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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

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

the Securities Exchange Act of 1934

For the month of August 2013

Commission File Number: 001-14930

HSBC Holdings plc

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

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

Form 20-F x Form 40-F ¨

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

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

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

Yes ¨ No x

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

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

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SIGNATURES

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

HSBC Holdings plc

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

Dated: 9 August 2013

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HSBC HOLDINGS PLC

Interim Report 2013

Certain defined terms

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

Interim financial statements and notes

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

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

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

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

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Who we are and what we do

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

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

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

Highlights

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

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

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

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

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

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

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

Cover image

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

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HSBC HOLDINGS PLC

Overview

Financial highlights

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

For the half-year to 30 June 2013

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

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

US$9,998m *up 23%*

US$34,372m *down 7%*

30 June 2012: US$8,152m

31 December 2012: US$5,302m

30 June 2012: US$36,897m

31 December 2012: US$31,433m

At 30 June 2013

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

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

Capital ratios

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

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

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

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HSBC HOLDINGS PLC

Overview (continued)

Performance ratios (annualised)

Credit coverage ratios

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

Return ratios

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

Efficiency and revenue mix ratios

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

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

Share information at 30 June 2013

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

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

For footnotes, see page 100.

Overview (continued)

Cautionary Statement Regarding Forward-looking Statements

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

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

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

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

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

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

Overview (continued)

Group Chairman s Statement

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

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

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

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

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

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

Strategy implementation is progressing well

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

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

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

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

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

Diversification and scale remain core strengths

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

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

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

Overview (continued)

and relationships successfully channelled business opportunities.

Implementing and enforcing Global Standards remains a key priority

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

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

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

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

Regulatory update

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

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

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

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

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

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

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

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

Overview (continued)

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

Audit arrangements

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

Board changes

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

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

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

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

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

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

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

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

Looking ahead

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

D J Flint, *Group Chairman*

5 August 2013

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HSBC HOLDINGS PLC

Overview (continued)

Group Chief Executive s

Business Review

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

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

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

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

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

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

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

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

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

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

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

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

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

Group performance headlines

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

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

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

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

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

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

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

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

Outlook

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

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

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Overview (continued)

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

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

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

S T Gulliver, *Group Chief Executive*

5 August 2013

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HSBC HOLDINGS PLC

Overview (continued)

HSBC s vision

For footnote, see page 100.

Principal activities

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

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

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

HSBC Values

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

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

courageous integrity in the execution of their duties by being:

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

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

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

Ensuring our conduct matches our values

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

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

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

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

HSBC HOLDINGS PLC

Overview (continued)

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

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

Business and operating models

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

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

Business model

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

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

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

Our operating income is primarily derived from:

- net interest income interest income we earn on customer loans and advances and on our surplus funds, less interest expense we pay on interest-bearing customer accounts and debt securities in issue;

- net fee income fee income we earn from the provision of financial services and products to customers; and

- net trading income income from trading activities primarily conducted in Global Markets, including Foreign Exchange, Credit, Rates and Equities trading.

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

The structure is illustrated below.

HSBC s market structure

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Overview (continued)

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

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

Operating model

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

Holding company

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

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

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

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

Global businesses

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

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

Main business activities by global business

For footnotes, see page 100.

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HSBC HOLDINGS PLC

Overview (continued)

Geographical regions

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

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

Global functions

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

Strategic direction

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

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

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

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

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

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

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

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

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

Grow the business and dividends

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

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

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

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

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HSBC HOLDINGS PLC

Overview (continued)

Implement Global Standards

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

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

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

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

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

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

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

Streamline processes and procedures

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

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

Risk

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

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

Overview (continued)

Exposure to risks arising from the business activities of global businesses

For footnote, see page 100.

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

Risk factors

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

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

Top and emerging risks

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

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

- macroeconomic and geopolitical risk;

Overview (continued)

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

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

Macroeconomic and geopolitical risk

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

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

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

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

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

Disposals

Level of change in the Compliance function

Information security risk

Model risk

All the above risks are regarded as top risks.

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

Risk appetite

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

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

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

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

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

informs risk-adjusted remuneration;

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

promptly identifies business decisions needed to mitigate risk.

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

Risk appetite metrics

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

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

For footnote, see page 100.

HSBC HOLDINGS PLC

Interim Management Report

Financial summary

Use of non-GAAP financial measures

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

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

Constant currency

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

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

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

Constant currency

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

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

- the balance sheets at 30 June 2012 and 31 December 2012 at the prevailing rates of exchange ruling at 30 June 2013.

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

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

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Reconciliation of reported and constant currency profit before tax

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

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HSBC HOLDINGS PLC

Interim Management Report (continued)

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

For footnotes, see page 100.

Underlying performance

Underlying performance:

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

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

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

For acquisitions, disposals and changes of ownership levels of subsidiaries, associates, joint

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

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HSBC HOLDINGS PLC

Interim Management Report (continued)

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

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

Disposal gains/(losses) affecting underlying performance

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

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

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

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

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

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

Reconciliation of reported and underlying items

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

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

For footnotes, see page 100.

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Reconciliation of reported and underlying average risk weighted assets

Group

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

US CML and other

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

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Interim Management Report (continued)

Consolidated income statement

Summary income statement

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

Interim Management Report (continued)

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

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

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

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

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

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

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

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

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

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

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

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

Interim Management Report (continued)

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

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

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

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

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

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

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

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Notable revenue items by geographical region

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

Notable revenue items by global business

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

For footnotes, see page 100.

Notable cost items by geographical region

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

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

Notable cost items by global business

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

Interim Management Report (continued)

Group performance by income and expense item

Net interest income

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

For footnotes, see page 100.

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

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

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

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

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

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

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

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

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

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

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

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

Net fee income

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

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

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

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

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

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

Interim Management Report (continued)

Net trading income

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

For footnotes, see page 100.

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

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

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

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

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

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

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

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

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Net expense from financial instruments designated at fair value

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

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

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

For footnotes, see page 100.

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

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

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

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

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

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

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Interim Management Report (continued)

Gains less losses from financial investments

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

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

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

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

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

Net earned insurance premiums

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

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

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

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

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

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

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

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

Interim Management Report (continued)

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

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

For footnote, see page 100.

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

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

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

Other operating income

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

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

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

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

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

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

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

Interim Management Report (continued)

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

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

Net insurance claims incurred and movement in liabilities to policyholders

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

For footnote, see page 100.

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

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

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

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Interim Management Report (continued)

Loan impairment charges and other credit risk provisions

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

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

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

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

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

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

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

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

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

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

Interim Management Report (continued)

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

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

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

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

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

Operating expenses

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

Staff numbers (full-time equivalent)

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

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Interim Management Report (continued)

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

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

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

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

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

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

Cost efficiency ratios[5]

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

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

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Interim Management Report (continued)

Share of profit in associates and joint ventures

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

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

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

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

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

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

Tax expense

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

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

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

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

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

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Interim Management Report (continued)

Consolidated balance sheet

Summary consolidated balance sheet

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

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

For footnotes, see page 100.

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

Interim Management Report (continued)

Movement from 31 December 2012 to 30 June 2013

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

The following commentary is on a constant currency basis.

Assets

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

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

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

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

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

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

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

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

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

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

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

Liabilities

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

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

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

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Interim Management Report (continued)

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

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

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

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

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

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

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

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

Equity

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

Reconciliation of reported and constant currency assets and liabilities

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

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

For footnote, see page 100.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

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

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

Combined view of customer lending and customer deposits

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

For footnote, see page 100.

Financial investments

	At 30 June 2013	At 31 December 2012

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

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

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

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

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

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

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

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Customer accounts by country

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

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

For footnotes, see page 100.

Interim Management Report (continued)

Economic profit/(loss)

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

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

The following commentary is on a reported basis.

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

Economic profit/(loss)

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

For footnotes, see page 100.

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Interim Management Report (continued)

Reconciliation of RoRWA measures

Performance Management

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

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

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

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

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

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

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

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

For footnotes, see page 100.

Reconciliation of reported and underlying average risk-weighted assets

	Half-year to					
	30 Jun 2013	30 Jun 2012	Change	**30 Jun 2013**	31 Dec 2012	Change
	US$bn	US$bn	%	**US$bn**	US$bn	%
Average reported RWAs[49]	**1,109**	1,194	(7)	**1,109**	1,146	(3)
Currency translation adjustment[18]		(5)			(6)	
Acquisitions, disposals and dilutions	**(14)**	(96)		**(14)**	(57)	
Average underlying RWAs	**1,095**	1,093		**1,095**	1,083	1

For footnotes, see page 100.

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Interim Management Report (continued)

Ratios of earnings to combined fixed charges (and preference share dividends)

	Half-year to 30 June 2013	Year ended 31 December 2012	2011	2010	2009	2008
Ratios of earnings to combined fixed charges:[1]						
excluding interest on deposits	**11.77**	7.39	7.34	7.10	2.99	3.17
including interest on deposits	**2.39**	1.76	1.68	1.73	1.22	1.14
Ratios of earnings to combined fixed charges and preference share dividends:[1]						
excluding interest on deposits	**9.17**	5.79	5.95	5.89	2.64	2.97
including interest on deposits	**2.31**	1.71	1.64	1.69	1.20	1.13

1 *For the purpose of calculating the ratios, earnings consist of income from continuing operations before taxation and non-controlling interest plus fixed charges and after deduction of the unremitted pre-tax income of associated undertakings. Fixed charges consist of total interest expense, including or excluding interest on deposits, as appropriate, dividends on preference shares and other equity instruments, as applicable, and the proportion of rental expense deemed representative of the interest factor.*

Interim Management Report (continued)

Global businesses

Portfolio repositioning

We have initiated a comprehensive programme to reposition our portfolios to better manage our business. We are reviewing our customer base and are establishing robust customer selection filters devised to ensure that we have sufficient controls and information flows in place so that we can be confident that we only do business with customers who meet the Group s criteria. This review will continue in the second half of the year and into 2014. Client selection is core to our growth strategy as we seek to generate long-term relationships and sustainable revenue streams within acceptable risk parameters. As we reposition our portfolios and become more focused in client selection, our balance sheet composition in terms of products and segments may also change.

Summary

HSBC reviews operating activity on a number of bases, including by geographical region and by global business.

The commentaries below present global businesses followed by geographical regions (page 61).

Performance is discussed in this order because certain strategic themes, business initiatives and trends affect more than one geographical region. All commentaries are on a constant currency basis (see page 18) unless stated otherwise.

Basis of preparation

The results of global businesses are presented in accordance with the accounting policies used in the preparation of HSBC s consolidated financial statements. Our operations are closely integrated and, accordingly, the presentation of global business data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and global 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. Those costs which are not allocated to global businesses are included in Other .

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 (continued)

Profit/(loss) before tax

	Half-year to					
	30 June 2013		30 June 2012		31 December 2012	
	US$m	**%**	US$m	%	US$m	%
Retail Banking and Wealth Management	**3,267**	**23.2**	6,410	50.3	3,165	40.0
Commercial Banking	**4,133**	**29.4**	4,429	34.8	4,106	51.9
Global Banking and Markets	**5,723**	**40.7**	5,047	39.6	3,473	43.9
Global Private Banking	**108**	**0.8**	527	4.1	482	6.1
Other[52]	**840**	**5.9**	(3,676)	(28.8)	(3,314)	(41.9)
	14,071	**100.0**	12,737	100.0	7,912	100.0

Total assets[53]

	At 30 June 2013		At 30 June 2012		At 31 December 2012	
	US$m	**%**	US$m	%	US$m	%
Retail Banking and Wealth Management	**504,205**	**19.1**	526,069	19.8	536,244	19.9
Commercial Banking	**350,503**	**13.2**	351,157	13.2	363,659	13.5
Global Banking and Markets	**1,992,770**	**75.3**	1,905,455	71.8	1,942,470	72.1
Global Private Banking	**114,883**	**4.3**	119,271	4.5	118,440	4.4
Other	**176,122**	**6.7**	179,703	6.8	201,741	7.5
Intra-HSBC items	**(493,167)**	**(18.6)**	(429,321)	(16.1)	(470,016)	(17.4)
	2,645,316	**100.0**	2,652,334	100.0	2,692,538	100.0

Risk-weighted assets

	At 30 June 2013		At 30 June 2012		At 31 December 2012	
	US$bn	**%**	US$bn	%	US$bn	%
Retail Banking and Wealth Management	**243.4**	**22.0**	298.7	25.7	276.6	24.6
Commercial Banking	**385.9**	**34.9**	397.8	34.3	397.0	35.3
Global Banking and Markets	**429.2**	**38.9**	412.9	35.6	403.1	35.9
Global Private Banking	**21.8**	**2.0**	21.8	1.9	21.7	1.9
Other	**24.5**	**2.2**	28.7	2.5	25.5	2.3
	1,104.8	**100.0**	1,159.9	100.0	1,123.9	100.0

Selected items included in profit before tax by global business

Acquisitions, disposals and dilutions[54]

Half-year to

	30 June 2013 US$m	30 June 2012 US$m	31 December 2012 US$m
Retail Banking and Wealth Management	**(73)**	5,074	488
Commercial Banking	**2**	418	449
Global Banking and Markets	**(6)**	224	269
Global Private Banking		56	(1)
Other	**1,089**	133	2,974
	1,012	5,905	4,179

For footnotes, see page 100.

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Interim Management Report (continued)

Retail Banking and Wealth Management

RBWM provides banking and wealth management services for our personal customers to help them to manage their finances and protect and build their financial futures.

	Half-year to		
	30 Jun 2013 US$m	30 Jun 2012 US$m	31 Dec 2012 US$m
Net interest income	**9,310**	10,774	9,524
Net fee income	**3,586**	3,760	3,445
Other income/(expense)	**393**	4,781	1,577
Net operating income[22]	**13,289**	19,315	14,546
LICs[55]	**(1,768)**	(3,273)	(2,242)
Net operating income	**11,521**	16,042	12,304
Total operating expenses	**(8,451)**	(10,218)	(9,551)
Operating profit	**3,070**	5,824	2,753
Income from associates[56]	**197**	586	412
Profit before tax	**3,267**	6,410	3,165
RoRWA[49]	**2.5%**	3.9%	2.2%

76%

of profit before tax

from faster-growing regions

Announced 9 new transactions in 2013

Emerging Markets

Asset Manager of the Year

(UK Pension Awards, 2013)

Strategic direction

RBWM provides retail banking and wealth management services for personal customers in markets where we have, or can build, the scale to do so cost effectively.

We focus on three growth priorities:

- building a consistent, high standard, customer needs-driven wealth management service for retail customers drawing on our Insurance and Asset Management businesses;
- leveraging global expertise to improve customer service and productivity, to provide a high standard of banking solutions and service to our customers efficiently; and
- simplifying and re-shaping the RBWM portfolio of businesses globally, to focus our capital and resources on key markets.

To support these imperatives, we have targeted growth in priority markets, deepening customer relationships and enhancing distribution capabilities.

Implementing Global Standards, enhancing risk management control models and simplifying processes also remain top priorities for RBWM.

For footnotes, see page 100.

The commentary is on a constant currency basis unless stated otherwise.

Review of performance

RBWM reported profit before tax of US$3.3bn compared with US$6.4bn in the first half of 2012 on both a reported and constant currency basis. This decrease was driven by the non-recurrence of the gains on sale of the CRS business and US branches of US$3.6bn and the absence of profits from non-strategic businesses sold or closed in 2012, including our investment in Ping An.

On an underlying basis, profit before tax increased by US$2.0bn, driven by lower loan impairment charges in the US run-off portfolio which reflected the decline in lending balances, improvements in housing market conditions and improved delinquency levels. In addition, operating expenses declined, driven by lower customer redress provisions in the UK.

Loss before tax in the US run-off portfolio decreased, due to lower loan impairment charges. This was partly offset by higher operating expenses due to a customer remediation provision related to our former CRS business. Revenue reduced, driven by the loss on sale of the non-real estate portfolio and insurance business and losses arising from the early termination of qualifying accounting hedges, partly offset by favourable movements in the fair value of non-qualifying hedges in HSBC Finance of US$263m, compared with adverse movements of US$217m in the first half of 2012.

Profit before tax in RBWM excluding the CRS business and the US run-off portfolio (the Rest of RBWM) grew by US$44m, mainly driven by a decrease in operating expenses which reflected lower customer redress provisions in the UK and sustainable cost savings resulting from our organisational effectiveness programmes and portfolio management activities. This was partly offset by a significant decline in our share of profit from associates following the sale of our investment in Ping An.

Revenue in the Rest of RBWM declined by 6%, reflecting lower net gains on sale of our non-strategic operations (most notably the US branches) and various Insurance manufacturing businesses, the loss on sale of an HFC Bank UK secured lending portfolio, and the consequent reduction in operating revenue. Excluding the items above, revenue grew by over 2%, reflecting improved performance in Hong

Kong and Europe.

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Interim Management Report (continued)

Analysis of Retail Banking and Wealth Management profit before tax

	RBWM US$m	US CRS business US$m	US run-off portfolio US$m	Rest of RBWM US$m
Half-year to 30 June 2013				
Net interest income	**9,310**		**1,151**	**8,159**
Net fee income/(expense)	**3,586**		**(3)**	**3,589**
Other income/(expense)	**393**		**(355)**	**748**
Net operating income[22]	**13,289**		**793**	**12,496**
LICs[55]	**(1,768)**		**(396)**	**(1,372)**
Net operating income	**11,521**		**397**	**11,124**
Total operating expenses	**(8,451)**		**(631)**	**(7,820)**
Operating profit/(loss)	**3,070**		**(234)**	**3,304**
Income from associates[56]	**197**			**197**
Profit/(loss) before tax	**3,267**		**(234)**	**3,501**
RoRWA[49]	**2.5%**		**(0.5%)**	**4.5%**
Half-year to 30 June 2012				
Net interest income	10,774	1,267	1,278	8,229
Net fee income/(expense)	3,760	409	(9)	3,360
Other income/(expense)	4,781	3,155	(269)	1,895
Net operating income[22]	19,315	4,831	1,000	13,484
LICs[55]	(3,273)	(322)	(1,577)	(1,374)
Net operating income/(expense)	16,042	4,509	(577)	12,110
Total operating expenses	(10,218)	(593)	(384)	(9,241)
Operating profit/(loss)	5,824	3,916	(961)	2,869
Income from associates[56]	586			586
Profit/(loss) before tax	6,410	3,916	(961)	3,455
RoRWA[49]	3.9%	21.1%	(1.5%)	4.1%
Half-year to 31 December 2012				
Net interest income	9,524		1,285	8,239
Net fee income/(expense)	3,445	(14)	42	3,417
Other income	1,577		69	1,508
Net operating income/(expense)[22]	14,546	(14)	1,396	13,164
LICs[55]	(2,242)		(992)	(1,250)
Net operating income/(expense)	12,304	(14)	404	11,914
Total operating expenses	(9,551)	(136)	(719)	(8,696)
Operating profit/(loss)	2,753	(150)	(315)	3,218
Income from associates[56]	412		2	410
Profit/(loss) before tax	3,165	(150)	(313)	3,628
RoRWA[49]	2.2%	3.4%	(0.5%)	4.4%

Net interest income in the Rest of RBWM increased by 1% despite the absence of US$215m of net interest income relating to businesses that were disposed of or closed in 2012. The increase from on-going businesses was driven by improved mortgage spreads and growth in mortgage balances in Hong Kong and the UK. In Hong Kong, the increase in net interest income was also driven by growth in the insurance debt securities portfolio. Average deposit balances increased, particularly in the UK and Hong Kong, though the benefit was more than offset by deposit spread compression, particularly in Hong Kong, reflecting the sustained low interest rate environment.

Net fee income in the Rest of RBWM grew by 8%, primarily due to higher investment product sales in Hong Kong, mainly in unit trusts and retail brokerage driven by favourable market sentiment and strong customer demand, higher foreign exchange income and higher asset management fees reflecting growth in average assets under management in Hong Kong and the US.

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Interim Management Report (continued)

Other income in the Rest of RBWM declined by US$1.1bn from the portfolio rationalisations and other items described above. Revenue relating to the on-going business declined by US$245m driven by lower insurance revenue reflecting less favourable movements in the PVIF asset.

LICs in the Rest of RBWM increased by 4%, driven by Latin America, particularly Mexico, reflecting the non-recurrence of a provision release in the first half of 2012, higher lending balances and a revision to the assumptions used in our collective assessment models in the first half of 2013. In Brazil, higher collective provisions arising on restructured loans as a result of impairment model changes and assumption revisions were largely offset by an improvement in the quality of the portfolio following the modification of credit strategies in previous periods to mitigate rising delinquency rates. In Europe, LICs decreased marginally, mainly in the UK, partly offset by an increase in Turkey reflecting higher credit card balances due to business expansion.

Operating expenses in the Rest of RBWM decreased by US$1.2bn, mainly as a result of lower customer redress provisions in the UK of US$412m compared with US$1.1bn in the first half of 2012, sustainable cost savings of over US$150m resulting from organisational effectiveness programmes, and the disposals and run-off of businesses in 2012 and 2013. In addition, we reported an accounting gain of US$189m relating to changes in delivering ill-health benefits to certain employees in the UK. These were partly offset by higher staff costs in Latin America and Hong Kong due, in part, to inflationary pressures and higher premises costs, mainly in Hong Kong.

Share of profit from associates and joint ventures decreased following the disposal of our investment in Ping An in December 2012.

Growth priorities

Growth in priority markets

Growth of our Premier franchise is a key priority. We provide our customers with exclusive access to an enhanced suite of wealth management products and HSBC s global market intelligence. We are progressing the roll-out of enhanced Relationship Manager (RM) coverage to select customers, with a planned launch in six markets by the end of the year.

Deepen customer relationships

The new Global Wealth Incentive Plan aims to improve customer service and deepen client relationships, measuring all Wealth RMs on activities that improve customer experience while reinforcing the requirement for sales quality and suitability.

Further growth depends on our ability to deepen customer relationships and acquire new wealth management mandates in faster-growing markets. Wealth management revenue increased by US$74m, driven by Hong Kong. This growth was supported by an increase in total relationship balances, mainly in Hong Kong, but also in Europe, Rest of Asia-Pacific and Middle East and North Africa.

Distribution

Digital distribution is key for the business. We launched a new mobile banking application which is currently live in 12 markets and will be in 26 markets by the end of the year. The RM Platform, a system that the RMs use to manage their day to day client relationships, was released in 11 countries and will be launched in a further two markets by the end of 2013. The Client Wealth Dashboard was rolled out in Taiwan, Singapore and the UAE with another seven markets expected to follow this year.

Other strategic imperatives

We continued to focus on business transformation in order to improve customer service and productivity. We are rationalising our internet banking platforms and continue to review our product range to simplify and standardise our offering to optimise customer choice and increase efficiencies. We recently completed a customer focused redesign of the UK mortgage process which is now being rolled out in mainland China with a planned extension to other priority markets including France and Brazil during 2013.

During the first half of 2013, we continued the portfolio rationalisation programme, announcing nine new closures or disposals, including that of our operations in Panama. We also completed 10 transactions in the period, which resulted in an overall reduction in RWAs of more than US$9bn.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Commercial Banking

CMB offers a full range of commercial financial services and tailored solutions to over three million customers ranging from small and medium-sized enterprises to publicly quoted companies in more than 60 countries.

	Half-year to		
	30 Jun 2013	30 Jun 2012	31 Dec 2012
	US$m	US$m	US$m
Net interest income	**5,050**	5,144	5,217
Net fee income	**2,337**	2,224	2,246
Other income	**476**	885	835
Net operating income[22]	**7,863**	8,253	8,298
LICs[55]	**(1,160)**	(924)	(1,175)
Net operating income	**6,703**	7,329	7,123
Total operating expenses	**(3,337)**	(3,736)	(3,862)
Operating profit	**3,366**	3,593	3,261
Income from associates[56]	**767**	836	845
Profit before tax	**4,133**	4,429	4,106
RoRWA[49]	**2.2%**	2.3%	2.0%

Double-digit lending growth in

Global Trade and Receivables Finance

Best Transaction Banking House

(Euromoney Awards for Excellence 2013)

Continued strong performance

in Hong Kong with lending growth of

13%

Strategic direction

CMB aims to be the banking partner of choice for international businesses by building on our rich heritage, international capabilities and relationships to enable connectivity and support trade and capital flows around the world, thereby strengthening our leading position in international business and trade.

We have three growth priorities:

- grow coverage in faster growing markets;
- drive revenue growth through our international network; and
- grow collaboration revenues.

Implementing Global Standards, enhancing risk management controls models and simplifying processes also remain top priorities for CMB.

For footnotes, see page 100.

The commentary is on a constant currency basis unless stated otherwise.

Review of performance

In the first half of 2013, CMB reported a profit before tax of US$4.1bn, 7% lower than in the same period in 2012. On a constant currency basis, profit before tax decreased by 6%, largely due to the effect of the disposal of US branches in 2012 and lower profit from associates following the reclassification of Industrial Bank from an associate to a financial investment in 2013.

On an underlying basis, profit before tax increased by 4% as higher revenues, lower operating expenses and increased income from associates were partly offset by higher loan impairment charges.

Revenue decreased by 3% due to the effect of business disposals in 2012. Underlying revenue was 1% higher than in the first half of 2012. Net interest income increased marginally as growth in average customer loans and deposits was largely offset by spread compression. Revenue also benefited from collaboration with other global businesses, particularly with GB&M in Hong Kong, and increased lending fees.

Management view of revenue

	Half-year to		
	30 Jun 2013	30 Jun 2012	31 Dec 2012
	US$m	US$m	US$m
Global Trade and Receivables Finance	**1,459**	1,482	1,486
Credit and Lending	**3,008**	3,057	3,189
Payments and Cash Management, current accounts and savings deposits	**2,579**	2,651	2,718
Insurance and investments	**326**	374	353
Other	**491**	689	552

Net operating income[22]	**7,863**	8,253	8,298

For footnote, see page 100.

Global Trade and Receivables Finance revenue remained broadly unchanged compared with the first half of 2012. Despite a slowdown in global trade growth in the first half of 2013, Global Trade and Receivables Finance assets continued to grow strongly, driven by client demand for export and import lending, notably in Hong Kong and Rest of Asia-Pacific. However, the benefit of lending growth was largely offset by spread compression, particularly in Hong Kong and Latin America, reflecting competition and increased liquidity in the markets.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Similarly, Credit and Lending revenue remained largely unchanged, as higher average balances were broadly offset by spread compression. Growth in average lending balances continued, particularly in our home markets of the UK and Hong Kong, despite the rising number of corporate bond issuances in the market.

Payments and Cash Management revenue marginally declined compared with the first half of 2012. Revenue grew from new mandates and transaction volumes, supported by our focus on international customers. This growth was largely offset by the effect of business disposals in 2012 and a challenging interest rate environment.

The movement in Other reflects the gains on business disposals recorded in the first half of 2012.

LICs increased by 30% compared with the first half of 2012 as we recorded higher individually assessed provisions in Latin America, Europe and North America partly offset by lower individually assessed provisions in Rest of Asia-Pacific. In Latin America, collective impairments also rose mainly due to impairment model changes and assumption revisions for restructured loans in our Business Banking portfolios in Brazil.

Operating expenses declined by 9%, mainly due to an accounting gain relating to changes in delivering ill-health benefits in the UK in the first half of 2013 and the non-recurrence of charges relating to UK customer redress in Europe in the first half of 2012. Excluding these items, costs marginally decreased. In the first half of 2013, we generated over US$40m of sustainable savings through process re-engineering and organisational effectiveness programmes, allowing us to reinvest in growth initiatives and the implementation of Global Standards. Examples of this included simplifying the cross-border account opening and credit renewal processes, and moving customers to the single channel HSBCnet with the aim of demising 11 local Business Internet Banking systems by the end of 2013.

Income from associates fell by 9% reflecting the reclassification of Industrial Bank as a financial investment and the disposal of our investment in Ping An. Excluding these, income from associates rose, driven by balance sheet growth and increased fee income in BoCom partly offset by higher operating expenses and a rise in loan impairment charges.

Growth priorities

Grow coverage in faster-growing markets

In the first half of 2013, revenues from faster-growing regions represented 55% of CMB s total revenue. CMB s top 20 markets contributed over 94% of our profit before tax in the period, of which 60% was generated from faster-growing regions.

Drive revenue growth through our international network

We have been successful in capturing international revenue growth opportunities. Overall cross-border revenues grew strongly, particularly revenues from the overseas operations of our mainland Chinese corporate customers. We continue to position HSBC as the leading international bank for renminbi (RMB) business completing several high-profile deals in the first half of 2013.

We extended the International Relationship Managers (IRM) programme into Hong Kong by adding 47 IRMs to focus on high value international customers, and will be launching the programme to a number of sites in the second half of 2013. We also launched an additional international SME fund in the UK of £5.0bn (US$7.7bn) to support UK businesses that trade, or aspire to trade, internationally. Similarly, in France and Mexico, we launched SME funds of 1.0bn (US$1.3bn) and MXN13bn (US$1.0bn), respectively, targeted at international customers.

In Corporate Banking, we have built on the success of our key hubs strategy to include the development of industry-focused units that enable intelligence sharing across our teams and our international customer base. The number of Corporate customers who generate revenue in two or more countries increased compared with the first half of 2012.

Grow collaboration revenues

Collaboration with global businesses generated revenue of around US$2bn for the Group, an increase of 5% compared with the first half of 2012. We continued to work closely with GB&M to provide our clients access to relevant products. This resulted in a rise in gross revenues of 9% which are shared between the two global businesses compared with the first half of 2012 particularly in Foreign Exchange and in debt capital markets, where gross revenue almost doubled. For example, in Hong Kong,

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Interim Management Report (continued)

the number of deals executed tripled.

Recruitment of around 100 additional full-time equivalent (FTE) staff is underway to drive growth in the sale of Global Markets products. In addition, we have increased the number of Specialised Finance units within priority countries to facilitate further collaboration opportunities with GB&M.

We continued to make Global Trade and Receivables Finance products increasingly available to GB&M clients as we established Key Account Management teams to strengthen our client coverage. We also expanded our Commodities and Structured Trade Finance offering in Latin America and in the Middle East and North Africa. Our new strategic Supply Chain Solutions platform was launched in London and Hong Kong, allowing CMB to serve global clients in a more consistent way.

HSBC HOLDINGS PLC

Interim Management Report (continued)

Global Banking and Markets

GB&M provides tailored financial solutions to major government, corporate and institutional clients worldwide.

	Half-year to		
	30 Jun 2013 US$m	30 Jun 2012 US$m	31 Dec 2012 US$m
Net interest income	**3,334**	3,625	3,335
Net fee income	**1,818**	1,598	1,731
Net trading income[57]	**5,606**	3,735	1,955
Other income/(expense)	**(96)**	1,377	917
Net operating income[22]	**10,662**	10,335	7,938
LICs[55]	**(174)**	(598)	(72)
Net operating income	**10,488**	9,737	7,866
Total operating expenses	**(5,007)**	(5,073)	(4,834)
Operating profit	**5,481**	4,664	3,032
Income from associates[56]	**242**	383	441
Profit before tax	**5,723**	5,047	3,473
RoRWA[49]	**2.8%**	2.4%	1.7%

Strong client flows in

Credit and Foreign Exchange

Best Global Emerging

Market Investment Bank

(Euromoney Awards for Excellence, 2013)

Best Overall Primary Debt Provider

and, for the 3rd consecutive year,

Best Coverage Team

(Euromoney Primary Debt Survey, 2013)

Strategic direction

GB&M continues to pursue its well established emerging markets-led and financing-focused strategy, with the objective of being a Top 5 bank to our priority clients. This strategy has evolved to include a greater emphasis on connectivity between the global businesses, and within GB&M, utilising the Group s extensive distribution network.

We focus on four growth priorities:

- leveraging our distinctive geographical network which connects developed and faster-growing regions;
- connecting clients to global growth opportunities;
- continuing to be well positioned in products that will benefit from global trends; and
- enhancing collaboration with other global businesses to appropriately service the needs of our international client base.

Implementing Global Standards, enhancing risk management controls and simplifying processes also remain top priorities for GB&M.

For footnotes, see page 100.

The commentary is on a constant currency basis unless stated otherwise.

Review of performance

- GB&M reported profit before tax of US$5.7bn, 13% higher than in the first half of 2012. On a constant currency basis, profit before tax increased by 15%. This was driven by higher revenue, including a favourable DVA (see page 28), and lower impairment charges.
- *Revenue* rose by 4% with growth in most of our businesses. Revenue in Credit increased, in part due to strong demand as clients sought to raise funding in the capital markets, along with reserve releases, compared with charges in the first half of 2012 and revaluation gains in the legacy portfolio. Foreign Exchange reported higher revenue as client volumes increased while our Credit and Lending business within Financing and Equity Capital Markets benefited from higher spreads and reduced funding costs compared with the same period in 2012. As expected, Balance Sheet Management revenue declined as proceeds from the sale and maturity of investments were reinvested at lower prevailing rates. While our Rates business reported a resilient performance, particularly in the first quarter, revenue declined compared with the first half of 2012 which benefited from central bank intervention. We reported favourable fair value movements from own credit spreads on structured liabilities of US$4m, compared with reported adverse fair value movements of US$330m in the comparable period of 2012.
- *LICs* decreased by US$414m. Credit risk provisions declined, driven by net releases on available-for-sale ABSs in our legacy portfolio compared with charges in the first half of 2012. As a result, the available-for-sale ABS reserve decreased from a negative balance of US$2.2bn as reported at 31 December 2012 to a negative balance of US$2.0bn at 30 June 2013. The decline in LICs also resulted from the non-recurrence of impairments on certain available-for-sale debt securities in Principal Investments. In addition, loan impairment charges fell due to lower individually assessed provisions in Global Banking and in the legacy Credit loans and receivables portfolio.
- *Operating expenses* remained broadly unchanged as reduction in performance-related costs and an accounting gain of US$81m relating to changes in delivering employee ill-health benefits to certain employees in the UK, were largely offset by higher litigation-related costs.

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Interim Management Report (continued)

Management view of revenue[58]

	Half-year to		
	30 Jun	30 Jun	31 Dec
	2013	2012	2012
	US$m	US$m	US$m
Global Markets[59]	**5,329**	5,314	3,379
Credit	**670**	370	409
Rates	**1,236**	1,805	(34)
Foreign Exchange	**1,833**	1,733	1,482
Equities	**531**	396	283
Securities Services	**847**	798	825
Asset and Structured Finance	**212**	212	414
Global Banking	**2,847**	2,583	2,581
Financing and Equity Capital Markets	**1,609**	1,356	1,375
Payments and Cash Management	**862**	842	838
Other transaction services	**376**	385	368
Balance Sheet Management	**1,680**	2,206	1,532
Principal Investments	**154**	147	(22)
Debit valuation adjustment	**451**		518
Other[60]	**201**	85	(50)
Net operating income[22]	**10,662**	10,335	7,938

Balance Sheet Management revenues included a notional tax credit on income earned from tax-exempt investments of US$53m in the first half of 2013 (first half of 2012: US$59m; second half of 2012: US$57m), which is offset above within Other . The above table reflects the management structure of GB&M prior to the organisational restructure, effective from the second half of 2013.

For footnotes, see page 100.

We continue to actively identify savings and simplify our business model, and delivered a further US$50m of sustainable savings in the first half of 2013.

Income from associates was lower, due to the reclassification of Industrial Bank as a financial investment.

Global Markets reported revenue in excess of US$5.3bn. Building on the momentum achieved in 2012, we earned record half-year revenue from primary market issuances, mainly reported in Credit, with notable increases in Europe and Hong Kong. Additionally, trading revenue increased from strong volumes in our corporate debt securities portfolio in Europe, together with revaluation gains on securities in North America. Legacy credit revenue also rose as noted above. Equities revenue increased, reflecting higher equity derivatives income driven by strong client flows and larger market share in Asia, favourable fair value movements on certain assets and minimal fair value movements on structured liabilities compared with adverse fair value movements in the first half of 2012.

Foreign Exchange income rose due to increased client volumes which benefited from our improved electronic pricing and distribution capabilities, and our continuing collaboration with CMB. However, the benefit was partly offset by margin compression as a result of heightened competition.

As noted above, Rates revenue was lower as the first half of 2012 benefited from the significant tightening of spreads on eurozone bonds following the ECB s Long-Term Refinancing Operation. In the current period, a strong first quarter performance was partly offset in the second quarter by more volatile market conditions as a result of expectations that the scale of government repurchase schemes and quantitative easing measures may be reduced.

Global Banking revenue increased in most regions from higher spreads and reduced funding costs than in the same period last year in our Credit and Lending business reported within Financing and Equity Capital Markets. Average lending balances remained stable despite some clients seeking funding from debt capital markets. Event-driven fee income in our underwriting and project finance businesses also increased. In addition, we reported gains on sale of equity positions, compared with losses on syndicated loans in the comparable period in the previous year.

Balance Sheet Management revenue declined by US$494m. Net interest income was adversely affected by reinvestment at prevailing rates while gains on the disposal of available-for-sale debt securities fell, notably in Europe, although partly offset by higher disposal gains in North America.

Growth priorities

Leveraging our distinctive geographical network which connects developed and faster-growing regions

We continue to leverage our distinctive international network and business model. For example, we provided advisory services to multinational corporates, helping them enhance their stakes in locally-listed subsidiaries in India. With operations in around 60 markets which connect developed and faster-growing regions, we are competitively positioned to service the needs of our multinational clients.

Interim Management Report (continued)

Connecting clients to global growth opportunities

Our product expertise and balance sheet strength enable us to connect our diversified client base to global growth opportunities. A number of recent event-driven transactions and new mandates demonstrated our ability to deliver services across the GB&M product suite, particularly in those areas geared towards growth opportunities.

Continuing to be well positioned in products that will benefit from global trends

We have invested with the aim of ensuring we are well positioned to benefit from global growth trends. With RMB internationalisation a key area of focus, we are developing new capabilities within this growing market. In Payments and Cash Management, for example, we implemented an innovative cross-border RMB payments and collections product. In addition to reducing foreign exchange exposure, this provided a centralised approach to cash management and reduced intra-group settlement flows between mainland Chinese subsidiaries and their overseas parent companies. Our position as a leading international bank for RMB products and services was recognised in the 2013 *Asiamoney* Offshore RMB services survey which named us Best Provider of Offshore RMB Products and Services for the second consecutive year.

In debt capital markets, we captured growth in issuance demand, facilitating a broader and more diverse source of funding for our customers. We recognised the transition from traditional sources of funding towards debt capital financing, which resulted in us assuming leading positions in euro, sterling, emerging and Asia-Pacific (excluding Japan) markets. Investment in enhancing our product offerings in e-FX platforms also contributed to a strong performance in the *Euromoney* 2013 FX Poll, with HSBC volumes rising by 11% and our market share also increasing.

Enhancing collaboration with other global businesses to appropriately service the needs of our customers

We continued to enhance our collaborative efforts with other global business partners to better meet the needs of our customers across the Group. The sale of GB&M products to CMB clients generated gross revenues which are shared between the two global businesses. These revenues increased by 9%, compared with the first half of 2012, particularly within Foreign Exchange due to strong customer flows. Revenue from debt capital markets also increased, mainly in Hong Kong, as the number of transactions executed for CMB clients tripled. Revenue in our project and export finance business also increased.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Global Private Banking

GPB serves high net worth individuals and families with complex and international financial needs. We manage and preserve their wealth while connecting them to global opportunities.

	Half-year to		
	30 Jun 2013 US$m	30 Jun 2012 US$m	31 Dec 2012 US$m
Net interest income	**575**	672	622
Net fee income	**602**	625	607
Other income/(expense)	**(26)**	344	302
Net operating income[22]	**1,151**	1,641	1,531
LICs[55]	**(14)**	(4)	(23)
Net operating income	**1,137**	1,637	1,508
Total operating expenses	**(1,035)**	(1,113)	(1,030)
Operating profit	**102**	524	478
Income from associates[56]	**6**	3	4
Profit before tax	**108**	527	482
RoRWA[49]	**1.0%**	4.7%	4.4%

Continued progress on repositioning our business with a focus on priority markets

US$2.8bn

of net new money

from intra-group referrals

Best Private Bank in

Hong Kong

(Private Banker International Greater China Awards)

Strategic direction

GPB aims to build on HSBC s commercial banking heritage to be the leading private bank for high net worth business owners.

We have two growth priorities:

- repositioning the business to concentrate on home and priority markets, particularly onshore, aligned with Group priorities; and
- capturing growth opportunities from Group collaboration, particularly by accessing owners and principals of CMB and GB&M clients.

Implementing Global Standards, enhancing risk management controls, tax transparency and simplifying processes also remain top priorities for GPB.

For footnotes, see page 100.

The commentary is on a constant currency basis unless stated otherwise.

