

HSBC HOLDINGS PLC  
Form 6-K  
August 08, 2008

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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, 2008

**HSBC Holdings plc**

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

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

Form 20-F

Form 40-F

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

Yes

No

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

This Report on Form 6-K with respect to our Interim Financial Statements and Notes thereon for the six-month period ended June 30, 2008, other than pages 149, 237 and 238 thereof, is hereby incorporated by reference in the following HSBC Holdings plc registration statements: file numbers 333-10474, 333-92024, 333-102027, 333-103887, 333-104203, 333-109288, 333-113427, 333-127327, 333-126531, 333-135007, 333-143639 and 333-145859.

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HSBC HOLDINGS PLC

## Interim Report 2008



Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. Its international network comprises some 11,000 properties in 85 countries and territories in Europe; Hong Kong; Rest of Asia-Pacific, including the Middle East and Africa; North America and Latin America.

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

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

### Certain defined terms

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

*The Interim Report 2008 of HSBC Holdings has been prepared in accordance with the requirements of English law, and liability in respect thereof is also governed by English law. In particular, the liability of the Directors for these reports is solely to HSBC Holdings. HSBC's interim Financial Statements and Notes thereon, as set out on pages 207 to 236, have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU). The consolidated financial statements of HSBC at 31 December 2007 were prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the IASB, and as endorsed by the EU. EU-endorsed IFRSs may differ from IFRSs as published by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 30 June 2008, there were no unendorsed standards effective for the period ended 30 June 2008 affecting these consolidated financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC.*

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

*When reference is made to underlying or underlying basis in tables or commentaries, comparative information has been expressed at constant currency (see page 4) and adjusted for the effects of acquisitions and disposals.*

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

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## Financial Highlights

### For the half-year

- Net operating income before loan impairment charges up by US\$982 million, 3 per cent, to US\$39,475 million (US\$38,493 million in the first half of 2007).
- Loan impairment charges and other credit risk provisions up by US\$3,712 million (58 per cent) to US\$10,058 million (US\$6,346 million in the first half of 2007).
- Group pre-tax profit down by US\$3,912 million (28 per cent) to US\$10,247 million (US\$14,159 million in the first half of 2007).
- Profit attributable to shareholders of the parent company down by US\$3,173 million, 29 per cent, to US\$7,722 million (US\$10,895 million in the first half of 2007).
- Return on average shareholders' equity of 12.1 per cent (19.1 per cent in the first half of 2007).
- Earnings per share down 32 per cent to US\$0.65 (US\$0.95 in the first half of 2007).

### Dividends and capital position

- Second interim dividend for 2008 of US\$0.18 per share which, together with the first interim dividend for 2008 of US\$0.18 per share already paid, represents an increase of 6 per cent over the first and second interim dividends for 2007.
- Tier 1 capital ratio of 8.8 per cent and total capital ratio of 11.9 per cent.

### Cautionary statement regarding forward-looking statements

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This *Interim Report 2008* 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

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future events. Trends and factors that are expected to affect HSBC's results of operations are described in the Business Review, the Financial Review, and The Management of Risk. A more detailed cautionary statement is given on pages 4 and 5 of *Annual Report and Accounts 2007*.

[Back to Contents](#)**Profitability and balance sheet data**

	Half-year to		
	30 June 2008 US\$m	30 June 2007 US\$m	31 December 2007 US\$m
<b>For the period</b>			
Total operating income	42,912	42,092	45,509
Profit before tax	10,247	14,159	10,053
Profit attributable to shareholders of the parent company	7,722	10,895	8,238
Dividends	6,823	6,192	4,049
<b>At the period-end</b>			
Total equity	134,011	126,491	135,416
Total shareholders' equity	126,785	119,780	128,160
Capital resources <sup>1,2</sup>	146,950	137,042	152,640
Customer accounts	1,161,923	980,832	1,096,140
Total assets	2,546,678	2,150,441	2,354,266
Risk-weighted assets <sup>2</sup>	1,231,481	1,041,540	1,123,782
	US\$	US\$	US\$
<b>Per ordinary share</b>			
Basic earnings	0.65	0.95	0.70
Diluted earnings	0.65	0.94	0.69
Dividends	0.57	0.53	0.34
Net asset value at period end	10.27	10.10	10.72
<b>Capital and performance ratios (annualised)</b>			
	%	%	%
<b>Capital ratios<sup>2</sup></b>			
Tier 1 capital	8.8	9.3	9.3
Total capital	11.9	13.2	13.6
<b>Performance ratios</b>			
Return on average invested capital <sup>3</sup>	11.9	18.4	12.4
Return on average total shareholders' equity	12.1	19.1	13.0
Post-tax return on average total assets	0.68	1.19	0.78
Post-tax return on average risk-weighted assets	1.39	2.30	1.63
<b>Credit coverage ratios</b>			
Loan impairment charges as a percentage of total operating income	23.2	15.0	23.8
Loan impairment charges as a percentage of average gross customer advances	2.04	1.53	2.48
Total impairment allowances outstanding as a percentage of impaired loans at period end	108.1	98.4	104.9
<b>Efficiency and revenue mix ratios</b>			
Cost efficiency ratio <sup>5</sup>	51.0	48.3	50.4
As a percentage of total operating income:			
net interest income	49.4	43.3	43.0
net fee income	25.6	24.9	25.3
net trading income	8.9	13.1	9.5
<b>Financial ratio</b>			
Average total shareholders' equity to average total assets	5.2	5.9	5.5

