before tax	11.8	4.2	8.7	0.6	(0.1)		25.2
Cost: income ratio	27.3	18.5	34.8	55.9	119.2		27.6
Cost efficiency ratio	39.4	32.2	35.0	55.9	119.2		37.4
	US\$m	US\$m	US\$m	US\$m	US\$m		US\$m
Selected balance sheet data <sup>2</sup>							
Loans and advances to customers (net)	33,646	17,883	22,440	2,954	1,901		78,824

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Total assets <sup>3</sup>	37,742	23,272	129,986	7,490	14,989	213,479
Customer accounts	114,302	35,226	18,903	9,264	338	178,033

The following assets and liabilities were also significant to Corporate,

Investment Banking and Markets:

Loans and advances to banks (net)	42,515
Trading assets, financial instruments designated at fair value, and financial investments	59,703
Deposits by banks	4,205

1 *Net insurance claims incurred and movement in policyholder liabilities.*

2 *Third party only.*

3 *Excluding Hong Kong Government certificates of indebtedness.*

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[Back to Contents](#)**Rest of Asia-Pacific (including the Middle East)**

Profit/(loss) before tax by customer group and by country

	Half-year to		
	<b>30 June 2005 US\$m</b>	30 June 2004 US\$m	31 December 2004 US\$m
Personal Financial Services	252	167	169
Commercial Banking	406	266	217
Corporate, Investment Banking and Markets	531	483	459
Private Banking	43	29	31
Other	48	24	2
<b>Total</b>	<b>1,280</b>	<b>969</b>	<b>878</b>

	Half-year to		
	<b>30 June 2005 US\$m</b>	30 June 2004 US\$m	31 December 2004 US\$m
Australia and New Zealand	71	51	33
Brunei	17	16	17
India	108	98	80
Indonesia	55	31	45
Japan	(7)	33	17
Mainland China	161	26	6
Malaysia	103	126	88
Middle East (excluding Saudi Arabia)	204	142	156
Philippines	19	16	22
Saudi Arabia	128	90	86
Singapore	141	135	137
South Korea	55	42	47
Taiwan	48	57	50
Thailand	31	31	29
Other	146	75	65
<b>Total</b>	<b>1,280</b>	<b>969</b>	<b>878</b>

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HSBC HOLDINGS PLC

**Financial Review** (continued)

Profit before tax

	Half-year to		
	<b>30 June 2005 US\$m</b>	30 June 2004 US\$m	31 December 2004 US\$m
<b>Rest of Asia-Pacific (including the Middle East)</b>			
Net interest income	1,157	984	1,076
Net fee income	632	499	542
Trading income	387	265	229
Net income from financial instruments designated at fair value	14		
Net investment income on assets backing policyholder liabilities		6	26
Gains less losses from financial investments	2	4	13
Dividend income	4	1	2
Net earned insurance premiums	29	57	40
Other operating income	131	63	83
<b>Total operating income</b>	<b>2,356</b>	<b>1,879</b>	<b>2,011</b>
Net insurance claims incurred and movement in policyholder liabilities	(37)	(46)	(36)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>2,319</b>	<b>1,833</b>	<b>1,975</b>
Loan impairment charges and other credit risk provisions	(23)	9	(98)
<b>Net operating income</b>	<b>2,296</b>	<b>1,842</b>	<b>1,877</b>
Total operating expenses	(1,264)	(967)	(1,120)
<b>Operating profit</b>	<b>1,032</b>	<b>875</b>	<b>757</b>
Share of profit in associates and joint ventures	248	94	121
<b>Profit before tax</b>	<b>1,280</b>	<b>969</b>	<b>878</b>
	%	%	%
Share of HSBC's profit before tax	12.0	9.6	10.0
Cost:income ratio	53.7	51.5	55.7
Cost efficiency ratio	54.5	52.8	56.7
Period-end staff numbers (full-time equivalent)	48,026	34,828	41,031
	US\$m	US\$m	US\$m
<b>Selected balance sheet data<sup>1</sup></b>			
Loans and advances to customers (net)	67,025	53,051	60,663
Loans and advances to banks (net)	19,833	15,475	14,887
Trading assets, financial instruments designated at fair value, and financial investments	32,951	28,531	31,065
Total assets	134,693	107,665	120,530
Deposits by banks	9,970	8,376	8,046
Customer accounts	84,155	69,845	78,613