Review of performance

- Reported profit before tax of US$108m was US$419m lower than in the first half of 2012 and US$405m lower on a constant currency basis.
- On an underlying basis, which excludes the gain on the sale of our operations in Japan in 2012 of US$67m and associated operating results, profit before tax was US$349m lower as a result of reduced revenue, primarily due to the loss following the reclassification of our Monaco business to held for sale (see also Note 25 on the Financial Statements) partly offset by decreased operating expenses.
- *Revenue* declined by 29%, primarily due to the loss following reclassification to held for sale and the sale of our operations in Japan in the first half of 2012, as noted above. Net interest income fell as higher yielding positions matured and opportunities for reinvestment were limited by lower prevailing yields. Narrower lending and deposit spreads coupled with a decline in average deposit balances contributed to the fall in net interest income. Brokerage fees also decreased, reflecting a reduction in client transaction volumes, in part due to lower volatility, and fewer large deals.
- *Operating expenses* decreased by 7%, primarily due to a managed reduction in average staff numbers in both front and back office, lower restructuring and other related cost, reduced performance costs and the non-recurrence of a customer redress provision in June 2012. These factors were partly offset by an operational risk provision and a provision relating to our obligations under the UK Rubik agreement, a bilateral tax agreement between the UK and Swiss governments. We also delivered further sustainable savings of approximately US$35m in the first half of 2013.

Client assets[61]

	Half-year to		
	30 Jun 2013 US$bn	30 Jun 2012 US$bn	31 Dec 2012 US$bn
At beginning of period	**398**	377	375
Net new money	**(10)**	(2)	(5)
Value change		4	13

Exchange/other	**(2)**	(4)	15
At end of period	**386**	375	398

For footnote, see page 100.

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Interim Management Report (continued)

Client assets, which include funds under management and cash deposits, have decreased by US$11.5bn since December 2012 due to negative net new money and adverse foreign exchange movements. Negative net new money was mainly affected by the adoption of new compliance and tax transparency standards as well as actions taken to reposition our client base towards higher net worth relationships. Negative net new money was also affected by a large number of client withdrawals, notably in Switzerland. However, we attracted positive net new money of US$3.0bn from clients in Asia.

Our return on assets, defined as the percentage of revenue to average client assets, was 57bps in the first half of 2013 compared with 83bps in the same period in 2012 and 77bps in the second half of 2012. This was primarily due to the loss following reclassification to held for sale noted above and the non-recurrence of the gain on the sale of our operations in Japan in 2012 which negatively affected the return on assets by 17bps. The fall in net interest income and the decline in brokerage fees also contributed to the reduction in our return on assets.

Growth priorities

Repositioning the business

The repositioning of GPB that commenced in 2012 has been accelerated, focusing on home and priority growth markets where wealth creation is strong and where our Group presence can be leveraged. On 24 June 2013, we decided to withdraw from our private banking activities and private banking-related fund businesses which are wholly-owned Luxembourg subsidiaries of HSBC Trinkaus & Burkhardt AG. Subsequently, on 14 July 2013 we entered into an agreement to sell these businesses and the transaction is expected to complete towards the end of this year. We also conducted a review of our operations in Monaco following receipt of unsolicited expressions of interest in this business. This review was completed in July and a decision was made to retain the business.

We have focused on growing domestic private banking, supplemented with a transparent international business operating from key hubs. We have also applied a disciplined client segmentation approach to focus on high net worth and ultra-high net worth segments.

Capturing growth opportunities

We have captured growth from collaboration with other global businesses, and the resulting referral flows generated net new money of US$2.8bn, US$0.7bn higher than in the first half of 2012. Collaboration with CMB strengthened, and the framework is being enhanced with a defined coverage model, and improved reporting in order to identify further opportunities and achieve further benefits in the second half of the year. Opportunities to share products and platforms with RBWM have been identified, including digital capabilities, which enable us to better meet client needs.

We continued to enhance our product offering to clients through the strengthening of the Alternatives platform, with five product launches concluded in the first half of 2013, comprising two private equity funds, two real estate club deals and a fund of hedge funds. We also continued to enhance our front office systems with the roll-out of Global Vision in the UK and improvements to Global Client Relationship Management in the UK and the US.

Interim Management Report (continued)

Other[52]

Other contains the results of HSBC s holding company and financing operations, central support and functional costs with associated recoveries, unallocated investment activities, centrally held investment companies, certain property transactions and movements in fair value of own debt.

	Half-year to		
	30 Jun 2013 US$m	30 Jun 2012 US$m	31 Dec 2012 US$m
Net interest expense	**(376)**	(464)	(266)
Net fee income	**61**	100	94
Net trading expense[57]	**(169)**	(205)	(332)
Changes in fair value of long-term debt issued and related derivatives	**(1,419)**	(1,810)	(2,517)
Changes in other financial instruments designated at fair value	**957**	(465)	(671)
Net expense from financial instruments designated at fair value	**(462)**	(2,275)	(3,188)
Other income	**5,096**	3,182	5,686
Net operating income[22]	**4,150**	338	1,994
Total operating expenses	**(3,312)**	(4,049)	(5,320)
Operating profit/(loss)	**838**	(3,711)	(3,326)
Income from associates[56]	**2**	35	12
Profit/(loss) before tax	**840**	(3,676)	(3,314)

For footnotes, see page 100.

The commentary is on a constant currency basis unless stated otherwise.

Notes

Reported profit before tax of US$840m compared with a loss of US$3.7bn in the first half of 2012 on both a reported and a constant currency basis.

On an underlying basis, a pre-tax loss of US$230m compared with the loss of US$1.6bn in the first half of 2012. This was driven by the non-recurrence of a provision for US anti-money laundering, BSA and OFAC investigations of US$700m in the first half of 2012. In addition, we recognised a net gain on completion of the disposal of our investment in Ping An of US$553m together with foreign exchange gains of US$442m relating to sterling debt issued by HSBC Holdings.

Net trading expense decreased by 18%. In addition to the foreign exchange gains noted above, there were favourable fair value movements on non-qualifying hedges, notably in Europe, mainly related to cross-currency swaps used to economically hedge fixed rate long-term debt compared with adverse movements in the first half of 2012. This was partly offset by adverse fair value movements of US$682m on the contingent forward sale contract relating to Ping An.

Net expense from financial instruments designated at fair value reduced by US$1.8bn. We reported minimal movements on the fair value of our own debt, compared with adverse movements of US$2.2bn in the first half of 2012, notably in Europe and North America. Excluding this, net expense increased due to higher adverse fair value movements from interest and exchange rate ineffectiveness in the hedging of long-term debt designated at fair value issued principally by HSBC Holdings and its European subsidiaries, compared with the first half of 2012.

Gains less losses from financial investments increased by US$909m, driven by a gain of US$1.2bn on disposal of our investment in Ping An, partly offset by the non-recurrence of gains from the sale of our shares in two Indian banks in the first half of 2012.

Other operating income increased by US$1.0bn, driven by an accounting gain of US$1.1bn arising from the reclassification of Industrial Bank as a financial investment following its issue of additional share capital to third parties.

Operating expenses reduced by US$713m, mainly from the non-recurrence of the US fines and penalties, as noted above.

Interim Management Report (continued)

Reconciliation of reported and constant currency profit/(loss) before tax

Retail Banking and Wealth Management

30 June 2013 compared with 30 June 2012

Half-year to 30 June 2013 (1H13) compared with half-year to 30 June 2012 (1H12)

	1H12 as reported US$m	Currency translation adjustment[18] US$m	1H12 at 1H13 exchange rates US$m	1H13 as reported US$m	Reported change[19] %	Constant currency change[19] %
Net interest income	10,774	(157)	10,617	9,310	(14)	(12)
Net fee income	3,760	(43)	3,717	3,586	(5)	(4)
Gains on disposal of US branch network and cards business	3,597		3,597		(100)	(100)
Other income[21]	1,184	(46)	1,138	393	(67)	(65)
Net operating income[22]	19,315	(246)	19,069	13,289	(31)	(30)
Loan impairment charges and other credit risk provisions	(3,273)	58	(3,215)	(1,768)	46	45
Net operating income	16,042	(188)	15,854	11,521	(28)	(27)
Operating expenses	(10,218)	185	(10,033)	(8,451)	17	16
Operating profit	5,824	(3)	5,821	3,070	(47)	(47)
Share of profit in associates and joint ventures	586	5	591	197	(66)	(67)
Profit before tax	6,410	2	6,412	3,267	(49)	(49)

30 June 2013 compared with 31 December 2012

Half-year to 30 June 2013 (1H13) compared with half-year to 31 December 2012 (2H12)

	2H12 as reported US$m	Currency translation adjustment[18] US$m	2H12 at 1H13 exchange rates US$m	1H13 as reported US$m	Reported change[19] %	Constant currency change[19] %

Net interest income	9,524	(51)	9,473	9,310	(2)	(2)
Net fee income	3,445	(31)	3,414	3,586	4	5
Gains on disposal of US branch network and cards business	138		138		(100)	(100)
Other income[21]	1,439	(4)	1,435	393	(73)	(73)
Net operating income[22]	14,546	(86)	14,460	13,289	(9)	(8)
Loan impairment charges and other credit risk provisions	(2,242)	(1)	(2,243)	(1,768)	21	21
Net operating income	12,304	(87)	12,217	11,521	(6)	(6)
Operating expenses	(9,551)	67	(9,484)	(8,451)	12	11
Operating profit	2,753	(20)	2,733	3,070	12	12
Share of profit in associates and joint ventures	412	5	417	197	(52)	(53)
Profit before tax	3,165	(15)	3,150	3,267	3	4

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Interim Management Report (continued)

Reconciliation of reported and underlying revenue

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported revenue	**13,289**	19,315	(31)	**13,289**	14,546	(9)
Currency translation adjustment[18]		(246)			(86)	
Acquisitions, disposals and dilutions	**(12)**	(5,850)		**(12)**	(391)	
Underlying revenue	**13,277**	13,219		**13,277**	14,069	(6)

Reconciliation of reported and underlying loan impairment charges and other credit risk provisions (LIC s)

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported LICs	**(1,768)**	(3,273)	46	**(1,768)**	(2,242)	21
Currency translation adjustment[18]		58			(1)	
Acquisitions, disposals and dilutions	**1**	330		**1**	10	
Underlying LICs	**(1,767)**	(2,885)	39	**(1,767)**	(2,233)	21

Reconciliation of reported and underlying operating expenses

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported operating expenses	**(8,451)**	(10,218)	17	**(8,451)**	(9,551)	12
Currency translation adjustment[18]		185			67	
Acquisitions, disposals and dilutions	**87**	871		**87**	141	
Underlying operating expenses	**(8,364)**	(9,162)	9	**(8,364)**	(9,343)	10
Underlying cost efficiency ratio	**63.0%**	69.3%		**63.0%**	66.4%	

Reconciliation of reported and underlying profit before tax

	Half-year to					
		30 June	Change[19]	**30 June**		Change[19]

	30 June 2013 US$m	2012 US$m	%	2013 US$m	31 December 2012 US$m	%
Reported profit before tax	**3,267**	6,410	(49)	**3,267**	3,165	3
Currency translation adjustment[18]		2			(15)	
Acquisitions, disposals and dilutions	**73**	(5,074)		**73**	(488)	
Underlying profit before tax	**3,340**	1,338	150	**3,340**	2,662	25

Reconciliation of reported and underlying average risk-weighted assets

	Half-year to					
	30 June 2013 US$bn	30 June 2012 US$bn	Change %	**30 June 2013 US$bn**	31 December 2012 US$bn	Change %
Average reported RWAs	**261**	332	(21)	**261**	291	(10)
Currency translation adjustment[18]		(2)			(2)	
Acquisitions, disposals and dilutions	**(1)**	(44)		**(1)**	(7)	
Average underlying RWAs	**260**	286	(9)	**260**	282	(8)

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Retail Banking and Wealth Management US CML and Other RWAs

Reconciliation of reported and underlying items

	Half-year to					
	30 June 2013	30 June 2012	Change[19]	**30 June 2013**	31 December 2012	Change[19]
	US$m	US$m	%	**US$m**	US$m	%
Revenue[22]						
Reported revenue	**793**	1,000	(21)	**793**	1,396	(43)
Acquisitions, disposals and dilutions	**105**			**105**		
Underlying revenue	**898**	1,000	(10)	**898**	1,396	(36)
Loss before tax						
Reported loss before tax	**(234)**	(961)	76	**(234)**	(313)	25
Acquisitions, disposals and dilutions	**120**			**120**		
Underlying loss before tax	**(114)**	(961)	88	**(114)**	(313)	64
	US$bn	US$bn	%	**US$bn**	US$bn	%
Average risk-weighted assets (RWA s)						
Average reported RWAs	**99**	127	(22)	**99**	116	(15)
Currency translation adjustment[18]						
Average underlying RWAs	**99**	127	(22)	**99**	116	(15)

Total US CML and other[11]

Reconciliation of reported and underlying items

	US$m	US$m	%	**US$m**	US$m	%
Reported loss before tax	**(300)**	(1,465)	(80)	**(300)**	(585)	(49)
Own credit spread[20]	**30**	450		**30**	250	
Acquisitions, disposals and dilutions	**120**			**120**		
Underlying loss before tax	**(150)**	(1,015)	(85)	**(150)**	(335)	(55)

Retail Banking and Wealth Management US Card and Retail Services

Reconciliation of reported and underlying items

	Half-year to					
	30 June 2013	30 June 2012	Change[19]	**30 June 2013**	31 December 2012	Change[19]
	US$m	US$m	%	**US$m**	US$m	%
Revenue[22]						
Reported revenue		4,831	(100)		(14)	(100)
Acquisitions, disposals and dilutions		(4,831)			14	
Underlying revenue						
Loss before tax						
Reported loss before tax		(3,916)	(100)		(150)	(100)
Acquisitions, disposals and dilutions		3,916				
Underlying loss before tax					(150)	
	US$bn	US$bn	%	**US$bn**	US$bn	%
Average risk-weighted assets (RWAs)						
Average reported RWAs	**5**	37	(86)	**5**	9	(44)
Currency translation adjustment[18]		(34)				
Average underlying RWAs	**5**	3	67	**5**	9	(44)

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Interim Management Report (continued)

Retail Banking and Wealth Management HSBC Finance

Reconciliation of reported and underlying revenue

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported revenue	**783**	5,936	(87)	**783**	1,280	(39)
Acquisitions, disposals and dilutions	**105**	(3,148)		**105**	(2,314)	
Underlying revenue	**888**	2,788	(68)	**888**	(1,034)	

Reconciliation of reported and underlying profit before tax

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported (loss)/profit before tax	**(234)**	2,991		**(234)**	(548)	57
Acquisitions, disposals and dilutions	**120**	(3,148)		**120**	(768)	
Underlying loss before tax	**(114)**	(157)	27	**(114)**	(1,316)	91

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Commercial Banking

30 June 2013 compared with 30 June 2012

	Half-year to 30 June 2013 (1H13) compared with half-year to 30 June 2012 (1H12)					
	1H12 as reported US$m	Currency translation adjustment[18] US$m	1H12 at 1H13 exchange rates US$m	1H13 as reported US$m	Reported change[19] %	Constant currency change[19] %
Net interest income	5,144	(93)	5,051	5,050	(2)	
Net fee income	2,224	(31)	2,193	2,337	5	7
Gains on disposal of US branch network and cards business	212		212		(100)	(100)
Other income[21]	673	(22)	651	476	(29)	(27)
Net operating income[22]	8,253	(146)	8,107	7,863	(5)	(3)
Loan impairment charges and other credit risk provisions	(924)	33	(891)	(1,160)	(26)	(30)
Net operating income	7,329	(113)	7,216	6,703	(9)	(7)
Operating expenses	(3,736)	65	(3,671)	(3,337)	11	9
Operating profit	3,593	(48)	3,545	3,366	(6)	(5)
Share of profit in associates and joint ventures	836	7	843	767	(8)	(9)
Profit before tax	4,429	(41)	4,388	4,133	(7)	(6)

30 June 2013 compared with 31 December 2012

	Half-year to 30 June 2013 (1H13) compared with half-year to 31 December 2012 (2H12)					
	2H12 as reported US$m	Currency translation adjustment[18] US$m	2H12 at 1H13 exchange rates US$m	1H13 as reported US$m	Reported change[19] %	Constant currency change[19] %
Net interest income	5,217	(31)	5,186	5,050	(3)	(3)
Net fee income	2,246	(17)	2,229	2,337	4	5
Gains on disposal of US branch network and cards business	65		65		(100)	(100)
Other income[21]	770		770	476	(38)	(38)
Net operating income[22]	8,298	(48)	8,250	7,863	(5)	(5)

Loan impairment charges and other credit risk provisions	(1,175)	13	(1,162)	(1,160)	1	
Net operating income	7,123	(35)	7,088	6,703	(6)	(5)
Operating expenses	(3,862)	26	(3,836)	(3,337)	14	13
Operating profit	3,261	(9)	3,252	3,366	3	4
Share of profit in associates and joint ventures	845	6	851	767	(9)	(10)
Profit before tax	4,106	(3)	4,103	4,133	1	1

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Interim Management Report (continued)

Reconciliation of reported and underlying revenue

	Half-year to					
	30 June 2013	30 June 2012	Change[19]	**30 June 2013**	31 December 2012	Change[19]
	US$m	US$m	%	**US$m**	US$m	%
Reported revenue	**7,863**	8,253	(5)	**7,863**	8,298	(5)
Currency translation adjustment[18]		(146)			(48)	
Acquisitions, disposals and dilutions	**(2)**	(319)		**(2)**	(288)	
Underlying revenue	**7,861**	7,788	1	**7,861**	7,962	(1)

Reconciliation of reported and underlying loan impairment charges and other credit risk provisions (LIC s)

	Half-year to					
	30 June 2013	30 June 2012	Change[19]	**30 June 2013**	31 December 2012	Change[19]
	US$m	US$m	%	**US$m**	US$m	%
Reported LICs	**(1,160)**	(924)	(26)	**(1,160)**	(1,175)	1
Currency translation adjustment[18]		33			13	
Acquisitions, disposals and dilutions		1			(2)	
Underlying LICs	**(1,160)**	(890)	(30)	**(1,160)**	(1,164)	

Reconciliation of reported and underlying operating expenses

	Half-year to					
	30 June 2013	30 June 2012	Change[19]	**30 June 2013**	31 December 2012	Change[19]
	US$m	US$m	%	**US$m**	US$m	%
Reported operating expenses	**(3,337)**	(3,736)	11	**(3,337)**	(3,862)	14
Currency translation adjustment[18]		65			26	
Acquisitions, disposals and dilutions		71			30	
Underlying operating expenses	**(3,337)**	(3,600)	7	**(3,337)**	(3,806)	12
Underlying cost efficiency ratio	**42.5%**	46.2%		**42.5%**	47.8%	

Reconciliation of reported and underlying profit before tax

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

	2013 US$m	2012 US$m	Change[19] %	2013 US$m	2012 US$m	Change[19] %
Reported profit before tax	**4,133**	4,429	(7)	**4,133**	4,106	1
Currency translation adjustment[18]		(41)			(3)	
Acquisitions, disposals and dilutions	**(2)**	(418)		**(2)**	(449)	
Underlying profit before tax	**4,131**	3,970	4	**4,131**	3,654	13

Average risk-weighted assets (RWA s)

	Half-year to					
	30 June 2013 US$bn	30 June 2012 US$bn	Change[19] %	**30 June 2013 US$bn**	31 December 2012 US$bn	Change[19] %
Average reported RWAs	**386**	393	(2)	**386**	401	(4)
Currency translation adjustment[18]		(2)			(1)	
Acquisitions, disposals and dilutions	**(9)**	(41)		**(9)**	(38)	
Average underlying RWAs	**377**	350	8	**377**	362	4

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Interim Management Report (continued)

Global Banking and Markets

30 June 2013 compared with 30 June 2012

	Half-year to 30 June 2013 (1H13) compared with half-year to 30 June 2012 (1H12)					
	1H12 as reported	Currency translation adjustment[18]	1H12 at 1H13 exchange rates	1H13 as reported	Reported change[19]	Constant currency change[19]
	US$m	US$m	US$m	US$m	%	%
Net interest income	3,625	(57)	3,568	3,334	(8)	(7)
Net fee income	1,598	(10)	1,588	1,818	14	14
Other income[21]	5,112	(65)	5,047	5,510	8	9
Net operating income[22]	10,335	(132)	10,203	10,662	3	4
Loan impairment charges and other credit risk provisions	(598)	10	(588)	(174)	71	70
Net operating income	9,737	(122)	9,615	10,488	8	9
Operating expenses	(5,073)	57	(5,016)	(5,007)	1	
Operating profit	4,664	(65)	4,599	5,481	18	19
Share of profit in associates and joint ventures	383	2	385	242	(37)	(37)
Profit before tax	5,047	(63)	4,984	5,723	13	15

30 June 2013 compared with 31 December 2012

	Half-year to 30 June 2013 (1H13) compared with half-year to 31 December 2012 (2H12)					
	2H12 as reported	Currency translation adjustment[18]	2H12 at 1H13 exchange rates	1H13 as reported	Reported change[19]	Constant currency change[19]
	US$m	US$m	US$m	US$m	%	%
Net interest income	3,335	(9)	3,326	3,334		
Net fee income	1,731	(2)	1,729	1,818	5	5
Other income[21]	2,872	(13)	2,859	5,510	92	93
Net operating income[22]	7,938	(24)	7,914	10,662	34	35
Loan impairment charges and other credit risk provisions	(72)	(4)	(76)	(174)	(142)	(129)

Net operating income	7,866	(28)	7,838	10,488	33	34
Operating expenses	(4,834)	57	(4,777)	(5,007)	(4)	(5)
Operating profit	3,032	29	3,061	5,481	81	79
Share of profit in associates and joint ventures	441	2	443	242	(45)	(45)
Profit before tax	3,473	31	3,504	5,723	65	63

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Reconciliation of reported and underlying revenue

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported revenue	**10,662**	10,335	3	**10,662**	7,938	34
Currency translation adjustment[18]		(132)			(24)	
Acquisitions, disposals and dilutions	**6**	(71)		**6**	(36)	
Underlying revenue	**10,668**	10,132	5	**10,668**	7,878	35

Reconciliation of reported and underlying loan impairment charges and other credit risk provisions (LIC s)

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported LICs	**(174)**	(598)	71	**(174)**	(72)	(142)
Currency translation adjustment[18]		10			(4)	
Underlying LICs	**(174)**	(588)	70	**(174)**	(76)	(129)

Reconciliation of reported and underlying operating expenses

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported operating expenses	**(5,007)**	(5,073)	1	**(5,007)**	(4,834)	(4)
Currency translation adjustment[18]		57			57	
Acquisitions, disposals and dilutions		12			9	
Underlying operating expenses	**(5,007)**	(5,004)		**(5,007)**	(4,768)	(5)
Underlying cost efficiency ratio	**46.9%**	49.4%		**46.9%**	60.5%	

Reconciliation of reported and underlying profit before tax

	Half-year to					
	30 June	30 June	Change[19] %	**30 June**	31 December	Change[19] %

	2013 US$m	2012 US$m		2013 US$m	2012 US$m	
Reported profit before tax	**5,723**	5,047	13	**5,723**	3,473	65
Currency translation adjustment[18]		(63)			31	
Acquisitions, disposals and dilutions	**6**	(224)		**6**	(269)	
Underlying profit before tax	**5,729**	4,760	20	**5,729**	3,235	77

Average risk-weighted assets (RWAs)

	Half-year to					
	30 June 2013 US$bn	30 June 2012 US$bn	Change[19] %	**30 June 2013 US$bn**	31 December 2012 US$bn	Change[19] %
Average reported RWAs	**415**	419	(1)	**415**	406	2
Currency translation adjustment[18]		(2)			(2)	
Acquisitions, disposals and dilutions	**(3)**	(9)		**(3)**	(11)	
Average underlying RWAs	**412**	408	1	**412**	393	5

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Interim Management Report (continued)

Global Banking and Markets legacy credit

Reconciliation of reported and underlying items

	Half-year to					
	30 June 2013	30 June 2012	Change[19]	30 June 2013	31 December 2012	Change[19]
	US$m	US$m	%	US$m	US$m	%
Profit/(loss) before tax						
Reported profit/(loss) before tax	**153**	(378)		**153**	98	56
Currency translation adjustment[18]		7			(2)	
Underlying profit/(loss) before tax	**153**	(371)		**153**	96	59
	US$bn	US$bn	%	**US$bn**	US$bn	%
Average risk-weighted assets (RWA s)						
Average reported RWAs	**36**	48	(25)	**36**	43	(16)
Currency translation adjustment[18]						
Average underlying RWAs	**36**	48	(25)	**36**	43	(16)

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Balance sheet data significant to Global Banking and Markets

	Europe	Hong Kong	Rest of Asia-Pacific	MENA	North America	Latin America	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
At 30 June 2013							
Trading assets[1]	**269,959**	**29,233**	**17,975**	**443**	**102,260**	**7,210**	**427,080**
Derivative assets[2]	**236,502**	**32,423**	**24,154**	**1,334**	**67,714**	**6,031**	**368,158**
Trading liabilities	**202,431**	**10,817**	**4,317**	**1,241**	**108,139**	**3,507**	**330,452**
Derivative liabilities[2]	**286,255**	**30,944**	**23,469**	**1,379**	**65,277**	**5,496**	**412,820**
At 30 June 2012							
Trading assets[1]	230,229	33,836	23,695	843	85,124	10,830	384,557
Derivative assets[2]	283,393	25,956	23,581	1,333	86,132	5,465	425,860
Trading liabilities	185,907	9,089	5,465	1,080	88,561	5,961	296,063
Derivative liabilities[2]	286,698	25,718	23,714	1,349	85,638	5,042	428,159
At 31 December 2012							
Trading assets[1]	242,175	31,614	22,804	530	95,347	9,506	401,976
Derivative assets[2]	287,427	28,351	22,700	1,417	80,096	5,117	425,108

Trading liabilities	176,838	9,345	4,470	1,081	94,943	5,950	292,627
Derivative liabilities[2]	292,711	27,720	22,900	1,430	79,437	4,899	429,097

1 *Trading assets, financial instruments designated at fair value and financial investments held in Europe, and by GB&M in North America, include financial assets which may be repledged or resold by counterparties.*

2 *Derivative assets and derivative liabilities of GB&M include derivative transactions between different regions of GB&M.*

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Global Private Banking

30 June 2013 compared with 30 June 2012

	Half-year to 30 June 2013 (1H13) compared with half-year to 30 June 2012 (1H12)					
	1H12 as reported US$m	Currency translation adjustment[18] US$m	1H12 at 1H13 exchange rates US$m	1H13 as reported US$m	Reported change[19] %	Constant currency change[19] %
Net interest income	672	(4)	668	575	(14)	(14)
Net fee income	625	(2)	623	602	(4)	(3)
Other income/(expense)[21]	344	(11)	333	(26)		
Net operating income[22]	**1,641**	**(17)**	**1,624**	**1,151**	**(30)**	**(29)**
Loan impairment charges and other credit risk provisions	(4)		(4)	(14)	(250)	(250)
Net operating income	**1,637**	**(17)**	**1,620**	**1,137**	**(31)**	**(30)**
Operating expenses	(1,113)	3	(1,110)	(1,035)	7	7
Operating profit	**524**	**(14)**	**510**	**102**	**(81)**	**(80)**
Share of profit in associates and joint ventures	3		3	6	100	100
Profit before tax	**527**	**(14)**	**513**	**108**	**(80)**	**(79)**

30 June 2013 compared with 31 December 2012

	Half-year to 30 June 2013 (1H13) compared with half-year to 31 December 2012 (2H12)					
	2H12 as reported US$m	Currency translation adjustment[18] US$m	2H12 at 1H13 exchange rates US$m	1H13 as reported US$m	Reported change[19] %	Constant currency change[19] %
Net interest income	622	(3)	619	575	(8)	(7)
Net fee income	607	1	608	602	(1)	(1)
Other income/(expense)[21]	302	(1)	301	(26)		
Net operating income[22]	1,531	(3)	1,528	1,151	(25)	(25)
Loan impairment charges and other credit risk provisions	(23)	1	(22)	(14)	39	36

Net operating income	1,508	(2)	1,506	1,137	(25)	(25)
Operating expenses	(1,030)	1	(1,029)	(1,035)		(1)
Operating profit	478	(1)	477	102	(79)	(79)
Share of profit in associates and joint ventures	4		4	6	50	50
Profit before tax	482	(1)	481	108	(78)	(78)

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Reconciliation of reported and underlying revenue

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported revenue	**1,151**	1,641	(30)	**1,151**	1,531	(25)
Currency translation adjustment[18]		(17)			(3)	
Acquisitions, disposals and dilutions		(66)			1	
Underlying revenue	**1,151**	1,558	(26)	**1,151**	1,529	(25)

Reconciliation of reported and underlying loan impairment charges and other credit risk provisions (LIC s)

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported LICs	**(14)**	(4)	(250)	**(14)**	(23)	39
Currency translation adjustment[18]					1	
Underlying LICs	**(14)**	(4)	(250)	**(14)**	(22)	36

Reconciliation of reported and underlying operating expenses

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported operating expenses	**(1,035)**	(1,113)	7	**(1,035)**	(1,030)	
Currency translation adjustment[18]		3			1	
Acquisitions, disposals and dilutions		10				
Underlying operating expenses	**(1,035)**	(1,100)	6	**(1,035)**	(1,029)	(1)
Underlying cost efficiency ratio	**89.9%**	70.6%		**89.9%**	67.3%	

Reconciliation of reported and underlying profit before tax

	Half-year to					
	30 June	30 June	Change[19] %	**30 June**	31 December	Change[19] %

	2013 US$m	2012 US$m		2013 US$m	2012 US$m	
Reported profit before tax	**108**	527	(80)	**108**	482	(78)
Currency translation adjustment[18]		(14)			(1)	
Acquisitions, disposals and dilutions		(56)			1	
Underlying profit before tax	**108**	457	(76)	**108**	482	(78)

Average risk-weighted assets (RWAs)

	Half-year to					
	30 June 2013 US$bn	30 June 2012 US$bn	Change[19] %	**30 June 2013 US$bn**	31 December 2012 US$bn	Change[19] %
Average reported RWAs	**22**	22		**22**	22	
Currency translation adjustment[18]					(1)	
Average underlying RWAs	**22**	22		**22**	21	2

For footnotes, see page 100.

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Interim Management Report (continued)

Other

30 June 2013 compared with 30 June 2012

	Half-year to 30 June 2013 (1H13) compared with half-year to 30 June 2012 (1H12)					
	1H12 as reported US$m	Currency translation adjustment[18] US$m	1H12 at 1H13 exchange rates US$m	1H13 as reported US$m	Reported change[19] %	Constant currency change[19] %
Net interest expense	(464)	6	(458)	(376)	19	18
Net fee income	100	1	101	61	(39)	(40)
Own credit spread[20]	(2,170)	8	(2,162)	(19)	99	99
Other income[21]	2,872	(21)	2,851	4,484	56	57
Net operating income[22]	**338**	**(6)**	**332**	**4,150**	**1,128**	**1,150**
Loan impairment charges and other credit risk provisions						
Net operating income	**338**	**(6)**	**332**	**4,150**	**1,128**	**1,150**
Operating expenses	(4,049)	24	(4,025)	(3,312)	18	18
Operating profit/(loss)	**(3,711)**	**18**	**(3,693)**	**838**		
Share of profit in associates and joint ventures	35		35	2	(94)	(94)
Profit/(loss) before tax	**(3,676)**	**18**	**(3,658)**	**840**		

30 June 2013 compared with 31 December 2012

	Half-year to 30 June 2013 (1H13) compared with half-year to 31 December 2012 (2H12)					
	2H12 as reported US$m	Currency translation adjustment[18] US$m	2H12 at 1H13 exchange rates US$m	1H13 as reported US$m	Reported change[19] %	Constant currency change[19] %
Net interest expense	(266)	(8)	(274)	(376)	(41)	(37)
Net fee income	94	1	95	61	(35)	(36)
Own credit spread[20]	(3,045)	20	(3,025)	(19)	99	99
Gains on disposal of Ping An	3,012		3,012		(100)	(100)
Other income[21]	2,199	(247)	1,952	4,484	104	130

Net operating income[22]	1,994	(234)	1,760	4,150	108	136
Loan impairment charges and other credit risk provisions						
Net operating income	1,994	(234)	1,760	4,150	108	136
Operating expenses	(5,320)	10	(5,310)	(3,312)	38	38
Operating profit/(loss)	(3,326)	(224)	(3,550)	838		
Share of profit in associates and joint ventures	12		12	2	(83)	(83)
Profit/(loss) before tax	(3,314)	(224)	(3,538)	840		

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Reconciliation of reported and underlying revenue

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported revenue	**4,150**	338	1,128	**4,150**	1,994	108
Currency translation adjustment[18]		(14)			(254)	
Own credit spread[20]	**19**	2,170		**19**	3,045	
Acquisitions, disposals and dilutions	**(1,089)**	(133)		**(1,089)**	(2,974)	
Underlying revenue	**3,080**	2,361	30	**3,080**	1,811	70

Reconciliation of reported and underlying operating expenses

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported operating expenses	**(3,312)**	(4,049)	18	**(3,312)**	(5,320)	38
Currency translation adjustment[18]		24			10	
Underlying operating expenses	**(3,312)**	(4,025)	18	**(3,312)**	(5,310)	38
Underlying cost efficiency ratio	**107.5%**	170.5%		**107.5%**	293.2%	

Reconciliation of reported and underlying profit/(loss) before tax

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported profit/(loss) before tax	**840**	(3,676)		**840**	(3,314)	
Currency translation adjustment[18]		10			(244)	
Own credit spread[20]	**19**	2,170		**19**	3,045	
Acquisitions, disposals and dilutions	**(1,089)**	(133)		**(1,089)**	(2,974)	
Underlying loss before tax	**(230)**	(1,629)	86	**(230)**	(3,487)	93

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Analysis by global business

HSBC profit/(loss) before tax and balance sheet data

	Half-year to 30 June 2013						
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Other[52]	Inter-segment elimination[62]	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Profit/(loss) before tax							
Net interest income/ (expense)	9,310	5,050	3,334	575	(376)	(74)	17,819
Net fee income	3,586	2,337	1,818	602	61		8,404
Trading income/(expense) excluding net interest income	275	343	4,577	226	(191)		5,230
Net interest income on trading activities		3	1,029	4	22	74	1,132
Net trading income/ (expense)[57]	275	346	5,606	230	(169)	74	6,362
Net income/(expense) from financial instruments designated at fair value	122	104	(961)		(462)		(1,197)
Gains less losses from financial investments	48	(6)	597	4	1,213		1,856
Dividend income	11	8	65	6	17		107
Net earned insurance premiums	5,469	748	3	6			6,226
Other operating income/ (expense)	(92)	(19)	201	(267)	3,866	(2,743)	946
Total operating income	18,729	8,568	10,663	1,156	4,150	(2,743)	40,523
Net insurance claims[63]	(5,440)	(705)	(1)	(5)			(6,151)
Net operating income[22]	13,289	7,863	10,662	1,151	4,150	(2,743)	34,372
Loan impairment charges and other credit risk provisions	(1,768)	(1,160)	(174)	(14)			(3,116)
Net operating income	11,521	6,703	10,488	1,137	4,150	(2,743)	31,256
Employee expenses[64]	(2,651)	(1,163)	(1,882)	(381)	(3,419)		(9,496)
Other operating income/(expenses)	(5,800)	(2,174)	(3,125)	(654)	107	2,743	(8,903)
Total operating expenses	(8,451)	(3,337)	(5,007)	(1,035)	(3,312)	2,743	(18,399)
Operating profit	3,070	3,366	5,481	102	838		12,857
Share of profit in associates and joint ventures	197	767	242	6	2		1,214
Profit before tax	3,267	4,133	5,723	108	840		14,071

	%	%	%	%	%		%
Share of HSBC s profit before tax	**23.2**	**29.4**	**40.7**	**0.8**	**5.9**		**100.0**
Cost efficiency ratio	**63.6**	**42.4**	**47.0**	**89.9**	**79.8**		**53.5**
Balance sheet data[53]							
	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances to customers (net)	**362,836**	**288,842**	**276,181**	**39,161**	**2,362**		**969,382**
Total assets	**504,205**	**350,503**	**1,992,770**	**114,883**	**176,122**	**(493,167)**	**2,645,316**
Customer accounts	**547,140**	**327,612**	**347,716**	**92,360**	**1,354**		**1,316,182**

Interim Management Report (continued)

	Half-year to 30 June 2012						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other[52] US$m	Inter-segment elimination[62] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/ (expense)	10,774	5,144	3,625	672	(464)	(375)	19,376
Net fee income	3,760	2,224	1,598	625	100		8,307
Trading income/(expense) excluding net interest income	20	315	2,785	254	(240)		3,134
Net interest income on trading activities	14	6	950	5	35	375	1,385
Net trading income/ (expense)[57]	34	321	3,735	259	(205)	375	4,519
Net income/(expense) from financial instruments designated at fair value	519	72	501		(2,275)		(1,183)
Gains less losses from financial investments	20	2	700	(4)	305		1,023
Dividend income	13	10	55	4	21		103
Net earned insurance premiums	5,792	882	17	9	(4)		6,696
Gains on disposal of US branch network, US cards business and Ping An	3,597	212					3,809
Other operating income	738	208	117	84	2,860	(2,985)	1,022
Total operating income	25,247	9,075	10,348	1,649	338	(2,985)	43,672
Net insurance claims[63]	(5,932)	(822)	(13)	(8)			(6,775)
Net operating income[22]	19,315	8,253	10,335	1,641	338	(2,985)	36,897
Loan impairment charges and other credit risk provisions	(3,273)	(924)	(598)	(4)			(4,799)
Net operating income	16,042	7,329	9,737	1,637	338	(2,985)	32,098
Employee expenses[64]	(2,944)	(1,106)	(2,181)	(617)	(4,057)		(10,905)
Other operating income/(expenses)	(7,274)	(2,630)	(2,892)	(496)	8	2,985	(10,299)
Total operating expenses	(10,218)	(3,736)	(5,073)	(1,113)	(4,049)	2,985	(21,204)
Operating profit/(loss)	5,824	3,593	4,664	524	(3,711)		10,894
Share of profit in associates and joint ventures	586	836	383	3	35		1,843
Profit/(loss) before tax	6,410	4,429	5,047	527	(3,676)		12,737
	%	%	%	%	%		%
Share of HSBC s profit before tax	50.3	34.8	39.6	4.1	(28.8)		100.0
Cost efficiency ratio	52.9	45.3	49.1	67.8			57.5
Balance sheet data[53]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	363,353	272,817	290,749	44,018	4,048		974,985

Total assets	526,069	351,157	1,905,455	119,271	179,703	(429,321)	2,652,334
Customer accounts	531,782	317,077	316,219	109,101	4,310		1,278,489

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Interim Management Report (continued)

HSBC profit/(loss) before tax and balance sheet data (continued)

	Half-year to 31 December 2012						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other[52] US$m	Inter-segment elimination[62] US$m	Total US$m
Profit before tax							
Net interest income/ (expense)	9,524	5,217	3,335	622	(266)	(136)	18,296
Net fee income	3,445	2,246	1,731	607	94		8,123
Trading income/(expense) excluding net interest income	256	302	803	222	(309)		1,274
Net interest income/ (expense) on trading activities	14	10	1,152	9	(23)	136	1,298
Net trading income/ (expense)[57]	270	312	1,955	231	(332)	136	2,572
Net income/(expense) from financial instruments designated at fair value	1,374	178	593		(3,188)		(1,043)
Gains less losses from financial investments	76	20	30	1	39		166
Dividend income	11	8	93	2	4		118
Net earned insurance premiums	5,399	904	8	33	4		6,348
Gains on disposal of US branch network, US cards business and Ping An	138	65			3,012		3,215
Other operating income	734	328	196	67	2,627	(2,874)	1,078
Total operating income	20,971	9,278	7,941	1,563	1,994	(2,874)	38,873
Net insurance claims[63]	(6,425)	(980)	(3)	(32)			(7,440)
Net operating income[22]	14,546	8,298	7,938	1,531	1,994	(2,874)	31,433
Loan impairment charges and other credit risk provisions	(2,242)	(1,175)	(72)	(23)			(3,512)
Net operating income	12,304	7,123	7,866	1,508	1,994	(2,874)	27,921
Employee expenses[64]	(2,588)	(1,141)	(1,583)	(298)	(3,976)		(9,586)
Other operating expenses	(6,963)	(2,721)	(3,251)	(732)	(1,344)	2874	(12,137)
Total operating expenses	(9,551)	(3,862)	(4,834)	(1,030)	(5,320)	2,874	(21,723)
Operating profit/(loss)	2,753	3,261	3,032	478	(3,326)		6,198
Share of profit in associates and joint ventures	412	845	441	4	12		1,714
Profit/(loss) before tax	3,165	4,106	3,473	482	(3,314)		7,912
	%	%	%	%	%		%
Share of HSBC s profit before tax	40.0	51.9	43.9	6.1	(41.9)		100.0

Cost efficiency ratio	65.7	46.5	60.9	67.3	266.8		69.1
Balance sheet data[53]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	378,040	288,033	283,842	45,213	2,495		997,623
Total assets	536,244	363,659	1,942,470	118,440	201,741	(470,016)	2,692,538
Customer accounts	562,151	338,405	332,115	105,772	1,571		1,340,014

For footnotes, see page 100.