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- 1 *Capital resources are total regulatory capital, the calculation of which is set out on page 201.*
- 2 *The calculation of capital resources, capital ratios and risk-weighted assets for 30 June 2008 is on a Basel II basis. Comparatives are based on Basel I.*
- 3 *The definition of return on average invested capital and a reconciliation to the equivalent Generally Accepted Accounting Principles ( GAAP ) measures are set out on page 111.*
- 4 *The return on average total shareholders equity is defined as profit attributable to shareholders of the parent company divided by average total shareholders equity.*
- 5 *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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**Financial Highlights** (continued)**Share information**

	At <b>30 June 2008</b>	At 30 June 2007	At 31 December 2007
US\$0.50 ordinary shares in issue (million)	<b>12,005</b>	11,713	11,829
Market capitalisation (billion)	<b>US\$185</b>	US\$215	US\$198
Closing market price per ordinary share:			
London	<b>£7.76</b>	£9.15	£8.42
Hong Kong	<b>HK\$120.90</b>	HK\$142.50	HK\$131.70
Closing market price per American Depositary Share ( ADS )	<b>US\$76.70</b>	US\$91.77	US\$83.71
	<b>Over 1 year</b>	<b>Over 3 years</b>	<b>Over 5 years</b>
HSBC total shareholder return to 30 June 2008 <sup>2</sup>	<b>90.1</b>	<b>102.3</b>	<b>141.0</b>
Benchmarks:			
FTSE 100 <sup>3</sup>	88.4	122.2	166.0
MSCI World <sup>4</sup>	89.8	131.1	180.6

1 Each ADS represents five ordinary shares.

2 Total shareholder return is defined on page 12 of the Annual Report and Accounts 2007.

3 The Financial Times Stock Exchange 100 Index.

4 The Morgan Stanley Capital International World Index.

**Constant currency**

Constant currency comparatives for the half-years to 30 June 2007 and 31 December 2007, used in the 2008 commentaries, are computed by retranslating into US dollars:

- the income statements for the half-years to 30 June 2007 and 31 December 2007 of non-US dollar branches, subsidiaries, joint ventures and associates at the average rates of exchange for the half-year to 30 June 2008; and
- the balance sheets at 30 June 2007 and 31 December 2007 for non-US dollar branches, subsidiaries, joint ventures and associates at the rates of exchange ruling at 30 June 2008.

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

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

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HSBC HOLDINGS PLC

## Group Chairman's Statement

The first half of 2008 saw the most difficult financial markets for several decades, marked by significant declines in profitability throughout much of our industry, with consequent recapitalisation and restructuring. HSBC was not immune from the turmoil. Our pre-tax profit of US\$10.2 billion was 28 per cent lower than in the first half of 2007. In the prevailing market conditions this is a resilient performance which enables us to maintain our capital strength, continue with our dividend policy and balance the need to conserve capital with our commitment to make it available for investment in our fast-growing businesses.

The Directors have approved a second interim dividend of US\$0.18 per share, an increase of 6 per cent, which is payable on 8 October with a scrip alternative.

### Resilient operating performance in the first half of 2008

In the first half of 2008 we remained profitable in all our customer groups. We also remained profitable in all of our geographical regions with the continuing exception of North America. Revenue rose by 3 per cent compared with the first half of 2007; loan impairments were up by 58 per cent but were 8 per cent lower than in the second half. Costs on an underlying basis were well contained, growing by only 4 per cent compared with the first half of 2007 and down by 2 per cent on the second half.

Compared with the second half of 2007, we improved profitability in all our customer groups and for the Group as a whole by 2 per cent. In particular, it is notable that profitability in Global Banking and Markets – where extremely difficult market conditions led to writedowns of US\$3.9 billion – was 37 per cent higher than in the second half of 2007. Meanwhile, our US consumer finance business continued to face difficulties, but performed within our expectations, with loan impairments of US\$6.6 billion, lower than in the second half of 2007 by 17 per cent. The Group Chief Executive's Review covers our operational performance in more detail.

### Financial strength maintained

HSBC's commitment to maintaining its financial strength is unwavering. HSBC remains both strongly capitalised and liquid. The tier 1 capital ratio was 8.8 per cent and tier 1 capital grew by US\$6.2 billion during the period. We have maintained our key credit ratings, generated good profitability in adverse market conditions and continued to focus investment on our strategic priorities.

Our principal concerns in this environment have been risk management, strict cost control, supporting our customers and continued investment to support our long-term strategic ambitions. Our broad-based and resilient revenue streams continue to provide a stable platform from which to achieve strong, long-term performance.

### Strategic changes to HSBC's shape

The sale of the regional bank network in France to Banque Populaire announced in February was completed on 2 July and a gain of US\$2.1 billion will be recorded in our second half results. The HSBC business in France is now concentrated in France's major urban areas, particularly Paris; the business is focused primarily on Global Banking and Markets, Premier, private banking and commercial banking, specifically for businesses involved in international markets.