1 Third party only.



**Mainland China** s economy continued the strong growth seen in 2004 during the first half of 2005, with GDP rising 9.4 per cent year-on-year. Despite ongoing monetary tightening, fixed asset investment growth eased only slightly to 25.4 per cent year-on-year, compared with 28 per cent for the whole of 2004. Although a recent slowdown was recorded in the rate at which consumer prices were increasing, inflationary pressures did not ease significantly, with producer price inflation exceeding 5 per cent in the first half of 2005. As a result, HSBC expects that existing measures to slow the pace of economic growth will be maintained, along with further liberalisation of interest rates and deepening

domestic foreign exchange markets. Foreign exchange reserves surged by US\$81 billion in the first five months of 2005. On 21 July 2005, the People s Bank of China announced that, with effect from 22 July 2005, the arrangement by which the renminbi ( RMB ) is pegged to the US dollar will be replaced with a managed float. Initially, the exchange rate was set at US\$1 to RMB8.11, equivalent to an appreciation of approximately 2 per cent.

The **Japanese** economy struggled to make progress in the first half of 2005, though GDP growth was strong, largely as a consequence of a significant rise in inventories, a rebound in activity and a fall in

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prices after the earthquakes at the end of 2004. Although industrial production rose strongly, most of this was attributable to a big rise in motor vehicle inventories. Exports fell slightly. On the positive side, structural adjustments in Japan showed gradual progress. The rate of decline in bank loans (adjusted for securitisations and write-offs) fell to only 0.4 per cent year-on-year in April, the smallest decline since 1998, and the level of non-performing loans reported by major banks approached the target level. Deflation continued its gradual disappearance, as the core Consumer Price Index in April was only 0.2 per cent down on a year ago.

In much of the rest of the region, there was clear evidence of a growth slowdown in the first half of 2005. South Korea and Taiwan were most affected, largely because export growth moderated as mainland China's imports of capital goods slowed, and the global technology cycle turned down. South-East Asia generally fared better as it did not have the same exposure to mainland China's investment growth. Indonesia, Malaysia and Thailand were also helped by firm commodity prices that had a positive effect on their terms of trade. Asian interest rates were largely stable despite rises in the US, with only the Philippines and Taiwan increasing rates. Some of the upward pressure on Asian currencies abated once the growth slowdown became apparent. Further relief came from the US dollar's rally against the euro and the Japanese yen.

Energy-producing economies in the **Middle East** continued to benefit from high global oil prices in the first half of 2005. With production levels also high, Saudi Arabia's economy was expected to grow at about the same rate as in 2004, 6 per cent. There are plans to sharply reduce the current account surplus in 2005 as funds are used to pay down public debt and increase spending on public services, infrastructure and security. Other economies in the region, which are not as dependent on oil, also performed well, with the United Arab Emirates, for example, registering strong growth in non-oil sectors such as petrochemicals and financial services. HSBC expects, in the context of relatively low inflation, that the Middle East's strong balance of payments position should ensure that domestic interest rates remain relatively low, which in turn should continue to stimulate domestic demand. GDP growth across much of the Middle East is expected to remain in the 5-6 per cent range in 2005.

HSBC's operations in the Rest of Asia-Pacific region reported a pre-tax profit of US\$1,280 million in the first half of 2005, compared with US\$969 million in the first half of 2004, an increase of 32 per

cent. On an underlying basis, profit before tax was 19 per cent higher than in the first half of 2004.

The commentary that follows is on an underlying basis.

In **Personal Financial Services**, pre-tax profit of US\$252 million increased by 42 per cent compared with the first half of 2004, reflecting strong asset growth and increased fee income. This was partly offset by higher costs, incurred in support of business expansion, and higher loan impairment charges.

Net interest income grew by 25 per cent. Marketing campaigns designed to enhance awareness of the HSBC brand and competitive pricing contributed to growth in average assets in credit cards, mortgages, personal unsecured lending and customer deposits. In addition, spreads widened on deposits, augmenting strong growth in customer savings and deposit balances in South Korea, mainland China, Australia and the Middle East.

The credit card business continued to expand across the region, due to the continued strength of consumer expenditure, the success of a number of customer acquisition strategies, several promotional campaigns and new product launches. HSBC's card base in the region exceeded 5 million, with particularly strong growth in India, Singapore, Indonesia, the Philippines, Malaysia and Taiwan. Credit card spending increased by 37 per cent and contributed to the 31 per cent increase in average credit card balances compared with 2004.