Interim Management Report (continued)

Geographical regions

Summary

In the analysis of profit and loss by geographical region that follows, operating income and operating

expenses include intra-HSBC items of US$1,591m (first half of 2012: US$1,630m; second half of 2012: US$1,728m).

Profit/(loss) before tax

	Half-year to					
	30 June 2013		30 June 2012		31 December 2012	
	US$m	**%**	US$m	%	US$m	%
Europe	**2,768**	**19.7**	(667)	(5.2)	(2,747)	(34.7)
Hong Kong	**4,205**	**29.9**	3,761	29.5	3,821	48.3
Rest of Asia-Pacific	**5,057**	**35.9**	4,372	34.3	6,076	76.8
Middle East and North Africa	**909**	**6.5**	772	6.1	578	7.3
North America	**666**	**4.7**	3,354	26.3	(1,055)	(13.3)
Latin America	**466**	**3.3**	1,145	9.0	1,239	15.6
	14,071	**100.0**	12,737	100.0	7,912	100.0

Interim Management Report (continued)

Total assets[53]

	At 30 June 2013		At 30 June 2012		At 31 December 2012	
	US$m	**%**	US$m	%	US$m	%
Europe	**1,365,534**	**51.6**	1,375,553	51.9	1,389,240	51.6
Hong Kong	**528,712**	**20.0**	486,608	18.3	518,334	19.3
Rest of Asia-Pacific	**325,271**	**12.3**	334,978	12.6	342,269	12.7
Middle East and North Africa	**63,292**	**2.4**	62,881	2.4	62,605	2.3
North America	**473,218**	**17.9**	500,590	18.9	490,247	18.2
Latin America	**123,032**	**4.7**	138,968	5.2	131,277	4.9
Intra-HSBC items	**(233,743)**	**(8.9)**	(247,244)	(9.3)	(241,434)	(9.0)
	2,645,316	**100.0**	2,652,334	100.0	2,692,538	100.0

For footnote, see page 100.

Risk-weighted assets[65]

	At 30 June 2013		At 30 June 2012		At 31 December 2012	
	US$bn	**%**	US$bn	%	US$bn	%
Total	**1,104.8**		1,159.9		1,123.9	
Europe	**305.4**	**27.4**	329.5	27.9	314.7	27.6
Hong Kong	**128.1**	**11.5**	108.0	9.1	111.9	9.8
Rest of Asia-Pacific	**285.0**	**25.5**	303.2	25.7	302.2	26.4
Middle East and North Africa	**64.2**	**5.8**	63.0	5.3	62.2	5.4
North America	**236.4**	**21.1**	279.2	23.6	253.0	22.2
Latin America	**96.7**	**8.7**	99.8	8.4	97.9	8.6

For footnote, see page 100.

Selected items included in profit before tax by geographical region

Fair value movements arising from changes in own credit spreads[20]

	Half-year to		
	30 June 2013 US$m	30 June 2012 US$m	31 December 2012 US$m
Europe	**3**	(1,605)	(2,505)
Rest of Asia-Pacific	**1**	(2)	(1)
Middle East and North Africa	**(1)**	(4)	(8)
North America	**(22)**	(559)	(531)
	(19)	(2,170)	(3,045)

Acquisitions, disposals and dilutions[54]

	Half-year to		
	30 June 2013 US$m	30 June 2012 US$m	31 December 2012 US$m
Europe	**(11)**		(3)
Hong Kong		28	392
Rest of Asia-Pacific	**1,116**	1,025	3,639
Middle East and North Africa		27	(45)
North America	**(120)**	4,678	183
Latin America	**27**	147	13
	1,012	5,905	4,179

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Interim Management Report (continued)

Europe

Our principal banking operations in Europe are HSBC Bank plc in the UK, HSBC France, HSBC Bank A.S. in Turkey, HSBC Bank Malta p.l.c., HSBC Private Bank (Suisse) SA and HSBC Trinkaus & Burkhardt AG. Through these operations we provide a wide range of banking, treasury and financial services to personal, commercial and corporate customers across Europe.

	Half-year to		
	30 Jun 2013 US$m	30 Jun 2012 US$m	31 Dec 2012 US$m
Net interest income	**5,250**	5,073	5,321
Net fee income	**2,969**	3,023	3,146
Net trading income	**4,339**	1,851	856
Other expense	**(1,084)**	(280)	(1,382)
Net operating income[22]	**11,474**	9,667	7,941
LICs[55]	**(846)**	(1,037)	(884)
Net operating income	**10,628**	8,630	7,057
Total operating expenses	**(7,862)**	(9,289)	(9,806)
Operating profit/(loss)	**2,766**	(659)	(2,749)
Income/(expense) from associates[56]	**2**	(8)	2
Profit/(loss) before tax	**2,768**	(667)	(2,747)
Cost efficiency ratio	**68.5%**	96.1%	123.5%
RoRWA[49]	**1.8%**	(0.4%)	(1.7%)
Period-end staff numbers	**69,599**	73,143	70,061

Launched two international SME funds:

£5bn in the UK

1bn in France

Winner of Best Bank Mortgage Provider Award (5th

year running)

(Moneyfacts Awards, 2013)

Over US$340m

of sustainable cost savings

in the first half of 2013

For footnotes, see page 100.

Economic background

The **UK** economy recovered tentatively, with real Gross Domestic Product (GDP) growing by 0.3% in the first quarter of 2013 and 0.6% in the second quarter. The labour market was resilient and employment reached new highs, while unemployment was 7.8% in the three months to May, down from 7.9% in the previous quarter. Consumer Price Index (CPI) inflation increased slightly from 2.7% in December 2012 to 2.9% in June 2013, driven by higher transport and food costs. The Bank of England left its key interest rate of 0.5% and its stock of asset purchases at £375bn (US$560bn) unchanged.

Eurozone GDP shrank by 0.2% in the first quarter of 2013, the sixth consecutive quarter of contraction, despite a bounce in German consumer spending of 0.8%. Unemployment rose from 11.9% in December 2012 to 12.1% in June 2013. Exports continued to fall, though there were signs of stabilisation in the second quarter even in the periphery. With inflation falling from 2.5% in 2012 to 1.6% in the first half of 2013, the squeeze on real wages started to abate. In view of the weakness in economic activity and slowing inflation, the ECB cut the refi rate by 0.25% to a record low of 0.5% in May. Helped by the ECB s commitment to buy unlimited amounts of government bonds, government bond spreads in the periphery continued to narrow until late April, with only a very short-lived effect from the Italian election result and the Cyprus refinancing deal. In May and June market interest rates rose following the US Federal Reserve s suggestion that it may soon start to taper off its asset purchase programme.

Review of performance

Our European operations reported a profit before tax of US$2.8bn in the first half of 2013, compared with a loss of US$667m in the first half of 2012 (US$648m on a constant currency basis). On an underlying basis, profit before tax increased by US$1.8bn due to significantly lower operating expenses driven by a decrease in charges relating to customer redress programmes; higher GB&M revenue, which included a favourable DVA on derivative contracts; and a decline in LICs.

In RBWM, we supported the UK housing market during the first half of 2013, approving £7.1bn (US$11.0bn) of new mortgage lending to over 68,000 customers. This included £2.0bn (US$3.1bn) to over 16,000 first time buyers. The loan-to-value ratio on new lending was 59%

Interim Management Report (continued)

Profit/(loss) before tax by country within global businesses

	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Total US$m
Half-year to 30 June 2013						
UK	**804**	**894**	**1,047**	**132**	**(657)**	**2,220**
France[46]	**130**	**135**	**302**		**(78)**	**489**
Germany	**15**	**31**	**45**	**21**	**(6)**	**106**
Malta	**22**	**29**	**19**			**70**
Switzerland		**1**	**1**	**(42)**		**(40)**
Turkey	**(18)**	**31**	**72**		**(1)**	**84**
Other	**3**	**(35)**	**82**	**(225)**	**14**	**(161)**
	956	**1,086**	**1,568**	**(114)**	**(728)**	**2,768**
Half-year to 30 June 2012						
UK	(166)	521	357	108	(2,437)	(1,617)
France[46]	29	114	330	(5)	(175)	293
Germany	16	28	153	15	(28)	184
Malta	21	32	16			69
Switzerland				66		66
Turkey	5	43	50			98
Other	3	36	137	52	12	240
	(92)	774	1,043	236	(2,628)	(667)
Half-year to 31 December 2012						
UK	509	311	(468)	127	(3,918)	(3,439)
France[46]	106	89	184	(6)	(88)	285
Germany	13	36	130	25	(44)	160
Malta	18	20	15			53
Switzerland		2	1	67		70
Turkey	(37)	28	54		1	46
Other	(8)	(52)	27	50	61	78
	601	434	(57)	263	(3,988)	(2,747)

For footnote, see page 100.

compared with an average of 51% for the total mortgage portfolio.

In CMB, we launched two International SME funds in the UK and France of £5.0bn (US$7.6bn) and 1.0bn (US$1.3bn), respectively, supporting businesses that trade, or aspire to trade, internationally. We approved lending of £2.4bn (US$3.7bn) in the UK including the renewal of overdraft and other lending facilities, and 0.7bn (US$0.9bn) in France in the first half of 2013.

In GB&M, our Payments and Cash Management and Foreign Exchange businesses launched Global Disbursements and FlexRate Payway in the first half of 2013, providing our clients with the ability to make multi-currency payments more efficiently with foreign exchange rates guaranteed for an agreed period. In Credit, primary issuances increased, reflecting demand for financing from debt capital markets, resulting in leading positions and increased market share in both the euro and sterling markets.

The following commentary is on a constant currency basis.

Net interest income increased by 5%, driven by higher residential mortgage balances due to

competitive offers in RBWM in the UK and, to a lesser extent, in France, together with improved lending spreads in the UK reflecting higher spreads on new business. Customer account balances also increased, although the benefit was largely offset by deposit spread compression in the low interest rate environment. In Balance Sheet Management, net interest income was higher, reflecting portfolio growth as deposit balances rose and reduced funding costs. CMB net interest income grew, mainly in the UK, driven by growth in average lending and deposit balances, coupled with higher new business spreads. These factors were partly offset by a decline in GPB as higher yielding positions matured and opportunities for reinvestment were limited by lower prevailing yields. Narrower lending and deposit spreads also contributed to the fall in GPB net interest income.

Net fee income decreased by US$30m, mainly in RBWM due to higher fees paid under partnership agreements, coupled with lower brokerage fees in GPB due to a reduction in client transaction volumes, in part reflecting lower market volatility and fewer large deals. These were partly offset by a rise in lending fees in CMB in the UK and higher primary market issuance fees in GB&M.

Interim Management Report (continued)

Net trading income increased by US$2.5bn to US$4.3bn. This was driven by favourable foreign exchange movements on assets held as economic hedges of foreign currency debt designated at fair value compared with adverse movements in the first half of 2012, together with a favourable DVA on derivative contracts (see page 28), a foreign exchange gain on sterling debt issued by HSBC Holdings and favourable fair value movements on non-qualifying hedges which compared with adverse movements in the first half of 2012. In addition, Foreign Exchange income rose due to increased transaction volumes which benefited from improved electronic pricing and distribution capabilities, although the rise was offset in part by margin compression. These factors were partly offset by lower Rates revenue as the first half of 2012 benefited from tightening spreads following the ECB s announcement of the Long-Term Refinancing Operation. In the current period, a strong first quarter performance was partly offset in the second quarter by more volatile market conditions. Lower adverse fair value movements from own credit spreads on structured liabilities partly offset this decline.

Net expense from financial instruments designated at fair value was broadly in line with the first half of 2012. We reported minimal movements on the fair value of our own debt, compared with adverse movements of US$1.6bn in the first half of 2012. Excluding this, net expense of US$1.0bn in the first half of 2013 compared with net income of US$662m in the first half of 2012. This decline was largely driven by adverse foreign exchange movements on foreign currency debt compared with favourable movements in the first half of 2012, with the offset reported in Net trading income . In addition, there were higher adverse fair value movements from interest and exchange rate ineffectiveness in the hedging of long-term debt issued principally by HSBC Holdings and its European subsidiaries, compared with the first half of 2012. These were partly offset by higher net investment gains recognised on the fair value of assets held to meet liabilities under insurance and investment contracts than in the first half of 2012 as market conditions improved.

Gains less losses from financial investments decreased by US$68m as we reported lower gains on the disposal of available-for-sale debt securities in Balance Sheet Management, mainly in the UK. This was partly offset by higher gains on disposal of equity securities in Principal Investments in GB&M.

Net earned insurance premiums decreased by 7%, mainly in RBWM in France reflecting lower sales following the run-off of business from

independent financial adviser channels in the first half of 2013.

Other operating income decreased by US$534m due to a loss recognised in GPB following the reclassification of our Monaco business to held for sale (see also Note 25 on the Financial Statements), coupled with a loss on sale of an HFC Bank UK secured loan portfolio in RBWM.

Net insurance claims incurred and movement in liabilities to policyholders increased by 3%, driven by net investment gains on the fair value of the assets held to support policyholder contracts in the first half of 2013. This was partly offset by lower reserves established for new business, reflecting the decline in net premium income in France.

LICs decreased by 17% to US$846m. GB&M reported lower credit risk provisions in the UK following net releases on available-for-sale ABSs, compared with charges in the first half of 2012. This was partly offset by higher individually assessed provisions in CMB on a small number of customers in the UK, and due to the challenging economic conditions in Spain.

Operating expenses decreased by 14%, driven by lower charges relating to UK customer redress programmes. We reported charges of US$412m in the first half of 2013, which included US$367m for the possible mis-selling of PPI policies in previous years. This compared with a charge of US$1.3bn in the first half of 2012, which included US$1.0bn, and US$230m (US$237m as reported), for the possible mis-selling of PPI policies and interest rate protection products, respectively. We also benefited from sustainable costs savings of over US$340m due to organisational effectiveness programmes that commenced in 2011, lower restructuring costs, and a decline in performance costs, notably in GB&M.
In addition, we reported an accounting gain of US$430m relating to changes in delivering ill-health benefits to certain employees in the UK, (see page 34 and Note 5 on the Financial Statements). These factors were partly offset by higher litigation-related charges in GB&M and an operational risk provision in GPB.

Operating expenses in Europe

	Half-year to		
	30 Jun 2013 US$m	30 Jun 2012 US$m	31 Dec 2012 US$m
HSBC Holdings	**612**	510	1,553
UK	**4,760**	6,195	5,798
Continental Europe	**2,625**	2,656	2,581
Intra-region eliminations	**(135)**	(72)	(126)
Total operating expenses	**7,862**	9,289	9,806

Interim Management Report (continued)

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

	Half-year to 30 June 2013						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[62] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/(expense)	2,751	1,638	799	357	(310)	15	5,250
Net fee income/(expense)	1,246	844	489	397	(7)		2,969
Trading income excluding net interest income	102	26	2,958	108	538		3,732
Net interest income on trading activities	3	7	594	4	14	(15)	607
Net trading income[57]	105	33	3,552	112	552	(15)	4,339
Changes in fair value of long-term debt issued and related derivatives					(1,347)		(1,347)
Net income/(expense) from other financial instruments designated at fair value	296	103	(965)		964		398
Net income/(expense) from financial instruments designated at fair value	296	103	(965)		(383)		(949)
Gains less losses from financial investments	43	(7)	332	3	2		373
Dividend income	2	1	32	4	1		40
Net earned insurance premiums	1,519	222		6	(1)		1,746
Other operating income/(expense)	(149)	(21)	(11)	(274)	343	62	(50)
Total operating income	5,813	2,813	4,228	605	197	62	13,718
Net insurance claims[63]	(1,958)	(281)		(5)			(2,244)
Net operating income[22]	3,855	2,532	4,228	600	197	62	11,474
Loan impairment charges and other credit risk provisions	(169)	(498)	(166)	(13)			(846)
Net operating income	3,686	2,034	4,062	587	197	62	10,628
Operating expenses	(2,731)	(950)	(2,493)	(700)	(926)	(62)	(7,862)
Operating profit/(loss)	955	1,084	1,569	(113)	(729)		2,766
Share of profit/(loss) in associates and joint ventures	1	2	(1)	(1)	1		2
Profit/(loss) before tax	956	1,086	1,568	(114)	(728)		2,768
	%	%	%	%	%		%
Share of HSBC s profit before tax	6.8	7.7	11.1	(0.8)	(5.2)		19.7
Cost efficiency ratio	70.8	37.5	59.0	116.7	470.1		68.5

Balance sheet data[53]							
	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances to customers (net)	**161,966**	**100,117**	**147,463**	**23,095**	**795**		**433,436**
Total assets	**220,259**	**115,819**	**1,091,624**	**74,917**	**70,010**	**(207,095)**	**1,365,534**
Customer accounts	**187,725**	**121,334**	**199,750**	**45,950**	**890**		**555,649**

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Interim Management Report (continued)

	Half-year to 30 June 2012						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[62] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/(expense)	2,643	1,607	750	428	(345)	(10)	5,073
Net fee income	1,317	809	421	431	45		3,023
Trading income/(expense) excluding net interest income	27	12	1,126	113	(197)		1,081
Net interest income on trading activities	3	5	729	5	18	10	770
Net trading income/(expense)[57]	30	17	1,855	118	(179)	10	1,851
Changes in fair value of long-term debt issued and related derivatives					(1,165)		(1,165)
Net income/(expense) from other financial instruments designated at fair value	194	36	488		(489)		229
Net income/(expense) from financial instruments designated at fair value	194	36	488		(1,654)		(936)
Gains less losses from financial investments	5	(1)	449	(4)			449
Dividend income	1	1	37	3	1		43
Net earned insurance premiums	1,647	208		9	(4)		1,860
Other operating income	29	30	13	5	346	45	468
Total operating income/(expense)	5,866	2,707	4,013	990	(1,790)	45	11,831
Net insurance claims[63]	(1,933)	(223)		(8)			(2,164)
Net operating income/(expense)[22]	3,933	2,484	4,013	982	(1,790)	45	9,667
Loan impairment charges and other credit risk provisions	(187)	(412)	(431)	(7)			(1,037)
Net operating income/(expense)	3,746	2,072	3,582	975	(1,790)	45	8,630
Operating expenses	(3,840)	(1,297)	(2,531)	(738)	(838)	(45)	(9,289)
Operating profit/(loss)	(94)	775	1,051	237	(2,628)		(659)
Share of profit/(loss) in associates and joint ventures	2	(1)	(8)	(1)			(8)
Profit/(loss) before tax	(92)	774	1,043	236	(2,628)		(667)
	%	%	%	%	%		%
Share of HSBC s profit before tax	(0.7)	6.1	8.2	1.9	(20.7)		(5.2)
Cost efficiency ratio	97.6	52.2	63.1	75.2	(46.8)		96.1
Balance sheet data[53]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	157,336	101,709	156,290	29,390	720		445,445
Total assets	224,545	129,330	1,013,553	78,814	58,641	(129,330)	1,375,553

Customer accounts	181,540	116,308	171,280	59,512	889		529,529

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Interim Management Report (continued)

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

	Half-year to 31 December 2012						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[62] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/(expense)	2,794	1,621	659	392	(198)	53	5,321
Net fee income/(expense)	1,305	849	611	417	(36)		3,146
Trading income/(expense) excluding net interest income	40	14	(278)	103	222		101
Net interest income on trading activities	4	9	771	9	15	(53)	755
Net trading income[57]	44	23	493	112	237	(53)	856
Changes in fair value of long-term debt issued and related derivatives					(1,926)		(1,926)
Net income/(expense) from other financial instruments designated at fair value	576	103	585		(617)		647
Net income/(expense) from financial instruments designated at fair value	576	103	585		(2,543)		(1,279)
Gains less losses from financial investments	(10)		(74)	1	(2)		(85)
Dividend income	(1)		67		2		68
Net earned insurance premiums	1,503	230		33	4		1,770
Other operating income	55	28	75	56	450	(54)	610
Total operating income/(expense)	6,266	2,854	2,416	1,011	(2,086)	(54)	10,407
Net insurance claims[63]	(2,121)	(313)		(32)			(2,466)
Net operating income/(expense)[22]	4,145	2,541	2,416	979	(2,086)	(54)	7,941
Loan impairment charges and other credit risk provisions	(160)	(697)	(5)	(22)			(884)
Net operating income/(expense)	3,985	1,844	2,411	957	(2,086)	(54)	7,057
Operating expenses	(3,385)	(1,411)	(2,468)	(693)	(1,903)	54	(9,806)
Operating profit/(loss)	600	433	(57)	264	(3,989)		(2,749)
Share of profit/(loss) in associates and joint ventures	1	1		(1)	1		2
Profit/(loss) before tax	601	434	(57)	263	(3,988)		(2,747)

	%	%	%	%	%		%
Share of HSBC s profit before tax	7.6	5.5	(0.7)	3.3	(50.4)		(34.7)
Cost efficiency ratio	81.7	55.5	102.2	70.8	(91.2)		123.5

Balance sheet data[53]

	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	170,002	105,796	156,798	29,963	881		463,440
Total assets	240,744	132,718	1,044,507	76,145	75,513	(180,387)	1,389,240
Customer accounts	191,024	121,648	184,473	57,125	739		555,009

For footnotes, see page 100.

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Interim Management Report (continued)

Hong Kong

HSBC s principal banking subsidiaries in Hong Kong are The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited. The former is the largest bank incorporated in Hong Kong and is our flagship bank in the Asia-Pacific region. It is one of Hong Kong s three note-issuing banks, accounting for over 60% by value of banknotes in circulation in the first half of 2013.

		Half-year to	
	30 Jun 2013 US$m	30 Jun 2012 US$m	31 Dec 2012 US$m
Net interest income	**2,866**	2,599	2,717
Net fee income	**2,006**	1,618	1,717
Net trading income	**872**	762	701
Other income	**899**	1,154	1,154
Net operating income[22]	**6,643**	6,133	6,289
LICs[55]	**(46)**	(32)	(42)
Net operating income	**6,597**	6,101	6,247
Total operating expenses	**(2,418)**	(2,396)	(2,452)
Operating profit	**4,179**	3,705	3,795
Income from associates[56]	**26**	56	26
Profit before tax	**4,205**	3,761	3,821
Cost efficiency ratio	**36.4%**	39.1%	39.0%
RoRWA[49]	**7.1%**	7.1%	6.9%
Period-end staff numbers	**27,966**	27,976	27,742

9%

growth in underlying revenue

14%

growth in combined

CMB and GB&M lending balances

(on a constant currency basis)

Best Bank in Hong Kong

(FinanceAsia, Country Awards

for Achievement, 2013)

For footnotes, see page 100.

Economic background

GDP growth in **Hong Kong** decelerated to a rate of 0.2% quarter on quarter in the first three months of 2013, on the back of mainland China s slowdown in the first quarter and sluggish demand from the West. The resilient local job market and solid income growth supported the economy in the absence of strong external demand. Unemployment was steady at around 3.4% even though the labour force grew to a record high in the first quarter. The 3-month Hibor eased to an average of 0.38% during the first half of 2013, down from 0.4% in the second half of 2012. Low borrowing costs and a continued increase in real wages helped private consumption to rise by 7% on the year in the first quarter. Investment spending contracted by 2.2% in the same period, however, due to cooling business sentiment. Inflationary pressures eased slightly, with the CPI slowing to 3.9% in May from an average of 4.1% in 2012. The growth in residential property prices slowed too, rising by 2.8% in the first five months of 2013 compared with 7.6% for the same period in 2012.

Review of performance

Our operations in Hong Kong reported a pre-tax profit of US$4.2bn compared with US$3.8bn in the first half of 2012, an increase of 12%. This reflected higher revenue, driven by increased net fees from unit trusts and debt issuance and balance sheet growth. Excluding the effect of disposals in 2012, underlying profit before tax increased by 13%.

In RBWM, average loan to value ratios were 44% on new mortgage drawdowns and an estimated 32% on the portfolio as a whole. We enhanced our digital banking capabilities with the launch of a new mobile banking application and implemented the Global Wealth Incentive Plan.

In CMB, we further strengthened the collaboration with GB&M particularly in Foreign Exchange as well as debt capital markets issuance where the number of transactions more than tripled compared with the first half of 2012. We were named Best Domestic Bank in Hong Kong by *Asiamoney*.

In GB&M we continued to lead the market in Hong Kong dollar bond issuance and are now one of the top five for both equity capital markets and mergers and acquisitions.

We led the market in offshore RMB bond issuance and were voted Best provider of offshore renminbi products and services for the second year running by *Asiamoney*.

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Interim Management Report (continued)

Profit/(loss) before tax by global business

	Half-year to		
	30 June 2013	30 June 2012	31 December 2012
	US$m	US$m	US$m
Retail Banking and Wealth Management	**1,867**	1,753	1,941
Commercial Banking	**1,083**	1,001	1,187
Global Banking and Markets	**1,078**	786	732
Global Private Banking	**137**	122	127
Other	**40**	99	(166)
Profit before tax	**4,205**	3,761	3,821

The following commentary is on a constant currency basis.

Net interest income increased by US$266m on the first half of 2012, led by RBWM and supported by CMB and GB&M. This was mainly due to higher average lending balances, wider spreads on mortgages in RBWM reflecting lower funding costs, and growth in the insurance debt securities portfolio.

There was strong loan growth in both CMB and GB&M, driven by trade-related lending, though the benefit of this growth was partly offset by spread compression reflecting competition and increased liquidity in the markets. Mortgage lending in RBWM also increased, although the rate of growth began to slow as transaction volumes in the property market reduced.

Average deposit balances increased, in part reflecting new Premier customers in RBWM and increased Payments and Cash Management balances in CMB, though the benefit of this growth was more than offset by narrower deposit spreads due to a fall in short-term interest rates.

Net fee income rose by US$388m in the first half of 2013, primarily in RBWM. Strong customer demand and favourable market sentiment led to higher fees from unit trusts and increased brokerage income. Fee income was higher in GB&M due to a rise in debt and equity underwriting and corporate finance activity compared with the first half of 2012, in part reflecting collaboration with CMB. Fee income also increased in CMB as trade volumes increased.

Net trading income was 14% higher than in the first six months of 2012. Rates revenue rose due to higher net interest income on increased debt securities holdings. Foreign Exchange revenue increased due to higher customer trading volumes. There was also a favourable DVA (see page 28).

Net expense from financial instruments designated at fair value was US$258m compared with net income of US$44m in the first half of 2012, primarily due to net investment losses on assets held

by the insurance business as both equity and bond markets fell towards the end of the first half of 2013. To the extent that these investment returns were attributed to policyholders holding unit-linked insurance policies and insurance contracts with DPF, there was a corresponding movement in *Net insurance claims incurred and movement in liabilities to policyholders*.

Net gains less losses from financial investments were US$19m in the first half of 2013 compared with US$279m in 2012, largely due to the non-recurrence of the gains on sale of our shares in two Indian banks in the first half of 2012.

Net earned insurance premiums grew by 3% due to increased renewals of insurance contracts with DPF and unit-linked insurance contracts, and higher new business premiums partly offset by the absence of non-life insurance premiums following the disposal of these businesses in 2012. The growth in premiums resulted in a corresponding increase in *Net insurance claims incurred and movement in liabilities to policyholders*.

Other operating income was US$59m higher from disposal and revaluation gains on investment properties. This was partly offset by a lower increase in the PVIF asset largely due to the favourable valuation of policyholder options and guarantees in 2012.

LICs were US$13m higher due to an increase from a revision to the assumptions used in our collective assessment models in RBWM partly offset by collective impairment releases in CMB.

Operating expenses rose by US$22m in the first half of 2013, driven by increased property rental prices, costs relating to the introduction of updated payment cards and information technology platforms. These were partly offset by reduced performance-related costs in GB&M, and lower restructuring and other related costs relating to organisational effectiveness programmes in 2012.

Share of profit from associates and joint ventures was US$30m lower due to the non-

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Interim Management Report (continued)

recurrence of a deferred tax credit in 2012 relating to investment properties held by an associate, and

the effect of the disposal of our interest in Global Payments Asia-Pacific Ltd last year.

Profit/(loss) before tax and balance sheet data Hong Kong

	Half-year to 30 June 2013						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[62] US$m	Total US$m
Profit before tax							
Net interest income/(expense)	1,563	827	609	66	(194)	(5)	2,866
Net fee income	1,029	495	384	88	10		2,006
Trading income/(expense) excluding net interest income	49	91	493	80	(24)		689
Net interest income on trading activities	1		166		11	5	183
Net trading income/(expense)[57]	50	91	659	80	(13)	5	872
Net income/(expense) from financial instruments designated at fair value	(241)	(12)	3		(8)		(258)
Gains less losses from financial investments			20	1	(2)		19
Dividend income			2		14		16
Net earned insurance premiums	2,912	267					3,179
Other operating income	264	27	31	4	707	(148)	885
Total operating income	5,577	1,695	1,708	239	514	(148)	9,585
Net insurance claims[63]	(2,680)	(262)					(2,942)
Net operating income[22]	2,897	1,433	1,708	239	514	(148)	6,643
Loan impairment (charges)/recoveries and other credit risk provisions	(75)	23	7	(1)			(46)
Net operating income	2,822	1,456	1,715	238	514	(148)	6,597
Operating expenses	(980)	(373)	(638)	(101)	(474)	148	(2,418)
Operating profit	1,842	1,083	1,077	137	40		4,179
Share of profit in associates and joint ventures	25		1				26
Profit before tax	1,867	1,083	1,078	137	40		4,205
	%	%	%	%	%		%

Share of HSBC s profit before tax	**13.3**	**7.7**	**7.6**	**1.0**	**0.3**		**29.9**
Cost efficiency ratio	**33.8**	**26.0**	**37.4**	**42.3**	**92.2**		**36.4**
Balance sheet data[53]							
	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances to customers (net)	**64,096**	**71,269**	**45,760**	**7,118**	**1,382**		**189,625**
Total assets	**101,062**	**80,771**	**268,379**	**20,604**	**66,218**	**(8,322)**	**528,712**
Customer accounts	**199,240**	**87,859**	**35,798**	**19,496**	**271**		**342,664**

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Interim Management Report (continued)

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

	Half-year to 30 June 2012						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[62] US$m	Total US$m
Profit before tax							
Net interest income/(expense)	1,396	768	553	76	(238)	44	2,599
Net fee income	825	433	272	77	11		1,618
Trading income/(expense) excluding net interest income	85	85	392	94	(25)		631
Net interest income on trading activities	2		166		7	(44)	131
Net trading income/(expense)[57]	87	85	558	94	(18)	(44)	762
Net income/(expense) from financial instruments designated at fair value	61	(18)	16		(15)		44
Gains less losses from financial investments			4		275		279
Dividend income			2		16		18
Net earned insurance premiums	2,690	385	4				3,079
Other operating income	357	35	27	6	539	(139)	825
Total operating income	5,416	1,688	1,436	253	570	(139)	9,224
Net insurance claims[63]	(2,745)	(341)	(5)				(3,091)
Net operating income[22]	2,671	1,347	1,431	253	570	(139)	6,133
Loan impairment (charges)/recoveries and other credit risk provisions	(44)	(2)	12	2			(32)
Net operating income	2,627	1,345	1,443	255	570	(139)	6,101
Operating expenses	(893)	(350)	(660)	(133)	(499)	139	(2,396)
Operating profit	1,734	995	783	122	71		3,705
Share of profit in associates and joint ventures	19	6	3		28		56
Profit before tax	1,753	1,001	786	122	99		3,761
	%	%	%	%	%		%
Share of HSBC s profit before tax	13.6	7.9	6.2	1.0	0.8		29.5
Cost efficiency ratio	33.4	26.0	46.1	52.6	87.5		39.1
Balance sheet data[53]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	58,290	58,694	40,699	6,192	1,329		165,204
Total assets	89,464	67,566	242,783	19,901	82,901	(16,007)	486,608

Customer accounts	184,857	80,383	34,340	18,819	421	318,820

Interim Management Report (continued)

	Half-year to 31 December 2012						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[62] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/(expense)	1,455	861	534	73	(244)	38	2,717
Net fee income	944	417	276	78	2		1,717
Trading income excluding net interest income	91	78	274	76	23		542
Net interest income on trading activities	8	2	186		1	(38)	159
Net trading income[57]	99	80	460	76	24	(38)	701
Net income/(expense) from financial instruments designated at fair value	450	(35)	7		(19)		403
Gains less losses from financial investments			(2)	7	38		43
Dividend income		1	3		2		6
Net earned insurance premiums	2,604	270	4				2,878
Other operating income	354	218	50	7	613	(143)	1,099
Total operating income	5,906	1,812	1,332	241	416	(143)	9,564
Net insurance claims[63]	(3,012)	(261)	(2)				(3,275)
Net operating income[22]	2,894	1,551	1,330	241	416	(143)	6,289
Loan impairment (charges)/recoveries and other credit risk provisions	(53)	5	5	1			(42)
Net operating income	2,841	1,556	1,335	242	416	(143)	6,247
Operating expenses	(926)	(369)	(603)	(115)	(582)	143	(2,452)
Operating profit/(loss)	1,915	1,187	732	127	(166)		3,795
Share of profit in associates and joint ventures	26						26
Profit/(loss) before tax	1,941	1,187	732	127	(166)		3,821
	%	%	%	%	%		%
Share of HSBC s profit before tax	24.5	15.0	9.3	1.6	(2.1)		48.3
Cost efficiency ratio	32.0	23.8	45.3	47.7	139.9		39.0
Balance sheet data[53]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	62,533	62,944	40,223	6,464	1,449		173,613
Total assets	96,185	72,056	256,295	20,705	81,085	(7,992)	518,334
Customer accounts	201,649	90,152	34,171	19,566	670		346,208

For footnotes, see page 100.

Interim Management Report (continued)

Rest of Asia-Pacific

We offer a full range of banking and financial services in mainland China, mainly through our local subsidiary, HSBC Bank (China) Company Limited. We also participate indirectly in mainland China through our primary associate, Bank of Communications.

Outside mainland China, we conduct business in 18 countries and territories in the Rest of Asia-Pacific region, primarily through branches and subsidiaries of The Hongkong and Shanghai Banking Corporation Limited, with particularly strong coverage in Australia, India, Indonesia, Malaysia and Singapore.

		Half-year to	
	30 Jun 2013 US$m	30 Jun 2012 US$m	31 Dec 2012 US$m
Net interest income	**2,653**	2,718	2,673
Net fee income	**1,084**	1,078	1,005
Net trading income	**46**	932	121
Other income	**3,220**	1,219	3,838
Net operating income[22]	**7,003**	5,947	7,637
LICs[55]	**(152)**	(298)	(138)
Net operating income	**6,851**	5,649	7,499
Total operating expenses	**(2,749)**	(2,865)	(2,941)
Operating profit	**4,102**	2,784	4,558
Income from associates[56]	**955**	1,588	1,518
Profit before tax	**5,057**	4,372	6,076
Cost efficiency ratio	**39.3%**	48.2%	38.5%
RoRWA[49]	**3.6%**	3.0%	3.9%
Period-end staff numbers	**85,665**	86,207	85,024

13%

growth in CMB loans and advances

(on a constant currency basis)

Issued the first offshore renminbi bond

in Singapore

Best Cash Management Bank in Asia

(Global Finance Magazine)

For footnotes, see page 100.

Economic background

The growth of the **mainland China** economy slowed unexpectedly to 7.7% in the first quarter of 2013 following its rebound to 7.9% in the fourth quarter of 2012, reflecting weak external demand. Growth continued to weaken into the second quarter to 7.5% year-on-year, as new orders slowed and inventory built up. Beijing s new policymakers showed an increasing preference for quality over quantity of growth and focused on reforms rather than stimuli to lay the foundation for sustainable growth over the medium term. A new package of measures was announced including fiscal reforms, financial reforms, deregulation and urbanisation. Inflation continued to ease in mainland China in the first half of 2013, with headline CPI averaging 2.4%, well below its 3.5% annual target.

Japan s economy expanded at an annualised rate of 4.1% in the first quarter of 2013. A weaker currency helped exporters and, after three consecutive quarters of negative growth, exports rose 16.1% in the first quarter and continued to recover into May. Robust domestic demand drove growth, and private consumption rose by 3.6% in the quarter. Public investment rose with construction orders up by 24.8% year-on-year in May 2013.

Singapore s GDP grew by a moderate 1.8% in the first quarter of 2013. Services surged, but manufacturing contracted following the slowdown in mainland China and lacklustre demand from the developed world. Annual inflation slowed to a three-year low thanks, in part, to curbs on car prices. In **India**, growth stabilised following reforms but, at an annual rate of 4.8% in the first quarter, it was low by historical standards. Soft domestic demand and low global commodity prices resulted in a fall in inflation which enabled the Reserve Bank of India to cut the key policy rate by 75bps to 7.25%.

Malaysia continued to enjoy robust domestic demand as long-term public projects kept employment and investments up, and imports surged. **Indonesia** grew at an annual pace of 6%. Faced with widening trade and budget deficits and a weakening currency, the government raised subsidised fuel prices and Bank Indonesia s reference rate rose by 25bps to 6.0%. The recovery in **Vietnam** remained sluggish. **Australia s** economy grew at a below-trend annual rate of 2.5% in the first quarter, as the mining investment boom began to fade and the pick-up in the rest of the economy was only gradual.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Profit/(loss) before tax by country within global businesses

	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Total US$m
Half-year to 30 June 2013						
Australia	**51**	**45**	**108**		**29**	**233**
India	**(1)**	**74**	**255**	**4**	**82**	**414**
Indonesia	**18**	**46**	**63**		**14**	**141**
Mainland China	**106**	**763**	**423**	**(2)**	**1,645**	**2,935**
Industrial Bank					**1,089**	**1,089**
Ping An					**553**	**553**
Other associates	**124**	**681**	**142**			**947**
Other mainland China	**(18)**	**82**	**281**	**(2)**	**3**	**346**
Malaysia	**78**	**60**	**149**		**(13)**	**274**
Singapore	**78**	**60**	**147**	**39**	**37**	**361**
Taiwan	**(5)**	**19**	**83**		**3**	**100**
Vietnam	**106**	**13**	**29**		**3**	**151**
Other		**147**	**271**	**(1)**	**31**	**448**
	431	**1,227**	**1,528**	**40**	**1,831**	**5,057**
Half-year to 30 June 2012						
Australia	51	(34)	80		(6)	91
India	35	49	306	4	121	515
Indonesia	19	59	91		6	175
Mainland China	500	853	633	(2)	38	2,022
Industrial Bank	32	135	138			305
Ping An	392	31	24			447
Other associates	105	589	122			816
Other mainland China	(29)	98	349	(2)	38	454
Malaysia	93	68	124		3	288
Singapore	105	62	126	50	(8)	335
Taiwan	38	29	77		2	146
Vietnam	3	28	39		8	78
Other	77	136	258	62	189	722
	921	1,250	1,734	114	353	4,372
Half-year to 31 December 2012						
Australia	46	72	104		(38)	184
India	6	40	191	3	54	294
Indonesia	10	65	55		1	131
Mainland China	338	871	624	(2)	2,487	4,318
Industrial Bank	22	138	205			365
Ping An	230	51	36		2,459	2,776
Other associates	109	604	126			839
Other mainland China	(23)	78	257	(2)	28	338

Malaysia	90	63	118		5	276
Singapore	96	77	170	47	(57)	333
Taiwan	24	7	59		(2)	88
Vietnam	6	17	18		1	42
Other	(20)	140	252	(3)	41	410
	596	1,352	1,591	45	2,492	6,076

Review of performance

In Rest of Asia-Pacific, reported profit before tax was US$5.1bn compared with US$4.4bn in the first half of 2012. On a constant currency basis, profit before tax increased by US$708m.

The increase in reported profits was mainly due to an accounting gain of US$1.1bn on the reclassification of Industrial Bank as a financial investment following its issue of share capital to third parties. This was partly offset by a reduction in share of profit from associates due to the disposal of our shareholding in Ping An in December 2012 and the reclassification of Industrial Bank.

Interim Management Report (continued)

On an underlying basis, profit before tax increased by 18% due to the net gain of US$553m on the sale of our investment in Ping An. Excluding this, profit before tax was broadly unchanged as lower revenue was offset by reduced loan impairment charges and increased income from associates.

We continued to invest in our priority markets, expanding our branch network in mainland China where, at the half year, we had 148 HSBC outlets, 21 HSBC rural bank outlets and 46 Hang Seng Bank outlets. We were appointed adviser on the largest M&A transaction in India and issued the first offshore RMB bond in Singapore. In line with our strategy, we completed the disposals of non-core insurance businesses in Vietnam, South Korea and Taiwan as well as our investment in Ping An.

The following commentary is on a constant currency basis.