We acquired the assets, liabilities and operations of The Chinese Bank in Taiwan in March, adding 36 branches and over one million customers to our operations in Asia's fourth-largest banking market. In May, we announced an agreement to acquire 73.21 per cent of IL&FS Investsmart Ltd, a leading retail brokerage in India, for a total consideration of around US\$260 million, giving us a securities presence alongside our banking and insurance businesses in Asia's third largest economy.

### Turbulent environment

The economic and financial environment deteriorated progressively through the first half of the year. In the major developed economies where we operate, economic growth slowed as asset prices, particularly of residential property, declined; this in turn affected consumer confidence and

hence spending. In credit markets, illiquidity remained a major issue, with trading volumes low and no sign of resumption of normal activity levels in the securitisation markets. As a consequence, the banking system continued to deleverage, putting further pressure on asset prices and raising credit default risk.

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HSBC HOLDINGS PLC

## Group Chairman's Statement (continued)

In the emerging markets, where HSBC is the leading international bank, growth remained strong in the period as real asset prices continued to rise and infrastructure development continued to boost economic growth, which supported consumer confidence and spending. However, a number of these economies are now facing increasing inflationary pressures as their consumption of commodities, energy and foodstuffs grows.

### Slowing global economy

The outlook for the near term remains highly challenging with significant uncertainty. Globally, consumer confidence is declining and despite the short-term success of the recent fiscal stimulus, the US economy continues to be weak, driven by continuing housing market difficulties. The UK and other economies in Europe which had enjoyed housing market booms, have also weakened. The decline in credit availability is accelerating this process.

We expect growth in emerging markets will hold up reasonably well, albeit with less momentum than in the recent past. In Asia, compared with the buoyant conditions of last year, it is apparent that corporate activity in some sectors is slowing and demand for equity-related and wealth products has reduced as equity markets have declined.

### Positioning HSBC for long-term growth

It is clear that growth models in our industry based on high and increasing leverage will no longer be sustainable. It is also clear that complexity in financial services and the recent consequences of failed risk management need to be addressed. Along with its supervisors, our industry including lenders, underwriters and investors needs to reflect on the lessons for risk management, capital adequacy and funding. Ultimately, the real economy will recover from this crisis, although it may get worse before it gets better. Financial markets will not, and should not, return to the *status quo ante*.

Through this period of major uncertainty and beyond, we will continue to position HSBC for long-term growth. The major global long-term trends – the key drivers of change which underline our strategic thinking – remain intact. Emerging markets will grow faster than mature ones; world trade and investment will grow faster than world GDP; and the ageing of the world's population continues. All of these trends have significant implications for financial services.

We will continue to build HSBC's platform to serve our customers as these trends shape their societies, their businesses and their own needs. We will focus investment primarily on the faster growing markets and on servicing developed market customers with international connectivity. Our capital and balance sheet strength, and a commitment to strict cost control, will continue to underpin our performance.

While the near term poses real uncertainties and difficulties, it may also create opportunities for HSBC to accelerate the execution of our strategy. In a stressed environment, HSBC has the advantages of a powerful brand, a strong capital and funding position, and the ability to service our international customers around the world. We continue to have the capacity to deploy capital at a time when others may be constrained. The strength of our funding base means that, in many markets, we have an opportunity to attract new customers and deliver more for existing ones. We take a long-term view of our business and our customer relationships; we believe that this is the basis for sustainable long-term performance for our shareholders. We will never depart from this. With 335,000 colleagues, we will continue to serve our over 100 million customers around the world, working to fulfil their financial needs.

Stephen Green, *Group Chairman*

4 August 2008



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## Group Chief Executive's Review

### Resilient performance in a challenging environment

HSBC is the world's local bank. And we are the world's leading international bank in emerging markets. This gives us the opportunity to create value by focusing on faster growing markets, moving towards 60 per cent of our pre-tax profit coming from these economies over time. In developed markets, we are focusing both on businesses with international customers where emerging markets connectivity is critical and on businesses with local customers where our global scale means we can create efficiencies for them and us. Finally we have a suite of global products where we have a competitive advantage from scale, expertise and brand.

Our geographic balance and broad customer base is a protection which allowed us, in difficult markets, to achieve a pre-tax profit of US\$10.2 billion, albeit 28 per cent lower than in the first half of 2007.

We measure our progress against key performance indicators. Our cost efficiency ratio of 51 per cent was within our range of 48-52 per cent, as we managed the balance between controlling costs and investing in the business.

Our total shareholder return was also on target for the period; top five in our peer group of 27 international banks.

On capital ratios, which reflect HSBC's fundamental commitment to financial strength, our tier 1 ratio remained strong at 8.8 per cent, within the target range of 7.5-9 per cent.

Our return on average total shareholders' equity at 12.1 per cent was below our target range of 15 to 19 per cent over the full cycle, but we would expect that in these difficult times.

### Expanding Commercial Banking

Commercial Banking is a core business for us and it again performed strongly with pre-tax profit up by

35 per cent to US\$4.6 billion. This included a gain of US\$425 million from the sale of the UK card-acquiring business to a joint venture with Global Payments Inc. Excluding this, the growth was 22 per cent.