Average mortgage balances increased by 19 per cent to US\$16.2 billion, due to higher sales volumes generated by direct sales forces and a series of promotional campaigns in a number of countries. Spreads narrowed as pricing was maintained at a competitive level.

HSBC *Premier* was further enhanced and the number of customers using this service grew by 37 per cent.

Net fee income grew by 38 per cent to US\$198 million, reflecting higher card fee income driven by the strong growth in credit card sales volumes and increased account service fees. Sales of investment products contributed over US\$10 million to the growth in revenues following the launch of over 100 tranches of structured notes and deposits products in 18 countries across the region, achieving total sales of US\$633 million.

Commissions from sales of unit trusts and funds under management were particularly strong in Singapore and Malaysia. HSBC Bank Malaysia maintained its position as the leading international



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HSBC HOLDINGS PLC

## Financial Review (continued)

institutional unit trust agent. Brokerage and custody fees grew by 22 per cent, driven by strong growth in Australia, where stock market activity increased.

HSBC continued to expand its insurance business across the region and income grew by 46 per cent to US\$17 million as the number of policies in issue increased by 24 per cent to over 350,000.

Loan impairment charges and other credit risk provisions increased by 58 per cent compared with the first half of 2004, mainly as a result of the non-recurrence of a release of a general provision in Malaysia in 2004, and growth in personal unsecured lending and credit cards across the region.

Operating expenses of US\$559 million increased by 25 per cent compared with the first half of 2004. Higher staff costs reflected the continued migration of call centre functions to the Group Service Centres in the region. Additional sales staff were recruited to support the enhanced range of services and distribution channels offered by HSBC and cross-sales opportunities. Performance-related remuneration increased as a result of the strong growth in profitability. Continued emphasis was placed on brand awareness in order to generate additional business and reinforce HSBC's position as the world's local bank across the region. Credit card, mortgage, and savings and investment advertising campaigns led to increased marketing costs. Investment in systems development across the region was reflected in higher technology costs. Other general expenses, including professional fees and communications costs, increased in support of business expansion.

**Commercial Banking** reported pre-tax profits of US\$406 million, 23 per cent higher than the same period last year. The increase was mainly due to higher net interest income resulting from balance sheet growth and an 11 per cent increase in customer numbers.

Net interest income increased by 30 per cent to US\$288 million, reflecting growth in the Middle East, Singapore, mainland China, Indonesia and Taiwan. In the Middle East, lending balances increased by 75 per cent, while customer account balances grew by 33 per cent. Higher trade flows also contributed to the increase in net interest income.

Strong growth in the mainland China economy stimulated demand for credit and resulted in a 37 per cent increase in lending balances. Liability balances also benefited from economic growth, increasing by 49 per cent, while liability spreads grew by 88 basis points as a result of rising interest rates.

In Singapore, a reorganisation to provide greater focus on customers in key industrial sectors, and the selective recruitment of experienced relationship managers, led to increased loan and deposit balances. Interest rate rises resulted in improved liability spreads, which were partly offset by lower asset margins. The successful launch of a loyalty campaign in Taiwan designed to increase deposits contributed to an 88 per cent increase in net interest income.

Net fee income of US\$146 million was 12 per cent higher. In the Middle East, increased business volumes led to higher lending fee income, while a combination of increased trade flows and the re-pricing of trade products generated higher trade services income. In mainland China, greater trade flows and higher new lending volumes enabled HSBC to increase fee income by 23 per cent.

There was a net release of loan impairment charges of US\$49 million, 11 per cent higher than in 2004. Improved credit quality in the Middle East, and continued strong economic growth in India, Indonesia and mainland China, led to lower new allowances and higher releases. Underlying credit quality improved in both Singapore and Malaysia, though net releases were lower in Malaysia than the significant releases of 2004 and, in Singapore, provisions against a major client led to higher charges.

Operating expenses were 19 per cent higher than last year, though the cost efficiency ratio improved by 1 percentage point to 43 per cent as income increased at a faster rate than costs. Increases in sales and support staff and initiatives to support business expansion led to higher costs throughout the region. In India, changes to tax regulations led to an increase in non-staff expenses.

**Corporate, Investment Banking and Markets** reported a pre-tax profit of US\$531 million, broadly in line with the first half of 2004. Improved performance in mainland China, South Korea and Australia was offset by a reduction in pre-tax profits in Japan. In the Middle East, a

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significant increase in earnings was partly offset by higher staff costs arising from the enhancement of Global Investment Banking capabilities in the region.