Net interest income reduced by US$50m, notably in mainland China where the central bank eased liquidity measures and cut rates in 2012 which reduced revenues in Balance Sheet Management.

Average residential mortgage balances in RBWM grew, primarily in mainland China and Australia, as we focused on secured lending supported by marketing campaigns, and in Singapore, reflecting lending growth in 2012. Term and trade-related lending in CMB rose, notably in mainland China and Singapore, from continued client demand as interest rates remained low. Increased average loan balances were broadly offset by lending spread compression, reflecting competitive pressures and increased liquidity.

We grew average deposit balances in both Payments and Cash Management and RBWM, though the benefit of this growth was broadly offset by narrower liability spreads in many countries following central bank interest rate cuts and increased liquidity.

Net fee income rose by US$28m, primarily in GB&M from increased activity in bond sales, corporate finance and equity underwriting in Singapore. This was partly offset by reductions in RBWM, notably in India from lower Wealth Management sales as we reviewed our product offerings.

Net trading income was US$867m lower, driven by adverse fair value movements on the Ping An contingent forward sale contract of US$682m.

In addition to this, Rates and Foreign Exchange revenues decreased in a number of countries following strong performances in the first half of 2012. This was partly offset by a favourable DVA (see page 28).

Gains less losses from financial investments were US$1.2bn higher, due to the gain on disposal of our investment in Ping An of US$1.2bn, which was partly offset by the adverse fair value movement of US$682m on the contingent forward sale contract included in Net trading income, as noted above, leading to a net gain of US$553m.

Other operating income rose by US$1.1bn, reflecting an accounting gain of US$1.1bn on the reclassification of Industrial Bank as a financial investment following its issue of additional share capital to third parties. We also recorded a gain on the disposal of our investment in Bao Viet of US$104m. In the first half of 2012, we recorded gains totalling US$305m on the disposals of the RBWM business in Thailand, the GPB business in Japan and our interest in a property company in the Philippines.

LICs decreased by US$143m, as a result of a large individually assessed impairment of a corporate exposure in Australia and a credit risk provision on an available-for-sale debt security in GB&M in the first half of 2012.

Operating expenses decreased by US$68m in the first half of 2013 from lower restructuring and other related costs, including termination benefits, than were incurred in the comparable period in 2012, lower performance related costs in GB&M and the partial write back of a litigation provision. These were partly offset by a further US$72m write down of Hana HSBC Life Insurance made earlier in the year which was partly recovered through a gain on its disposal, recorded in Other operating income.

Share of profit from associates and joint ventures reduced by US$647m following the disposal of Ping An and the reclassification of Industrial Bank as a financial investment. Excluding these factors, income from associates increased primarily in BoCom as a result of balance sheet growth and increased fee income, partly offset by higher operating expenses and a rise in loan impairment charges.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Profit before tax and balance sheet data *Rest of Asia-Pacific*

	Half-year to 30 June 2013						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[62] US$m	Total US$m
Profit before tax							
Net interest income	861	676	975	43	83	15	2,653
Net fee income/(expense)	388	285	383	36	(8)		1,084
Trading income/(expense) excluding net interest income	52	101	436	25	(696)		(82)
Net interest income/(expense) on trading activities	(12)	(4)	161		(2)	(15)	128
Net trading income/(expense)[57]	40	97	597	25	(698)	(15)	46
Changes in fair value of long-term debt issued and related derivatives					1		1
Net income/(expense) from other financial instruments designated at fair value	(4)				1		(3)
Net income/(expense) from financial instruments designated at fair value	(4)				2		(2)
Gains less losses from financial investments	1		1		1,206		1,208
Dividend income			1				1
Net earned insurance premiums	323	80			1		404
Other operating income	127		44	1	1,836	(85)	1,923
Total operating income	1,736	1,138	2,001	105	2,422	(85)	7,317
Net insurance claims[63]	(258)	(56)					(314)
Net operating income[22]	1,478	1,082	2,001	105	2,422	(85)	7,003
Loan impairment charges and other credit risk provisions	(101)	(45)	(6)				(152)
Net operating income	1,377	1,037	1,995	105	2,422	(85)	6,851
Operating expenses	(1,075)	(492)	(611)	(65)	(591)	85	(2,749)
Operating profit	302	545	1,384	40	1,831		4,102
Share of profit in associates and joint ventures	129	682	144				955
Profit before tax	431	1,227	1,528	40	1,831		5,057

	%	**%**	**%**	**%**	**%**		**%**
Share of HSBC s profit before tax	**3.1**	**8.7**	**10.9**	**0.3**	**12.9**		**35.9**
Cost efficiency ratio	**72.7**	**45.5**	**30.5**	**61.9**	**24.4**		**39.3**
Balance sheet data[53]							
	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances to customers (net)	**45,213**	**48,352**	**42,312**	**3,271**	**185**		**139,333**
Total assets	**53,332**	**62,023**	**187,365**	**11,102**	**20,858**	**(9,409)**	**325,271**
Customer accounts	**63,128**	**41,869**	**58,278**	**10,726**	**49**		**174,050**

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Profit before tax and balance sheet data Rest of Asia-Pacific (continued)

	Half-year to 30 June 2012						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[62] US$m	Total US$m
Profit before tax							
Net interest income	896	691	1,120	55	83	(127)	2,718
Net fee income/(expense)	429	264	351	37	(3)		1,078
Trading income/(expense) excluding net interest income	43	98	648	35	(30)		794
Net interest income on trading activities			7		4	127	138
Net trading income/(expense)[57]	43	98	655	35	(26)	127	932
Changes in fair value of long-term debt issued and related derivatives					(2)		(2)
Net income/(expense) from other financial instruments designated at fair value	41	1	(2)		26		66
Net income/(expense) from financial instruments designated at fair value	41	1	(2)		24		64
Gains less losses from financial investments	(1)	1	1		24		25
Dividend income			1		3		4
Net earned insurance premiums	338	54					392
Other operating income	169	44	39	66	840	(82)	1,076
Total operating income	1,915	1,153	2,165	193	945	(82)	6,289
Net insurance claims[63]	(293)	(49)					(342)
Net operating income[22]	1,622	1,104	2,165	193	945	(82)	5,947
Loan impairment charges and other credit risk provisions	(102)	(131)	(65)				(298)
Net operating income	1,520	973	2,100	193	945	(82)	5,649
Operating expenses	(1,132)	(486)	(657)	(79)	(593)	82	(2,865)
Operating profit	388	487	1,443	114	352		2,784
Share of profit in associates and joint ventures	533	763	291		1		1,588
Profit before tax	921	1,250	1,734	114	353		4,372
	%	%	%	%	%		%
Share of HSBC s profit before tax	7.2	9.8	13.6	0.9	2.8		34.3

Cost efficiency ratio	69.8	44.0	30.3	40.9	62.8		48.2
Balance sheet data[53]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	42,171	41,241	42,652	3,243	182		129,489
Total assets	57,289	56,071	202,228	12,240	17,066	(9,916)	334,978
Customer accounts	60,037	41,999	59,475	11,600	46		173,157

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HSBC HOLDINGS PLC

Interim Management Report (continued)

	Half-year to 31 December 2012						
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Other	Inter-segment elimination[62]	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Profit before tax							
Net interest income	891	705	1,036	47	54	(60)	2,673
Net fee income/(expense)	425	235	315	34	(4)		1,005
Trading income/(expense) excluding net interest income	53	90	354	32	(562)		(33)
Net interest income/(expense) on trading activities	(6)	(3)	93		10	60	154
Net trading income/(expense)[57]	47	87	447	32	(552)	60	121
Changes in fair value of long-term debt issued and related derivatives					(2)		(2)
Net income/(expense) from other financial instruments designated at fair value	68		(1)		(23)		44
Net income/(expense) from financial instruments designated at fair value	68		(1)		(25)		42
Gains less losses on financial investments		1	(11)		1		(9)
Dividend income					1		1
Net earned insurance premiums	231	189					420
Gain on disposal of Ping An					3,012		3,012
Other operating income	42	20	43	2	731	(90)	748
Total operating income	1,704	1,237	1,829	115	3,218	(90)	8,013
Net insurance claims[63]	(230)	(146)					(376)
Net operating income[22]	1,474	1,091	1,829	115	3,218	(90)	7,637
Loan impairment (charges)/recoveries and other credit risk provisions	(132)	(23)	17				(138)
Net operating income	1,342	1,068	1,846	115	3,218	(90)	7,499
Operating expenses	(1,106)	(507)	(622)	(70)	(726)	90	(2,941)
Operating profit	236	561	1,224	45	2,492		4,558
Share of profit in associates and joint ventures	360	791	367				1,518
Profit before tax	596	1,352	1,591	45	2,492		6,076
	%	%	%	%	%		%
Share of HSBC s profit before tax	7.5	17.1	20.1	0.6	31.5		76.8
Cost efficiency ratio	75.0	46.5	34.0	60.9	22.6		38.5

Balance sheet data[53]

	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	46,027	43,968	44,721	3,238	165		138,119
Total assets	55,509	59,123	201,774	12,142	24,534	(10,813)	342,269
Customer accounts	63,230	44,865	64,392	11,095	39		183,621

For footnotes, see page 100.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Middle East and North Africa

The network of branches of HSBC Bank Middle East Limited, together with HSBC s subsidiaries and associates, gives us the widest coverage in the region. Our associate in Saudi Arabia, The Saudi British Bank (40% owned), is the kingdom s sixth largest bank by total assets.

	Half-year to		
	30 Jun 2013 US$m	30 Jun 2012 US$m	31 Dec 2012 US$m
Net interest income	**746**	705	765
Net fee income	**311**	302	293
Net trading income	**203**	216	174
Other income/(expense)	**(7)**	14	(39)
Net operating income[22]	**1,253**	1,237	1,193
LICs[55]	**47**	(135)	(151)
Net operating income	**1,300**	1,102	1,042
Total operating expenses	**(616)**	(537)	(629)
Operating profit	**684**	565	413
Income from associates[56]	**225**	207	165
Profit before tax	**909**	772	578
Cost efficiency ratio	**49.2%**	43.4%	52.7%
RoRWA[49]	**2.9%**	2.6%	1.8%
Period-end staff numbers	**8,667**	9,195	8,765

Increased revenue despite repositioning initiatives and a difficult socio-political environment, particularly in Egypt.

Improvement in credit quality and repositioning of portfolios contributed to lower loan impairment charges.

Best Cash Management House	Best Wealth Management Firm
(Euromoney Award for Excellence, 2013)	*(Banker Middle East Industry Award)*

For footnotes, see page 100.

Economic background

Gulf Co-operation Council (GCC) economies grew strongly during the first half of 2013, with oil prices of above US$100 per barrel allowing governments to continue with the fiscal stimulus programmes they have pursued since early 2011. Although oil output volumes were down year-on-year following weaker demand and increased supply from Libya and Iraq, revenues were sufficient at the prevailing price level to allow GCC governments to spend and save. Saudi Arabia, for example, added US$30bn to its reserves in the first five months of the year. While Saudi Arabia, Qatar and Oman remained the region s best performers, the United Arab Emirates (UAE) economy substantially improved in the first half of 2013, as Dubai in particular benefited from strong external demand and its safe haven status amid continued political turmoil elsewhere in the region. Fiscal policy in the UAE also turned more expansionary in the period, as did credit conditions. Outside the GCC growth was much weaker, particularly in Egypt, where political unrest restricted economic activity, widened the budget deficit and put severe pressure on the currency. The outlook for Egypt remains highly uncertain.

Review of performance

Our operations in the Middle East and North Africa reported a profit before tax of US$909m, an increase of 18% on a reported basis and 20% on a constant currency basis compared with the first half of 2012. On an underlying basis, pre-tax profits increased by 24%, mainly due to lower impairments in all global businesses, increased net interest income and higher income from our associate, The Saudi British Bank.

As part of our implementation of Global Standards, we are undertaking a comprehensive review of business policies and controls to further guard against money laundering and sanctions risks. We continue to invest heavily in compliance and risk management.

In Egypt, we continued to manage risk proactively in an uncertain political and economic environment. Surplus liquidity levels in Egyptian pounds, which arose following the introduction of foreign currency restrictions at the end of 2012, were managed by re-pricing deposits in the currency downwards and by reducing our portfolio of investments.

In RBWM, we continued to focus on the Wealth Management business and launched a new investment monitoring platform for customers and

HSBC HOLDINGS PLC

Interim Management Report (continued)

Profit/(loss) before tax by country within global businesses

	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Total US$m
Half-year to 30 June 2013						
Egypt	**27**	**34**	**72**		**(16)**	**117**
Qatar	**7**	**20**	**33**			**60**
United Arab Emirates	**97**	**146**	**119**	**1**	**(26)**	**337**
Other	**6**	**74**	**89**		**1**	**170**
MENA (excluding Saudi Arabia)	**137**	**274**	**313**	**1**	**(41)**	**684**
Saudi Arabia	**43**	**77**	**98**	**6**	**1**	**225**
	180	**351**	**411**	**7**	**(40)**	**909**
Half-year to 30 June 2012						
Egypt	33	45	62		(3)	137
Qatar	5	18	42			65
United Arab Emirates	52	147	104		(4)	299
Other	14	62	(18)		1	59
MENA (excluding Saudi Arabia)	104	272	190		(6)	560
Saudi Arabia	36	69	96	4	7	212
	140	341	286	4	1	772
Half-year to 31 December 2012						
Egypt	34	26	95		(2)	153
Qatar	4	18	42			64
United Arab Emirates	91	88	37	1	(52)	165
Other	(41)	63	47		(38)	31
MENA (excluding Saudi Arabia)	88	195	221	1	(92)	413
Saudi Arabia	24	51	74	5	11	165
	112	246	295	6	(81)	578

a structured investment product linked to offshore mainland Chinese RMB in the UAE. We expanded our remittance services in the UAE to provide customers with real time cross-border wire transfer rates and developed our digital channels by extending the enhanced security measures for mobile banking that were launched in the UAE last year to the other RBWM businesses in the region.

In CMB, we continued to invest in our trade business and rolled out the Commodity Structured Trade Finance offering in the UAE, targeting commodity-related trade flows and strengthening our collaboration with GB&M. We expanded the RMB services offered to our customers in the region, while the Saudi British Bank increased its Receivables Finance offering.

In GB&M, our focus remained on capturing intra-Middle East and South-South business flows while providing a complete suite of products across Global Markets, transaction banking and advisory services to our regional clients.

The following commentary is on a constant currency basis.

Net interest income rose by 9%, as average lending and deposit balances increased due to the merger in Oman in 2012, the acquisition of the onshore retail and commercial banking businesses from Lloyds Banking Group in the UAE (Lloyds acquisition) and increases in average lending balances and spreads in Egypt.

Net fee income grew by 4% due to growth in fees from credit cards and consumer loans in Egypt and increases in GB&M. The higher income from GB&M was driven by institutional equities as a result of higher pricing and growth in volumes, a rise in advisory fees due to increased transactions, and growth in volumes and assets under custody in Securities Services and Credit and Lending in the UAE.

Net trading income decreased by 4% as a consequence of the sale of our 80.1% holding in our Private Equity business in December 2012, and a reduction in the debt securities portfolio and lower Foreign Exchange income in Egypt reflecting the foreign currency restrictions in place. This was partly offset by favourable CVAs relating to a small number of exposures in GB&M.

Interim Management Report (continued)

Losses from financial investments were US$18m compared with a gain of US$5m in the first half of 2012, driven by losses on the disposal of available-for-sale debt securities.

A net release of *LICs* of US$47m was experienced in the first half of 2013 compared with a charge of US$134m in the same period of 2012. GB&M recorded a net release of loan impairment charges, compared with a charge in the comparable period, reflecting the improvement in the financial position of certain customers. CMB also recorded a net release in loan impairment charges due to a limited number of specific customer recoveries, fewer individually assessed loan impairments and lower collective impairment charges reflecting an improvement in the credit portfolio. Lower loan impairments in RBWM were attributable to a

combination of the repositioning of the book towards higher quality lending and improved property prices in the UAE.

Operating expenses increased by 17%, reflecting the merger in Oman and the Lloyds acquisition, as well as operational losses arising from changes in the interpretation of tax regulations. This was partially offset by benefits from our sustainable cost savings programme of over US$20m in the first half of 2013 as we reduced our employee numbers, mainly from management de-layering and re-engineering initiatives.

Share of profits from associates and joint ventures increased by 8%, mainly from The Saudi British Bank, driven by higher revenues due to growth in retail lending and deposits, together with the effective management of costs.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Profit/(loss) before tax and balance sheet data   Middle East and North Africa

	Half-year to 30 June 2013						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[62] US$m	Total US$m
Profit before tax							
Net interest income	295	246	194		2	9	746
Net fee income/(expense)	88	137	88		(2)		311
Trading income/(expense) excluding net interest income	32	47	125				204
Net interest income on trading activities			9		(1)	(9)	(1)
Net trading income/(expense)[57]	32	47	134		(1)	(9)	203
Net expense from financial instruments designated at fair value					(1)		(1)
Gains less losses from financial investments			(18)				(18)
Dividend income			4				4
Other operating income	12	2	8		49	(63)	8
Total operating income	427	432	410		47	(63)	1,253
Net insurance claims[63]							
Net operating income[22]	427	432	410		47	(63)	1,253
Loan impairment (charges)/recoveries and other credit risk provisions	(14)	16	44	1			47
Net operating income	413	448	454	1	47	(63)	1,300
Operating expenses	(276)	(174)	(141)		(88)	63	(616)
Operating profit/(loss)	137	274	313	1	(41)		684
Share of profit in associates and joint ventures	43	77	98	6	1		225
Profit/(loss) before tax	180	351	411	7	(40)		909
	%	%	%	%	%		%
Share of HSBC s profit before tax	1.3	2.5	2.9		(0.2)		6.5
Cost efficiency ratio	64.6	40.3	34.4		187.2		49.2
Balance sheet data[53]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	6,018	13,048	8,868				27,934
Total assets	6,742	14,995	41,041	55	3,319	(2,860)	63,292
Customer accounts	19,594	13,652	7,816	1	79		41,142

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Profit/(loss) before tax and balance sheet data   Middle East and North Africa (continued)

	Half-year to 30 June 2012						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[62] US$m	Total US$m
Profit before tax							
Net interest income	273	240	191		1		705
Net fee income/(expense)	85	143	77	1	(4)		302
Trading income excluding net interest income	35	48	122		1		206
Net interest income on trading activities			4		6		10
Net trading income[57]	35	48	126		7		216
Net expense from financial instruments designated at fair value					(4)		(4)
Gains less losses from financial investments			5				5
Dividend income			3				3
Other operating income	2	4	5		51	(52)	10
Total operating income	395	435	407	1	51	(52)	1,237
Net insurance claims[63]							
Net operating income[22]	395	435	407	1	51	(52)	1,237
Loan impairment charges and other credit risk provisions	(37)	(12)	(84)	(2)			(135)
Net operating income/(expense)	358	423	323	(1)	51	(52)	1,102
Operating income/(expense)	(249)	(151)	(134)	1	(56)	52	(537)
Operating profit/(loss)	109	272	189		(5)		565
Share of profit in associates and joint ventures	31	69	97	4	6		207
Profit before tax	140	341	286	4	1		772
	%	%	%	%	%		%
Share of HSBC s profit before tax	1.1	2.7	2.3				6.1
Cost efficiency ratio	63.0	34.7	32.9	(100.0)	109.8		43.4
Balance sheet data[53]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	5,005	12,554	8,519	1	1,817		27,896
Total assets	6,437	14,482	36,539	53	8,676	(3,306)	62,881
Customer accounts	18,468	11,127	6,555	14	2,865		39,029

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HSBC HOLDINGS PLC

Interim Management Report (continued)

	Half-year to 31 December 2012						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[62] US$m	Total US$m
Profit/(loss) before tax							
Net interest income	324	252	176	1	41	(29)	765
Net fee income/(expense)	79	136	83		(5)		293
Trading income excluding net interest income	33	46	86		2		167
Net interest income/(expense) on trading activities		2	26		(50)	29	7
Net trading income/(expense)[57]	33	48	112		(48)	29	174
Net expense from financial instruments designated at fair value					(8)		(8)
Gains less losses from financial investments			4				4
Dividend income			2				2
Other operating income/(expense)	(18)	17	9	1	(4)	(42)	(37)
Total operating income/(expense)	418	453	386	2	(24)	(42)	1,193
Net insurance claims[63]							
Net operating income/(expense)[22]	418	453	386	2	(24)	(42)	1,193
Loan impairment charges and other credit risk provisions	(18)	(98)	(35)				(151)
Net operating income/(expense)	400	355	351	2	(24)	(42)	1,042
Operating expenses	(312)	(160)	(130)	(1)	(68)	42	(629)
Operating profit/(loss)	88	195	221	1	(92)		413
Share of profit in associates and joint ventures	24	51	74	5	11		165
Profit/(loss) before tax	112	246	295	6	(81)		578
	%	%	%	%	%		%
Share of HSBC s profit before tax	1.4	3.1	3.7	0.1	(1.0)		7.3
Cost efficiency ratio	74.6	35.3	33.7		283.3		52.7
Balance sheet data[53]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	5,828	13,559	8,699				28,086
Total assets	6,562	15,651	36,582	50	6,840	(3,080)	62,605
Customer accounts	19,802	12,826	6,880	3	72		39,583

For footnotes, see page 100.

Interim Management Report (continued)

North America

Our North American businesses are located in the US, Canada and Bermuda. Operations in the US are primarily conducted through HSBC Bank USA, N.A. and HSBC Finance Corporation, a national consumer finance company. HSBC Markets (USA) Inc. is the intermediate holding company of, inter alia, HSBC Securities (USA) Inc. HSBC Bank Canada and HSBC Bank Bermuda operate in their respective countries.

	Half-year to		
	30 Jun 2013 US$m	30 Jun 2012 US$m	31 Dec 2012 US$m
Net interest income	**3,030**	4,739	3,378
Net fee income	**1,138**	1,443	1,070
Net trading income	**505**	161	346
Gains on disposal of US branch network and cards business		3,809	203
Other expense	**(41)**	(174)	(282)
Net operating income[22]	**4,632**	9,978	4,715
LICs[55]	**(696)**	(2,161)	(1,296)
Net operating income	**3,936**	7,817	3,419
Total operating expenses	**(3,276)**	(4,462)	(4,478)
Operating profit/(loss)	**660**	3,355	(1,059)
Income/(expense) from associates[56]	**6**	(1)	4
Profit/(loss) before tax	**666**	3,354	(1,055)
Cost efficiency ratio	**70.7%**	44.7%	95.0%
RoRWA[49]	**0.5%**	2.1%	(0.8%)
Period-end staff numbers	**21,454**	23,341	22,443

Gross balances in the CML portfolio,

including loans held for sale, down by US$6.6bn

to US$36.1bn

Completed sales of our US$3.7bn

non-real estate personal loan portfolio,

and our US$1.6bn US Insurance business

Best Risk Adviser in North America

(Euromoney Awards for Excellence 2013)

For footnotes, see page 100.

Economic background

Annualised **US** real GDP growth averaged 1.4% in the first half of 2013. On the same basis, personal consumption rose by 2.0%, lifted by increased spending on durable goods. Government consumption and gross investment declined by 2.3%, reflecting budgetary cutbacks at the federal, state and local levels of government. Payroll employment growth was positive in the first half of 2013, with an average increase of 198,000 per month. The unemployment rate was 7.6% in June 2013, down from 7.8% in December 2012. Inflation decelerated in the first half of 2013. As measured by the core price index for personal consumption, core inflation slowed to 1.2% year-on-year through June, down from 1.4% in December 2012. In the first half of 2013, the Federal Open Market Committee maintained the federal funds rate in a range of zero to 0.25%. In addition, the Federal Reserve purchased agency mortgage-backed securities at a rate of US$40bn per month and longer-term Treasury securities at US$45bn per month in the period.

The **Canadian** economy struggled. Despite an export-led expansion in GDP of 2.5% in the first quarter of 2013, economic indicators for the second quarter suggested that the economy slowed markedly and net exports fell sharply. For example, the expansion in hours worked fell from 1.8% in the first quarter to just 0.1% in the second. In addition, private sector job creation stalled. Annualised inflation was less than 1%, below the Bank of Canada s 1% to 3% inflation target range.

Review of performance

In the first half of 2013, our operations in North America reported a profit before tax of US$666m, compared with US$3.4bn in the first half of 2012. On a constant currency basis, profit before tax declined by US$2.7bn.

Reported profits in both periods included gains and losses on disposal of businesses not aligned to our long-term strategy, notably gains in the US of US$3.1bn and US$661m following the sales of the CRS business and 138 non-strategic retail branches, respectively, in the first half of 2012.

On an underlying basis, the pre-tax profit of US$808m in the first half of 2013 compared with a pre-tax loss of US$772m in the first half of 2012. This was mainly due to lower loan impairment charges in the US, primarily in the CML portfolio, driven by significant favourable adjustments to the market value of the underlying properties reflecting

Interim Management Report (continued)

Profit/(loss) before tax by country within global businesses

	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Total US$m
Half-year to 30 June 2013						
US	**(267)**	**144**	**500**	**31**	**(217)**	**191**
Canada	**90**	**194**	**169**		**(4)**	**449**
Bermuda	**7**	**(21)**	**26**	**1**	**14**	**27**
Other			**(1)**			**(1)**
	(170)	**317**	**694**	**32**	**(207)**	**666**
Half-year to 30 June 2012						
US	3,326	374	384	38	(1,388)	2,734
Canada	129	307	174		(8)	602
Bermuda	18	1	(9)	3	4	17
Other	1					1
	3,474	682	549	41	(1,392)	3,354
Half-year to 31 December 2012						
US	(580)	263	277	34	(1,513)	(1,519)
Canada	78	270	140	(1)	(8)	479
Bermuda	24	(16)	(9)	(2)	(11)	(14)
Other	(1)					(1)
	(479)	517	408	31	(1,532)	(1,055)

improvements in housing market conditions together with a decline in operating expenses, as the first half of 2012 included a US$700m provision for US anti-money laundering, BSA and OFAC investigations. These positive effects were partly offset by losses on the sale of certain loan portfolios in the first half of 2013 as described further below.

Underlying profit before tax in Canada declined due to lower revenues as a result of the closure to new business in 2012 of the Canadian consumer finance company, spread compression in a low rate and competitive market and the write-down of an investment property held for sale, partly offset by lower costs as a result of cost control and sustainable savings from organisational effectiveness initiatives. Our operations in Bermuda reported a higher profit before tax, primarily due to lower loan impairment charges and operating expenses.

In line with our objective to accelerate the run-off of our CML portfolio and simplify operations, we completed the sale of the CML non-real estate personal loan portfolio with a carrying amount of US$3.7bn on 1 April 2013 and recognised a loss on sale of US$271m. CML lending balances, including loans held for sale, at 30 June 2013 were US$36.1bn, a decline of US$6.6bn from 31 December 2012. At 30 June 2013, we had real estate secured accounts of US$5.8bn before impairment allowances, which we plan to actively market for sale in multiple transactions during the next 18 months. At 30 June 2013, the carrying value of these assets was US$56m greater than their estimated fair value. We expect to recognise a loss on sale of these loans although the amount will depend on market conditions at the date of sale. Their disposal is expected to be capital accretive, reduce funding requirements and alleviate operational burdens, given that the loans are intensive to service and subject to foreclosure delays. We completed the sale of a pool of similar real estate secured loans in June 2013 and recorded a loss on sale of US$1m.

In RBWM, as part of the simplification of our US operations, PHH Mortgage began to service HSBC Bank USA N.A. (HSBC Bank USA) mortgage accounts, providing mortgage origination processing services and sub-servicing of our portfolio. The outsourcing will enable RBWM to focus on strategic wealth products and service initiatives. RBWM has also made significant progress in transforming its RM model to one which is more client focused and needs-based. This change includes realigning RM portfolios to match the needs and affluence of clients with the skills of the sales force, and a shift away from an incentive-based compensation scheme to drive appropriate behaviour in the sales process.

In CMB, the strategy to strengthen our position as the leading international trade and business bank made good progress. We hired over 170 RMs,

Interim Management Report (continued)

product specialists and support personnel to drive the US growth strategy. New lending facilities of US$3.8bn were approved in the first half of 2013 representing a 9% increase in overall credit facilities to CMB customers since December 2012.

In GB&M, we continue to connect clients to global growth, with New York acting as a hub for the Americas. We have a strong domestic franchise servicing US based clients and are focused on growing inbound business from mainland China, driving business with mainland Chinese multinationals in the US and delivering RMB products to US clients with the support of our China desk in New York. In addition, we remain dedicated to enhancing collaboration with other global businesses to appropriately service the needs of our client base.

The following commentary is on a constant currency basis.

Net interest income decreased by 36% as a consequence of selling the CRS business and retail branches, lower average lending balances from the continued run-off of the CML portfolio and portfolio disposals during the first half of 2013, lower reinvestment rates in BSM, closing the Canada consumer finance company to new business in 2012 and reduced spreads on commercial loans in Canada. Partly offsetting the decrease were higher average lending balances in CMB from the continued expansion of our business in the US.

Net fee income decreased by 21%, primarily due to the sale of the CRS business and the retail branches in 2012. This was partly offset by fees from the transition service agreement with the purchaser of the CRS business.

Net trading income was US$347m higher in the first half of 2013, primarily due to favourable fair value movements on non-qualifying hedges in HSBC Finance of US$263m in 2013 due to a rise in interest rates, compared with adverse movements of US$217m in the first half of 2012. This was partly offset by a loss of US$199m relating to the early termination of qualifying accounting hedges in the first half of 2013 as a result of anticipated changes in funding.

Net trading income increased in GB&M as a result of higher Credit trading revenue driven by revaluation gains on securities, and monoline releases in the legacy portfolio. Net trading revenue also benefited from the performance of economic hedges used to manage interest rate risk which benefited from favourable interest rate movements.

Rates trading revenue was broadly in line with the first half of 2012, as lower income from a decline in trading activities and the widening of credit spreads was offset by favourable fair value movements on structured liabilities due to a widening of our own credit spreads.

Net expense from financial instruments designated at fair value was US$72m in the first half of 2013 compared with US$639m in the comparable period in 2012. This was due to lower adverse fair value movements on our own debt designated at fair value in 2013 than in the first half of 2012 as credit spreads tightened to a lesser extent.

Gains less losses from financial investments increased by 27% during the first half of 2013 as Balance Sheet Management reported higher gains on sales of available-for-sale debt securities as a result of ongoing portfolio repositioning for risk management purposes.

Net premium income decreased by US$75m due to the sale of our US Insurance business in the first half of 2013.

Gains on disposal of US branch network and cards business reported in the first half of 2012 included a gain of US$3.1bn from the sale of the CRS business and US$661m from the sale of 138 non-strategic branches in upstate New York. We recognised gains of US$449m and US$212m in RBWM and CMB, respectively, as a result of the branch sales.

Other operating income decreased by US$455m to an expense of US$228m, due to the loss on sale of the CML non-real estate personal loan portfolio, a loss on sale of our US insurance business, and a write-down of an investment property held for sale.

LICs decreased by US$1.5bn to US$696m, mainly in the US, driven by significant favourable adjustments to the market value of the underlying properties of US$603m reflecting improvements in housing market conditions, a reduction in lending balances from the continued run-off of the CML portfolio and loan sales, and lower delinquency levels. In addition, loan impairment charges declined by US$323m due to the sale of the CRS business in the first half of 2012. Partially offsetting these declines was an increase of US$130m relating to a rise in the estimated average period of time from a loss event occurring to write-off for real estate loans to twelve months (previously a period of ten months was used). In CMB, loan impairment charges increased by

Interim Management Report (continued)

US$105m due to individually assessed impairments on a small number of exposures in Canada and, in the US, due to higher provisions as a result of increased loans in key growth markets and a lower level of recoveries compared with the same period in 2012.

Operating expenses were 26% lower than in the first half of 2012, primarily due to the non-recurrence of a US$700m provision for US anti-money laundering, BSA and OFAC investigations, lower average staff numbers and costs following the business disposals in the US and Canada, and a reduction in litigation provisions in relation to US

mortgage foreclosure servicing costs. We also achieved over US$140m of sustainable cost savings in the first half of 2013, primarily from organisational effectiveness. Partly offsetting the above was an increase of US$100m in the customer remediation provisions in the first half of 2013 related to enhancement services products sold by our former CRS business.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Profit/(loss) before tax and balance sheet data *North America*

	Half-year to 30 June 2013						
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Other	Inter-segment elimination[62]	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Profit/(loss) before tax							
Net interest income	1,888	706	321	97	49	(31)	3,030
Net fee income	335	288	384	63	68		1,138
Trading income excluding net interest income	(18)	23	375	11	(6)		385
Net interest income/(expense) on trading activities	8		81			31	120
Net trading income/(expense)[57]	(10)	23	456	11	(6)	31	505
Changes in fair value of long- term debt issued and related derivatives					(72)		(72)
Net expense from other financial instruments designated at fair value							
Net expense from financial instruments designated at fair value					(72)		(72)
Gains less losses from financial investments	4		212		7		223
Dividend income	7	5	25	2	2		41
Net earned insurance premiums	34						34
Other operating income/(expense)	(352)	(16)	122	2	847	(831)	(228)
Total operating income	1,906	1,006	1,520	175	895	(831)	4,671
Net insurance claims[63]	(39)						(39)
Net operating income[22]	1,867	1,006	1,520	175	895	(831)	4,632
Loan impairment charges and other credit risk provisions	(532)	(155)	(8)	(1)			(696)
Net operating income	1,335	851	1,512	174	895	(831)	3,936
Operating expenses	(1,504)	(540)	(818)	(143)	(1,102)	831	(3,276)
Operating profit/(loss)	(169)	311	694	31	(207)		660
Share of profit/(loss) in associates and joint ventures	(1)	6		1			6
Profit/(loss) before tax	(170)	317	694	32	(207)		666
	%	%	%	%	%		%

Share of HSBC s profit before tax	**(1.2)**	**2.3**	**4.9**	**0.2**	**(1.5)**		**4.7**
Cost efficiency ratio	**80.6**	**53.7**	**53.8**	**81.7**	**123.1**		**70.7**
Balance sheet data[53]							
	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances to customers (net) reported in:							
loans and advances to customers (net)	**71,547**	**35,367**	**21,956**	**5,624**			**134,494**
assets held for sale	**849**						**849**
Total assets	**88,313**	**42,820**	**350,497**	**7,715**	**15,269**	**(31,396)**	**473,218**
Customer accounts reported in:							
customer accounts	**54,159**	**46,455**	**34,942**	**13,432**	**65**		**149,053**

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HSBC HOLDINGS PLC

Interim Management Report (continued)

	Half-year to 30 June 2012						
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Other	Inter-segment elimination[62]	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Profit/(loss) before tax							
Net interest income	3,418	715	491	97	50	(32)	4,739
Net fee income	681	272	375	64	51		1,443
Trading income/(expense) excluding net interest income	(206)	20	245	11	8		78
Net interest income on trading activities	9	1	41			32	83
Net trading income/(expense)[57]	(197)	21	286	11	8	32	161
Changes in fair value of long-term debt issued and related derivatives					(638)		(638)
Net expense from other financial instruments designated at fair value			(1)				(1)
Net expense from financial instruments designated at fair value			(1)		(638)		(639)
Gains less losses from financial investments	12		158		6		176
Dividend income	8	5	11	1	1		26
Net earned insurance premiums	109						109
Gains on disposal of US branch network and cards business	3,597	212					3,809
Other operating income	109	93	87	5	1,011	(1,079)	226
Total operating income	7,737	1,318	1,407	178	489	(1,079)	10,050
Net insurance claims[63]	(72)						(72)
Net operating income[22]	7,665	1,318	1,407	178	489	(1,079)	9,978
Loan impairment (charges)/ recoveries and other credit risk provisions	(2,084)	(51)	(30)	4			(2,161)
Net operating income	5,581	1,267	1,377	182	489	(1,079)	7,817
Operating expenses	(2,108)	(583)	(828)	(141)	(1,881)	1,079	(4,462)
Operating profit/(loss)	3,473	684	549	41	(1,392)		3,355
Share of profit/(loss) in associates and joint ventures	1	(2)					(1)
Profit/(loss) before tax	3,474	682	549	41	(1,392)		3,354
	%	%	%	%	%		%
Share of HSBC s profit before tax	27.3	5.4	4.3	0.3	(11.0)		26.3
Cost efficiency ratio	27.5	44.2	58.8	79.2	384.7		44.7

Balance sheet data[53]

	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net) reported in:							
loans and advances to customers (net)	83,060	33,754	32,068	5,109			153,991
assets held for sale (disposal groups)	413	115					528
Total assets	110,038	46,321	347,728	7,444	12,054	(22,995)	500,590
Customer accounts reported in:							
customer accounts	58,962	45,783	29,465	14,061	89		148,360
liabilities of disposal groups held for sale	2,843	790					3,633

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HSBC HOLDINGS PLC

Interim Management Report (continued)

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

	Half-year to 31 December 2012						
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Other	Inter-segment elimination[62]	Total
	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
Profit/(loss) before tax							
Net interest income	2,063	728	457	95	68	(33)	3,378
Net fee income	242	290	341	60	137		1,070
Trading income/(expense) excluding net interest income	(10)	27	221	9	8		255
Net interest income on trading activities	8		50			33	91
Net trading income/(expense)[57]	(2)	27	271	9	8	33	346
Changes in fair value of long-term debt issued and related derivatives					(581)		(581)
Net income from other financial instruments designated at fair value			1				1
Net income/(expense) from financial instruments designated at fair value			1		(581)		(580)
Gains less losses from financial investments	15		65	(7)	2		75
Dividend income	7	6	21	2	(1)		35
Net earned insurance premiums	84						84
Gains on disposal of US branch network and cards business	138	65					203
Other operating income/ (expense)	64	56	104		776	(820)	180
Total operating income	2,611	1,172	1,260	159	409	(820)	4,791
Net insurance claims[63]	(76)						(76)
Net operating income[22]	2,535	1,172	1,260	159	409	(820)	4,715
Loan impairment charges and other credit risk provisions	(1,157)	(97)	(41)	(1)			(1,296)
Net operating income	1,378	1,075	1,219	158	409	(820)	3,419
Operating expenses	(1,858)	(561)	(811)	(127)	(1,941)	820	(4,478)
Operating profit/(loss)	(480)	514	408	31	(1,532)		(1,059)
Share of profit in associates and joint ventures	1	3					4

Profit/(loss) before tax	(479)	517	408	31	(1,532)		(1,055)
	%	%	%	%	%		%
Share of HSBC s profit before tax	(6.1)	6.5	5.2	0.4	(19.3)		(13.3)
Cost efficiency ratio	73.3	47.9	64.4	79.9	474.6		95.0
Balance sheet data[53]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net) reported in:							
loans and advances to customers (net)	76,414	36,387	22,498	5,457			140,756
assets held for sale (disposal groups)	3,899						3,899
Total assets	101,103	48,604	345,040	8,828	12,659	(25,987)	490,247
Customer accounts reported in:							
customer accounts	57,758	48,080	29,595	13,553	51		149,037

For footnotes, see page 100.

Interim Management Report (continued)

Latin America

Our operations in Latin America principally comprise HSBC Bank Brasil S.A.-Banco Múltiplo, HSBC México, S.A., HSBC Bank Argentina S.A. and HSBC Bank (Panama) S.A. In addition to banking services, we operate insurance businesses in Brazil, Mexico, Argentina and Panama.

	Half-year to		
	30 Jun	30 Jun	31 Dec
	2013	2012	2012
	US$m	US$m	US$m
Net interest income	**3,274**	3,542	3,442
Net fee income	**896**	843	892
Net trading income	**397**	597	374
Other income	**391**	583	678
Net operating income[22]	**4,958**	5,565	5,386
LICs[55]	**(1,423)**	(1,136)	(1,001)
Net operating income	**3,535**	4,429	4,385
Total operating expenses	**(3,069)**	(3,285)	(3,145)
Operating profit	**466**	1,144	1,240
Income from associates[56]		1	(1)
Profit before tax	**466**	1,145	1,239
Cost efficiency ratio	**61.9%**	59.0%	58.4%
RoRWA[49]	**1.0%**	2.2%	2.5%
Period-end staff numbers	**46,046**	51,667	46,556

Further progress made in repositioning

the Latin America businesses

Best Debt House in Latin America

(Euromoney Awards for

Excellence, 2013)

Launched a US$1bn fund for

International Business Banking

in Mexico

For footnotes, see page 100.

Economic background

Growth in Latin America slowed in the first half of 2013 as a result of two sets of factors: externally, the slowdown in mainland China and its negative impact on commodities; and domestically, country-specific weakness in domestic demand and rising political uncertainty.

Brazil s economic performance was below expectations in the period. In the first quarter of 2013, in particular, GDP was weighed down by weak consumption as Brazilian consumers appeared to be cutting back in response to inflation, high levels of indebtedness and weaker confidence.