In keeping with our strategy, around 70 per cent of the business growth – excluding the card-acquiring gain – came from emerging economies, which now account for 54 per cent of Commercial Banking's global profit before tax. Growth was strong in Asia-Pacific, Brazil and the Middle East, reflecting our established positions in these markets, particularly in mainland China, where we are substantially raising our Commercial Banking presence. In addition, profit before tax grew strongly in Brazil as transaction, lending and foreign exchange volumes grew, while loan impairment charges fell.

In the UK, profit before tax grew by 23 per cent, excluding the card acquiring gain, as Commercial Banking continued to expand with strong deposit growth, and increased fee income from card-issuing and foreign-exchange initiatives. Despite a 13 per cent growth in lending, we kept loan impairment charges in the UK broadly unchanged. In North America, profitability was affected by the slowing economy and by market interest rates. Loan impairment charges increased in both the US and Canada, while in the US and Bermuda, net interest income on liabilities was adversely affected by lower US dollar interest rates.

Commercial Banking grew its small business customer base by 8 per cent to 2.9 million, with particular growth in Turkey, Taiwan, India and mainland China. We are committed to the small business sector as a profit-growth opportunity, a strong source of deposits and fee income.

More and more of our commercial customers are now using our Business Direct service to do their banking online and by telephone. Since its launch in the UK two years ago, and in Brazil last year, over 150,000 businesses have signed up. We will launch in India and Northern Ireland in the second half.

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We recognise that our particular advantage in the commercial markets sector is our ability to grow our cross-border income by being where our customers are, participating at both ends of international transactions. Our Commercial Banking revenues are growing at over four times the rate of world trade.

We are further developing our Global Links customer referral system, and cross-border referrals increased by 126 per cent to over 2,700. The

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HSBC HOLDINGS PLC

## Group Chief Executive's Review (continued)

aggregate value of these transactions increased by 83 per cent to US\$5.6 billion. We continue to join up across functions, with revenues of Global Markets foreign exchange increasing by 44 per cent, and Commercial Banking referrals to Private Banking increasing net new money by 80 per cent.

### Personal Financial Services: continued difficulties in the US, strength elsewhere

Profit before tax in Personal Financial Services fell by 51 per cent to US\$2.3 billion. This was largely due to the higher loan impairment charges in the US consumer finance business. Elsewhere, the business performed strongly, with pre-tax profits excluding US consumer finance up by 23 per cent.

In emerging markets, we had a very strong six months. We maintained revenue momentum in Rest of Asia-Pacific as well as building out our branch network, with 63 new branches, notably in Greater China. We grew our business in the Middle East profitably on the back of balance sheet growth, and in Latin America with an increased share of credit cards in Mexico and strong deposit growth in Brazil.

We strengthened our position in the UK mortgage market with our successful RateMatcher campaign. Market share of new mortgage lending rose from 3 per cent in the first half of 2007 to 6 per cent in 2008, peaking at 12 per cent in May. We also grew our international customer base in France, through our Investor Services unit.

As part of our 'Joining up the company' strategy, we are focusing on attracting the affluent, high end, internationally mobile personal customers who we believe HSBC suits best. HSBC Premier was designed with these customers in mind. We attracted 208,000 new customers in the first half and now have close to 2.4 million in total. We are on track to achieve 2.6 million Premier customers by the end of the year.

We originally estimated that half of these customers would be new to HSBC but, in the period, over 80 per cent were new to the bank. Each customer generates an average annualised revenue of over US\$2,000. This is further evidence that 'Joining up the company' is creating new revenue streams.

HSBC Direct, our online banking system, is also ahead of our expectations. In the face of the industry's desire to raise core deposits, we experienced stiff competition, particularly in the US, and it is testimony to our brand's strength that despite this, we increased our customer base by 15 per cent to 1.2 million customers and grew total deposits by 19 per cent to US\$16.1 billion. The

intrinsic value of HSBC Direct will increase further as we begin to achieve cross-sales of other products to these customers.

We continued to expand One HSBC Cards, our global cards platform. In emerging markets, card growth was 5 per cent.

### Personal Financial Services - US update

In the US, our Personal Financial Services business made a loss of US\$2.2 billion. Loan impairment charges and other credit risk provisions rose by 85 per cent on the first half of 2007 to US\$6.8 billion, but declined by 15 per cent compared with the second half. The US remains a difficult market, with rising unemployment and falling house prices, and we have recognised this with an impairment charge of US\$527 million on the goodwill of our North American Personal Financial Services businesses at Group level.

We continued to take decisive action to mitigate our position. In the first half of 2008, excluding goodwill impairment, we reduced costs by 12 per cent compared with the first half of 2007. We continued to shrink the consumer lending branch network, from 1,000 to 900 branches.

Today, we have announced the run-off of our vehicle finance business. Our vehicle finance portfolio actually improved credit quality over the period but the business does not have sufficient critical mass or the pricing power to provide an acceptable return to the Group, and so we will not be originating further loans. We expect an orderly runoff of about 80 per cent of the portfolio of US\$13 billion to be achieved in 3 years, with the remaining balance trailing off after that time.



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Our US-based consumer finance business will now be focused mainly on cards and consumer lending.