Total operating income increased by 12 per cent to US\$819 million. In mainland China, lending balances improved by 45 per cent, while operations in Singapore benefited from an 8 per cent increase in deposit balances and a 57 basis point increase in spreads. In the Middle East, a 70 per cent rise in customer advances reflected a strong demand for corporate credit, in line with a surge in regional infrastructure and real estate projects. However, in

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Singapore and Japan balance sheet management revenues declined as higher yielding assets matured, particularly those denominated in US dollars.

Net fees increased by 13 per cent. The expansion in business capabilities, which took place in the latter part of 2004, resulted in higher Global Transaction Banking volumes in South Korea, India and Singapore. Revenues from the custody business grew by 13 per cent, as sentiment for investment in the region improved and local stock market indices rose. Higher volumes of corporate lending and trade finance activity led to an increase in related fees in the Middle East. In Singapore, fee income increased by 34 per cent, reflecting increased syndicated finance activity.

Income from trading activities increased as a relatively low interest rate environment, coupled with volatility in the value of the Korean won against the US dollar, benefited foreign exchange trading in South Korea. In the Middle East, HSBC's enhanced capability in structured transactions and greater focus on trading in the regional currencies drove volumes higher as customers responded to a volatile market. Higher foreign exchange activity and government bond trading improved income streams in the Philippines, while in Japan, lower holdings of debt securities resulted in a reduction of revenues.

Additionally, gains from the disposal of the asset management business in Australia added US\$8 million to other operating income.

Operating expenses increased by 19 per cent to US\$357 million, in part reflecting higher performance-related incentives. The development of Global Investment Banking capabilities in the second half of 2004 resulted in an increase of 32 in the number of middle and senior managers in the Middle East, while the upgrade of corporate and support teams resulted in 16 additional people in Singapore and mainland China.

**Private Banking** reported a pre-tax profit of US\$43 million, an increase of 48 per cent compared with the first half of 2004, of which 9 per cent arose from the transfer of a trust business from Hong Kong. The benefits of investment in the business over the past two years were reflected in a 20 per

cent increase in the customer base in 2005 and strong growth in funds under management, against a backdrop of increasing competition in the region.

Funds under management increased by 21 per cent to US\$6.9 billion. Front office recruitment and marketing campaigns boosted operations in the region. Net new money inflow in the first half of 2005 was US\$0.6 billion, 51 per cent higher than in 2004.

Net operating income increased by 42 per cent, or 27 per cent excluding the geographic transfer noted above. Net interest income benefited from strong balance sheet growth. In Singapore and Japan, customer loans increased by over 25 per cent as clients borrowed on a secured basis for reinvestment in higher-yielding securities or alternative investments. Customer deposits also increased by 50 per cent, notably in Singapore and Japan as new clients deposited cash prior to investing.

Growth in non-interest income was mainly from trading income, which reflected increased sales of structured products to an expanding customer base, and higher foreign exchange earnings. Excluding the transfer of the trust business referred to above, fee income was 6 per cent lower than last year. Although funds under management rose, fee income was adversely affected by competitive pressure on pricing on some accounts. Brokerage income also fell, reflecting exceptional volumes in the first quarter of 2004 when clients re-entered the then-recovering equity markets.

Operating expenses increased by 37 per cent. Excluding the trust business transfer referred to above, the increase was 15 per cent. Staff costs rose through front office recruitment. Higher costs also reflected increased expenditure on marketing to support business growth, mainly on client events and advertising.

In **Other**, the Group Service Centres continued to expand, leading to an 84 per cent increase in expenses and an offsetting increase in income, as costs were recharged.