In **Mexico**, growth remained weak during the first half of 2013, as a result of mild growth in the US and moderate government spending during the first months of the new administration. Core inflation remained under control and headline inflation began to converge towards the mid-point of the inflation target (3%) after a temporary rise related to agricultural and administered prices.

In **Argentina**, activity rebounded in the first half of 2013 due to a very good harvest and a buoyant car sector, partially due to stronger exports to Brazil. This is far from what could be considered a broad-based recovery, as most sectors show only a very modest rate of expansion. The inflation situation remains uncertain, while reserves have declined on the back of net external debt payments.

Review of performance

In Latin America, reported profit before tax of US$466m was US$679m lower than in the first half of 2012, and US$607m lower on a constant currency basis.

On an underlying basis, pre-tax profits decreased by US$487m, driven by a rise in both individually assessed and collective loan impairment charges, the latter relating in part to impairment model changes and assumption revisions for restructured loan portfolios in Brazil. In addition, revenue declined, notably in Brazil as GB&M benefited from a more favourable interest rate environment in the comparable period and lower spreads and average lending balances in Business Banking led to a decline in CMB. Revenue in RBWM and CMB was also adversely affected by a significant reduction in the PVIF asset.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Profit/(loss) before tax by country within global businesses

	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Total US$m
Half-year to 30 June 2013						
Argentina	**44**	**69**	**67**			**180**
Brazil	**(117)**	**(19)**	**290**	**4**	**(5)**	**153**
Mexico	**85**	**(15)**	**55**	**1**	**(9)**	**117**
Panama	**18**	**29**	**29**	**1**	**(24)**	**53**
Other	**(27)**	**5**	**3**		**(18)**	**(37)**
	3	**69**	**444**	**6**	**(56)**	**466**
Half-year to 30 June 2012						
Argentina	156	100	98		(42)	312
Brazil	(83)	200	413	10	(35)	505
Mexico	179	77	111		(1)	366
Panama	13	33	21			67
Other	(51)	(29)	6		(31)	(105)
	214	381	649	10	(109)	1,145
Half-year to 31 December 2012						
Argentina	53	69	76		(4)	194
Brazil	177	159	283	7	(8)	618
Mexico	159	99	90	2	(17)	333
Panama	16	29	27	2		74
Other	(11)	14	28	(1)	(10)	20
	394	370	504	10	(39)	1,239

We have made progress in reducing the fragmentation in our Latin American businesses through disposals in non-strategic markets. In February 2013, we announced the sale of our business in Panama, which is expected to be completed later this year. In addition, we completed the sale of a portfolio of our non-life insurance assets and liabilities in Mexico in April 2013. In line with the Group s strategy, we initiated a comprehensive programme to reposition our portfolios to manage the potential risk of financial crime in accordance with the Group s Global Standards. As a result, certain businesses and activities are being exited across the region.

In RBWM, we have grown revenue in our Premier and Advance segments by actively targeting mass affluent customers. In Mexico, we launched a residential mortgage offer which has been positively received by the market. Customer penetration of digital channels also increased, supported by the launch of enhanced digital banking technologies, such as a mobile banking solution in Mexico and an upgrade to the internet banking platform in Brazil. In Argentina, we retained our position as a market leader in mobile banking, as the number of customers using, and transactions through, this channel increased compared with the first half of 2012.

In CMB, as part of our strategy, we concentrated on capturing international trade flows between Latin America and the US and Asia. As part of this initiative, we launched an MXN13bn (US$1bn) fund for Business Banking in Mexico focused on import and export financing, and recently introduced trade financing in RMB across the region.

In GB&M, we extended dedicated investment banking coverage to priority large local corporate accounts. This strengthened coverage has already allowed us to win a number of advisory mandates in event-driven transactions. We also increased collaboration and connectivity through a US into Latin America business development initiative, which connects US-based RMs with Latin American multi-national teams and product partners. We won several awards in the *Euromoney* Awards for Excellence 2013 including Best Debt House , Best Project Finance House and Best Risk Advisor in Latin America.

The following commentary is on a constant currency basis.

Net interest income decreased by US$93m, driven by the effect of non-strategic business disposals. Excluding the disposals, net interest income increased marginally. This was due to the lower cost of funding assets held for trading in

Interim Management Report (continued)

Brazil, reflecting both a reduction in the trading book and a fall in average interest rates, partly offset by lower net interest income in CMB and in Balance Sheet Management in GB&M. The decrease in CMB was driven by Business Banking in Brazil, as a result of lower spreads, and a reduction in average lending balances. The latter was the result of more restrictive origination criteria which included reducing credit limits where appropriate. Net interest income in GB&M also fell as the proceeds from maturing investments were reinvested by Balance Sheet Management at lower prevailing rates.

Net fee income increased by 10%, due in part to higher current account fees in Brazil. The sale of the non-life insurance business in Argentina also contributed to the rise, as sales commissions payable to third party distribution channels were no longer incurred.

Net trading income decreased by US$159m, primarily in Brazil due to a decline in net interest income on trading activities as average trading assets fell. In addition, the comparable period in 2012 benefited from higher Rates trading revenue as a result of downward yield curve movements.

Net income from financial instruments designated at fair value decreased by US$176m, notably in Brazil, mainly in the unit-linked pensions business as a result of significantly lower net investment income due to market movements. To the extent that this was attributed to policyholders there was a corresponding movement in *Net insurance claims incurred and movement in liabilities to policyholders*.

Gains less losses from financial investments fell by 42% due to lower gains on disposals of available-for-sale government debt securities in Balance Sheet Management.

Net earned insurance premiums decreased by 26%, driven by lower sales of unit-linked pension products in Brazil. Premiums also fell in Argentina as a consequence of the sale of the non-life insurance business in the first half of 2012. The reduction

of net earned insurance premiums resulted in a corresponding decrease of *Net insurance claims incurred and movement in liabilities to policyholders*.

Other operating income decreased by US$22m, driven by a significant reduction in the PVIF asset due to an increase in lapse rates and interest rates movements. This was partly offset by net gains in the current period and the non-recurrence of net losses in the first half of 2012 on the sale or reclassification to held for sale of non-strategic businesses.

LICs increased by US$365m, driven by higher collective provisions in RBWM and CMB and higher individually assessed provisions. This included charges mainly relating to impairment model changes and assumption revisions in Brazil for restructured loans in portfolios in RBWM and Business Banking in CMB (see page 114), although this was offset in part by an improvement in the quality of the portfolio following the modification of credit strategies in previous periods to mitigate rising delinquency rates. Collective impairments also rose in RBWM in Mexico, reflecting the non-recurrence of a provision release in the first half of 2012, higher lending balances and a revision to the assumptions used in our collective assessment models in the first half of 2013. In addition, individually assessed provisions increased, in particular on exposures to homebuilders in CMB due to a change in the public housing policy together with a specific exposure in GB&M, both in Mexico.

Operating expenses decreased by US$62m as a consequence of business disposals, coupled with continued efforts to exercise strict cost control and progress our organisational effectiveness programmes. This was partly offset by the effect of inflationary pressures, union-agreed salary increases in Brazil and Argentina, and higher compliance and risk costs from the implementation of Global Standards and portfolio repositioning, notably in Mexico.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Profit/(loss) before tax and balance sheet data Latin America

	Half-year to 30 June 2013						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[62] US$m	Total US$m
Profit/(loss) before tax							
Net interest income/(expense)	1,952	957	436	12	(6)	(77)	3,274
Net fee income	500	288	90	18			896
Trading income/(expense) excluding net interest income	58	55	190	2	(3)		302
Net interest income on trading activities			18			77	95
Net trading income/(expense)[57]	58	55	208	2	(3)	77	397
Net income from financial instruments designated at fair value	71	13	1				85
Gains less losses from financial investments		1	50				51
Dividend income	2	2	1				5
Net earned insurance premiums	681	179	3				863
Other operating income/(expense)	6	(11)	5		84	(85)	(1)
Total operating income	3,270	1,484	794	32	75	(85)	5,570
Net insurance claims[63]	(505)	(106)	(1)				(612)
Net operating income[22]	2,765	1,378	793	32	75	(85)	4,958
Loan impairment charges and other credit risk provisions	(877)	(501)	(45)				(1,423)
Net operating income	1,888	877	748	32	75	(85)	3,535
Operating expenses	(1,885)	(808)	(304)	(26)	(131)	85	(3,069)
Operating profit/(loss)	3	69	444	6	(56)		466
Share of profit in associates and joint ventures							
Profit/(loss) before tax	3	69	444	6	(56)		466
	%	%	%	%	%		%
Share of HSBC s profit before tax		0.5	3.2		(0.4)		3.3
Cost efficiency ratio	68.2	58.6	38.3	81.3	174.7		61.9
Balance sheet data[53]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	13,996	20,689	9,822	53			44,560
Total assets	34,497	34,075	53,864	490	448	(342)	123,032

Customer accounts	**23,294**	**16,443**	**11,132**	**2,755**			**53,624**

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Interim Management Report (continued)

	Half-year to 30 June 2012						
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Global Private Banking	Other	Inter-segment elimination[62]	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Profit/(loss) before tax							
Net interest income/(expense)	2,148	1,123	520	16	(15)	(250)	3,542
Net fee income	423	303	102	15			843
Trading income excluding net interest income	36	52	252	1	3		344
Net interest income on trading activities			3			250	253
Net trading income[57]	36	52	255	1	3	250	597
Net income from financial instruments designated at fair value	223	53			12		288
Gains less losses from financial investments	4	2	83				89
Dividend income	4	4	1				9
Net earned insurance premiums	1,008	235	13				1,256
Other operating income	72	2	(7)	2	73	(95)	47
Total operating income	3,918	1,774	967	34	73	(95)	6,671
Net insurance claims[63]	(889)	(209)	(8)				(1,106)
Net operating income[22]	3,029	1,565	959	34	73	(95)	5,565
Loan impairment charges and other credit risk provisions	(819)	(316)		(1)			(1,136)
Net operating income	2,210	1,249	959	33	73	(95)	4,429
Operating expenses	(1,996)	(869)	(310)	(23)	(182)	95	(3,285)
Operating profit/(loss)	214	380	649	10	(109)		1,144
Share of profit in associates and joint ventures		1					1
Profit/(loss) before tax	214	381	649	10	(109)		1,145
	%	%	%	%	%		%
Share of HSBC s profit before tax	1.7	3.0	5.1	0.1	(0.9)		9.0
Cost efficiency ratio	65.9	55.5	32.3	67.6	249.3		59.0
Balance sheet data[53]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	17,491	24,865	10,521	83			52,960
Total assets	38,296	37,387	62,624	819	365	(523)	138,968
Customer accounts	27,918	21,477	15,104	5,095			69,594

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HSBC HOLDINGS PLC

Interim Management Report (continued)

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

	Half-year to 31 December 2012						
	Retail Banking and Wealth Management US$m	Commercial Banking US$m	Global Banking and Markets US$m	Global Private Banking US$m	Other US$m	Inter-segment elimination[62] US$m	Total US$m
Profit/(loss) before tax							
Net interest income	1,997	1,050	473	14	13	(105)	3,442
Net fee income	450	319	105	18			892
Trading income/(expense) excluding net interest income	49	47	146	2	(2)		242
Net interest income on trading activities			26		1	105	132
Net trading income/(expense)[57]	49	47	172	2	(1)	105	374
Net income from financial instruments designated at fair value	280	110	1		(12)		379
Gains less losses from financial investments	71	19	48				138
Dividend income	5	1					6
Net earned insurance premiums	977	215	4				1,196
Other operating income	237	(11)	13	1	61	(95)	206
Total operating income	4,066	1,750	816	35	61	(95)	6,633
Net insurance claims[63]	(986)	(260)	(1)				(1,247)
Net operating income[22]	3,080	1,490	815	35	61	(95)	5,386
Loan impairment charges and other credit risk provisions	(722)	(265)	(13)	(1)			(1,001)
Net operating income	2,358	1,225	802	34	61	(95)	4,385
Operating expenses	(1,964)	(854)	(298)	(24)	(100)	95	(3,145)
Operating profit/(loss)	394	371	504	10	(39)		1,240
Share of loss in associates and joint ventures		(1)					(1)
Profit/(loss) before tax	394	370	504	10	(39)		1,239
	%	%	%	%	%		%
Share of HSBC s profit before tax	5.0	4.7	6.3	0.1	(0.5)		15.6
Cost efficiency ratio	63.8	57.3	36.6	68.6	163.9		58.4
Balance sheet data[53]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	17,236	25,379	10,903	91			53,609

Total assets	36,141	35,507	58,272	570	1,110	(323)	131,277
Customer accounts	28,688	20,834	12,604	4,430			66,556

For footnotes, see page 100.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Reconciliation of reported and constant currency profit/(loss) before tax

Europe

30 June 2013 compared with 30 June 2012

	Half-year to 30 June 2013 (1H13) compared with half-year to 30 June 2012 (1H12)					
	1H12 as reported US$m	Currency translation adjustment[18] US$m	1H12 at 1H13 exchange rates US$m	1H13 as reported US$m	Reported change[19] %	Constant currency change[19] %
Net interest income	5,073	(61)	5,012	5,250	3	5
Net fee income	3,023	(24)	2,999	2,969	(2)	(1)
Own credit spread[20]	(1,605)	8	(1,597)	3		
Other income[21]	3,176	(25)	3,151	3,252	2	3
Net operating income[22]	**9,667**	**(102)**	**9,565**	**11,474**	**19**	**20**
Loan impairment charges and other credit risk provisions	(1,037)	18	(1,019)	(846)	18	17
Net operating income	**8,630**	**(84)**	**8,546**	**10,628**	**23**	**24**
Operating expenses	(9,289)	104	(9,185)	(7,862)	15	14
Operating profit/(loss)	**(659)**	**20**	**(639)**	**2,766**		
Share of profit/(loss) in associates and joint ventures	(8)	(1)	(9)	2		
Profit/(loss) before tax	**(667)**	**19**	**(648)**	**2,768**		

30 June 2013 compared with 31 December 2012

	Half-year to 30 June 2013 (1H13) compared with half-year to 31 December 2012 (2H12)					
	2H12 as reported US$m	Currency translation adjustment[18] US$m	2H12 at 1H13 exchange rates US$m	1H13 as reported US$m	Reported change[19] %	Constant currency change[19] %
Net interest income	5,321	(75)	5,246	5,250	(1)	
Net fee income	3,146	(25)	3,121	2,969	(6)	(5)

Own credit spread[20]	(2,505)	19	(2,485)	3		
Other income[21]	1,977	(158)	1,819	3,252	64	79
Net operating income[22]	7,941	(239)	7,701	11,474	45	49
Loan impairment charges and other credit risk provisions	(884)	11	(873)	(846)	4	3
Net operating income	7,057	(228)	6,828	10,628	51	56
Operating expenses	(9,806)	123	(9,682)	(7,862)	20	19
Operating profit/(loss)	(2,749)	(105)	(2,854)	2,766		
Share of profit in associates and joint ventures	2		2	2		
Profit/(loss) before tax	(2,747)	(105)	(2,852)	2,768		

For footnotes, see page 100.

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Interim Management Report (continued)

Reconciliation of reported and underlying revenue

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported revenue	**11,474**	9,667	19	**11,474**	7,940	45
Currency translation adjustment[18]		(110)			(258)	
Own credit spread[20]	**(3)**	1,605		**(3)**	2,504	
Acquisitions, disposals and dilutions	**11**			**11**	3	
Underlying revenue	**11,482**	11,162	3	**11,482**	10,189	13

Reconciliation of reported and underlying loan impairment charges and other credit risk provisions (LIC s)

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported LICs	**(846)**	(1,037)	18	**(846)**	(884)	4
Currency translation adjustment[18]		18			11	
Underlying LICs	**(846)**	(1,019)	17	**(846)**	(873)	3

Reconciliation of reported and underlying operating expenses

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported operating expenses	**(7,862)**	(9,289)	15	**(7,862)**	(9,805)	20
Currency translation adjustment[18]		104			123	
Underlying operating expenses	**(7,862)**	(9,185)	14	**(7,862)**	(9,682)	19
Underlying cost efficiency ratio	**68.5%**	82.3%		**68.5%**	95.0%	

Reconciliation of reported and underlying profit/(loss) before tax

	Half-year to					
	30 June	30 June	Change[19]	**30 June**	31 December	Change[19]

	2013 US$m	2012 US$m	%	2013 US$m	2012 US$m	%
Reported profit/(loss) before tax	**2,768**	(667)		**2,768**	(2,747)	
Currency translation adjustment[18]		11			(124)	
Own credit spread[20]	**(3)**	1,605		**(3)**	2,504	
Acquisitions, disposals and dilutions	**11**			**11**	3	
Underlying profit/(loss) before tax	**2,776**	949	193	**2,776**	(364)	

Average risk-weighted assets (RWA s)

	Half-year to					
	30 June 2013 US$bn	30 June 2012 US$bn	Change[19] %	**30 June 2013 US$bn**	31 December 2012 US$bn	Change[19] %
Average reported RWAs	**307**	338	(9)	**307**	321	(4)
Currency translation adjustment[18]		(1)			(4)	
Average underlying RWAs	**307**	337	(9)	**307**	317	(3)

For footnotes, see page 100.

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Interim Management Report (continued)

Hong Kong

30 June 2013 compared with 30 June 2012

	Half-year to 30 June 2013 (1H13) compared with half-year to 30 June 2012 (1H12)					
	1H12 as reported	Currency translation adjustment[18]	1H12 at 1H13 exchange rates	1H13 as reported	Reported change[19]	Constant currency change[19]
	US$m	US$m	US$m	US$m	%	%
Net interest income	2,599	1	2,600	2,866	10	10
Net fee income	1,618		1,618	2,006	24	24
Other income[21]	1,916		1,916	1,771	(8)	(8)
Net operating income[22]	6,133	1	6,134	6,643	8	8
Loan impairment charges and other credit risk provisions	(32)	(1)	(33)	(46)	(44)	(39)
Net operating income	6,101		6,101	6,597	8	8
Operating expenses	(2,396)		(2,396)	(2,418)	(1)	(1)
Operating profit	3,705		3,705	4,179	13	13
Share of profit in associates and joint ventures	56		56	26	(54)	(54)
Profit before tax	3,761		3,761	4,205	12	12

30 June 2013 compared with 31 December 2012

	Half-year to 30 June 2013 (1H13) compared with half-year to 31 December 2012 (2H12)					
	2H12 as reported	Currency translation adjustment[18]	2H12 at 1H13 exchange rates	1H13 as reported	Reported change[19]	Constant currency change[19]
	US$m	US$m	US$m	US$m	%	%
Net interest income	2,717	(2)	2,715	2,866	5	6
Net fee income	1,717	(1)	1,716	2,006	17	17
Other income[21]	1,855	(8)	1,847	1,771	(5)	(4)
Net operating income[22]	6,289	(11)	6,278	6,643	6	6
Loan impairment charges and other credit risk provisions	(42)		(42)	(46)	(10)	(10)

Net operating income	6,247	(11)	6,236	6,597	6	6
Operating expenses	(2,452)	4	(2,448)	(2,418)	1	1
Operating profit	3,795	(7)	3,788	4,179	10	10
Share of profit in associates and joint ventures	26		26	26		
Profit before tax	3,821	(7)	3,814	4,205	10	10

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Interim Management Report (continued)

Reconciliation of reported and underlying revenue

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported revenue	**6,643**	6,133	8	**6,643**	6,289	6
Currency translation adjustment[18]		1			(11)	
Acquisitions, disposals and dilutions		(48)			(397)	
Underlying revenue	**6,643**	6,086	9	**6,643**	5,881	13

Reconciliation of reported and underlying loan impairment charges and other credit risk provisions (LICs)

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported LICs	**(46)**	(32)	(44)	**(46)**	(42)	(10)
Currency translation adjustment[18]		(1)				
Underlying LICs	**(46)**	(33)	(39)	**(46)**	(42)	(10)

Reconciliation of reported and underlying operating expenses

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported operating expenses	**(2,418)**	(2,396)	(1)	**(2,418)**	(2,452)	1
Currency translation adjustment[18]					4	
Acquisitions, disposals and dilutions		28			6	
Underlying operating expenses	**(2,418)**	(2,368)	(2)	**(2,418)**	(2,442)	1
Underlying cost efficiency ratio	**36.4%**	38.9%		**36.4%**	41.5%	

Reconciliation of reported and underlying profit before tax

	Half-year to					
	30 June	30 June	Change[19]	**30 June**	31 December	Change[19]

	2013 US$m	2012 US$m	%	2013 US$m	2012 US$m	%
Reported profit before tax	**4,205**	3,761	12	**4,205**	3,821	10
Currency translation adjustment[18]					(7)	
Acquisitions, disposals and dilutions		(28)			(392)	
Underlying profit before tax	**4,205**	3,733	13	**4,205**	3,422	23

Average risk-weighted assets (RWA s)

	Half-year to					
	30 June	30 June		**30 June**	31 December	
	2013 US$bn	2012 US$bn	Change[19] %	**2013 US$bn**	2012 US$bn	Change[19] %
Average reported RWAs	**120**	106	13	**120**	110	9
Currency translation adjustment[18]						
Average underlying RWAs	**120**	106	13	**120**	110	9

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Interim Management Report (continued)

Rest of Asia-Pacific

30 June 2013 compared with 30 June 2012

	Half-year to 30 June 2013 (1H13) compared with half-year to 30 June 2012 (1H12)					
	1H12 as reported US$m	**Currency translation adjustment[18] US$m**	**1H12 at 1H13 exchange rates US$m**	**1H13 as reported US$m**	**Reported change[19] %**	**Constant currency change[19] %**
Net interest income	**2,718**	**(15)**	**2,703**	**2,653**	**(2)**	**(2)**
Net fee income	**1,078**	**(22)**	**1,056**	**1,084**	**1**	**3**
Own credit spread[20]	**(2)**		**(2)**	**1**		
Other income[21]	**2,153**	**(51)**	**2,102**	**3,265**	**52**	**55**
Net operating income[22]	**5,947**	**(88)**	**5,859**	**7,003**	**18**	**20**
Loan impairment charges and other credit risk provisions	**(298)**	**3**	**(295)**	**(152)**	**49**	**48**
Net operating income	**5,649**	**(85)**	**5,564**	**6,851**	**21**	**23**
Operating expenses	**(2,865)**	**48**	**(2,817)**	**(2,749)**	**4**	**2**
Operating profit	**2,784**	**(37)**	**2,747**	**4,102**	**47**	**49**
Share of profit in associates and joint ventures	**1,588**	**14**	**1,602**	**955**	**(40)**	**(40)**
Profit before tax	**4,372**	**(23)**	**4,349**	**5,057**	**16**	**16**

30 June 2013 compared with 31 December 2012

	Half-year to 30 June 2013 (1H13) compared with half-year to 31 December 2012 (2H12)					
	2H12 as reported US$m	Currency translation adjustment[18] US$m	2H12 at 1H13 exchange rates US$m	1H13 as reported US$m	Reported change[19] %	Constant currency change[19] %
Net interest income	2,673	(7)	2,666	2,653	(1)	
Net fee income	1,005	(14)	991	1,084	8	9
Own credit spread[20]	(1)		(1)	1		
Gains on disposal of Ping An	3,012		3,012		(100)	(100)
Other income[21]	948	(93)	855	3,265	244	282

Net operating income[22]	7,637	(114)	7,523	7,003	(8)	(7)
Loan impairment charges and other credit risk provisions	(138)	1	(137)	(152)	(10)	(11)
Net operating income	7,499	(113)	7,386	6,851	(9)	(7)
Operating expenses	(2,941)	25	(2,916)	(2,749)	7	6
Operating profit	4,558	(88)	4,470	4,102	(10)	(8)
Share of profit in associates and joint ventures	1,518	13	1,531	955	(37)	(38)
Profit before tax	6,076	(75)	6,001	5,057	(17)	(16)

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Interim Management Report (continued)

Reconciliation of reported and underlying revenue

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported revenue	**7,003**	5,947	18	**7,003**	7,637	(8)
Currency translation adjustment[18]		(88)			(114)	
Own credit spread[20]	**(1)**	2		**(1)**	1	
Acquisitions, disposals and dilutions	**(1,185)**	(330)		**(1,185)**	(3,012)	
Underlying revenue	**5,817**	5,531	5	**5,817**	4,512	29

Reconciliation of reported and underlying loan impairment charges and other credit risk provisions (LICs)

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported LICs	**(152)**	(298)	49	**(152)**	(138)	(10)
Currency translation adjustment[18]		3			1	
Acquisitions, disposals and dilutions		(2)				
Underlying LICs	**(152)**	(297)	49	**(152)**	(137)	(11)

Reconciliation of reported and underlying operating expenses

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported operating expenses	**(2,749)**	(2,865)	4	**(2,749)**	(2,941)	7
Currency translation adjustment[18]		48			25	
Acquisitions, disposals and dilutions	**72**	60		**72**	51	
Underlying operating expenses	**(2,677)**	(2,757)	3	**(2,677)**	(2,865)	7
Underlying cost efficiency ratio	**46.0%**	49.8%		**46.0%**	63.5%	

Reconciliation of reported and underlying profit before tax

Half-year to

	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	30 June 2013 US$m	31 December 2012 US$m	Change[19] %
Reported profit before tax	**5,057**	4,372	16	**5,057**	6,076	(17)
Currency translation adjustment[18]		(23)			(75)	
Own credit spread[20]	**(1)**	2		**(1)**	1	
Acquisitions, disposals and dilutions	**(1,116)**	(1,025)		**(1,116)**	(3,639)	
Underlying profit before tax	**3,940**	3,326	18	**3,940**	2,363	67

Average risk-weighted assets (RWA s)

	Half-year to					
	30 June 2013 US$bn	30 June 2012 US$bn	Change[19] %	30 June 2013 US$bn	31 December 2012 US$bn	Change[19] %
Average reported RWAs	**287**	292	(2)	**287**	307	(7)
Acquisitions, disposals and dilutions	**(13)**	(54)		**(13)**	(54)	
Average underlying RWAs	**274**	238	15	**274**	253	8

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Middle East and North Africa

30 June 2013 compared with 30 June 2012

	Half-year to 30 June 2013 (1H13) compared with half-year to 30 June 2012 (1H12)					
	1H12 as reported US$m	Currency translation adjustment[18] US$m	1H12 at 1H13 exchange rates US$m	1H13 as reported US$m	Reported change[19] %	Constant currency change[19] %
Net interest income	705	(20)	685	746	6	9
Net fee income	302	(4)	298	311	3	4
Own credit spread[20]	(4)		(4)	(1)	75	75
Other income[21]	234	(3)	231	197	(16)	(15)
Net operating income[22]	**1,237**	**(27)**	**1,210**	**1,253**	**1**	**4**
Loan impairment (charges)/recoveries and other credit risk provisions	(135)	1	(134)	47		
Net operating income	**1,102**	**(26)**	**1,076**	**1,300**	**18**	**21**
Operating expenses	(537)	10	(527)	(616)	(15)	(17)
Operating profit	**565**	**(16)**	**549**	**684**	**21**	**25**
Share of profit in associates and joint ventures	207	1	208	225	9	8
Profit before tax	**772**	**(15)**	**757**	**909**	**18**	**20**

30 June 2013 compared with 31 December 2012

	Half-year to 30 June 2013 (1H13) compared with half-year to 31 December 2012 (2H12)					
	2H12 as reported US$m	Currency translation adjustment[18] US$m	2H12 at 1H13 exchange rates US$m	1H13 as reported US$m	Reported change[19] %	Constant currency change[19] %
Net interest income	765	(18)	747	746	(2)	
Net fee income	293	(6)	287	311	6	8
Own credit spread[20]	(8)		(8)	(1)	88	88
Other income[21]	143	(4)	139	197	38	42

Net operating income[22]	1,193	(28)	1,165	1,253	5	8
Loan impairment (charges)/recoveries and other credit risk provisions	(151)	3	(148)	47		
Net operating income	1,042	(25)	1,017	1,300	25	28
Operating expenses	(629)	12	(617)	(616)	2	
Operating profit	413	(13)	400	684	66	71
Share of profit in associates and joint ventures	165		165	225	36	36
Profit before tax	578	(13)	565	909	57	61

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Interim Management Report (continued)

Reconciliation of reported and underlying revenue

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported revenue	**1,253**	1,237	1	**1,253**	1,193	5
Currency translation adjustment[18]		(27)			(28)	
Own credit spread[20]	**1**	4		**1**	8	
Acquisitions, disposals and dilutions		(38)			41	
Underlying revenue	**1,254**	1,176	7	**1,254**	1,214	3

Reconciliation of reported and underlying loan impairment charges and other credit risk provisions (LIC s)

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported LICs	**47**	(135)		**47**	(151)	
Currency translation adjustment[18]		1			3	
Underlying LICs	**47**	(134)		**47**	(148)	

Reconciliation of reported and underlying operating expenses

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported operating expenses	**(616)**	(537)	(15)	**(616)**	(629)	2
Currency translation adjustment[18]		10			12	
Acquisitions, disposals and dilutions		11			4	
Underlying operating expenses	**(616)**	(516)	(19)	**(616)**	(613)	
Underlying cost efficiency ratio	**49.1%**	43.9%		**49.1%**	50.5%	

Reconciliation of reported and underlying profit before tax

	Half-year to					
	30 June	30 June	Change[19]	**30 June**	31 December	Change[19]

	2013	2012		**2013**	2012	
	US$m	US$m	%	**US$m**	US$m	%
Reported profit before tax	**909**	772	18	**909**	578	57
Currency translation adjustment[18]		(15)			(13)	
Own credit spread[20]	**1**	4		**1**	8	
Acquisitions, disposals and dilutions		(27)			45	
Underlying profit before tax	**910**	734	24	**910**	618	47

Average risk-weighted assets (RWA s)

	Half-year to					
	30 June	30 June		**30 June**	31 December	
	2013	2012	Change[19]	**2013**	2012	Change[19]
	US$bn	US$bn	%	**US$bn**	US$bn	%
Average reported RWAs	**64**	61	6	**64**	63	2
Currency translation adjustment[18]		(2)			(2)	
Acquisitions, disposals and dilutions		(1)				
Average underlying RWAs	**64**	58	10	**64**	61	4

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Interim Management Report (continued)

North America

30 June 2013 compared with 30 June 2012

	Half-year to 30 June 2013 (1H13) compared with half-year to 30 June 2012 (1H12)					
	1H12 as reported US$m	Currency translation adjustment[18] US$m	1H12 at 1H13 exchange rates US$m	1H13 as reported US$m	Reported change[19] %	Constant currency change[19] %
Net interest income	4,739	(8)	4,731	3,030	(36)	(36)
Net fee income	1,443	(3)	1,440	1,138	(21)	(21)
Own credit spread[20]	(559)		(559)	(22)	96	96
Gains on disposal of US branch network and cards business	3,809		3,809		(100)	(100)
Other income[21]	546	(3)	543	486	(11)	(10)
Net operating income[22]	9,978	(14)	9,964	4,632	(54)	(54)
Loan impairment charges and other credit risk provisions	(2,161)	2	(2,159)	(696)	68	68
Net operating income	7,817	(12)	7,805	3,936	(50)	(50)
Operating expenses	(4,462)	5	(4,457)	(3,276)	27	26
Operating profit	3,355	(7)	3,348	660	(80)	(80)
Share of profit/(loss) in associates and joint ventures	(1)		(1)	6		
Profit before tax	3,354	(7)	3,347	666	(80)	(80)

30 June 2013 compared with 31 December 2012

	Half-year to 30 June 2013 (1H13) compared with half-year to 31 December 2012 (2H12)					
	2H12 as reported US$m	Currency translation adjustment[18] US$m	2H12 at 1H13 exchange rates US$m	1H13 as reported US$m	Reported change[19] %	Constant currency change[19] %
Net interest income	3,378	(16)	3,362	3,030	(10)	(10)
Net fee income	1,070	(7)	1,063	1,138	6	7
Own credit spread[20]	(531)	1	(530)	(22)	96	96
Gains on disposal of US branch network and cards business	203		203		(100)	(100)

Other income[21]	595	(1)	594	486	(18)	(18)
Net operating income[22]	4,715	(23)	4,692	4,632	(2)	(1)
Loan impairment charges and other credit risk provisions	(1,296)	2	(1,294)	(696)	46	46
Net operating income	3,419	(21)	3,398	3,936	15	16
Operating expenses	(4,478)	11	(4,467)	(3,276)	27	27
Operating profit/(loss)	(1,059)	(10)	(1,069)	660		
Share of profit in associates and joint ventures	4		4	6	50	50
Profit/(loss) before tax	(1,055)	(10)	(1,065)	666		

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Reconciliation of reported and underlying revenue

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported revenue	**4,632**	9,978	(54)	**4,632**	4,715	(2)
Currency translation adjustment[18]		(14)			(24)	
Own credit spread[20]	**22**	559		**22**	532	
Acquisitions, disposals and dilutions	**105**	(5,759)		**105**	(223)	
Underlying revenue	**4,759**	4,764		**4,759**	5,000	(5)

Reconciliation of reported and underlying loan impairment charges and other credit risk provisions (LIC s)

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported LICs	**(696)**	(2,161)	68	**(696)**	(1,296)	46
Currency translation adjustment[18]		2			2	
Acquisitions, disposals and dilutions	**1**	325		**1**		
Underlying LICs	**(695)**	(1,834)	62	**(695)**	(1,294)	46

Reconciliation of reported and underlying operating expenses

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported operating expenses	**(3,276)**	(4,462)	27	**(3,276)**	(4,478)	27
Currency translation adjustment[18]		5			11	
Acquisitions, disposals and dilutions	**14**	756		**14**	40	
Underlying operating expenses	**(3,262)**	(3,701)	12	**(3,262)**	(4,427)	26
Underlying cost efficiency ratio	**68.5%**	77.7%		**68.5%**	88.5%	

Reconciliation of reported and underlying profit/(loss) before tax

Half-year to

	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	30 June 2013 US$m	31 December 2012 US$m	Change[19] %
Reported profit/(loss) before tax	**666**	3,354	(80)	**666**	(1,055)	
Currency translation adjustment[18]		(7)			(11)	
Own credit spread[20]	**22**	559		**22**	532	
Acquisitions, disposals and dilutions	**120**	(4,678)		**120**	(183)	
Underlying profit/(loss) before tax	**808**	(772)		**808**	(717)	

Average risk-weighted assets ('RWA's)

	Half-year to					
	30 June 2013 US$bn	30 June 2012 US$bn	Change[19] %	30 June 2013 US$bn	31 December 2012 US$bn	Change[19] %
Average reported RWAs	**248**	314	(21)	**248**	268	(7)
Currency translation adjustment[18]					(1)	
Acquisitions, disposals and dilutions		(35)				
Average underlying RWAs	**248**	279	(11)	**248**	267	(7)

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Interim Management Report (continued)

Latin America

30 June 2013 compared with 30 June 2012

	Half-year to 30 June 2013 (1H13) compared with half-year to 30 June 2012 (1H12)					
	1H12 as reported US$m	Currency translation adjustment[18] US$m	1H12 at 1H13 exchange rates US$m	1H13 as reported US$m	Reported change[19] %	Constant currency change[19] %
Net interest income	**3,542**	**(175)**	**3,367**	**3,274**	**(8)**	**(3)**
Net fee income	**843**	**(32)**	**811**	**896**	**6**	**10**
Other income[21]	**1,180**	**(97)**	**1,083**	**788**	**(33)**	**(27)**
Net operating income[22]	**5,565**	**(304)**	**5,261**	**4,958**	**(11)**	**(6)**
Loan impairment charges and other credit risk provisions	**(1,136)**	**78**	**(1,058)**	**(1,423)**	**(25)**	**(34)**
Net operating income	**4,429**	**(226)**	**4,203**	**3,535**	**(20)**	**(16)**
Operating expenses	**(3,285)**	**154**	**(3,131)**	**(3,069)**	**7**	**2**
Operating profit	**1,144**	**(72)**	**1,072**	**466**	**(59)**	**(57)**
Share of profit in associates and joint ventures	**1**		**1**		**(100)**	**(100)**
Profit before tax	**1,145**	**(72)**	**1,073**	**466**	**(59)**	**(57)**

30 June 2013 compared with 31 December 2012

	Half-year to 30 June 2013 (1H13) compared with half-year to 31 December 2012 (2H12)					
	2H12 as reported US$m	Currency translation adjustment[18] US$m	2H12 at 1H13 exchange rates US$m	1H13 as reported US$m	Reported change[19] %	Constant currency change[19] %
Net interest income	3,442	16	3,458	3,274	(5)	(5)
Net fee income	892	5	897	896		
Other income[21]	1,052	5	1,057	788	(25)	(25)
Net operating income[22]	5,386	26	5,412	4,958	(8)	(8)
Loan impairment charges and other credit risk provisions	(1,001)	(8)	(1,009)	(1,423)	(42)	(41)

Net operating income	4,385	18	4,403	3,535	(19)	(20)
Operating expenses	(3,145)	(20)	(3,165)	(3,069)	2	3
Operating profit	1,240	(2)	1,238	466	(62)	(62)
Share of loss in associates and joint ventures	(1)		(1)		(100)	(100)
Profit before tax	1,239	(2)	1,237	466	(62)	(62)

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Reconciliation of reported and underlying revenue

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported revenue	**4,958**	5,565	(11)	**4,958**	5,386	(8)
Currency translation adjustment[18]		(304)			26	
Acquisitions, disposals and dilutions	**(28)**	(264)	(28)		(100)	
Underlying revenue	**4,930**	4,997	(1)	**4,930**	5,312	(7)

Reconciliation of reported and underlying loan impairment charges and other credit risk provisions (LIC s)

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported LICs	**(1,423)**	(1,136)	(25)	**(1,423)**	(1,001)	(42)
Currency translation adjustment[18]		78			(8)	
Acquisitions, disposals and dilutions		8			8	
Underlying LICs	**(1,423)**	(1,050)	(36)	**(1,423)**	(1,001)	(42)

Reconciliation of reported and underlying operating expenses

	Half-year to					
	30 June 2013 US$m	30 June 2012 US$m	Change[19] %	**30 June 2013 US$m**	31 December 2012 US$m	Change[19] %
Reported operating expenses	**(3,069)**	(3,285)	7	**(3,069)**	(3,145)	2
Currency translation adjustment[18]		154			(20)	
Acquisitions, disposals and dilutions	**1**	109		**1**	79	
Underlying operating expenses	**(3,068)**	(3,022)	(2)	**(3,068)**	(3,086)	1
Underlying cost efficiency ratio	**62.2%**	60.5%		**62.2%**	58.1%	

Reconciliation of reported and underlying profit before tax

	Half-year to					
	30 June	30 June	Change[19]	**30 June**	31 December	Change[19]

	2013 **US$m**	2012 US$m	%	**2013** **US$m**	2012 US$m	%
Reported profit before tax	**466**	1,145	(59)	**466**	1,239	(62)
Currency translation adjustment[18]		(72)			(2)	
Acquisitions, disposals and dilutions	**(27)**	(147)		**(27)**	(13)	
Underlying profit before tax	**439**	926	(53)	**439**	1,224	(64)

Average risk-weighted assets (RWAs)

	Half-year to					
	30 June	30 June		**30 June**	31 December	
	2013 **US$bn**	2012 US$bn	Change[19] %	**2013** **US$bn**	2012 US$bn	Change[19] %
Average reported RWAs	**98**	103	(5)	**98**	99	(1)
Currency translation adjustment[18]		(4)			(1)	
Acquisitions, disposals and dilutions		(4)		**(5)**	(2)	
Average underlying RWAs	**98**	95	3	**98**	96	2

For footnotes, see page 100.