In mortgage services, we reduced the portfolio outstandings by 13 per cent during the period, down from US\$36 billion to US\$31 billion, of which around 60 per cent was from repayments.

### **Emerging markets strength in Global Banking and Markets**

Global Banking and Markets made a pre-tax profit of US\$2.7 billion, down 35 per cent over the first half of 2007 but 37 per cent higher than in the second half. In emerging markets, profit before tax was up by 51 per cent.

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We wrote down US\$3.9 billion on credit trading, monoline exposures and leveraged acquisition financing loans. This reflected the effect of market illiquidity across all asset-backed and structured-product sectors. HSBC's exposure to illiquid markets and the consequent uncertainty over mark-to-market values remains modest with only 3 per cent of our assets having to be valued with reference to significant unobservable price inputs. We have no material exposure to collateralised debt obligations backed by US sub-prime mortgages.

In the half, we created a stable funding basis for our Structured Investment Vehicles (SIVs) by establishing new securities investment conduits. Since the end of 2007, assets held by the SIVs and the new conduits and consolidated on HSBC's balance sheet have declined by US\$11 billion to US\$29 billion, primarily as assets have been sold or run off.

Our foreign exchange business reported record revenues. The gains reflected greater market volatility and higher customer volumes. Strong results were seen in Rates where increased customer activity and growth in deal volumes increased income.

Global Transaction Banking operates across Commercial Banking and Global Banking and Markets. It generated US\$4.6 billion of revenue in the first half of 2008, up by US\$0.7 billion. Payments and cash management revenues were 10 per cent ahead of the first half of 2007, the strong liability growth offsetting the effect of declining spreads following rate cuts. Trade and supply chain performed strongly, increasing by 27 per cent despite retail weakness in the US and the UK.

We continued to concentrate on Global Banking and Markets' emerging markets-led and financing-focused strategy. The relevance of that cross-border strategy and the strength of HSBC's corporate and institutional franchise was illustrated by the number of transactions in which we acted on behalf of our clients. In the first half of 2008, HSBC acted for more than 700 clients in 29 sectors in some 60 countries. The notional value of these transactions amounted to more than a trillion US dollars.

Recognition for what has been achieved included being awarded Best Emerging Market Bank by *Euromoney*. We closed a number of landmark cross-border deals, including Vale's US\$12.2 billion global equity offering, the largest ever follow-on offering by a Latin American company. We advised Ford on the US\$2.3 billion sale of its Jaguar and Land Rover businesses to Tata Motors and we were

sole book runner of PetroRabigh's US\$1.2 billion IPO, the first IPO by a Saudi Aramco affiliate.

### **Expanding Private Banking in emerging markets**

Private Banking pre-tax profits increased by 5 per cent to US\$822 million, primarily due to strong performances in Switzerland and Monaco. In difficult times, we increased total client assets by 1 per cent in the first half of 2008 to US\$499 billion. Private Banking generates 59 per cent of its business from clients in emerging markets. We have recently opened three new Private Banking offices in mainland China.

Overall, referrals to Private Banking from other customer groups have increased by 28 per cent. Net new money from referrals is up over 70 per cent, to US\$3.4 billion.

### **Building our insurance proposition**

We continue to develop our insurance business worldwide, which now represents 16 per cent of the Group's pre-tax profit. Premium growth was up by 30 per cent, driven mainly by Latin America, Hong Kong and Europe.

Insurance extended its reach with the start of operations in India and the launch of our joint venture in South Korea. Our Preferred Strategic Providers now operate in 23 countries with 82 product launches under way, emphasising the power of HSBC's distribution capabilities.

We won several industry awards, including Best Life Insurance Provider in Brazil and *Labels d'Excellence* award in France.

### **Transforming our customers' experience by Joining up the company**

Joining up the company is about increasing revenues, particularly those which are new to the bank, and slowing cost growth. In previous paragraphs, I have outlined growth coming from Premier, Global Links and Private Banking and we expect this to continue. However, we are also working to develop the synergies that can be achieved by commonality of technology and process through One HSBC, particularly as it relates to reducing our cost base in developed markets. A slowing of the Group's cost growth is evident in our results for this half year.

One HSBC is our programme to re-engineer the company so that wherever possible we use global systems which provide leading customer experience and also drive down the cost of production. For example, One HSBC Call Centre is reducing call



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HSBC HOLDINGS PLC

## Group Chief Executive's Review (continued)

times for our customers' most frequent transactions. One HSBC Collections improves our service and contact capabilities through holistic customer level views versus individual account views. About three-quarters of the Group's global credit card base is now on the One HSBC Cards platform, and in 2008 we will be undertaking conversions in India and Indonesia. Standardising our service proposition under the One HSBC programme has cut our service interruptions in half.

We can now deploy One HSBC systems in a country as a fully integrated package. This is particularly beneficial in our emerging markets as the suite reduces bespoke software costs as well as producing operating benefits. In the first half of 2008, we deployed the One HSBC suite in seven countries (Poland, Brunei, Australia, Russia, Chile, Indonesia and Slovakia). We aim to deploy it in another seven countries in the second half of the year. Migration to our standard One HSBC will play a major part in creating value for customers and shareholders in the coming years. I will update you on our further progress at the year-end.