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HSBC HOLDINGS PLC

**Financial Review** (continued)

Profit before tax by customer group

Half-year to 30 June 2005

	Personal Financial Services	Commercial Banking	Corporate, Investment Banking & Markets	Private Banking	Other	Inter- segment elimination	Total
Rest of Asia-Pacific (including the Middle East)	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Net interest income	568	288	261	15	25		1,157
Net fee income	198	146	238	22	28		632
Trading income/(expense)	27	31	291	41	(3)		387
Net income from financial instruments designated at fair value	5		7		2		14
Gains less losses from financial investments		2	(2)	1	1		2
Dividend income					4		4
Net earned insurance premiums	20	9					29
Other operating income	21	1	24	3	124	(42)	131
<b>Total operating income</b>	<b>839</b>	<b>477</b>	<b>819</b>	<b>82</b>	<b>181</b>	<b>(42)</b>	<b>2,356</b>
Net insurance claims <sup>1</sup>	(33)	(4)					(37)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>806</b>	<b>473</b>	<b>819</b>	<b>82</b>	<b>181</b>	<b>(42)</b>	<b>2,319</b>
Loan impairment charges and other credit risk provisions	(76)	49	2	2			(23)
<b>Net operating income</b>	<b>730</b>	<b>522</b>	<b>821</b>	<b>84</b>	<b>181</b>	<b>(42)</b>	<b>2,296</b>
Total operating expenses	(559)	(202)	(357)	(41)	(147)	42	(1,264)
<b>Operating profit</b>	<b>171</b>	<b>320</b>	<b>464</b>	<b>43</b>	<b>34</b>		<b>1,032</b>
Share of profit in associates and joint ventures	81	86	67		14		248
<b>Profit before tax</b>	<b>252</b>	<b>406</b>	<b>531</b>	<b>43</b>	<b>48</b>		<b>1,280</b>
	%	%	%	%	%		%
Share of HSBC's profit before tax	2.4	3.8	5.0	0.4	0.4		12.0
Cost:income ratio	66.6	42.3	43.6	50.0	81.2		53.7

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Cost efficiency ratio	<b>69.4</b>	<b>42.7</b>	<b>43.6</b>	<b>50.0</b>	<b>81.2</b>	<b>54.5</b>
	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>
<b>Selected balance sheet data<sup>2</sup></b>						
Loans and advances to customers (net)	<b>25,046</b>	<b>17,549</b>	<b>22,036</b>	<b>2,295</b>	<b>98</b>	<b>67,024</b>
Total assets	<b>27,670</b>	<b>18,570</b>	<b>76,127</b>	<b>5,401</b>	<b>6,925</b>	<b>134,693</b>
Customer accounts	<b>30,138</b>	<b>16,293</b>	<b>30,797</b>	<b>6,852</b>	<b>75</b>	<b>84,155</b>

The following assets and liabilities were also significant to Corporate, Investment Banking and Markets:

Loans and advances to banks (net)			<b>16,347</b>			
Trading assets, financial instruments designated at fair value, and financial investments			<b>27,902</b>			
Deposits by banks			<b>9,772</b>			

<sup>1</sup> *Net insurance claims incurred and movement in policyholder liabilities.*

<sup>2</sup> *Third party only.*



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Half-year to 30 June 2004

<b>Rest of Asia-Pacific (including the Middle East)</b>	Personal Financial Services US\$m	Commercial Banking US\$m	Corporate, Investment Banking & Markets US\$m	Private Banking US\$m	Other US\$m	Inter-segment elimination US\$m	Total US\$m
Net interest income	443	218	295	20	8		984
Net fee income	141	128	204	16	10		499
Trading income	17	28	196	24			265
Net investment income on assets backing policyholder liabilities	6						6
Gains less losses from financial investments	1		4		(1)		4
Dividend income					1		1
Net earned insurance premiums	46	11					57
Other operating income	14	7	11		67	(36)	63
<b>Total operating income</b>	<b>668</b>	<b>392</b>	<b>710</b>	<b>60</b>	<b>85</b>	<b>(36)</b>	<b>1,879</b>
Net insurance claims <sup>1</sup>	(42)	(4)					(46)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>626</b>	<b>388</b>	<b>710</b>	<b>60</b>	<b>85</b>	<b>(36)</b>	<b>1,833</b>
Loan impairment charges and other credit risk provisions	(46)	44	12	(1)			9
<b>Net operating income</b>	<b>580</b>	<b>432</b>	<b>722</b>	<b>59</b>	<b>85</b>	<b>(36)</b>	<b>1,842</b>
<b>Total operating expenses</b>	<b>(437)</b>	<b>(171)</b>	<b>(290)</b>	<b>(30)</b>	<b>(75)</b>	<b>36</b>	<b>(967)</b>
<b>Operating profit</b>	<b>143</b>	<b>261</b>	<b>432</b>	<b>29</b>	<b>10</b>		<b>875</b>
Share of profit in associates and joint ventures	24	5	51		14		94
<b>Profit before tax</b>	<b>167</b>	<b>266</b>	<b>483</b>	<b>29</b>	<b>24</b>		<b>969</b>
	%	%	%	%	%		%
Share of HSBC's profit before tax	1.7	2.6	4.8	0.3	0.2		9.6
Cost:income ratio	65.4	43.6	40.8	50.0	88.2		51.5
Cost efficiency ratio	69.8	44.1	40.8	50.0	88.2		52.8
	US\$m	US\$m	US\$m	US\$m	US\$m		US\$m
<b>Selected balance sheet data<sup>2</sup></b>							
Loans and advances to customers (net)	19,144	14,848	17,105	1,842	112		53,051
Total assets	21,478	15,819	61,613	4,303	4,452		107,665
Customer accounts	26,893	13,977	24,752	4,179	44		69,845
The following assets and liabilities were also significant to Corporate, Investment Banking and Markets:							
Loans and advances to banks (net)			13,170				