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Interim Management Report (continued)

Reconciliation of reported and underlying profit/(loss) before tax country highlights

	Reported PBT US$m	Own credit spread[3] US$m	Acquisitions, disposals, and dilutions US$m	Underlying PBT US$m	Change[2] %
At 30 June 2013					
Hong Kong and Rest of Asia-Pacific					
Hong Kong	4,205			4,205	13
India	414			414	(15)
China HSBC[10]	346			346	(24)
Singapore	361			361	6
Malaysia	274			274	(5)
Indonesia	141			141	(15)
Australia	233	(1)		232	155
Taiwan	100		36	136	(7)
Vietnam	151		(104)	47	(37)
Europe					
France	489	(3)		486	23
Germany	106			106	(43)
Turkey	84			84	(14)
Switzerland	(40)			(40)	
UK	2,220		11	2,231	
Middle East and North Africa					
UAE	337	1		338	12
Saudi Arabia	225			225	6
Egypt	117			117	(4)
North America					
Canada	449	3		452	(15)
USA	191	19	120	330	
Latin America					
Brazil	153			153	(67)
Mexico	117		(27)	90	(76)
Argentina	180			180	31

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Reconciliation of reported and underlying profit/(loss) before tax country highlights (continued)

	Reported PBT US$m	Curency translation adjustment[2] US$m	Own credit spread[3] US$m	Acquisitions, disposals, and dilutions US$m	Underlying PBT US$m
At 30 June 2012					
Hong Kong and Rest of Asia-Pacific					
Hong Kong	3,761			(28)	3,733
India	515	(28)			487
China HSBC[10]	454	4			458
Singapore	335	5			340
Malaysia	288	1			289
Indonesia	175	(10)			165
Australia	91	(2)	2		91
Taiwan	146				146
Vietnam	78			(3)	75
Europe					
France	293	3	99		395
Germany	184	3			187
Turkey	98				98
Switzerland	66	2			68
UK	(1,617)	4	1,506		(107)
Middle East and North Africa					
UAE	299		4		303
Saudi Arabia	212				212
Egypt	137	(15)			122
North America					
Canada	602	(5)	18	(83)	532
USA	2,734		541	(4,595)	(1,320)
Latin America					
Brazil	505	(41)			464
Mexico	366	20		(11)	375
Argentina	312	(53)		(122)	137

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Interim Management Report (continued)

Other information

Funds under management and assets held in custody

		Half-year to	
	30 June 2013 US$bn	30 June 2012 US$bn	31 December 2012 US$bn
Funds under management			
At beginning of period	**910**	847	857
Net new money	**(2)**	10	(5)
Value change	**15**	9	40
Exchange and other	**(21)**	(9)	18
At end of period	**902**	857	910
Funds under management by business			
HSBC Global Asset Management	**409**	405	425
Global Private Banking	**281**	263	288
Affiliates	**4**	3	3
Other	**208**	186	194
	902	857	910

Funds under management (FuM) at 30 June 2013 amounted to US$902bn, marginally lower than at 31 December 2012, reflecting adverse foreign exchange movements which were largely offset by favourable market movements in the first half of the year.

Global Asset Management FuM decreased by 4% compared with 31 December 2012 to US$409bn, primarily due to foreign exchange movements reflecting the stronger US dollar against most major currencies, and net outflows of US$1bn, mainly from a small number of high-value mandates in Europe and outflows in liquidity funds. These movements were partly offset by strong inflows in fixed income products from our customers in Hong Kong, Rest of Asia-Pacific, Europe and Latin America and favourable market movements in the period.

Global Private Banking FuM decreased by 2% compared with 31 December 2012 to US$281bn. This was mainly due to negative net new money and adverse foreign exchange movements. The former was driven by the adoption of new compliance and tax transparency standards and actions taken to reposition our client base towards higher net worth relationships. Negative net new money was also impacted by a large number of client withdrawals, notably in Switzerland. These factors were partly offset by favourable valuations of certain assets in Hong Kong.

Other FuM increased by 7% to US$208bn, primarily due to favourable market movements and net inflows of US$5.9bn.

Assets held in custody and under administration

Custody is the safekeeping and servicing of securities and other financial assets on behalf of clients. At 30 June 2013, we held assets as custodian of US$5.7 trillion, 5% lower than the US$6.0 trillion held at 31 December 2012. This was mainly driven by the exit of a large client in Hong Kong coupled with adverse foreign exchange movements.

Our assets under administration business, which includes the provision of various support function activities including the valuation of portfolios of securities and other financial assets on behalf of clients, complements the custody business. At 30 June 2013, the value of assets held under administration by the Group amounted to US$2.9 trillion, which was broadly unchanged compared with 31 December 2012.

Review of transactions with related parties

The FCA s Disclosure Rules and Transparency Rules require the disclosure of related party transactions that have taken place in the first six months of the current financial year and any changes in the related party transactions described in the *Annual Report and Accounts 2012*, that have or could have materially affected the financial position or performance of HSBC. A fair review has been undertaken and no such transactions were identified.

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Footnotes to pages 2 to 99

Financial highlights

1 *Dividends recorded in the financial statements are dividends per ordinary share declared in the first six months of 2013 and are not dividends in respect of, or for, the period.*
2 *Estimated CRD IV end-point CET1 ratio after planned mitigation of immaterial holdings based on our interpretation of the July 2011 draft CRD IV regulation, supplemented by UK regulator guidance for 31 December 2012 and Final CRR rules for 30 June 2013 (see the Estimated effect of CRD IV end-point rules table on page 188 and basis of preparation on page 197).*
3 *The return on average ordinary shareholders equity is defined as profit attributable to shareholders of the parent company divided by average ordinary shareholders equity.*
4 *Return on invested capital is based on the profit attributable to ordinary shareholders of the parent company (see Note 4 on the Financial Statements). Average invested capital is measured as average total shareholders equity after:*
adding back the average balance of goodwill amortised before the transition to IFRSs or subsequently written off directly to reserves;
deducting the average balance of HSBC s revaluation surplus relating to property held for own use. This reserve was generated when determining the deemed carrying amount of such properties on transition to IFRSs and will run down over time as the properties are sold;
deducting average preference shares and other equity instruments issued by HSBC Holdings; and
deducting average reserves for unrealised gains/(losses) on effective cash flow hedges and available-for-sale securities.
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.*
6 *Each ADS represents five ordinary shares.*
7 *Total shareholder return is defined as the growth in share value and declared dividend income during the relevant period.*
8 *The Financial Times Stock Exchange 100 Index.*
9 *The Morgan Stanley Capital International World Index and the Morgan Stanley Capital International World Banks Index.*

Business and operating models

10 *Introduced at the Strategy Day in May 2011. Revised targets for 2014-16 were included in the Investor Update in May 2013, which can be found on www.hsbc.com under Investor Relations.*
11 *Intermediation of securities, funds and insurance products, including Securities Services in GB&M.*
12 *Merger and acquisition, event and project financing, and co-investments in GPB.*
13 *Including Foreign Exchange, Rates, Credit and Equities.*
14 *Including portfolio management.*
15 *Including private trust and estate planning (for financial and non-financial assets).*
16 *Including hedge funds, real estate and private equity.*
17 *The sum of balances presented does not agree to consolidated amounts because inter-company eliminations are not presented here.*

Reconciliations of constant currency profit before tax

18 *Currency translation adjustment is the effect of translating the results of subsidiaries and associates for the previous half-years at the average rates of exchange applicable in the current half-year.*
19 *Positive numbers are favourable: negative numbers are unfavourable.*
20 *Changes in fair value due to movements in own credit spread on long-term debt issued. This does not include the fair value changes due to own credit risk in respect of trading liabilities or derivative liabilities.*
21 *Other income in this context comprises net trading income, net income/(expense) from other financial instruments designated at fair value, gains less losses from financial investments, dividend income, net earned insurance premiums and other operating income less net insurance claims incurred and movement in liabilities to policyholders.*

22 *Net operating income before loan impairment charges and other credit risk provisions, also referred to as revenue.*
23 *Individual reconciliations by global businesses and geographical regions are available on www.hsbc.com.*
24 *The operating results of these disposals were removed from underlying results in addition to disposal gains and losses.*
25 *The operating results of these acquisitions were not removed from underlying results as they were not significant.*

Financial summary

26 *The accounting for the disposal of our interest in Ping An is described on page 472 of the* Annual Report and Accounts 2012*. In the first half of 2013, we recognised a net gain on the completion of the Ping An disposal of US$553m which offset the US$553m loss on the contingent forward sale contract recognised in the second half of 2012. The gain of US$553m represented the net effect of the US$1,235m gain on derecognition of the Ping An equity securities classified as available-for-sale investments and recorded in Gains less losses from financial investments , offset by the US$682m adverse change in fair value of the contingent forward sale contract in the period to the point of delivery of the equity securities recorded in Net trading income .*
27 *For a full description of the Ping An contingent forward sale contract, see page 472 of the* Annual Report and Accounts 2012*.*
28 *Net interest income includes the cost of internally funding trading assets, while the related revenues are reported in net trading income. In our global business results, the total cost of funding trading assets is included within Global Banking and Markets net trading income as an interest expense.*
29 *Gross interest yield is the average annualised interest rate earned on average interest-earning assets (AIEA).*
30 *Net interest spread is the difference between the average annualised interest rate earned on AIEA, net of amortised premiums and loan fees, and the average annualised interest rate payable on average interest-bearing funds.*
31 *Net interest margin is net interest income expressed as an annualised percentage of AIEA.*
32 *The cost of internal funding of trading assets was US$74m (first half of 2012: US$375m; second half of 2012: US$136m) and is excluded from the reported Net trading income line and included in Net interest income . However, this cost is reinstated in Net trading income in our global business reporting.*
33 *Net trading income includes a favourable movement of US$4m (first half of 2012: charge of US$330m; second half of 2012: charge of US$299m) associated with changes in the fair value of issued structured notes and other hybrid instrument liabilities derived from movements in HSBC issuance spreads.*
34 *The change in fair value related to movements in the Group s credit spread on long-term debt resulted in an expense of US$19m in the first half of 2013 (first half of 2012: expense of US$2.2bn; second half of 2012: expense of US$3.0bn).*

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35 *Other changes in fair value include gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with HSBC s long-term debt issued.*
36 *Discretionary participation features.*
37 *The gain on the sale of our then associate, Ping An, in the second half of 2012, is described on page 472 of the* Annual Report and Accounts 2012.
38 *Net insurance claims incurred and movement in liabilities to policyholders arise from both life and non-life insurance business. For non-life business, amounts reported represent the cost of claims paid during the year and the estimated cost of incurred claims. For life business, the main element of claims is the liability to policyholders created on the initial underwriting of the policy and any subsequent movement in the liability that arises, primarily from the attribution of investment performance to savings-related policies. Consequently, claims rise in line with increases in sales of savings-related business and with investment market growth.*

Consolidated balance sheet

39 *Net of impairment allowances.*
40 *The calculation of capital resources, capital ratios and risk-weighted assets is on a Basel 2.5 basis.*
41 *Capital resources are total regulatory capital, the calculation of which is set out on page 186.*
42 *Includes perpetual preferred securities.*
43 *The definition of net asset value per share is total shareholders equity, less non-cumulative preference shares and capital securities, divided by the number of ordinary shares in issue.*
44 *Currency translation is the effect of translating the assets and liabilities of subsidiaries and associates for the previous year-end at the rates of exchange applicable at the current period-end.*
45 *See Note 13 on the Financial Statements.*
46 *France primarily comprises the domestic operations of HSBC France, HSBC Assurances Vie and the Paris branch of HSBC Bank plc.*
47 *The classification of customer accounts by country within Europe has changed from former disclosures. Certain balances which were previously presented within the country of domicile of the consolidating legal entity are now presented on the basis of the country of account origination. The most significant change affects Switzerland, where the balance of US$44,252m disclosed at 30 June 2012 has been restated as US$21,401m on the new basis.*

Economic profit

48 *Expressed as a percentage of average invested capital.*

Reconciliation of RoRWA measures

49 *Risk-weighted assets (RWA s) and pre-tax return on average risk-weighted assets (RoRWA).*
50 *Underlying RoRWA is calculated using underlying pre-tax return and reported average RWAs at constant currency and adjusted for the effects of business disposals.*
51 *Other includes treasury services related to the US Consumer Mortgage Lending business and commercial operations in run-off. US CML includes loan portfolios within the run-off business that are designated held for sale .*

Analyses by global business and by geographical region

52 *The main items reported under Other are the results of HSBC s holding company and financing operations, which includes net interest earned on free capital held centrally, operating costs incurred by the head office operations in providing stewardship and central management services to HSBC, along with the costs incurred by the Group Service Centres and Shared Service Organisations and associated recoveries. The results also include fines and penalties as part of the settlement of investigations into past inadequate compliance with anti-money laundering and sanctions laws, the UK bank levy together with unallocated investment activities, centrally held investment companies, gains arising from the dilution of interests in associates and joint ventures and certain property transactions. In addition, Other also includes part of the movement in the fair value of long-term debt designated at fair value (the remainder of the*

Group s movement on own debt is included in GB&M).

53 *Assets by geographical region and global business include intra-HSBC items. These items are eliminated, where appropriate, under the headings Intra-HSBC items or Inter-segment elimination .*

54 *For divested businesses, this includes the gain or loss on disposal and material results of operations as described on page 19.*

55 *Loan impairment charges and other credit risk provisions.*

56 *Share of profit in associates and joint ventures.*

57 *In the analysis of global businesses, net trading income/(expense) comprises all gains and losses from changes in the fair value of financial assets and financial liabilities classified as held for trading, related external and internal interest income and interest expense, and dividends received; in the statutory presentation internal interest income and expense are eliminated.*

58 *In 2013 funding costs that had previously been reported within Other were allocated to their respective business lines. For comparative purposes, 2012 data have been restated to reflect this change.*

59 *In the first half of 2013, Global Markets included a favourable fair value movement of US$4m on the tightening of credit spreads on structured liabilities (first half of 2012: adverse fair value movement of US$330m; second half of 2012: adverse fair value movement of US$299m).*

60 *Other in GB&M includes net interest earned on free capital held in the global business not assigned to products.*

61 *Client assets are translated at the rates of exchange applicable for their respective period-ends, with the effects of currency translation reported separately. The main components of client assets are funds under management, which are not reported on the Group s balance sheet, and customer deposits, which are reported on the Group s balance sheet.*

62 *Inter-segment elimination comprises (i) the costs of shared services and Group Service Centres included within Other which are recovered from global businesses, and (ii) the intra-segment funding costs of trading activities undertaken within GB&M. HSBC s Balance Sheet Management business, reported within GB&M, provides funding to the trading businesses. To report GB&M s net trading income on a fully funded basis, Net interest income/(expense) and Net interest income/(expense) on trading activities are grossed up to reflect internal funding transactions prior to their elimination in the inter-segment column.*

63 *Net insurance claims incurred and movement in liabilities to policyholders.*

64 *Employee expenses comprises costs directly incurred by each global business. The reallocation and recharging of employee and other expenses directly incurred in the Other category is shown in Other operating expenses .*

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

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Risk

There have been no material changes to our policies and practices regarding risk management and governance as described in the *Annual Report and Accounts* 2012.

A description of the principal risks and uncertainties for the remaining six months of the financial year is on page 105.

A summary of our current policies and practices regarding risk is provided in the Appendix to Risk on page 252 of the Annual Report and Accounts 2012.

Risk profile

Managing our risk profile

A strong balance sheet is core to our philosophy.

Our portfolios remain aligned to our risk appetite and strategy.

Our risk management framework is supported by strong forward-looking risk identification.

Maintaining capital strength and strong liquidity position

Our core tier 1 capital ratio remains strong at 12.7%.

We have sustained our strong liquidity position throughout the first half of 2013.

The ratio of customer advances to deposits remains below 90%.

Strong governance

Robust risk governance and accountability is embedded across the Group.

The Board, advised by the Group Risk Committee, approves our risk appetite.

The Compliance control function is being restructured and expanded to improve focus on financial crime and regulatory compliance.

Our global risk operating model supports adherence to globally consistent standards and risk management policies across the Group.

Our top and emerging risks

Macroeconomic and geopolitical risk.

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

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

Interim Management Report (continued)

Managing risk

The growth in our business in the first half of 2013 was achieved while risks were assumed in a measured manner and in line with our risk appetite. Risks, particularly reputational and operational, were mitigated when they exceeded our risk appetite.

On a reported basis balance sheet assets decreased by 2% and our credit risk-weighted assets decreased by 3% during the period.

During the first six months of 2013, financial markets were dominated by concerns over sovereign debt default risk and its contagion effects, the continuing turmoil in the Middle East and the widely held perception that the world economic recovery remained fragile. This created volatility in financial markets. In the face of this changeable economic, political and financial environment, we maintained our conservative risk profile by reducing exposure to the most likely areas of stress. Stress tests were run regularly to evaluate the potential impact of emerging scenarios and, where necessary, we adjusted our risk appetite accordingly.

We continued to manage selectively our exposure to sovereign debt and bank counterparties, with the overall quality of the portfolio remaining strong. We regularly updated our assessment of higher risk countries and adjusted our risk appetite and exposures accordingly.

The diversification of our lending portfolio across the regions, together with our broad range of global businesses and products, ensured that we were not overly dependent on a limited number of countries or markets to generate income and growth. Our geographical diversification also supported our strategies for growth in faster-growing markets and those with international connectivity.

In the first half of 2013 we increased our gross loans and advances in Europe and Asia-Pacific. On a constant currency basis, our loan impairment charges and other credit risk provisions in the first half of 2013 were 34% below the first half of 2012, at US$3.1bn. The US accounted for a significant proportion of the decline, driven by favourable market value adjustments on loan collateral, a reduction in the CML portfolio and lower loan impairment charges following the sale of the CRS business in 2012.

Capital and liquidity

Preserving our strong capital position has long been, and will remain, a key priority for HSBC. We are well equipped to respond to the capital requirements imposed by Basel III, which are discussed further

on page 186, and to sustain future growth. We utilise an enterprise-wide approach to testing the sensitivities of our capital plans against a number of scenarios; our approach to scenario stress testing analysis is discussed on page 192.

We continue to maintain a very strong liquidity position and are well positioned for the emerging new regulatory landscape.

Areas of special interest

Compliance

In recent years, we have experienced increasing levels of compliance risk as regulators and other agencies pursued investigations into historical activities, and we continue to work with them in relation to existing issues. This has included the matters giving rise to the Deferred Prosecution

Agreements reached with US authorities in relation to investigations regarding inadequate compliance with anti-money laundering and sanctions law, and the related undertaking with the FSA (now revised as a Direction from the Financial Conduct Authority (FCA) following the UK regulatory restructuring in April 2013). We have responded to a number of investigations by the FCA into the mis-selling in the UK of certain products, including sales of payment protection insurance and of interest rate derivative products to SMEs. In addition we have been involved in investigations and reviews by various regulators and competition enforcement authorities related to certain past submissions made by panel banks and the process for making submissions in connection with the setting of Libor, Euribor and other benchmark interest and foreign exchange rates.

Further information about the Group s compliance risk management and the changes being made may be found on page 173.

Commercial real estate

Our exposure to commercial real estate lending continued to be concentrated in Hong Kong, the UK, Rest of Asia-Pacific and North America. The market in Hong Kong and most other Asian markets in which we conduct commercial real estate lending, after relative buoyancy in 2011, began to stabilise in late 2012, partly due to initiatives taken by various supervisory authorities which have extended into 2013. In the UK, many regions continued to be negatively affected by weak growth in the economy, though London and the South East, where more than 50% of our UK commercial real estate lending is based, continued to exhibit relative strength. In North America, the market remained stable, in part

Interim Management Report (continued)

supported by the continued low levels of interest rates.

Refinance risk is discussed extensively on page 129 of the *Annual Report and Accounts 2012*. With the exception of the UK, in our material commercial real estate portfolios globally, the behaviour of the market and the quality of assets continues to cause no undue concerns. In the UK, economic conditions continue to prolong concerns regarding sensitivity to the risks of refinancing, although no deterioration in market conditions has been experienced in the first half of 2013.

There was a marginal reduction in UK commercial real estate balances compared with the end of 2012 with no significant changes in loans and advances due to be refinanced in the next 12 months.

Eurozone crisis

Eurozone countries are members of the EU and part of the euro single currency bloc. The peripheral eurozone countries are those that exhibit levels of market volatility that exceed other eurozone countries, demonstrating fiscal or political uncertainty which has persisted through the first half of 2013. Throughout 2012 and into 2013, in spite of austerity measures and structural reform, the peripheral eurozone countries of Greece, Ireland, Italy, Portugal, Spain and Cyprus continued to exhibit a high ratio of sovereign debt to GDP or short to medium-term maturity concentration of their liabilities. In March 2013, Cyprus sought assistance from the Troika (the European Commission, European Central Bank and the International Monetary Fund), which ultimately agreed a bailout under conditions requiring a consolidation of banking assets and the bail-in of larger depositors monies. Capital controls led to some minor disruption of payments from Cyprus. However, HSBC has limited exposure to the country and no impairments have been recorded as a result.

Our exposure to eurozone countries is analysed in the table on page 153.

Risk net exposure

At 30 June 2013, our net exposure to the peripheral eurozone countries was US$38bn, including net exposure to sovereign borrowers, agencies and banks of US$12bn, broadly unchanged compared with the end of 2012. This reflected a marginal increase in aggregate exposure to banks offset by a reduction in exposure to sovereign borrowers and agencies.

Our businesses in peripheral eurozone countries are funded from a mix of local deposits, local wholesale funding and intra-Group loans extended from HSBC operations with surplus funds. Intra-Group funding carries the risk that a member country might exit the eurozone and redenominate its national currency, which could result in a significant currency devaluation. A description of redenomination risk in the event of the exit of a eurozone member is provided on pages 131 and 201 of the *Annual Report and Accounts 2012*.

Risk management and contingency planning

Our framework for dealing with counterparty and systemic crisis situations is described on page 130 of the *Annual Report and Accounts 2012*. It continued to operate throughout the first half of 2013 to ensure that pre-crisis preparation remains apposite and robust. A Cyprus Major Incident Group was effective in dealing with the Group s response to the Cyprus sovereign debt crisis.

The main focus of eurozone contingency planning continues to be on Greece and Spain. Other scenarios including contagion risk to non-eurozone countries or the exit of a higher impact eurozone member remain under consideration.

Exposures to Egypt

At 30 June 2013, our total net lending exposure to Egypt was US$10.0bn. Over half of our exposure was to other financial institutions and corporates (US$5.5bn), almost all of which was onshore lending by HSBC in Egypt to corporate entities. Of this exposure US$3.1bn was off-balance sheet, principally undrawn committed facilities. This corporate exposure is diversified with almost half spread across a broad range of manufacturing activities and the remainder covering a range of other industry sectors.

The sovereign and agencies exposure, including exposure to the central bank, was US$3.0bn. This exposure was almost wholly in the form of local currency denominated treasury bills and central bank deposits.

Exposure to banks was US$0.5bn, largely comprising off-balance sheet commitments consisting of trade lines to Egyptian banks for the confirmation of their letters of credit.

Since the onset of the Arab Spring we have actively managed our exposure within Egypt. During the second quarter of 2013, our systemic crisis management processes were reinstigated in response to the unfolding constitutional crisis, and

Interim Management Report (continued)

we continue to monitor developments closely. The most material risk to our overall portfolio in Egypt is the economic instability that would be caused by a further significant deterioration in the security situation.

Personal lending US lending

Economic conditions in the US continued to improve in the first half of 2013, supported by improvements in the housing sector and increases in consumer spending. The unemployment rate has declined modestly since the start of the year amid signs that the labour market is more stable.

Total mortgage lending in the US was US$54bn at 30 June 2013, a decline of 5% compared with the end of 2012, mainly due to the continued run-off of the CML portfolio.

We remained focused on managing the run-off of balances in our HSBC Finance portfolio and completed the sale within our CML portfolio of US$4.3bn of personal unsecured loans and US$0.3bn of real estate loans. We transferred a further US$0.5bn of real estate loans to Assets held for sale at 30 June 2013.

Total lending balances within HSBC Finance were US$36bn at 30 June 2013 including loans held for sale, a decline of US$6.6bn compared with the end of 2012. The rate at which balances in the CML portfolio are declining continues to be affected by the lack of refinancing opportunities available to customers. Foreclosure processing has now resumed in substantially all states, although there remains a backlog of loans which have not yet been referred to foreclosure. Our loan modification programmes, which are designed to improve cash collections and avoid foreclosure, continued to slow repayment rates.

Top and emerging risks

Identifying and monitoring top and emerging risks is integral to our approach to risk management. We define a top risk as being a current, emerged risk which has arisen across any of our risk categories, regions or global businesses and has the potential to have a material impact on our financial results or our reputation and the sustainability of our long-term business model, and which may form and crystallise within a one-year horizon. We consider an emerging risk to be one which has large uncertain outcomes that may form beyond a one-year horizon which, if they were to crystallise, could have a material effect on our long-term strategy. Our top and emerging risk framework enables us to focus on current and forward looking aspects of our risk

exposures and ensure our risk profile remains in line with our risk appetite and that our appetite remains appropriate. Our current top and emerging risks have continued to evolve since those set out in the *Annual Report and Accounts 2012* and are as follows:

Macroeconomic and geopolitical risk

Emerging markets slowdown

- Increased geopolitical risk and changes in energy markets

- Threats to the global economy from a disorderly exit from quantitative easing

Emerging markets slowdown

World growth is slowing as demand in mature economies is subdued and credit availability and investment activity remain very limited. Growth in a number of emerging markets has decelerated during the first half of 2013 and advanced economies are depending on stronger trade growth in emerging markets to help them through tough economic times domestically.

A number of mature economies are implementing austerity measures in order to reduce their deficits and public debt. This is expected to help resolve the sovereign and banking crisis in the medium term, but in the short term it is limiting growth, increasing unemployment and restricting taxation revenues severely. This is affecting the rest of the world through lower trade, reduced international financing as banks are deleveraging and potential disruption to capital flows.

Potential impact on HSBC

- Trade and capital flows may contract as a result of weaker economic growth in some emerging markets, banks deleveraging, the introduction of protectionist measures in certain markets, the emergence of geopolitical risks or increasing redenomination risk, which in turn might curtail profitability.

- Whilst growth in emerging markets as a whole is constrained by lower world demand and commodity prices, some countries are struggling more than others and could trigger a new crisis of confidence in emerging markets with the potential for increased volatility. In Egypt, the uncertain future is affecting the economy and the country s ability to attract the necessary financial support. In Brazil and Turkey, middle class protests have highlighted concerns regarding the political and economic choices made by the government authorities. In

Interim Management Report (continued)

Argentina, the unresolved dispute with hold out bondholders is fuelling the risk of new defaults. Emerging markets have been supported during the last two years by significant capital inflows from advanced economies but a reverse of these capital flows would create difficulties for all countries having to finance current account deficits, public finance or both. Developments across all markets are closely watched by HSBC to ensure insights are shared and appropriate action is taken as circumstances evolve.

During the first half of 2013, we continued to manage closely our sovereign and financial institution counterparty credit positions in peripheral eurozone countries. In addition, we continued to monitor carefully exposures to counterparties domiciled in core European countries that had exposures to sovereigns and/or banks in peripheral eurozone countries of sufficient size to threaten their ongoing viability in the event of further unfavourable developments in the ongoing crisis.

Increased geopolitical risk and changes in energy markets

Weak global economic growth is intensifying the risk of protectionism and some countries may impose restrictions on trade or on capital flows to protect their domestic economies.

In Egypt, the political process remains in transition with a continuing risk of instability. In addition, the fighting in Syria may disrupt global international relations, with tensions between Israel and Iran adding to the risks in the region.

Continuing political instability and unrest in the Middle East increase the risk of higher oil prices, however, developments in global energy extraction increase the risk of lower energy prices affecting the dynamics of natural gas markets and our exposures. In other emerging markets such as Turkey and Brazil, the population is restive and increasingly critical of prevailing economic policies.

Potential impact on HSBC

Our results are subject to the risk of loss from unfavourable political developments, currency fluctuations, social instability and changes in government policies on matters such as expropriation, authorisations, international ownership, interest-rate caps, foreign exchange transferability and tax in the jurisdictions in which we operate. Actual conflict could put our staff in harm s way and bring physical damage to our assets.

We have increased our monitoring of the geopolitical and economic outlook, in particular in countries where we have material exposures and a physical presence. Our internal credit risk rating of sovereign counterparties takes these factors into account and drives our appetite for conducting business in those countries. Where necessary, we adjust our country limits and exposures to reflect our appetite and mitigate these risks as appropriate.

Lower gas prices could increase political instability in the Middle East and affect market dynamics involving countries in the region to which HSBC is exposed.

Threats to the global economy from a disorderly exit from quantitative easing

The prolonged period of low interest rates caused by policy actions taken to address the economic crisis in mature economies continues to constrain the interest income we earn from investing our excess deposits, through spread compression and low returns on assets. However, an excessively rapid exit from quantitative easing (QE) and a swift rise in interest rates could prove to be as detrimental, and fears of such actions are already creating significant volatility in the markets. An increase in real interest rates while economies remain weak could further limit the pace of recovery, fuel capital flows to safe havens and result in significant capital outflows from emerging markets.

Potential impact on HSBC

A scaling back of QE could have an adverse impact on global equity and bond prices, and create turbulence in global currency (foreign exchange) markets.

The pace and timing of QE cessation could heighten market instability. The indication from the Federal Reserve that further US QE will be tapered off depending on positive economic data, links the speed of scaling back to US economic growth. The speed of recovery in the US now suggests this could be an issue in the near future.

We have undertaken a review of our bond portfolios, carried out additional stress tests and managed our positions, to mitigate this risk.

Interim Management Report (continued)

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

Regulatory developments affecting our business model and Group profitability

Regulatory investigations and requirements relating to conduct of business and financial crime negatively affecting our results and brand

Dispute risk

Financial service providers face increasingly stringent and costly regulatory and supervisory requirements, particularly in the areas of capital and liquidity management, conduct of business, operational structures and the integrity of financial services delivery. Increased government intervention and control over financial institutions, together with measures to reduce systemic risk, may significantly alter the competitive landscape. These measures may be introduced as formal requirements in a supra-equivalent manner and to differing timetables across regulatory regimes.

Regulatory developments affecting our business model and Group profitability

Several regulatory changes are likely to affect our activities, both of the Group as a whole and of some or all of our principal subsidiaries. These changes include (i) publication, on 27 June, of the Capital Requirements Directive (CRD IV), which is the introduction of the Basel III measures in the EU, which comes into effect from 1 January 2014. The PRA will consult later this summer on the changes to the PRA s rules to reflect the new Regulation and to implement the Directive and relevant discretions provided in the Regulation; (ii) implementation of the new regulatory structure within the UK comprising the Financial Policy Committee (FPC), the Prudential Regulation Authority (PRA) and the FCA and, in particular, the effects of the ability of the FPC to seek additional capital for lending to sectors perceived as higher risk, (iii) the designation of the Group by the Financial Stability Board as a global systemically important bank; (iv) proposed legislation in the UK to give effect to the recommendations of the Independent Commission on Banking (ICB) in relation to ring-fencing the UK retail banking from wholesale banking activities, the structural separation of other activities as envisaged in legislative proposals in the US (including the Volcker Rule proposed under the Dodd-Frank Act) and potential changes across the EU where initial proposals are expected later this year; (v) changes in the regime for the operation

of capital markets with increasing standardisation, central clearing, reporting and margin requirements; (vi) requirements flowing from arrangements for the recovery and resolution of the Group and its main operating entities; and (vii) continued changes in the manner and standards for the conduct of business, including the effects of the recommendations now made by the Parliamentary Commission on Banking Standards. There is also the continued risk of further changes to regulation relating to remuneration and other taxes.

Potential impact on HSBC

Proposed changes relating to capital and liquidity requirements, remuneration and/or taxes could increase the Group s cost of doing business, reducing future profitability.

Proposed changes in and the implementation of regulations for derivatives and central counterparties, the ICB ring-fencing proposals, recovery and resolution plans, the Volcker Rule and the Foreign Account Tax Compliance Act (FATCA) may affect the manner in which we conduct our activities and structure ourselves, with the potential both to increase the costs of doing business and curtail the types of business we can carry out, with the risk of decreased profitability as a result. Due to the fact that the development and implementation of many of these various regulations are in their early stages, it is not possible to estimate the effect, if any, on our operations.

We are closely engaged with the governments and regulators in the countries in which we operate to help ensure that the new requirements are properly considered and can be implemented in an effective manner. We are also ensuring that our capital and liquidity plans take into account the potential effects of the changes. Capital allocation and liquidity management disciplines have been expanded to incorporate future increased capital and liquidity requirements and drive appropriate risk management and mitigating actions.

Regulatory investigations and requirements relating to conduct of business and financial crime negatively affecting our results and brand

Financial service providers are at risk of regulatory sanctions or fines related to conduct of business and financial crime. The incidence of regulatory proceedings and other adversarial proceedings against financial service firms is increasing.

Interim Management Report (continued)

In December 2012, HSBC Holdings, HSBC North America Holdings, Inc, and HSBC Bank USA entered into agreements with US and UK authorities in relation to investigations regarding past inadequate compliance with anti-money laundering and sanctions laws. Among other agreements, HSBC Holdings and HSBC Bank USA entered into a five-year Deferred Prosecution Agreement (US DPA) with the US Department of Justice (DoJ) and HSBC Holdings entered into an undertaking with the FSA (the FCA Direction) to comply with certain forward-looking obligations with respect to anti-money laundering and sanctions requirements. In addition, HSBC Holdings entered into a two-year Deferred Prosecution Agreement with the New York County District Attorney (the DANY DPA).

Under the settlement agreements, HSBC Holdings and HSBC Bank USA made payments totalling US$1,921m to US authorities and undertook to continue cooperating fully with US and UK regulatory and law enforcement authorities and take further action to strengthen our compliance policies and procedures. The agreements with the DoJ and the US Federal Reserve, and the FCA Direction require us to retain an independent monitor (who is, for FCA purposes, a skilled person under section 166 of the Financial Services and Markets Act) to evaluate our progress in implementing our obligations under the agreements and FCA Direction and to produce regular assessments of the effectiveness of our Compliance function. Michael Cherkasky has been selected as the independent monitor and, on 1 July 2013, the US District Court for the Eastern District of New York approved the US DPA and retained authority to oversee implementation of the same.

As reflected in the agreement entered into with the Office of the Comptroller of the Currency (OCC) in December 2012 (the Gramm-Leach-Bliley Act (GLBA) Agreement), the OCC has determined that HSBC Bank USA is not in compliance with the requirements which provide that a national bank and each depository institution affiliate of the national bank must be both well capitalised and well managed in order to own or control a financial subsidiary. As a result, HSBC Bank USA and its parent holding companies, including HSBC, no longer meet the requirements for financial holding company status, and may not engage in any new types of financial activities without the prior approval of the Federal Reserve Board. HSBC Bank USA may not directly or indirectly acquire control of, or hold an interest in, any new financial subsidiary, nor commence a new activity in its existing financial subsidiary, unless it

receives prior approval from the OCC. HSBC Bank USA also entered into a separate consent order with the OCC requiring it to adopt an enterprise wide compliance programme. In addition, HSBC Bank USA is subject to the oversight from the Consumer Financial Protection Bureau, which is a federal agency that is primarily responsible for regulating consumer protection with regards to financial products and services.

In the UK, the FCA has continued to increase its focus on conduct risk including attention to sales processes and incentives, product and investment suitability and conduct of business concerns more generally. These measures are concerned principally, but not exclusively, with the conduct of business with retail customers and in conjunction with this focus, the UK regulators are making increasing use of existing and new powers of intervention and enforcement, including powers to consider past business undertaken and implement customer compensation and redress schemes or other, potentially significant, remedial work. Additionally, the UK and other regulators increasingly take actions in response to customer complaints either specific to an institution or more generally in relation to a particular product. We have seen recent examples of this approach in the context of the possible mis-selling of PPI and of interest rate hedging products to SMEs.

The Group also continues to be subject to a number of other regulatory proceedings, including investigations and reviews by various regulators and competition and enforcement authorities around the world, including in the UK, the US, Canada, the EU, Switzerland and Asia, who are conducting investigations and reviews related to certain past submissions made by panel banks and the process for making submissions in connection with the setting of Libor, Euribor and other benchmark interest and foreign exchange rates. As certain HSBC entities are members of such panels, HSBC and/or its subsidiaries have been the subject of regulatory demands for information and are cooperating with those investigations and reviews. In addition, HSBC Holdings, HSBC Bank plc, HSBC Bank USA and other panel banks have been named as defendants in private lawsuits filed in the US with respect to the setting of Libor, including putative class action lawsuits which have been consolidated before the US District Court for the Southern District of New York. HSBC and other panel banks have also been named as defendants in putative class action lawsuits in New York and Chicago relating to credit default swap pricing. The complaints in those actions assert claims against

Interim Management Report (continued)

HSBC and other panel banks under various US laws including US antitrust laws, the US Commodities Exchange Act and state law (see Note 24 on the Financial Statements for further information).

Potential impact on HSBC

It is difficult to predict the outcome of the regulatory proceedings involving our businesses. Unfavourable outcomes may have a material adverse effect on our reputation, brand and results, including loss of business and withdrawal of funding.

In relation to the US DPA, HSBC Holdings and HSBC Bank USA have committed to take or continue to adhere to a number of remedial measures. Breach of the US DPA at any time during its term may allow the DoJ to prosecute HSBC Holdings or HSBC Bank USA in relation to the matters which are the subject of the US DPA. Breach of the DANY DPA may allow the New York County District Attorney s Office to prosecute HSBC Holdings in relation to the matters which are the subject of that DPA.

In relation to the GLBA Agreement, if all of our affiliate depository institutions are not in compliance with these requirements within the time periods specified therein, as they may be extended, HSBC could be required either to divest HSBC Bank USA or to divest or terminate any financial activities conducted in reliance on the GLBA. Similar consequences under the GLBA Agreement could result for subsidiaries of HSBC Bank USA that engage in financial activities in reliance on expanded powers provided for in the GLBA. Any such divestiture or termination of activities would have an adverse material effect on the consolidated results and operation of HSBC. The GLBA Agreement requires HSBC Bank USA to take all steps necessary to correct the circumstances and conditions resulting from non-compliance with the requirements referred to above. We have initiated steps to satisfy the requirements of the GLBA Agreement.

The UK and other regulators may identify future industry-wide mis-selling or other issues that could affect the Group. This may lead from time to time to: (i) significant direct costs or liabilities (including in relation to mis-selling); and (ii) changes in the practices of such businesses which benefit customers at a cost to shareholders. Further, decisions taken in the UK by the Financial Ombudsman Service in relation to customer complaints (or any overseas equivalent that has jurisdiction) could, if applied to a wider class or grouping of customers, have a material adverse effect on the operating results, financial condition and prospects of the Group.

Steps to address many of the requirements of the DPAs, the FCA Direction and the GLBA Agreement have either already been taken or are under way. These include simplifying the Group s control structure, strengthening the governance structure with new leadership appointments, revising key policies and establishing bodies to implement single Global Standards shaped by the highest or most effective standards available in any location where the Group operates, as well as substantially increasing spending and staffing in the anti-money laundering and regulatory compliance areas in the past few years. There can be no assurance that these steps will be effective or that HSBC will not have to take additional remedial measures in the future to comply with the terms of the DPAs or the GLBA Agreement.

Dispute risk

The current economic environment has increased our exposure to actual and potential litigation. Further details are provided in Note 24 on the Financial Statements.

Potential impact on HSBC

Dispute risk gives rise to potential financial loss and significant reputational damage which could adversely affect customer and investor confidence.

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

Regulatory commitments and consent orders including under the Deferred Prosecution Agreements

Internet crime and fraud

Data management

Disposals

Level of change in the Compliance function

Information security risk

Model risk

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Regulatory commitments and consent orders including under the Deferred Prosecution Agreements

There is a risk that we fail to meet our deadlines or we are judged to have material gaps in our plans or implementation compared with the requirements of the DPAs and other orders. Further details of this risk are provided on page 128 of the *Annual Report and Accounts 2012*.

Potential impact on HSBC

- If, during the term of the US DPA, HSBC Holdings or HSBC Bank USA are determined to have breached the agreement, the DoJ may prosecute HSBC Holdings or HSBC Bank USA in relation to the matters which are the subject of the US DPA. Similarly, if, during the term of the DANY DPA, HSBC Holdings is determined to have breached that agreement, the New York County District Attorney may prosecute HSBC Holdings in relation to the matters which are subject to that DPA. The FCA may, in a similar vein, take enforcement action as a result of a breach of the FCA Direction.

Internet crime and fraud

With the ever-growing acceptance of, and demand for, internet and mobile services by customers, HSBC is increasingly exposed to fraudulent and criminal activities via these channels. Internet crime could result in financial loss and/or customer data and sensitive information being compromised. Along with internet fraud, the overall threat of external fraud may increase during adverse economic conditions, particularly in retail and commercial banking.

We also face the risk of breakdowns in processes or procedures and systems failure or unavailability, and our business is subject to disruption from events that are wholly or partially beyond our control, such as internet crime and acts of terrorism.

Potential impact on HSBC

- Internet crime and fraud may give rise to losses in service to customers and/or economic loss to HSBC. The same threats apply equally when we rely on external suppliers or vendors to provide services to us and our customers.
- We have increased our defences through enhanced monitoring and have implemented additional controls, such as two-factor authentication, to reduce the possibility of losses from fraud. We continually assess these threats as they evolve and adapt our controls to mitigate them.

Data management

HSBC has received feedback from external stakeholders that it needs a clear data strategy to meet the increasingly frequent regulatory reporting requirements as well as other internal and external information demands.

Potential impact on HSBC

- Regulators are evaluating the industry on its ability to provide accurate information and may use the industry-developed Data Maturity Model to assess financial services firms.

A Group-level Data Strategy Board has been established to define our data strategy to ensure consistent data management across the Group. Vision, governance and quality frameworks of the data strategy have been completed and the policy and standards are due to be formulated by the third quarter of 2013. Any required action would follow.

Disposals

The implementation of our strategy to simplify our business, which involves withdrawing from certain markets, presents disposal risks which must be carefully managed. Implementing organisational changes to support the Group s strategy also requires close management oversight.

Potential impact on HSBC

The potential effects of disposal risks include regulatory breaches, industrial action, loss of key personnel and interruption to systems and processes during business transformation, and they can have both financial and reputational implications.