### Continued focus on financial strength

We live in uncertain times, but we have a clear strategy that we are implementing in a focused and effective way. In April, HSBC was named the number one company in the *Forbes* 2000 list of the world's largest companies – the first time a non-US company has topped the list. We were also named

the number one bank of *The Banker's* Top 1000 World Banks 2008, for total tier 1 capital.

Our current customers, and our new customers, know we are here to serve and support them, wherever they wish to do business under the HSBC brand in the 85 countries and territories in which we operate.

We know that to extract HSBC's full value for shareholders, we must continue to join up the company for the benefit of all. We have a long way to go, but value can and will be created by staying focused on this objective.

I would like to thank all our 335,000 staff for serving our over 100 million customers and protecting the interests of our 200,000 shareholders by remaining true to the fundamental principles of HSBC.

Michael Geoghegan, *Group Chief Executive*

4 August 2008

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HSBC HOLDINGS PLC

## Interim Management Report: Business Review

### Principal activities

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HSBC is one of the largest banking and financial services organisations in the world, with a market capitalisation of US\$185 billion at 30 June 2008.

Through its subsidiaries and associates, HSBC provides a comprehensive range of banking and related financial services. Headquartered in London, HSBC operates through long-established businesses and has an international network of some 11,000 properties in 85 countries and territories in five geographical regions: Europe; Hong Kong; Rest of Asia-Pacific, including the Middle East and Africa; North America; and Latin America. Within these regions, a comprehensive range of financial services is offered to personal, commercial, corporate, institutional, investment and private banking clients. Services are delivered primarily by domestic or regional banks, typically with large retail deposit bases, and by consumer finance operations.

### Strategic direction

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

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

HSBC is progressively reshaping its business by investing primarily in faster growing markets and, in the more developed markets, by focusing on businesses which have international connectivity. Central to these reshaping activities is a policy of maintaining HSBC's capital strength and strong liquidity position.

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

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

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

- the HSBC brand and global networks will be leveraged to reach new customers and offer further services to existing clients;
- efficiency will be enhanced by taking full advantage of local, regional and global economies of scale, in particular by adopting a common systems architecture wherever possible; and

- objectives and incentives will be aligned to motivate and reward staff for being fully engaged in delivering the strategy.

### **Reconciliation of reported and underlying profit before tax**

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HSBC measures its performance internally on a like-for-like basis, eliminating the effects of Group currency translation gains and losses, acquisitions and disposals of subsidiaries and businesses and gains from the dilution of the Group's interests in associates, which distort the period-on-period comparison. HSBC refers to this as its underlying performance.

The tables below show the underlying performance of HSBC for the half-year to 30 June 2008 compared with the half-years to 30 June 2007 and 31 December 2007. Equivalent tables are provided for each of HSBC's customer groups and geographical segments in their respective sections below.

The main differences between HSBC's reported and underlying financial performance were:

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HSBC HOLDINGS PLC

**Interim Management Report: Business Review** (continued)

- Foreign currency translation differences were most significant in Europe due to the size of HSBC's operations in the UK. The Group's profit before tax for the first half of 2008 decreased by 28 per cent compared with the first half of 2007. The effect of the change in foreign currency translation rates accounted for an increase of 4 percentage points. The equivalents for the first half of 2008 compared with the second half of 2007 were increases of 2 per cent and 1 per cent, respectively.
- There were a number of acquisitions and disposals that affected both comparisons. The most significant were the acquisitions of

HSBC's partner's share in life insurer, Erisa S. A., and property and casualty insurer, Erisa I. A.R.D. (together now renamed **HSBC Surances**) in France in March 2007, and the assets and liabilities of The Chinese Bank in Taiwan in March 2008; and the deemed disposals of the stakes in Ping An Insurance (Group) Company of China, Limited (**Ping An Insurance**), Bank of Communications Limited (**Bank of Communications**) and Industrial Bank Co. Limited (**Industrial Bank**), as a consequence of their making share offerings on the domestic A share market in mainland China in the first half of 2007.

**Half-year to 30 June 2008 ( 1H08 ) compared with half-year to 30 June 2007 ( 1H07 )**

HSBC	1H07 as reported US\$m	Disposals and dilution gains <sup>1</sup> US\$m	Currency translation <sup>2</sup> US\$m	1H07 at 1 H08 exchange rates US\$m	Acqui- sitions <sup>1</sup> US\$m	Under- lying change US\$m	1H08 as reported US\$m	Re- ported change %	Under- lying change %
Net interest income	18,230	(7)	587	18,810	158	2,210	21,178	16	12
Net fee income	10,495	70	351	10,916	(45)	120	10,991	5	1
Other income <sup>3</sup>	9,768	(1,177)	393	8,984	(45)	(1,633)	7,306	(25)	(18)
<b>Net operating income<sup>4</sup></b>	<b>38,493</b>	<b>(1,114)</b>	<b>1,331</b>	<b>38,710</b>	<b>68</b>	<b>697</b>	<b>39,475</b>	<b>3</b>	<b>2</b>
Loan impairment charges and other credit risk provisions	(6,346)		(124)	(6,470)		(3,588)	(10,058)	(58)	(55)
<b>Net operating income</b>	<b>32,147</b>	<b>(1,114)</b>	<b>1,207</b>	<b>32,240</b>	<b>68</b>	<b>(2,891)</b>	<b>29,417</b>	<b>(8)</b>	<b>(9)</b>
Operating expenses	(18,611)	55	(738)	(19,294)	(28)	(818)	(20,140)	(8)	(4)
<b>Operating profit</b>	<b>13,536</b>	<b>(1,059)</b>	<b>469</b>	<b>12,946</b>	<b>40</b>	<b>(3,709)</b>	<b>9,277</b>	<b>(31)</b>	<b>(29)</b>
Income from associates	623		48	671	(12)	311	970	56	46
<b>Profit before tax</b>	<b>14,159</b>	<b>(1,059)</b>	<b>517</b>	<b>13,617</b>	<b>28</b>	<b>(3,398)</b>	<b>10,247</b>	<b>(28)</b>	<b>(25)</b>