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Trading assets, financial instruments designated at fair value, and financial investments	24,014
Deposits by banks	7,614

- 1 *Net insurance claims incurred and movement in policyholder liabilities.*
- 2 *Third party only.*

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HSBC HOLDINGS PLC

**Financial Review** (continued)

Profit before tax by customer group (continued)

Half-year to 31 December 2004

<b>Rest of Asia-Pacific (including the Middle East)</b>	Personal Financial Services US\$m	Commercial Banking US\$m	Corporate, Investment Banking & Markets US\$m	Private Banking US\$m	Other US\$m	Inter-segment elimination US\$m	Total US\$m
Net interest income /(expense)	505	254	301	22	(6)		1,076
Net fee income	143	138	217	25	19		542
Trading income	26	31	148	22	2		229
Net investment income on assets backing policyholder liabilities	26						26
Gains less losses from financial investments			2		11		13
Dividend income					2		2
Net earned insurance premiums	31	9					40
Other operating income	14	6	15	2	90	(44)	83
<b>Total operating income</b>	<b>745</b>	<b>438</b>	<b>683</b>	<b>71</b>	<b>118</b>	<b>(44)</b>	<b>2,011</b>
Net insurance claims <sup>1</sup>	(30)	(6)					(36)
<b>Net operating income before loan impairment charges and other credit risk provisions</b>	<b>715</b>	<b>432</b>	<b>683</b>	<b>71</b>	<b>118</b>	<b>(44)</b>	<b>1,975</b>
Loan impairment charges and other credit risk provisions	(71)	(64)	35	2			(98)
<b>Net operating income</b>	<b>644</b>	<b>368</b>	<b>718</b>	<b>73</b>	<b>118</b>	<b>(44)</b>	<b>1,877</b>
Total operating expenses	(512)	(179)	(308)	(42)	(123)	44	(1,120)
<b>Operating profit</b>	<b>132</b>	<b>189</b>	<b>410</b>	<b>31</b>	<b>(5)</b>		<b>757</b>
Share of profit in associates and joint ventures	37	28	49		7		121
<b>Profit before tax</b>	<b>169</b>	<b>217</b>	<b>459</b>	<b>31</b>	<b>2</b>		<b>878</b>
	%	%	%	%	%		%
Share of HSBC's profit before tax	1.9	2.5	5.2	0.4			10.0
Cost:income ratio	68.7	40.9	45.1	59.2	104.2		55.7
Cost efficiency ratio	71.6	41.4	45.1	59.2	104.2		56.7
	US\$m	US\$m	US\$m	US\$m	US\$m		US\$m

Selected balance sheet data<sup>2</sup>

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Loans and advances to customers (net)	22,886	16,444	19,276	1,960	97	60,663
Total assets	25,577	18,845	66,438	4,549	5,121	120,530
Customer accounts	28,961	15,381	28,620	5,543	108	78,613
The following assets and liabilities were also significant to Corporate, Investment Banking and Markets:						
Loans and advances to banks (net)			12,119			
Trading assets, financial instruments designated at fair value, and financial investments			26,555			
Deposits by banks			7,156			

1 *Net insurance claims incurred and movement in policyholder liabilities.*

2 *Third party only.*

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[Back to Contents](#)**North America**

Profit/(loss) before tax by country within customer group

	Half-year to		
	<b>30 June</b> <b>2005</b> <b>US\$m</b>	30 June 2004 US\$m	31 December 2004 US\$m
<b>Personal Financial Services</b>	<b>2,933</b>	2,394	1,990
United States	<b>2,558</b>	2,072	1,570
Canada	<b>115</b>	83	74
Mexico	<b>244</b>	229	320
Other	<b>16</b>	10	26
<b>Commercial Banking</b>	<b>507</b>	448	400
United States	<b>192</b>	235	