Steps taken to manage these risks proactively include maintaining a close dialogue with regulators and customers and involve HR, Legal, Compliance and other functional experts. Some disposals also involve Transitional Service Agreements, where there are ongoing risks, which are subject to close management oversight.

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Interim Management Report (continued)

Level of change in the Compliance function

The Compliance function is undergoing a significant restructuring to increase its efficiency and effectiveness (see page 173).

Potential impact on HSBC

The size and scope of the change could generate heightened execution and people risk (including significant resourcing demands).

Global organisation structures and global management teams have been agreed. Implementation in the regions, global business teams and countries has been split into phases, with key hubs targeted in the first instance.

Information security risk

The security of our information and technology infrastructure is crucial for maintaining our banking applications and processes while protecting our customers and the HSBC brand.

Potential impact on HSBC

These risks give rise to potential financial loss and reputational damage which could adversely affect customer and investor confidence. Loss of customer data would also result in regulatory breaches which would result in fines and penalties being incurred.

We have invested significantly in addressing this risk through increased training to raise staff awareness of the requirements, enhanced controls around data access and heightened monitoring of information flows.

Model risk

More stringent regulatory requirements governing the development of parameters applied to and controls around models used for measuring risk can give rise to changes, including increases in capital requirements. Furthermore, the changing external economic and legislative environment and changes in customer behaviour can lead to the assumptions we have made in our models becoming invalid.

Potential impact on HSBC

Model risks can result in a potentially increased and volatile capital requirement.

We continue to address these risks through enhanced model development, independent review and model oversight to ensure our models remain fit for purpose.

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Interim Management Report (continued)

Credit risk

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Interim Management Report (continued)

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from certain other products such as guarantees and credit derivatives and from holding assets in the form of debt securities.

There have been no material changes to our policies and practices for the management of credit risk as described in the *Annual Report and Accounts 2012*.

During the first half of 2013, we reviewed the impairment allowance methodology used for retail banking and small business portfolios across the Group to ensure that the assumptions used in our collective assessment models continue to appropriately reflect the period of time between a loss event occurring and the account proceeding to delinquency and eventual write off.

In Brazil, we reviewed and modified the impairment allowance methodology and the underlying assumptions used for the same portfolios to reflect the level of restructuring that is taking place and the performance of these restructured accounts. This review resulted in an increase of US$242m in collective impairment allowances, mainly in Brazil s retail and small business restructured portfolios. A number of measures are under way to address these portfolios.

A summary of our current policies and practices regarding credit risk is provided in the Appendix to Risk on page 252 of the Annual Report and Accounts 2012.

Credit risk in the first half of 2013

Total exposure to credit risk remained broadly unchanged in the first half of 2013 with gross loans and advances of US$1,170bn reported at 30 June 2013, compared with US$1,166bn at 31 December 2012.

During the first half of 2013, we continued to monitor events in the eurozone, weathering the imposition of capital controls in Cyprus successfully. We also continued to monitor our portfolio in Egypt as the constitutional crisis unfolded. More details of the specific political and macroeconomic risks associated with these countries, and our management response, are provided on page 104.

Loans and advances excluding held for sale: total exposure, impairment allowances and charges

	30 Jun 2013 US$bn	30 Jun 2012 US$bn	31 Dec 2012 US$bn
At end of period:			
Total gross loans and advances (A)	**1,170.1**	1,174.4	1,166.3
Impairment allowances	**15.6**	17.3	16.2
as a percentage of (A)	**1.33%**	1.47%	1.39%
Loans and advances net of impairment allowances	**1,154.5**	1,157.1	1,150.2
For period ended:			
Impairment charges	**3.2**	4.5	8.2

The following commentary is on a constant currency basis.

Total personal lending decreased slightly to US$395bn in the first half of 2013 from US$401bn at the end of 2012. This was driven by a decrease in lending in North America due to the continued

Interim Management Report (continued)

reduction in the US run-off portfolio and the reclassification of loan balances to Assets held for sale in our non-strategic operations in Latin America, Europe and, to a lesser extent, North America. This was partly offset by a modest increase in residential mortgage balances in Rest of Asia-Pacific, primarily in mainland China and Australia, Hong Kong and the UK.

Total wholesale lending increased to US$776bn at 30 June 2013 from US$729bn at the end of 2012, due to a rise in lending to banks, largely in Europe, and increased international trade and services lending to corporate and commercial customers in Hong Kong. This was partly offset by a decline in Latin America, where we reclassified lending balances relating to the planned disposal of our non-strategic businesses to Assets held for sale .

At 30 June 2013, impairment allowances as a percentage of gross loans and advances decreased to 1.33% from 1.39% at the end of 2012 as a result of a reduction in loan impairment charges (as described below) and an increase in wholesale lending.

Loan impairment charges in the first half of 2013 decreased to US$3.2bn from US$4.4bn in the first half of 2012 and US$3.5bn in the second half of 2012. The reduction was primarily in RBWM in North America due to significant favourable market value adjustments in the value of the underlying properties reflecting improvements in the housing sector, lower delinquency levels, the continued run-off of the CML portfolio and the sale of the CRS business in 2012. This decline was partly offset by increases in Latin America due to higher collective impairment provisions in RBWM and CMB as a result of impairment model changes and assumption revisions in Brazil and increases in Mexico reflecting higher lending balances, a revision to the assumptions used in our collective assessment models in the first half of 2013 and the non-recurrence of a provision release in the first half of 2012. In addition, individually assessed impairment provisions increased in Mexico in CMB and GB&M and in the UK in CMB.

Credit exposure

Maximum exposure to credit risk

The table on page 115 provides information on balance sheet items, offsets and loan and other credit-related commitments. Commentary on the balance sheet movements is provided on page 38.

Derivatives

The derivatives offset amount in the table below relates to exposures where the counterparty has an offsetting derivative exposure with HSBC, a master netting arrangement is in place and the credit risk exposure is managed on a net basis, or the position is specifically collateralised, normally in the form of cash. At 30 June 2013, the total amount of such offsets was US$254bn (30 June 2012: US$340bn; 31 December 2012: US$311bn), of which US$213bn (30 June 2012: US$301bn; 31 December 2012: US$270bn) were offsets under a master netting arrangement, US$36bn (30 June 2012: US$38bn; 31 December 2012: US$39bn) was collateral received in cash and US$6bn (30 June 2012: US$1.1bn; 31 December 2012: US$1.8bn) was other collateral. The decline in the total offset reflects the reduction in the fair value of derivative contracts in the period. These amounts do not qualify for offset for accounting purposes as settlement is not intended to be made on a net basis.

Loan and other credit-related commitments

Loan and other credit-related commitments largely consist of corporate and commercial off-balance sheet commitments, including term and trade-related lending balances and overdrafts, retail off-balance sheet commitments including overdrafts, residential mortgages and personal loans and credit card balances. Loan and other credit-related commitments rose marginally, driven by an increase in North America, reflecting our focus on growing in target commercial segments in the US, and a rise in term and trade-related commitments in Hong Kong and mainland

China. This was partly offset by a decline in the Middle East and North Africa as a result of drawdowns by wholesale customers in the UAE and a reduction in our exposure to Egypt.

Other credit risk mitigants

While not disclosed as an offset in the maximum exposure to credit risk table, other arrangements are in place which reduce our maximum exposure to credit risk. These include short positions in securities and financial assets held as part of linked insurance/ investment contracts where the risk is predominantly borne by the policyholder. In addition, we hold collateral in respect of individual loans and advances.

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Maximum exposure to credit risk[1]

	At 30 June 2013			At 30 June 2012			At 31 December 2012		
	Maximum exposure	**Offset**	**Exposure to credit risk (net)**	Maximum exposure	Offset	Exposure to credit risk (net)	Maximum exposure	Offset	Exposure to credit risk (net)
	US$m	**US$m**	**US$m**	US$m	US$m	US$m	US$m	US$m	US$m
Cash and balances at central banks	**148,285**		**148,285**	147,911		147,911	141,532		141,532
Items in the course of collection from other banks	**8,416**		**8,416**	11,075		11,075	7,303		7,303
Hong Kong Government certificates of indebtedness	**24,275**		**24,275**	21,283		21,283	22,743		22,743
Trading assets	**381,124**	**(8,557)**	**372,567**	361,352	(12,665)	348,687	367,177	(19,700)	347,477
Treasury and other eligible bills	**19,188**		**19,188**	30,098		30,098	26,282		26,282
Debt securities	**147,568**		**147,568**	131,563		131,563	144,677		144,677
Loans and advances:									
to banks	**96,748**		**96,748**	94,830		94,830	78,271		78,271
to customers	**117,620**	**(8,557)**	**109,063**	104,861	(12,665)	92,196	117,947	(19,700)	98,247
Financial assets designated at fair value	**12,548**		**12,548**	14,535		14,535	12,714		12,714
Treasury and other eligible bills	**99**		**99**	91		91	54		54
Debt securities	**12,392**		**12,392**	14,238		14,238	12,551		12,551
Loans and advances:									
to banks	**25**		**25**	127		127	55		55
to customers	**32**		**32**	79		79	54		54
Derivatives	**299,213**	**(254,077)**	**45,136**	355,934	(340,442)	15,492	357,450	(310,859)	46,591
Loans and advances held at amortised cost:	**1,154,504**	**(94,670)**	**1,059,834**	1,157,176	(93,044)	1,064,132	1,150,169	(95,578)	1,054,591
to banks	**185,122**	**(6,296)**	**178,826**	182,191	(7,092)	175,099	152,546	(3,732)	148,814
to customers	**969,382**	**(88,374)**	**881,008**	974,985	(85,952)	889,033	997,623	(91,846)	905,777
Financial investments	**394,846**		**394,846**	387,050		387,050	415,312		415,312
Treasury and other similar bills	**79,005**		**79,005**	71,552		71,552	87,550		87,550
Debt securities	**315,841**		**315,841**	315,498		315,498	327,762		327,762
Assets held for sale	**18,690**	**(572)**	**18,118**	10,541	(4)	10,537	9,292	(164)	9,128
disposal groups	**17,756**	**(572)**	**17,184**	10,383	(4)	10,379	5,359	(164)	5,195
non-current assets held for sale	**934**		**934**	158		158	3,933		3,933
Other assets	**32,470**		**32,470**	34,397		34,397	31,983		31,983

Endorsements and acceptances	**11,329**		**11,329**	12,782		12,782	12,032		12,032
Other	**21,141**		**21,141**	21,615		21,615	19,951		19,951
Financial guarantees and similar contracts	**43,783**		**43,783**	39,190		39,190	44,993		44,993
Loan and other credit-related commitments[2]	**587,946**		**587,946**	564,113		564,113	579,469		579,469
	3,106,100	**(357,876)**	**2,748,224**	3,104,557	(446,155)	2,658,402	3,140,137	(426,301)	2,713,836

For footnotes, see page 178.

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Personal lending

Total personal lending was US$395bn at 30 June 2013, down from US$415bn at the end of 2012 (US$401bn on a constant currency basis). The decrease on a constant currency basis reflected the reclassification of loan balances to Assets held for sale in our non-strategic operations in Latin America,

Europe and, to a lesser extent, North America, and a decrease in lending in North America due to the repayments and write-offs in the US run-off portfolio. This was partly offset by an increase in mortgage lending in Rest of Asia-Pacific, Hong Kong and the UK.

Total personal lending

	UK	Rest of Europe	Hong Kong	US[3]	Rest of North America	Other regions[3]	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
At 30 June 2013							
First lien residential mortgages (A)	**120,740**	**6,694**	**53,475**	**47,186**	**19,091**	**42,462**	**289,648**
Other personal lending (B)	**20,395**	**25,441**	**18,813**	**6,805**	**5,877**	**27,530**	**104,861**
motor vehicle finance		**16**			**22**	**3,050**	**3,088**
credit cards	**10,421**	**3,042**	**5,738**	**742**	**567**	**8,095**	**28,605**
second lien residential mortgages				**5,483**	**295**	**103**	**5,881**
other	**9,974**	**22,383**	**13,075**	**580**	**4,993**	**16,282**	**67,287**
Total personal lending (C)	**141,135**	**32,135**	**72,288**	**53,991**	**24,968**	**69,992**	**394,509**
Impairment allowances on personal lending							
First lien residential mortgages (a)	**(337)**	**(65)**		**(3,504)**	**(39)**	**(218)**	**(4,163)**
Other personal lending (b)	**(488)**	**(474)**	**(76)**	**(554)**	**(75)**	**(1,554)**	**(3,221)**
motor vehicle finance		**(4)**			**(1)**	**(96)**	**(101)**
credit cards	**(136)**	**(232)**	**(43)**	**(35)**	**(10)**	**(354)**	**(810)**
second lien residential mortgages				**(512)**	**(5)**		**(517)**
other	**(352)**	**(238)**	**(33)**	**(7)**	**(59)**	**(1,104)**	**(1,793)**
Total (c)	**(825)**	**(539)**	**(76)**	**(4,058)**	**(114)**	**(1,772)**	**(7,384)**

(a) as a percentage of (A)	**0.3%**	**1.0%**		**7.4%**	**0.2%**	**0.5%**	**1.4%**
(b) as a percentage of (B)	**2.4%**	**1.9%**	**0.4%**	**8.1%**	**1.3%**	**5.6%**	**3.1%**
(c) as a percentage of (C)	**0.6%**	**1.7%**	**0.1%**	**7.5%**	**0.5%**	**2.5%**	**1.9%**
At 30 June 2012							
First lien residential mortgages (D)	116,949	8,780	48,951	50,773	20,809	40,518	286,780
Other personal lending (E)	21,807	26,114	16,718	12,405	7,624	29,354	114,022
motor vehicle finance		29		15	24	3,852	3,920
credit cards	10,961	2,640	5,174	791	1,188	8,369	29,123
second lien residential mortgages	644			6,352	424	144	7,564
other	10,202	23,445	11,544	5,247	5,988	16,989	73,415
Total personal lending (F)	138,756	34,894	65,669	63,178	28,433	69,872	400,802
Impairment allowances on personal lending First lien residential mortgages (d)	(441)	(59)	(7)	(4,463)	(38)	(241)	(5,249)
Other personal lending (e)	(609)	(400)	(55)	(1,425)	(121)	(1,526)	(4,136)
motor vehicle finance		(4)			(1)	(166)	(171)
credit cards	(165)	(189)	(25)	(35)	(33)	(392)	(839)
second lien residential mortgages	(33)			(634)	(9)		(676)
other	(411)	(207)	(30)	(756)	(78)	(968)	(2,450)
Total (f)	(1,050)	(459)	(63)	(5,888)	(159)	(1,766)	(9,385)
(d) as a percentage of (D)	0.4%	0.7%		8.8%	0.2%	0.6%	1.8%
(e) as a percentage of (E)	2.8%	1.5%	0.3%	11.5%	1.6%	5.2%	3.6%
(f) as a percentage of (F)	0.8%	1.3%	0.1%	9.3%	0.6%	2.5%	2.3%

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	UK US$m	Rest of Europe US$m	Hong Kong US$m	US[3] US$m	Rest of North America US$m	Other regions[3] US$m	Total US$m
At 31 December 2012							
First lien residential mortgages (G)	127,024	8,148	52,296	49,417	20,716	44,261	301,862
Other personal lending (H)	23,446	27,656	18,045	7,382	6,839	29,863	113,231
motor vehicle finance		24			20	3,871	3,915
credit cards	11,369	3,060	5,930	821	735	8,881	30,796
second lien residential mortgages	508			5,959	363	131	6,961
other	11,569	24,572	12,115	602	5,721	16,980	71,559
Total personal lending (I)	150,470	35,804	70,341	56,799	27,555	74,124	415,093
Impairment allowances on personal lending							
First lien residential mortgages (g)	(425)	(64)	(4)	(4,133)	(30)	(249)	(4,905)
Other personal lending (h)	(576)	(401)	(57)	(590)	(94)	(1,589)	(3,307)
motor vehicle finance		(4)			(1)	(144)	(149)
credit cards	(150)	(184)	(28)	(40)	(14)	(385)	(801)
second lien residential mortgages	(44)			(542)	(6)		(592)
other	(382)	(213)	(29)	(8)	(73)	(1,060)	(1,765)
Total (i)	(1,001)	(465)	(61)	(4,723)	(124)	(1,838)	(8,212)
(g) as a percentage of (G)	0.3%	0.8%		8.4%	0.1%	0.6%	1.6%
(h) as a percentage of (H)	2.5%	1.4%	0.3%	8.0%	1.4%	5.3%	2.9%
(i) as a percentage of (I)	0.7%	1.3%	0.1%	8.3%	0.5%	2.5%	2.0%

For footnote, see page 178.

Mortgage lending

The commentary that follows is on a constant currency basis.

At 30 June 2013, total mortgage lending was US$296bn, a marginal decline from 31 December 2012 which was due to the continued run-off of the CML portfolio in North America and

the reclassification of balances to Assets held for sale in Latin America and Europe. It was partly offset by increases in Rest of Asia-Pacific, reflecting our focus on secured lending supported by marketing campaigns; in Hong Kong, although the rate of growth began to slow; and in the UK, reflecting our competitive pricing.

Mortgage lending products

	UK US$m	Rest of Europe US$m	Hong Kong US$m	US[3] US$m	Rest of North America US$m	Other regions[3] US$m	Total US$m
At 30 June 2013							
First lien residential mortgages[4]	**120,740**	**6,694**	**53,475**	**47,186**	**19,091**	**42,462**	**289,648**
Second lien residential mortgages				**5,483**	**295**	**103**	**5,881**
Total mortgage lending (A)	**120,740**	**6,694**	**53,475**	**52,669**	**19,386**	**42,565**	**295,529**
Second lien as percentage of (A)				**10.4%**	**1.5%**	**0.2%**	**2.0%**
Impairment allowances on mortgage lending	**(337)**	**(65)**		**(4,016)**	**(44)**	**(218)**	**(4,680)**
First lien residential mortgages	**(337)**	**(65)**		**(3,504)**	**(39)**	**(218)**	**(4,163)**
Second lien residential mortgages				**(512)**	**(5)**		**(517)**
Interest-only (including offset) mortgages	**46,301**	**140**	**29**		**445**	**1,116**	**48,031**
Affordability mortgages, including adjustable-rate mortgages (ARM s)	**2**	**453**	**17**	**18,007**		**5,535**	**24,014**
Other	**89**					**175**	**264**
Total interest-only, affordability mortgages and other	**46,392**	**593**	**46**	**18,007**	**445**	**6,826**	**72,309**
as a percentage of (A)	**38.4%**	**8.9%**	**0.1%**	**34.2%**	**2.3%**	**16.0%**	**24.5%**

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Mortgage lending products (continued)

	UK US$m	Rest of Europe US$m	Hong Kong US$m	US[3] US$m	Rest of North America US$m	Other regions[3] US$m	Total US$m
At 30 June 2012							
First lien residential mortgages[4]	116,949	8,780	48,951	50,773	20,809	40,518	286,780
Second lien residential mortgages	644			6,352	424	144	7,564
Total mortgage lending (B)	117,593	8,780	48,951	57,125	21,233	40,662	294,344
Second lien as percentage of (B)	0.5%			11.1%	2.0%	0.4%	2.6%
Impairment allowances on mortgage lending	(474)	(59)	(7)	(5,097)	(47)	(241)	(5,925)
First lien residential mortgages	(441)	(59)		(4,463)	(38)		(5,249)
Second lien residential mortgages	(33)		(7)	(634)	(9)	(241)	(676)
Interest-only (including offset) mortgages	47,605	48	30		582	1,195	49,460
Affordability mortgages, including ARMs	35	480	21	16,424	276	5,993	23,229
Other	102					201	303
Total interest-only, affordability mortgages and other	47,742	528	51	16,424	858	7,389	72,992
as a percentage of (B)	40.6%	6.0%	0.1%	28.8%	4.0%	18.2%	24.8%
At 31 December 2012							
First lien residential mortgages[4]	127,024	8,148	52,296	49,417	20,716	44,261	301,862
Second lien residential mortgages	508			5,959	363	131	6,961
Total mortgage lending (C)	127,532	8,148	52,296	55,376	21,079	44,392	308,823
Second lien as percentage of (C)	0.4%		0.0%	10.8%	1.7%	0.3%	2.3%
Impairment allowances on mortgage lending	(469)	(64)	(4)	(4,675)	(36)	(249)	(5,497)
First lien residential mortgages	(425)	(64)	(4)	(4,133)	(30)	(249)	(4,905)
Second lien residential mortgages	(44)			(542)	(6)		(592)
Interest-only (including offset) mortgages	49,650	52	30		531	1,146	51,409
Affordability mortgages, including ARMs	6	532	19	18,456		5,135	24,148
Other	99					204	303
Total interest-only, affordability mortgages and other	49,755	584	49	18,456	531	6,485	75,860
as a percentage of (C)	39.0%	7.2%	0.1%	33.3%	2.5%	14.6%	24.6%

For footnotes, see page 178.

Mortgage lending in the US

In the US, total mortgage lending balances were US$53bn at 30 June 2013, a decrease of 5% compared with the end of 2012. Overall, US mortgage lending represented 13% of our total personal lending and 18% of our total mortgage lending, in line with 31 December 2012.

Mortgage lending balances at 30 June 2013 in HSBC Finance were US$36bn, a decrease of 8% compared with the end of 2012 due to the continued run-off of the CML portfolio. In HSBC Bank USA, mortgage lending balances were US$17bn at 30 June 2013, an increase of 3% from the end of 2012. This was driven, in part, by increased origination to our Premier customers, in line with our strategy to grow this customer base.

HSBC Finance US Consumer and Mortgage

Lending[5] *residential mortgages*

	At 30 Jun 2013 US$m	At 30 Jun 2012 US$m	At 31 Dec 2012 US$m
Residential mortgages			
First lien	**32,271**	37,188	35,092
Second lien	**3,328**	4,042	3,651
Total (A)	**35,599**	41,230	38,743
Impairment allowances	**3,789**	4,884	4,480
as a percentage of A	**10.6%**	11.8%	11.6%

For footnote, see page 178.

For first lien residential mortgages in our CML portfolio, two months and over delinquent balances were US$7.1bn at 30 June 2013, compared with

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US$7.6bn at 31 December 2012. The decline mainly reflected the continued run-off of balances. In HSBC Bank USA, two months and over delinquent balances were broadly in line with the end of 2012, at US$1.4bn.

Second lien mortgage balances declined by 8% to US$5.5bn at 30 June 2013, representing 10% of the overall US mortgage lending portfolio, as a result of the continued run-off of the CML portfolio. Two months and over delinquent balances were US$401m at 30 June 2013 compared with US$477m at 31 December 2012.

Second lien mortgages in the US

The majority of second lien residential mortgages are taken up by customers who hold a first lien mortgage issued by a third party. Second lien residential mortgage loans have a risk profile characterised by higher loan-to-value ratios, because in the majority of cases the loans were taken out to complete the refinancing of properties. Loss severity on default of second liens has typically approached 100% of the amount outstanding, as any equity in the property is consumed through the repayment of the first lien loan.

Impairment allowances for these loans are determined by applying a roll-rate migration analysis which captures the propensity of these loans to default based on past experience. Once we believe that a second lien residential mortgage loan is likely to progress to write-off, the loss severity assumed in establishing our impairment allowance is close to 100% in the CML portfolios, and more than 80% in HSBC Bank USA.

HSBC Finance: foreclosed properties in the US

	Half-year to		
	30 June 2013	30 June 2012	31 December 2012
Number of foreclosed properties at end of period	**4,068**	2,836	2,973
Number of properties added to foreclosed inventory in the half-year	**4,902**	3,615	3,212
Average loss on sale of foreclosed properties[6]	**2%**	5%	5%
Average total loss on foreclosed properties[7]	**51%**	55%	53%
Average time to sell foreclosed properties (days)	**155**	179	166

For footnotes, see page 178.

The number of foreclosed properties at HSBC Finance at 30 June 2013 increased compared with the end of December 2012 as we work through the backlog in foreclosure activity which arose from the temporary suspension of foreclosures.

The average total loss on foreclosed properties and the average loss on sale of foreclosed properties decreased compared with the first half of 2012, reflecting improvements in home prices.

Valuation of foreclosed properties in the US

We obtain real estate by foreclosing on the collateral pledged as security for residential mortgages. Prior to foreclosure, carrying amounts of the loans in excess of fair value less costs to obtain and sell are written down to the discounted cash flows expected to be recovered, including from the sale of the property. Broker price opinions are obtained and updated every 180 days and real estate price trends are reviewed quarterly to reflect any improvement or additional deterioration. Our methodology is regularly validated by comparing the discounted cash flows expected to be recovered based on current market conditions (including estimated cash flows from the sale of the property) to the updated broker price opinion, adjusted for the estimated historical difference between interior and exterior appraisals. The fair values of foreclosed properties are initially determined based on broker price opinions. Within 90 days of foreclosure, a more detailed property valuation is performed reflecting information obtained from a physical interior inspection of the property and additional allowances or write-downs are recorded as appropriate. Updates to the valuation are performed no less than once every 45 days until the property is sold, with declines or increases recognised through changes to allowances.

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Trends in two months and over contractual delinquency in the US

	At 30 June 2013 US$m	At 30 June 2012 US$m	At 31 December 2012 US$m
In personal lending in the US			
First lien residential mortgages	**8,378**	8,851	8,926
Consumer and Mortgage Lending	**7,114**	7,662	7,629
Other mortgage lending	**1,264**	1,189	1,297
Second lien residential mortgages	**401**	515	477
Consumer and Mortgage Lending	**274**	372	350
Other mortgage lending	**127**	143	127
Credit card	**19**	29	27
Personal non-credit card	**24**	339	335
Total	**8,822**	9,734	9,765
	%	%	%
As a percentage of the relevant loans and receivables balances			
First lien residential mortgages	**17.6**	17.4	18.1
Second lien residential mortgages	**7.3**	7.9	8.0
Credit card	**2.5**	3.7	3.3
Personal non-credit card	**4.1**	6.3	7.4
Total	**16.2**	15.3	16.1

Non-US mortgage lending

The commentary that follows is on a constant currency basis.

Total non-US mortgage lending was US$243bn at 30 June 2013, broadly in line with the end of 2012. Our most significant concentrations of mortgage lending were in the UK and Hong Kong.

In the UK, mortgage lending was US$121bn at 30 June 2013, slightly higher than at 31 December 2012. This represented the Group s largest concentration of mortgage exposure. Interest only products made up US$46bn of total UK mortgage lending.

The credit quality of our UK mortgage portfolio remained high with impairment allowances at 0.3% of total gross mortgages as the effects of initiatives taken in previous years, including restricting certain types of lending, continued to be felt. During the first half of 2013, the average loan-to-value (LTV) ratio for new business was 59% compared with 51% for the whole portfolio, a slight increase compared with the levels seen during 2012.

Mortgage lending in Hong Kong was US$53bn, an increase of 2% on the end of 2012 reflecting continued growth in the market during the first half of 2013, although the rate of growth began to slow at the end of the period. The quality of our mortgage

book remained high with negligible impairment allowances. The average LTV ratio on new mortgage lending was 44% compared with an estimated 32% for the overall portfolio.

Mortgage lending in other regions remained broadly stable at US$69bn at 30 June 2013. Increases in Rest of Asia-Pacific derived from our focus on secured lending in mainland China and Australia were offset by decreases in Latin America due to the reclassification of balances to Assets held for sale.

Other personal lending

Credit cards

Total credit card lending of US$29bn at 30 June 2013 was 3% below the end of 2012 due to subdued credit appetite and consumer de-leveraging, mainly in Europe, and the transfer of balances to Assets held for sale in Latin America. This was partly offset by increased balances in Turkey from business expansion.

Personal non-credit card lending

Personal non-credit card lending balances fell by 4% to US$70bn at 30 June 2013, mainly in Europe and Latin America due to balances being transferred to Assets held for sale.

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Wholesale lending

On a reported basis, total wholesale lending increased by US$24bn from 31 December 2012 to US$776bn at 30 June 2013. On a constant currency basis, it rose by US$47bn due to higher lending to banks, largely in Europe, and an increase in

international trade and services lending to corporate and commercial customers in Hong Kong. This was partly offset by a decline in Latin America where we reclassified lending balances relating to the planned disposal of our non-strategic businesses to Assets held for sale .

Total wholesale lending

	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	MENA US$m	North America US$m	Latin America US$m	Total US$m
At 30 June 2013							
Corporate and commercial (A)	**211,128**	**111,610**	**86,873**	**21,416**	**48,327**	**30,451**	**509,805**
manufacturing	**46,202**	**10,944**	**19,300**	**3,409**	**9,609**	**12,128**	**101,592**
international trade and services	**66,317**	**42,707**	**35,091**	**9,458**	**13,082**	**7,771**	**174,426**
commercial real estate	**30,764**	**24,158**	**9,258**	**898**	**6,064**	**2,328**	**73,470**
other property-related	**7,403**	**17,182**	**6,533**	**1,526**	**7,725**	**285**	**40,654**
government	**1,834**	**2,813**	**407**	**1,664**	**348**	**1,431**	**8,497**
other commercial[8]	**58,608**	**13,806**	**16,284**	**4,461**	**11,499**	**6,508**	**111,166**
Financial (non-bank financial institutions) (B)	**51,060**	**6,168**	**4,630**	**1,822**	**12,103**	**1,380**	**77,163**
Asset-backed securities reclassified	**3,319**				**147**		**3,466**
Loans and advances to banks (C)	**68,281**	**33,293**	**48,965**	**9,454**	**11,818**	**13,361**	**185,172**
Total wholesale lending (D)	**333,788**	**151,071**	**140,468**	**32,692**	**72,395**	**45,192**	**775,606**
Impairment allowances on wholesale lending							
Corporate and commercial (a)	**3,708**	**334**	**506**	**1,264**	**827**	**1,071**	**7,710**
manufacturing	**570**	**81**	**130**	**199**	**88**	**325**	**1,393**
international trade and services	**1,116**	**207**	**174**	**523**	**207**	**346**	**2,573**
commercial real estate	**1,036**	**4**	**24**	**158**	**156**	**231**	**1,609**
other property-related	**213**	**17**	**81**	**241**	**139**	**13**	**704**
government	**2**			**31**	**2**		**35**
other commercial	**771**	**25**	**97**	**112**	**235**	**156**	**1,396**
Financial (non-bank financial institutions) (b)	**270**	**29**	**6**	**118**	**43**	**1**	**467**
Loans and advances to banks (c)	**33**			**17**			**50**
Total (d)	**4,011**	**363**	**512**	**1,399**	**870**	**1,072**	**8,227**
(a) as a percentage of (A)	**1.76%**	**0.30%**	**0.58%**	**5.90%**	**1.71%**	**3.52%**	**1.51%**
(b) as a percentage of (B)	**0.53%**	**0.47%**	**0.13%**	**6.48%**	**0.36%**	**0.07%**	**0.61%**
(c) as a percentage of (C)	**0.05%**			**0.18%**			**0.03%**
(d) as a percentage of (D)	**1.20%**	**0.24%**	**0.36%**	**4.28%**	**1.20%**	**2.37%**	**1.06%**

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Total wholesale lending (continued)

	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	MENA US$m	North America US$m	Latin America US$m	Total US$m
At 30 June 2012							
Corporate and commercial (E)	214,423	96,164	81,029	22,216	43,540	34,829	492,201
manufacturing	55,245	10,235	17,550	3,888	8,594	12,538	108,050
international trade and services	64,843	31,631	30,777	8,574	11,471	9,399	156,695
commercial real estate	32,563	21,510	9,544	940	6,706	3,451	74,714
other property-related	7,506	17,079	6,849	2,060	6,120	344	39,958
government	2,073	2,906	390	1,514	774	1,853	9,510
other commercial[8]	52,193	12,803	15,919	5,240	9,875	7,244	103,274
Financial (non-bank financial institutions) (F)	58,322	3,907	3,897	1,438	25,237	1,754	94,555
Asset-backed securities reclassified	4,243				401		4,644
Loans and advances to banks (G)	58,652	29,673	50,228	9,512	14,528	19,654	182,247
Total wholesale lending (H)	335,640	129,744	135,154	33,166	83,706	56,237	773,647
Impairment allowances on wholesale lending							
Corporate and commercial (e)	3,270	445	641	1,276	718	800	7,150
manufacturing	816	97	287	198	82	280	1,760
international trade and services	947	276	168	418	153	320	2,282
commercial real estate	864	4	47	158	233	85	1,391
other property-related	170	20	66	155	127	12	550
government	4			38	1		43
other commercial	469	48	73	309	122	103	1,124
Financial (non-bank financial institutions) (f)	421	28	14	183	33	2	681
Loans and advances to banks (g)	39			17			56
Total (h)	3,730	473	655	1,476	751	802	7,887
(e) as a percentage of (E)	1.53%	0.46%	0.79%	5.74%	1.65%	2.30%	1.45%
(f) as a percentage of (F)	0.72%	0.72%	0.36%	12.73%	0.13%	0.11%	0.72%
(g) as a percentage of (G)	0.07%			0.18%			0.03%
(h) as a percentage of (H)	1.11%	0.36%	0.48%	4.45%	0.90%	1.43%	1.02%

Interim Management Report (continued)

	Europe	Hong Kong	Rest of Asia-Pacific	MENA	North America	Latin America	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
At 31 December 2012							
Corporate and commercial (I)	223,061	99,199	85,305	22,452	47,886	35,590	513,493
manufacturing	56,690	10,354	19,213	3,373	9,731	12,788	112,149
international trade and services	70,954	33,832	32,317	9,115	13,419	9,752	169,389
commercial real estate	33,279	23,384	9,286	865	6,572	3,374	76,760
other property-related	7,402	16,399	6,641	2,103	7,607	380	40,532
government	2,393	2,838	1,136	1,662	774	1,982	10,785
other commercial[8]	52,343	12,392	16,712	5,334	9,783	7,314	103,878
Financial (non-bank financial institutions) (J)	55,732	4,546	4,255	1,196	13,935	1,594	81,258
Asset-backed securities reclassified	3,694				197		3,891
Loans and advances to banks (K)	45,320	23,500	44,592	9,198	13,465	16,528	152,603
Total wholesale lending (L)	327,807	127,245	134,152	32,846	75,483	53,712	751,245
Impairment allowances on wholesale lending							
Corporate and commercial (i)	3,537	383	526	1,312	732	856	7,346
manufacturing	611	86	129	210	84	287	1,407
international trade and services	992	233	185	360	189	329	2,288
commercial real estate	1,011	5	62	156	214	103	1,551
other property-related	164	20	81	241	102	13	621
government	15			42	2		59
other commercial	744	39	69	303	141	124	1,420
Financial (non-bank financial institutions) (j)	318	29	11	157	37	2	554
Loans and advances to banks (k)	40			17			57
Total (l)	3,895	412	537	1,486	769	858	7,957
(i) as a percentage of (I)	1.59%	0.39%	0.62%	5.84%	1.53%	2.41%	1.43%
(j) as a percentage of (J)	0.57%	0.64%	0.26%	13.13%	0.27%	0.13%	0.68%
(k) as a percentage of (K)	0.09%			0.18%			0.04%
(l) as a percentage of (L)	1.19%	0.32%	0.40%	4.52%	1.02%	1.60%	1.06%

For footnote, see page 178.

The commentary that follows is on a constant currency basis.

Corporate and commercial

Corporate and commercial lending, excluding commercial real estate and other property-related lending represented 40% of total gross loans and advances to customers compared with 39% at 31 December 2012. The increase of US$13bn, was driven by a rise in international trade and services lending balances in Hong Kong, mainland China and Singapore due to continued demand for financing, and other commercial balances in North America, from growth in lending to corporate customers, reflecting our focus on target segments in the US. This was partly offset by a decline in corporate and commercial lending balances, excluding commercial real estate and other property-related lending, in Latin America as a result of the re-classification of lending balances relating to the planned disposal of our non-strategic businesses to Assets held for sale .

The aggregate of our commercial real estate and other property-related lending was US$114bn at 30 June 2013, in line with 31 December 2012, representing 12% of total loans and advances to customers. Commercial real estate and other property-related lending declined in Latin America due to the re-classification of lending balances to Assets held for sale , but was largely offset by growth in Hong Kong where demand for financing continued, although the rate of growth has begun to slow.

For information on refinancing in commercial real estate lending, see page 103.

Financial (non-bank)

Financial (non-bank) lending decreased from US$79bn at 31 December 2012 to US$77bn at 30 June 2013. This was mainly in Europe and North

Interim Management Report (continued)

America due to a decline in reverse repo activity, partly offset by higher reverse repo balances in Hong Kong.

Loans and advances to banks

Loans and advances to banks increased from US$149bn at 31 December 2012 to US$185bn at 30 June 2013. This was driven by higher demand for reverse repo funding in Europe and a rise in placements with financial institutions in Hong Kong and Rest of Asia-Pacific.

Credit quality of financial instruments

We assess credit quality on all financial instruments which bear credit risk. The distribution of financial instruments by credit quality is tabulated below. The five classifications describing the credit quality of our lending, debt securities portfolios and derivatives are set out in the Appendix to Risk on page 253 of the *Annual Report and Accounts 2012*. Additional credit quality information in respect of our consolidated holdings of ABSs is provided on page 146.

Distribution of financial instruments by credit quality

	Neither past due nor impaired				Past due but not		Impairment allowances[10]	
	Strong	Good	Satisfactory	Sub-standard	impaired[9]	Impaired		Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m
At 30 June 2013								
Cash and balances at central banks	145,666	2,084	156	379				148,285
Items in the course of collection from other banks	7,992	117	215	92				8,416
Hong Kong Government certificates of indebtedness	24,275							24,275
Trading assets[11]	238,433	60,246	77,818	4,627				381,124
treasury and other eligible bills	14,827	3,569	758	34				19,188
debt securities	115,007	15,430	16,333	798				147,568
loans and advances:								
to banks	59,115	22,581	13,076	1,976				96,748
to customers	49,484	18,666	47,651	1,819				117,620
Financial assets designated at fair value[11]	6,016	5,417	1,024	91				12,548
treasury and other eligible bills	99							99
debt securities	5,916	5,385	1,010	81				12,392
loans and advances:								
to banks	1		14	10				25
to customers		32						32
Derivatives[11]	228,458	44,137	24,808	1,810				299,213

Loans and advances held at amortised cost	**638,031**	**241,575**	**213,494**	**22,737**	**16,073**	**38,205**	**(15,611)**	**1,154,504**
to banks	**149,254**	**22,465**	**11,292**	**2,050**	**26**	**85**	**(50)**	**185,122**
to customers[12]	**488,777**	**219,110**	**202,202**	**20,687**	**16,047**	**38,120**	**(15,561)**	**969,382**
Financial investments	**340,631**	**26,981**	**18,751**	**5,110**		**3,373**		**394,846**
treasury and other similar bills	**72,441**	**3,424**	**2,056**	**1,078**		**6**		**79,005**
debt securities	**268,190**	**23,557**	**16,695**	**4,032**		**3,367**		**315,841**
Assets held for sale	**4,906**	**5,955**	**6,129**	**492**	**641**	**744**	**(177)**	**18,690**
disposal groups	**4,788**	**5,679**	**6,065**	**478**	**609**	**239**	**(102)**	**17,756**
non-current assets held for sale	**118**	**276**	**64**	**14**	**32**	**505**	**(75)**	**934**
Other assets	**11,146**	**6,530**	**12,627**	**1,532**	**193**	**442**		**32,470**
endorsements and acceptances	**1,880**	**4,506**	**4,367**	**543**	**31**	**2**		**11,329**
accrued income and other	**9,266**	**2,024**	**8,260**	**989**	**162**	**440**		**21,141**
	1,645,554	**393,042**	**355,022**	**36,870**	**16,907**	**42,764**	**(15,788)**	**2,474,371**

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	Neither past due nor impaired			Sub-	Past due but not		Impair- ment	
	Strong	Good	Satisfactory	standard	impaired[9]	Impaired	allowances[10]	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m
At 30 June 2012								
Cash and balances at central banks	146,337	1,364	210					147,911
Items in the course of collection from other banks	10,628	173	274					11,075
Hong Kong Government certificates of indebtedness	21,283							21,283
Trading assets[11]	242,618	68,646	49,377	711				361,352
treasury and other eligible bills	26,256	2,726	1,116					30,098
debt securities	97,559	14,196	19,458	350				131,563
loans and advances:								
to banks	60,832	26,423	7,474	101				94,830
to customers	57,971	25,301	21,329	260				104,861
Financial assets designated at fair value[11]	8,356	5,438	608	133				14,535
treasury and other eligible bills	77		14					91
debt securities	8,228	5,359	520	131				14,238
loans and advances:								
to banks	51		74	2				127
to customers		79						79
Derivatives[11]	271,850	53,347	27,875	2,862				355,934
Loans and advances held at amortised cost	611,942	259,989	217,188	26,981	17,517	40,832	(17,273)	1,157,176
to banks	142,693	28,284	10,531	639	12	88	(56)	182,191
to customers[12]	469,249	231,705	206,657	26,342	17,505	40,744	(17,217)	974,985
Financial investments	330,781	27,343	23,265	3,456		2,205		387,050
treasury and other similar bills	62,669	4,691	4,093	99				71,552
debt securities	268,112	22,652	19,172	3,357		2,205		315,498
Assets held for sale	4,677	1,365	3,125	665	449	366	(106)	10,541
disposal groups	4,632	1,365	3,125	665	447	255	(106)	10,383
non-current assets held for sale	45				2	111		158
Other assets	11,908	7,672	12,403	1,604	290	520		34,397
endorsements and acceptances	2,172	4,807	4,849	945	5	4		12,782
accrued income and other	9,736	2,865	7,554	659	285	516		21,615
	1,660,380	425,337	334,325	36,412	18,256	43,923	(17,379)	2,501,254

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Distribution of financial instruments by credit quality (continued)

	Neither past due nor impaired				Past due		Impair-	
				Sub-	but not		ment	
	Strong	Good	Satisfactory	standard	impaired[9]	Impaired	allowances[10]	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m
At 31 December 2012								
Cash and balances at central banks	138,124	3,235	147	26				141,532
Items in the course of collection from other banks	6,661	203	439					7,303
Hong Kong Government certificates of indebtedness	22,743							22,743
Trading assets[11]	237,078	60,100	66,537	3,462				367,177
treasury and other eligible bills	20,793	4,108	1,340	41				26,282
debt securities	106,453	16,685	20,931	608				144,677
loans and advances:								
to banks	49,133	21,018	7,418	702				78,271
to customers	60,699	18,289	36,848	2,111				117,947
Financial assets designated at fair value[11]	6,186	5,884	401	243				12,714
treasury and other eligible bills	54							54
debt securities	6,089	5,830	391	241				12,551
loans and advances:								
to banks	43		10	2				55
to customers		54						54
Derivatives[11]	284,115	46,214	24,877	2,244				357,450
Loans and advances held at amortised cost	625,091	246,323	213,241	23,996	18,911	38,776	(16,169)	1,150,169
to banks	117,220	23,921	10,575	772	10	105	(57)	152,546
to customers[12]	507,871	222,402	202,666	23,224	18,901	38,671	(16,112)	997,623
Financial investments	357,452	27,428	21,143	6,759		2,530		415,312
treasury and other similar bills	80,320	3,818	1,957	1,455				87,550
debt securities	277,132	23,610	19,186	5,304		2,530		327,762
Assets held for sale	2,425	3,287	2,311	314	387	1,286	(718)	9,292
disposal groups	2,033	1,118	1,789	268	118	82	(49)	5,359
non-current assets held for sale	392	2,169	522	46	269	1,204	(669)	3,933
Other assets	9,679	6,007	13,845	1,759	231	462		31,983
endorsements and acceptances	1,995	4,344	5,195	483	7	8		12,032
accrued income and other	7,684	1,663	8,650	1,276	224	454		19,951
	1,689,554	398,681	342,941	38,803	19,529	43,054	(16,887)	2,515,675

For footnotes, see page 178.