**Half-year to 30 June 2008 ( 1H08 ) compared with half-year to 31 December 2007 ( 2H07 )**

Disposals

2H07

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HSBC	2 H07 as reported US\$m	and dilution gains <sup>1</sup> US\$m	Currency translation <sup>2</sup> US\$m	at 1H08 exchange rates US\$m	Acqui- sitions <sup>1</sup> US\$m	Under- lying change US\$m	1H08 as reported US\$m	Re- ported change %	Under- lying change %
Net interest income	19,565	(5)	213	19,773	8	1,397	21,178	8	7
Net fee income	11,507	(52)	98	11,553	1	(563)	10,991	(4)	(5)
Other income <sup>3</sup>	9,428	(15)	16	9,429	4	(2,127)	7,306	(23)	(23)
Net operating income <sup>4</sup>	40,500	(72)	327	40,755	13	(1,293)	39,475	(3)	(3)
Loan impairment charges and other credit risk provisions	(10,896)		(22)	(10,918)		860	(10,058)	8	8
Net operating income	29,604	(72)	305	29,837	13	(433)	29,417	(1)	(1)
Operating expenses	(20,431)	50	(227)	(20,608)	(11)	479	(20,140)	1	2
Operating profit	9,173	(22)	78	9,229	2	46	9,277	1	
Income from associates	880		37	917		53	970	10	6
Profit before tax	10,053	(22)	115	10,146	2	99	10,247	2	1

For footnotes, see page 89.



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## Customer groups and global businesses

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### Summary

HSBC manages its business through two customer groups, Personal Financial Services and Commercial

Banking, and two global businesses, Global Banking and Markets, and Private Banking. Personal Financial Services incorporates the Group's consumer finance businesses.

### Profit before tax

	Half-year to					
	30 June 2008		30 June 2007		31 December 2007	
	US\$m	%	US\$m	%	US\$m	%
Personal Financial Services	2,313	22.6	4,729	33.4	1,171	11.7
Commercial Banking	4,611	45.0	3,422	24.2	3,723	37.0
Global Banking and Markets	2,690	26.2	4,158	29.4	1,963	19.5
Private Banking	822	8.0	780	5.5	731	7.3
Other <sup>5</sup>	(189)	(1.8)	1,070	7.5	2,465	24.5
	<b>10,247</b>	<b>100.0</b>	<b>14,159</b>	<b>100.0</b>	<b>10,053</b>	<b>100.0</b>

### Total assets<sup>6</sup>

	At 30 June 2008		At 30 June 2007		At 31 December 2007	
	US\$m	%	US\$m	%	US\$m	%
Personal Financial Services	603,016	23.7	577,402	26.9	588,473	25.0
Commercial Banking	286,533	11.2	225,763	10.5	261,893	11.1
Global Banking and Markets	1,509,390	59.3	1,220,316	56.7	1,375,240	58.4
Private Banking	98,039	3.8	81,916	3.8	88,510	3.8
Other	49,700	2.0	45,044	2.1	40,150	1.7
	<b>2,546,678</b>	<b>100.0</b>	<b>2,150,441</b>	<b>100.0</b>	<b>2,354,266</b>	<b>100.0</b>

For footnotes, see page 89.

### Basis of preparation

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Customer group results are presented in accordance with the accounting policies used in the preparation of HSBC's consolidated financial statements. HSBC's operations are closely integrated and, accordingly, the presentation of customer group data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and 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.

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HSBC HOLDINGS PLC

**Interim Management Report: Business Review** (continued)**Personal Financial Services**

Profit before tax

	Half-year to		
	<b>30 June 2008 US\$m</b>	30 June 2007 US\$m	31 December 2007 US\$m
Net interest income	15,217	13,998	15,071
Net fee income	5,626	5,523	6,219
Trading income excluding net interest income	142	1	37
Net interest income on trading activities	42	92	48
Net trading income <sup>7</sup>	184	93	85
Net income/(expense) from financial instruments designated at fair value	(1,135)	796	537
Gains less losses from financial investments	585	60	291
Dividend income	15	41	14
Net earned insurance premiums	4,746	3,735	4,536
Other operating income	390	255	132
<b>Total operating income</b>	<b>25,628</b>	<b>24,501</b>	<b>26,885</b>
Net insurance claims <sup>8</sup>	(3,206)	(3,605)	(4,542)
<b>Net operating income<sup>4</sup></b>	<b>22,422</b>	<b>20,896</b>	<b>22,343</b>
Loan impairment charges and other credit risk provisions	(9,384)	(5,928)	(10,244)
<b>Net operating income</b>	<b>13,038</b>	<b>14,968</b>	<b>12,099</b>
Total operating expenses	(11,099)	(10,452)	(11,305)
<b>Operating profit</b>	<b>1,939</b>	<b>4,516</b>	<b>794</b>
Share of profit in associates and joint ventures	374	213	377
<b>Profit before tax</b>	<b>2,313</b>	<b>4,729</b>	<b>1,171</b>
<b>By geographical region</b>			
Europe	1,324	604	977
Hong Kong	2,036	1,898	2,314
Rest of Asia-Pacific	535	351	409
North America	(2,050)	1,488	(3,034)

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Latin America	<b>468</b>	388	505
Profit before tax	<b>2,313</b>	4,729	1,171
	%	%	%
Share of HSBC's profit before tax	<b>22.6</b>	33.4	11.7
Cost efficiency ratio	<b>49.5</b>	50.0	50.6
Balance sheet data <sup>6</sup>			
	US\$m	US\$m	US\$m
Loans and advances to customers (net)	<b>458,302</b>	460,196	464,726
Total assets	<b>603,016</b>	577,402	588,473
Customer accounts	<b>474,263</b>	416,525	450,071

For footnotes, see page 89.

### Business highlights

- Profit before tax in Personal Financial Services was US\$2.4 billion lower than that reported in the first half of 2007 and was 53 per cent lower on an underlying basis, primarily because of higher loan impairment charges in the US consumer finance business. Excluding this business, pre-tax profits rose by 23 per cent, 18 per cent on an underlying basis. Compared with the second half of 2007, on an underlying basis, profit before tax in Personal Financial Services was 89 per cent higher as both loan impairment charges and operating expenses fell.
- Market turmoil in the first half of 2008 led retail customers to move their assets from investment products into bank deposits and concentrate their savings in the largest and best regarded financial institutions. HSBC benefited from both these trends with customer accounts growing by US\$24.2 billion or 5 per cent in the period.
- HSBC Premier ( Premier ), the Group's global banking service which offers affluent customers a seamless international service, continued to build on the success of its relaunch in 2007. In the first half of 2008, the service was extended to a further four countries, with a fifth added in July, taking the total to forty. 208,000 net new customers joined Premier, of whom more than 80 per cent were new to the Group. At 30 June 2008, HSBC had 2.4 million Premier customers who, on average, each generated more than US\$2,000 of annualised revenues.
- HSBC Direct, the Group's online banking product suite, continued to expand in the four markets in which the product has been launched to date. In aggregate, HSBC Direct balances reached US\$16.1 billion and customer numbers 1.2 million, increases of 19 per cent and 15 per cent, respectively, from 31 December 2007.
- HSBC's focus on emerging markets was reflected in growth in cards in force of 5 per cent in these countries compared with 31 December 2007.
- In the UK, HSBC successfully launched a RateMatcher promotion to attract higher quality customers facing an interest rate reset in the near term. In the three months of the offer, HSBC attracted a strong flow of new business, both for the RateMatcher product and other mortgages. Overall, HSBC attracted US\$11 billion of balances during the campaign.

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- Notwithstanding weaker equity markets in Asia, HSBC's Personal Financial Services business in both Hong Kong and Rest of Asia-Pacific maintained revenue momentum, with notable success in deposit generation, particularly from Premier customers.
- Consistent with HSBC's strategy to increase the sale of insurance products to existing customers, underlying net premium income and insurance fee income grew by 7 per cent and 18 per cent, respectively.
- In the US, declining house prices, together with a continuing reduction in the availability of mortgage finance, fuelled growing customer delinquencies as house price depreciation became more pronounced and the economy weakened. HSBC continued to take measures to help customers manage their mortgage repayments and avoid foreclosure. In the first half of 2008, HSBC Finance extended its mortgage loan modification programme, with longer term modifications. Some 90 per cent of US mortgage customers remained current, or only one payment overdue, across the consumer lending business. Normal repayments and continued write-offs lowered the mortgage services portfolio by US\$4.8 billion to US\$31.4 billion at 30 June 2008.

## Reconciliation of reported and underlying profit before tax

## Half-year to 30 June 2008 ( 1H08 ) compared with half-year to 30 June 2007 ( 1H07 )

	1H07 as reported	Disposals and dilution gains <sup>1</sup>	Currency translation <sup>2</sup>	1H07 at 1H08 exchange rates	Acqui- sitions <sup>1</sup>	Under- lying change	1H08 as reported	Re- ported change	Under- lying change
Personal Financial Services	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	%	%
Net interest income	13,998	(7)	397	14,388	156	673	15,217	9	5
Net fee income	5,523	122	136	5,781	(45)	(110)	5,626	2	(2)
Other income <sup>3</sup>	1,375	(101)	48	1,322	(47)	304	1,579	15	23
<b>Net operating income<sup>4</sup></b>	<b>20,896</b>	<b>14</b>	<b>581</b>						