On a reported basis the balance of credit risk bearing financial instruments at 30 June 2013 was US$2,474bn, of which US$1,646bn or 67% were classified as strong (31 December 2012: 67%). The proportion of financial instruments classified as good and satisfactory remained broadly stable at 16% and 14%, respectively. The proportion of sub-standard financial instruments remained low at 1% at 30 June 2013.

Loans and advances held at amortised cost were US$1,155bn, similar to the US$1,150bn at

31 December 2012. At 30 June 2013, 76% of these balances were classified as either strong or good, broadly in line with the end of 2012.

The majority of the Group s exposure to financial investments was in the form of available-for-sale debt securities issued by government and government agencies classified as strong and this proportion was broadly unchanged in the first half of 2013 at 85%.

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Trading assets on which credit quality has been assessed rose by 4% to US$381bn from 31 December 2012. However, the proportion of balances classified as strong declined slightly from 65% at 31 December 2012 to 63% at 30 June 2013 despite an overall increase in total balances classified as strong . This was due to a rise in the level of balances classified as satisfactory as a result of an increase in settlement and reverse repo balances in Europe and higher balances in North America, reflecting increased lending to hedge funds.

The proportion of derivative assets classified as strong fell from 79% at the end of 2012 to 76% at 30 June 2013 as a result of net downgrades in respect of individual corporate counterparties across a range of industries in Hong Kong and Mexico and a decrease in the mark-to-market value of interest rate derivatives classified as strong in Europe. The proportion of satisfactory balances remained broadly unchanged at 8%.

Cash and balances at central banks rose by 5% to US$148bn as a result of increases in North

America due to sales and maturities of available for-sale government debt securities. This was partly offset by a decrease in Hong Kong as liquidity was redeployed to support growth in lending. Substantially all of the Group s cash and balances at central banks were classified as strong , with the most significant concentrations in Europe and North America.

Past due but not impaired gross financial instruments

The definition of past due but not impaired loans is set out on page 156 of the *Annual Report and Accounts 2012.*

At 30 June 2013, US$16.1bn of loans and advances held at amortised cost were classified as past due but not impaired (31 December 2012: US$18.9bn; 30 June 2012: US$17.5bn). The largest concentration of these balances was in HSBC Finance where they decreased by 22% compared with the end of 2012 due to the decline in CML lending balances as the portfolio continued to run off.

Past due but not impaired loans and advances to customers and banks by geographical region

	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	MENA US$m	North America US$m	Latin America US$m	Total US$m
At 30 June 2013							
Banks	**16**		**10**				**26**
Customers	**2,043**	**1,321**	**2,814**	**1,001**	**6,930**	**1,938**	**16,047**
personal	**1,210**	**751**	**1,897**	**227**	**4,585**	**1,298**	**9,968**
corporate and commercial	**822**	**492**	**783**	**723**	**2,340**	**634**	**5,794**
financial (non-bank financial institutions)	**11**	**78**	**134**	**51**	**5**	**6**	**285**
	2,059	**1,321**	**2,824**	**1,001**	**6,930**	**1,938**	**16,073**
At 30 June 2012							

Banks		2	10				12
Customers	2,259	1,082	2,538	980	7,874	2,772	17,505
personal	1,454	646	1,785	158	6,285	1,825	12,153
corporate and commercial	785	417	708	818	1,337	946	5,011
financial (non-bank financial institutions)	20	19	45	4	252	1	341
	2,259	1,084	2,548	980	7,874	2,772	17,517
At 31 December 2012							
Banks			10				10
Customers	2,339	1,311	2,964	975	7,721	3,591	18,901
personal	1,416	638	1,961	248	5,806	2,198	12,267
corporate and commercial	909	579	953	726	1,910	1,360	6,437
financial (non-bank financial institutions)	14	94	50	1	5	33	197
	2,339	1,311	2,974	975	7,721	3,591	18,911

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Interim Management Report (continued)

Ageing analysis of days past due but not impaired gross financial instruments

	Up to 29 days US$m	30-59 days US$m	60-89 days US$m	90-179 days US$m	180 days and over US$m	Total US$m
At 30 June 2013						
Loans and advances held at amortised cost	**12,173**	**2,711**	**1,098**	**78**	**13**	**16,073**
to banks	**26**					**26**
to customers	**12,147**	**2,711**	**1,098**	**78**	**13**	**16,047**
Assets held for sale	**384**	**139**	**79**	**20**	**19**	**641**
disposal groups	**361**	**133**	**76**	**20**	**19**	**609**
non-current assets held for sale	**23**	**6**	**3**			**32**
Other assets	**111**	**42**	**19**	**12**	**9**	**193**
endorsements and acceptances	**20**	**5**	**2**	**3**	**1**	**31**
other	**91**	**37**	**17**	**9**	**8**	**162**
	12,668	**2,892**	**1,196**	**110**	**41**	**16,907**
At 30 June 2012						
Loans and advances held at amortised cost	13,137	2,903	1,307	79	91	17,517
to banks	12					12
to customers	13,125	2,903	1,307	79	91	17,505
Assets held for sale	270	116	50	6	7	449
disposal groups	270	114	50	6	7	447
non-current assets held for sale		2				2
Other assets	168	39	30	10	43	290
endorsements and acceptances	3	1			1	5
other	165	38	30	10	42	285
	13,575	3,058	1,387	95	141	18,256
At 31 December 2012						
Loans and advances held at amortised cost	14,236	3,189	1,262	200	24	18,911
to banks	10					10
to customers	14,226	3,189	1,262	200	24	18,901
Assets held for sale	251	84	48	2	2	387
disposal groups	87	17	11	1	2	118
non-current assets held for sale	164	67	37	1		269
Other assets	122	37	24	12	36	231
endorsements and acceptances	6	1				7
other	116	36	24	12	36	224
	14,609	3,310	1,334	214	62	19,529

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Renegotiated loans and forbearance

There have been no material changes to our policies and procedures regarding renegotiated loans and forbearance in the first half of 2013. In Brazil, we are reviewing local practices in order to align them with Group standard policy and we reviewed and modified the impairment allowance methodology

and the underlying assumptions used for our retail banking and Business Banking portfolios to reflect the level of restructuring that is taking place and the performance of these restructured accounts.

Current policies and procedures regarding renegotiated loans and forbearance are described on pages 158-162 of the Annual Report and Accounts 2012.

Renegotiated loans and advances to customers

	At 30 June 2013			
	Neither past due nor impaired US$m	**Past due but not impaired US$m**	**Impaired US$m**	**Total US$m**
Personal	**6,953**	**3,299**	**16,008**	**26,260**
first lien residential mortgages	**5,638**	**2,862**	**14,498**	**22,998**
other personal[1]	**1,315**	**437**	**1,510**	**3,262**
Corporate and commercial	**3,521**	**292**	**6,987**	**10,800**
manufacturing and international trade services	**1,944**	**75**	**3,190**	**5,209**
commercial real estate and other property-related	**1,164**	**115**	**3,336**	**4,615**
governments	**150**			**150**
other commercial[2]	**263**	**102**	**461**	**826**
Financial	**262**	**16**	**355**	**633**
	10,736	**3,607**	**23,350**	**37,693**
Total renegotiated loans and advances to customers as a percentage of total gross loans and advances to customers				**3.8%**

	At 30 June 2012				At 31 December 2012			
	Neither past due nor impaired US$m	Past due but not impaired US$m	Impaired US$m	Total US$m	Neither past due nor impaired US$m	Past due but not impaired US$m	Impaired US$m	Total US$m
Personal	8,007	3,532	19,229	30,768	7,952	3,524	18,279	29,755

first lien residential mortgages	5,841	2,842	16,096	24,779	5,861	2,828	15,459	24,148
other personal[13]	2,166	690	3,133	5,989	2,091	696	2,820	5,607
Corporate and commercial	6,823	431	7,326	14,580	4,608	295	6,892	11,795
manufacturing and international trade services	2,904	247	2,990	6,141	2,381	154	3,012	5,547
commercial real estate and other property-related	2,886	32	3,846	6,764	1,796	10	3,484	5,290
governments	44		117	161	177			177
other commercial[8]	989	152	373	1,514	254	131	396	781
Financial	261		560	821	255		422	677
	15,091	3,963	27,115	46,169	12,815	3,819	25,593	42,227
Total renegotiated loans and advances to customers as a percentage of total gross loans and advances to customers				4.7%				4.2%

For footnotes, see page 178.

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Renegotiated loans and advances to customers by geographical region

	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	MENA US$m	North America US$m	Latin America US$m	Total US$m
At 30 June 2013							
Personal	2,339	231	223	165	22,600	702	26,260
first lien residential mortgages	1,806	58	70	102	20,896	66	22,998
other personal[13]	533	173	153	63	1,704	636	3,262
Corporate and commercial	6,205	124	170	1,654	549	2,098	10,800
manufacturing and international trade services	2,920	19	90	547	224	1,409	5,209
commercial real estate and other property-related	3,060	3	2	805	314	431	4,615
governments				1		149	150
other commercial[8]	225	102	78	301	11	109	826
Financial	272		3	355	2	1	633
	8,816	355	396	2,174	23,151	2,801	37,693
Total impairment allowances on renegotiated loans	1,596	14	68	424	2,694	687	5,483
individually assessed	1,579	13	49	424	124	263	2,452
collectively assessed	17	1	19		2,570	424	3,031
At 30 June 2012							
Personal	2,605	262	247	198	26,770	686	30,768
first lien residential mortgages	1,669	75	76	108	22,770	81	24,779
other personal[13]	936	187	171	90	4,000	605	5,989
Corporate and commercial	9,337	157	198	2,121	755	2,012	14,580
manufacturing and international trade services	3,643	33	134	778	206	1,347	6,141
commercial real estate and other property-related	4,913	28	33	986	544	260	6,764
governments				43		118	161
other commercial[8]	781	96	31	314	5	287	1,514
Financial	481			330	3	7	821
	12,423	419	445	2,649	27,528	2,705	46,169
Total impairment allowances on renegotiated loans	1,673	18	65	405	4,756	433	7,350
individually assessed	1,666	17	42	425	47	225	2,422
collectively assessed	7	1	23	(20)	4,709	208	4,928
At 31 December 2012							
Personal	2,817	245	248	190	25,474	781	29,755
first lien residential mortgages	1,896	68	78	112	21,896	98	24,148
other personal[13]	921	177	170	78	3,578	683	5,607
Corporate and commercial	6,829	147	300	1,859	685	1,975	11,795
manufacturing and international trade services	3,002	22	193	659	191	1,480	5,547
commercial real estate and other property-related	3,641	25	37	899	486	202	5,290
governments				2		175	177
other commercial[8]	186	100	70	299	8	118	781
Financial	328		4	340	3	2	677
	9,974	392	552	2,389	26,162	2,758	42,227

Total impairment allowances on renegotiated loans	1,547	16	96	546	3,864	485	6,554
individually assessed	1,545	15	63	543	39	213	2,418
collectively assessed	2	1	33	3	3,825	272	4,136

For footnotes, see page 178.

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Interim Management Report (continued)

The following commentary is on a reported basis.

Renegotiated loans totalled US$37.7bn at 30 June 2013 (30 June 2012: US$46.2bn; 31 December 2012: US$42.2bn). The most significant portfolio of renegotiated loans remained in North America which, at 30 June 2013, amounted to US$23.2bn or 61% of the total (30 June 2012: US$27.5bn or 60%; 31 December 2012: US$26.2bn or 62%), substantially all of which were retail loans held by HSBC Finance.

Of the total renegotiated loans in North America, US$14.8bn were presented as impaired at 30 June 2013 (30 June 2012: US$17.9bn; 31 December 2012: US$17.0bn), and the ratio of total impairment allowances on renegotiated loans to renegotiated impaired loans at 30 June 2013 was 18% (30 June 2012: 27%; 31 December 2012: 23%). The reduction was due to the continued run-off of the CML portfolio, the transfer of US$750m of impaired loans to Assets held for sale and improvements in housing market conditions, which had a favourable effect on impairment allowances.

The next largest portfolio of renegotiated loans was in Europe, amounting at 30 June 2013 to US$8.8bn (30 June 2012: US$12.4bn; 31 December 2012: US$10.0bn) and constituting 23% of the total (30 June 2012: 27%; 31 December 2012: 24%). Of the total renegotiated loans in Europe, US$5.8bn were presented as impaired at 30 June 2013 (30 June 2012: US$6.2bn; 31 December 2012: US$5.7bn), and the ratio of total impairment allowances on renegotiated loans to renegotiated impaired loans at 30 June 2013 remained broadly in line with the ratios at 30 June 2012 and 31 December 2012 at 28%.

Renegotiated balances in Europe were largely concentrated in the commercial real estate sector at 35% (30 June 2012: 40%; 31 December 2012: 37%) and the manufacturing and international trade service sectors 33% (30 June 2012: 29%; 31 December 2012: 30%). The reduction in commercial real estate renegotiated balances was due to repayment of loans in the UK in CMB, partly offset by increases in GB&M as a result of new cases being identified in the first half of 2013.

The balance of renegotiated loans in the Middle East and North Africa remained predominantly concentrated in the corporate and commercial sectors and balances fell by US$215m due to repayment of regulated loans in the manufacturing and international trade services and commercial real estate sectors in the UAE.

In Latin America, renegotiated loans were broadly unchanged compared with the end of 2012, though we experienced an increase in collective impairments on our restructured loan accounts in RBWM and our Business Banking portfolio in CMB, both in Brazil, as a result of impairment model changes and assumption revisions.

Forbearance in Hong Kong and Rest of Asia-Pacific remained insignificant.

HSBC Finance loan modifications and re-ageing

Types of loan renegotiation programme in HSBC Finance

A temporary modification is a change to the contractual terms of a loan that results in the giving up of a right to contractual cash flows over a pre-defined period. With a temporary modification the loan is expected to revert back to the original contractual terms, including the interest rate charged, after the modification period. An example is reduced interest payments.

A substantial number of HSBC Finance modifications involve interest rate reductions. These modifications lower the amount of interest income HSBC Finance is contractually entitled to receive in future periods. Historically, modifications have generally been for six months, although extended modification periods are now more common.

Loans that have been re-aged are classified as impaired with the exception of first-time loan re-ages that were less than 60 days past due at the time of re-age. These remain classified as impaired until they have demonstrated a history of payment performance against their original contracted terms for at least 12 months.

A permanent modification is a change to the contractual terms of a loan that results in giving up a right to contractual cash flows over the life of the loan. An example is a permanent reduction in the interest rate charged.

Permanent or long-term modifications which are due to an underlying hardship event remain classified as impaired for their full life.

The term re-age describes a renegotiation by which the contractual delinquency status of a loan is reset to current after demonstrating payment performance. The overdue principal and/or interest is deferred and paid at a later date. Loan re-ageing enables customers who have been unable to make a small number of payments to have their loan delinquency status reset to current so that their credit score is not affected by the overdue balances.

Loans that have been re-aged remain classified as impaired until they have demonstrated a history of payment performance against the original contractual terms for at least 12 months.

A temporary or permanent modification may also lead to a re-ageing of a loan although a loan may be re-aged without any modification to its original terms and conditions.

Where loans have been granted multiple concessions, subject to the qualifying criteria discussed below, the concession is deemed to have been made due to concern regarding the borrower s ability to pay, and the loan is disclosed as impaired. The loan remains disclosed as impaired from that date forward until the borrower has demonstrated a history of repayment performance for the period of time required for either modifications or re-ages, as described above.

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HSBC Finance maintains loan modification and re-age (loan renegotiation) programmes in order to manage customer relationships, improve collection opportunities and, if possible, avoid foreclosure. For further details on HSBC Finance s loan renegotiation programmes, see page 131. The volume of loans that qualify for modification has reduced significantly in recent years. We expect this trend to continue as HSBC Finance believes the percentage of its customers with unmodified loans who would benefit from loan modification in a way that would avoid non-payment of future cash flows is decreasing. In addition, volumes of new loan modifications are expected to decrease due to gradual improvements in economic conditions and the continued run-off of the CML portfolio.

Qualifying criteria

For an account to qualify for renegotiation it must meet certain criteria. However, HSBC Finance retains the right to decline a renegotiation. The extent to which HSBC Finance renegotiates accounts that are eligible under its existing policies will vary depending upon its view of prevailing economic conditions and other factors which may change from year to year. In addition, exceptions to policies and practices may be made in specific situations in response to legal or regulatory agreements or orders.

Renegotiated real estate secured and personal lending receivables are not eligible for a subsequent renegotiation for twelve or six months, respectively, with a maximum of five renegotiations permitted within a five-year period. Borrowers must be approved for a modification and generally make two minimum qualifying monthly payments within 60 days to activate a modification.

In certain circumstances where the debt has been restructured in bankruptcy proceedings, fewer or no payments may be required. Accounts whose borrowers are subject to a Chapter 13 plan filed with a bankruptcy court generally may be re-aged upon receipt of one qualifying payment, whereas accounts whose borrowers have filed for Chapter 7 bankruptcy protection may be re-aged upon receipt of a signed reaffirmation agreement. In addition, for some products, accounts may be re-aged without receipt of a payment in certain special circumstances (e.g. in the event of a natural disaster or a hardship programme).

At 30 June 2013, renegotiated real estate secured accounts represented 92% (30 June 2012: 84%; 31 December 2012: 86%) of North America s total renegotiated loans, and US$13.4bn (30 June 2012: US$15.6bn; 31 December 2012: US$14bn) of renegotiated real estate secured loans in HSBC Finance were classified as impaired.

Gross loan portfolio of HSBC Finance real estate secured balances

	Re-aged[14]	Modified and re-aged	Modified	Total re-negotiated loans	Total non-renegotiated loans	Total gross loans	Total impair-ment allowances	Impair-ment allowances/ gross loans
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	%
30 June 2013	**9,237**	**10,796**	**961**	**20,994**	**15,066**	**36,060**	**3,822**	**11**

30 June 2012	9,906	12,171	1,293	23,370	17,860	41,230	4,884	12
31 December 2012	9,640	11,660	1,121	22,421	16,261	38,743	4,481	12

For footnote, see page 178.

Movement in HSBC Finance renegotiated real estate balances

		Half-year to	
	30 June	30 June	31 December
	2013	2012	2012
	US$m	US$m	US$m
At beginning of period	**22,421**	24,588	23,371
Additions	**548**	579	642
Payments	**(807)**	(531)	(602)
Write-offs	**(641)**	(1,015)	(781)
Transfers and disposals	**(527)**	(250)	(209)
At end of period	**20,994**	23,371	22,421

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Number of renegotiated real estate secured accounts remaining in HSBC Finance s portfolio

	Number of renegotiated loans				
		Modified			Total number
	Re-aged (000s)	and re-aged (000s)	Modified (000s)	Total (000s)	of loans (000s)
30 June 2013	**113**	**100**	**10**	**223**	**408**
30 June 2012	118	109	13	240	459
31 December 2012	117	107	11	235	427

During the half-year to 30 June 2013, the aggregate number of renegotiated loans reduced, despite renegotiation activity continuing, due to the run-off of the portfolio. Within the constraints of our Group credit policy, HSBC Finance s policies allow for multiple renegotiations under certain circumstances, and a number of accounts received a second or further renegotiation during the year which are not duplicated in the statistics presented above. These statistics present a loan as an addition to the volume of renegotiated loans on its first renegotiation only. At 30 June 2013, renegotiated loans were 58% (30 June 2012: 57%; 31 December 2012: 58%) of HSBC Finance s real estate secured accounts.

Corporate and commercial forbearance

For the current policies and procedures regarding forbearance in the corporate and commercial sector, see page 161 in the Annual Report and Accounts 2012.

In the corporate and commercial sector, the decrease of US$1.0bn in renegotiated loans compared with the end of 2012 on a reported basis was largely driven by reductions in Europe and Middle East and North Africa, North America and Rest of Asia-Pacific.

In Europe, the majority of the US$624m decline in renegotiated balances was in the commercial real estate sector due to net loan repayments in UK CMB and refinements in forbearance identification in Turkey.

In Middle East and North Africa, the majority of the fall of US$205m was mostly due to loan repayments in both manufacturing and international trade services and commercial real estate and other property related sectors.

In North America, the majority of the fall of US$136m was due to loan repayments in the manufacturing and international trade services sector and a large write-off in commercial real estate and other property-related commercial sector.

In the Rest of Asia-Pacific, the majority of the US$130m reduction in renegotiated loan balances was due to the transfer to Europe of one particular

relationship in the manufacturing and international trade services sector, together with loan repayments in that sector and in the commercial real estate and other property-related sector.

Renegotiated balances in Latin America increased by US$123m compared with the end of 2012, primarily due to a small number of large renegotiations in the CMB commercial real estate and other property-related sector.

Impaired loans

Impaired loans and advances are those that meet any of the following criteria:

- wholesale loans and advances classified as Customer Risk Rating (CRR) 9 or CRR 10. These grades are assigned when the bank considers that either the customer is unlikely to pay its credit obligations in full, without recourse to security, or when the customer is past due 90 days or more on any material credit obligation to the HSBC Group. For further details of the CRR scale, see page 254 of the *Annual Report and Accounts 2012;*

- retail loans and advances classified as Expected Loss (EL) 9 or EL 10. These grades are assigned to retail loans and advances greater than 90 days past due unless individually they have been assessed as not impaired. For further details of the EL scale see page 254 of the *Annual Report and Accounts 2012*;

- renegotiated loans and advances that have been subject to a change in contractual cash flows as a result of a concession which the lender would not otherwise consider, and where it is probable that without the concession the borrower would be unable to meet its contractual payment obligations in full, unless the concession is insignificant and there are no other indicators of impairment. Renegotiated loans remain classified as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment.

For loans that are assessed for impairment on a collective basis, the evidence to support

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reclassification as no longer impaired typically comprises a history of payment performance against the original or revised terms, depending on the nature and volume of forbearance and the credit risk characteristics surrounding the renegotiation. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case by case basis.

In HSBC Finance, where a significant majority of HSBC s loan forbearance activity occurs, the history of payment performance is assessed with

reference to the original terms of the contract, reflecting the higher credit risk characteristics of this portfolio. The payment performance periods are monitored to ensure they remain appropriate to the levels of recidivism observed within the portfolio.

Further disclosure about loans subject to forbearance is provided on page 254 of the *Annual Report and Accounts 2012*. Renegotiated loans and forbearance disclosures are subject to evolving industry practice and regulatory guidance.

Impaired loans and advances to customers and banks by industry sector

	Impaired loans and advances at 30 June 2013			Impaired loans and advances at 30 June 2012			Impaired loans and advances at 31 December 2012		
	Individually assessed US$m	**Collectively assessed US$m**	**Total US$m**	Individually assessed US$m	Collectively assessed US$m	Total US$m	Individually assessed US$m	Collectively assessed US$m	Total US$m
Banks	**85**		**85**	88		88	105		105
Customers	**17,610**	**20,510**	**38,120**	16,973	23,771	40,744	16,771	21,900	38,671
personal	**2,064**	**20,022**	**22,086**	2,280	23,211	25,491	2,382	21,369	23,751
corporate and commercial	**14,676**	**488**	**15,164**	13,692	560	14,252	13,562	531	14,093
financial	**870**		**870**	1,001		1,001	827		827
	17,695	**20,510**	**38,205**	17,061	23,771	40,832	16,876	21,900	38,776

On a reported basis, impaired loans and advances were US$38.2bn at 30 June 2013 (30 June 2012: US$40.8bn; 31 December 2012: US$38.8bn). The decrease of US$571m from the end of 2012 was due to a reduction in collectively assessed impaired balances in the US, largely driven by the continued run-off of the CML portfolio, partly offset by increases in individually assessed impaired balances in Europe and Latin America.

Impairment of loans and advances

The tables below analyse by geographical region the impairment allowances recognised for impaired loans and advances that are either individually assessed or collectively assessed, and collective impairment allowances on loans and advances classified as not impaired.

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Impairment allowances on loans and advances to customers by geographical region

	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	MENA US$m	North America US$m	Latin America US$m	Total US$m
At 30 June 2013							
Gross loans and advances to customers							
Individually assessed impaired loans[15] (A)	**10,712**	**375**	**981**	**2,108**	**1,629**	**1,805**	**17,610**
Collectively assessed[16] (B)	**428,065**	**189,691**	**139,056**	**27,507**	**137,907**	**45,107**	**967,333**
impaired loans[15]	**1,505**	**71**	**114**	**206**	**17,059**	**1,555**	**20,510**
non-impaired loans[17]	**426,560**	**189,620**	**138,942**	**27,301**	**120,848**	**43,552**	**946,823**
Total (C)	**438,777**	**190,066**	**140,037**	**29,615**	**139,536**	**46,912**	**984,943**
Less: Impairment allowances (c)	**5,341**	**441**	**704**	**1,681**	**5,042**	**2,352**	**15,561**
individually assessed (a)	**3,853**	**177**	**420**	**1,235**	**498**	**579**	**6,762**
collectively assessed (b)	**1,488**	**264**	**284**	**446**	**4,544**	**1,773**	**8,799**
Net loans and advances	**433,436**	**189,625**	**139,333**	**27,934**	**134,494**	**44,560**	**969,382**
(a) as a percentage of (A)	**36.0%**	**47.2%**	**42.8%**	**58.6%**	**30.6%**	**32.1%**	**38.4%**
(b) as a percentage of (B)	**0.3%**	**0.1%**	**0.2%**	**1.6%**	**3.3%**	**3.9%**	**0.9%**
(c) as a percentage of (C)	**1.2%**	**0.2%**	**0.5%**	**5.7%**	**3.6%**	**5.0%**	**1.6%**
At 30 June 2012							
Gross loans and advances to customers							
Individually assessed impaired loans[15] (D)	9,680	475	1,035	2,309	1,946	1,528	16,973
Collectively assessed[16] (E)	440,958	165,265	129,300	27,360	158,843	53,503	975,229
impaired loans[15]	1,201	80	113	205	20,240	1,932	23,771
non-impaired loans[17]	439,757	165,185	129,187	27,155	138,603	51,571	951,458
Total (F)	450,638	165,740	130,335	29,669	160,789	55,031	992,202
Less: Impairment allowances (f)	5,193	536	846	1,773	6,798	2,071	17,217
individually assessed (d)	3,709	250	564	1,324	439	368	6,654
collectively assessed (e)	1,484	286	282	449	6,359	1,703	10,563
Net loans and advances	445,445	165,204	129,489	27,896	153,991	52,960	974,985
(d) as a percentage of (D)	38.3%	52.6%	54.5%	57.3%	22.6%	24.1%	39.2%
(e) as a percentage of (E)	0.3%	0.2%	0.2%	1.6%	4.0%	3.2%	1.1%
(f) as a percentage of (F)	1.2%	0.3%	0.6%	6.0%	4.2%	3.8%	1.7%

At 31 December 2012

Gross loans and advances to customers							
Individually assessed impaired loans[15] (G)	9,959	398	1,019	2,251	1,849	1,295	16,771
Collectively assessed[16] (H)	458,802	173,688	137,846	27,629	144,523	54,476	996,964
impaired loans[15]	1,121	79	128	197	18,482	1,893	21,900
non-impaired loans[17]	457,681	173,609	137,718	27,432	126,041	52,583	975,064
Total (I)	468,761	174,086	138,865	29,880	146,372	55,771	1,013,735
Less: Impairment allowances (i)	5,321	473	746	1,794	5,616	2,162	16,112
individually assessed (g)	3,781	192	442	1,323	428	406	6,572
collectively assessed (h)	1,540	281	304	471	5,188	1,756	9,540
Net loans and advances	463,440	173,613	138,119	28,086	140,756	53,609	997,623
(g) as a percentage of (G)	38.0%	48.2%	43.4%	58.8%	23.1%	31.4%	39.2%
(h) as a percentage of (H)	0.3%	0.2%	0.2%	1.7%	3.6%	3.2%	1.0%
(i) as a percentage of (I)	1.1%	0.3%	0.5%	6.0%	3.8%	3.9%	1.6%

For footnotes, see page 178.

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Net loan impairment charge to the income statement by geographical region

	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	MENA US$m	North America US$m	Latin America US$m	Total US$m
Half-year to 30 June 2013							
Individually assessed impairment allowances	**714**	**1**	**33**	**(58)**	**168**	**263**	**1,121**
new allowances	**914**	**20**	**98**	**67**	**210**	**312**	**1,621**
release of allowances no longer required	**(180)**	**(15)**	**(53)**	**(111)**	**(21)**	**(20)**	**(400)**
recoveries of amounts previously written off	**(20)**	**(4)**	**(12)**	**(14)**	**(21)**	**(29)**	**(100)**
Collectively assessed impairment allowances	**209**	**46**	**100**	**9**	**552**	**1,152**	**2,068**
new allowances net of allowance releases	**480**	**58**	**158**	**29**	**597**	**1,285**	**2,607**
recoveries of amounts previously written off	**(271)**	**(12)**	**(58)**	**(20)**	**(45)**	**(133)**	**(539)**
Total charge for impairment losses	**923**	**47**	**133**	**(49)**	**720**	**1,415**	**3,189**
customers	**923**	**47**	**133**	**(49)**	**720**	**1,415**	**3,189**
Half-year to 30 June 2012							
Individually assessed impairment allowances	654	(4)	82	105	108	158	1,103
new allowances	988	15	129	176	193	191	1,692
release of allowances no longer required	(312)	(16)	(39)	(54)	(59)	(25)	(505)
recoveries of amounts previously written off	(22)	(3)	(8)	(17)	(26)	(8)	(84)
Collectively assessed impairment allowances	200	41	112	30	2,048	991	3,422
new allowances net of allowance releases	371	54	179	54	2,103	1,145	3,906
recoveries of amounts previously written off	(171)	(13)	(67)	(24)	(55)	(154)	(484)
Total charge for impairment losses	854	37	194	135	2,156	1,149	4,525
customers	853	37	194	135	2,156	1,149	4,524
banks	1						1
Half-year to 31 December 2012							
Individually assessed impairment allowances	733	(4)	15	100	150	42	1,036
new allowances	972	17	110	193	187	101	1,580
release of allowances no longer required	(204)	(18)	(78)	(79)	(26)	(24)	(429)
recoveries of amounts previously written off	(35)	(3)	(17)	(14)	(11)	(35)	(115)
Collectively assessed impairment allowances	287	51	131	20	1,156	954	2,599
new allowances net of allowance releases	468	63	189	40	1,193	1,109	3,062

recoveries of amounts previously written off	(181)	(12)	(58)	(20)	(37)	(155)	(463)
Total charge for impairment losses	1,020	47	146	120	1,306	996	3,635
customers	1,021	47	146	120	1,306	996	3,636
banks	(1)						(1)

Loan impairment charges by geographical region

Loan impairment charges by industry

Loan impairment charges in the first half of 2013

On a reported basis, loan impairment allowances at 30 June 2013 were US$15.6bn, a 3% decrease compared with the end of 2012. Impaired loans were US$38.2bn, US$571m lower than the balance at 31 December 2012.

Interim Management Report (continued)

The following commentary is on a constant currency basis.

The reduction in loan impairment allowances was mainly in North America, driven by the continued run-off of the CML portfolio and improvements in housing market conditions.

Releases and recoveries of US$1.0bn were broadly in line with the first half of 2012.

In **Europe**, new loan impairment allowances were US$1.4bn, a 4% increase on the first half of 2012 due to higher new collective allowances as a result of increased unsecured lending in Turkey following business expansion in the mass affluent market, and changes made to loan impairment models in respect of loss outcome and emergence periods in the UK. New individually assessed allowances decreased by US$61m due to lower new allowances in the UK, Greece and France, partly offset by an increase in Spain in the challenging economic conditions.

Impaired loans of US$12.2bn at 30 June 2013 were 15% higher than at 31 December 2012, mainly due to an increase in individually assessed loans from a small number of corporate and commercial exposures in the UK. Collectively assessed impaired loans also increased due to changes in loan impairment models, growth in the overall mortgage book in the UK and a rise in impaired loans reflecting higher credit card balances due to business expansion in RBWM in Turkey.

Releases and recoveries in Europe were US$471m, a fall of 6% compared with the first half of 2012 as the previous period benefited from higher releases, mainly in mortgages partly offset by a recovery due to the sale in unsecured lending portfolio in the UK in the first half of 2013.

In **Hong Kong**, new loan impairment allowances were US$78m, an increase of US$9m from the first half of 2012 due to an increase in RBWM from a revision to the collective assessment model.

Impaired loans of US$446m were 6% lower than at 31 December 2012 due to reductions in collectively assessed non-mortgage retail loans as a result of improved repayments.

Releases and recoveries in Hong Kong were US$31m, in line with in the first half of 2012.

New loan impairment allowances in **Rest of Asia-Pacific** fell by 17% to US$256m mainly due to the non-recurrence of certain individually assessed allowances in CMB in Australia, India and New Zealand.

Impaired loans in the region remained broadly unchanged at US$1.1bn.

Releases and recoveries in the region rose by 8%, due to a number of individual releases in Bahrain, Australia, Malaysia and mainland China, predominantly in GB&M and CMB.

In the **Middle East and North Africa**, new loan impairment allowances were US$96m, a decrease of US$133m due to a reduction in new individually assessed allowances as a result of the non-recurrence of certain new allowances in GB&M in the first half of 2012.

Impaired loans of US$2.3bn at 30 June 2013 were down from US$2.5bn at 31 December 2012 due to a decrease in individually assessed loans as a result of repayments.

Releases and recoveries in the region rose by 53% on the first half of 2012 to US$145m due to a small number of individual releases, primarily in GB&M, and a reduction in collectively assessed wholesale loans.

In **North America**, new loan impairment allowances decreased by 65% to US$807m. This was driven by reduced collectively assessed new allowances as a result of the continued run-off of the CML portfolio and the effect of significant favourable adjustments to the market value of underlying properties reflecting improvements in housing market conditions.

Impaired loans fell by 8% from the end of 2012 to US$18.7bn at 30 June 2013, driven by the reclassification of loans to Assets held for sale which were previously classified as impaired and the continued run-off of the CML portfolio.

Releases and recoveries in North America fell by US$53m to US$87m for the first half of 2013, due to lower levels of repayments of impaired loans and the non-recurrence of certain releases during the first half of 2012.

In **Latin America**, new loan impairment allowances rose by 28% to US$1.6bn, driven by higher collectively assessed new allowances as a result of impairment model changes and assumption revisions in Brazil, on the restructured loans in portfolios in RBWM and Business Banking in CMB (see page 114), although this was offset in part by an improvement in the quality of the portfolio following the modification of credit strategies in previous periods to mitigate rising delinquency rates. Collective impairments also rose in RBWM in Mexico, reflecting the non-recurrence of a provision release in the first half of 2012, higher lending

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balances and a revision to the assumptions used in our collective assessment models in the first half of 2013. In addition, individually assessed provisions increased, in particular on exposures to homebuilders in CMB due to a change in external housing policy together with a specific exposure in GB&M, both in Mexico.

Impaired loans rose by 11% to US$3.4bn compared with 31 December 2012, driven by

increased individually assessed loans in Mexico as a result of the impairment of loans made to homebuilders, offset in part by a net reduction in Brazil, where unsecured retail and Business Banking impaired loans decreased due to improved delinquency rates.

Releases and recoveries in Latin America remained broadly unchanged at US$182m compared with the first half of 2012.

Movement in impairment allowances on loans and advances to customers and banks

	Banks individually	Customers		
	assessed	Individually assessed	Collectively assessed	Total
	US$m	US$m	US$m	US$m
At 1 January 2013	**57**	**6,572**	**9,540**	**16,169**
Amounts written off	**(6)**	**(823)**	**(2,614)**	**(3,443)**
Recoveries of loans and advances previously written off		**100**	**539**	**639**
Charge to income statement		**1,121**	**2,068**	**3,189**
Exchange and other movements	**(1)**	**(208)**	**(734)**	**(943)**
At 30 June 2013	**50**	**6,762**	**8,799**	**15,611**
Impairment allowances:				
on loans and advances to customers		**6,762**	**8,799**	**15,561**
personal		**586**	**6,798**	**7,384**
corporate and commercial		**5,785**	**1,925**	**7,710**
financial		**391**	**76**	**467**
as a percentage of loans and advances[18,19]	**0.04%**	**0.71%**	**0.92%**	**1.45%**
	US$m	US$m	US$m	US$m
At 1 January 2012	125	6,537	10,974	17,636
Amounts written off	(70)	(963)	(4,110)	(5,143)
Recoveries of loans and advances previously written off		84	484	568
Charge to income statement	1	1,102	3,422	4,525
Exchange and other movements		(106)	(207)	(313)
At 30 June 2012	56	6,654	10,563	17,273
Impairment allowances:				
on loans and advances to customers		6,654	10,563	17,217
personal		700	8,686	9,386

corporate and commercial		5,341	1,809	7,150
financial		613	68	681
as a percentage of loans and advances[18,19]	0.04%	0.71%	1.12%	1.60%
	US$m	US$m	US$m	US$m
At 1 July 2012	56	6,654	10,563	17,273
Amounts written off		(1,398)	(3,271)	(4,669)
Recoveries of loans and advances previously written off		115	463	578
Charge to income statement	(1)	1,037	2,599	3,635
Exchange and other movements[20]	2	164	(814)	(648)
At 31 December 2012	57	6,572	9,540	16,169
Impairment allowances:				
on loans and advances to customers		6,572	9,540	16,112
personal		685	7,527	8,212
corporate and commercial		5,407	1,939	7,346
financial		480	74	554
as a percentage of loans and advances[18,19]	0.09%	0.71%	1.20%	1.67%

For footnotes, see page 178.

Interim Management Report (continued)

Charge for impairment losses as a percentage of average gross loans and advances to customers by geographical region

	Europe %	Hong Kong %	Rest of Asia-Pacific %	MENA %	North America %	Latin America %	Total %
Half-year to 30 June 2013							
New allowances net of allowance releases	**0.64**	**0.07**	**0.29**	**(0.10)**	**1.10**	**6.10**	**0.83**
Recoveries	**(0.15)**	**(0.02)**	**(0.10)**	**(0.23)**	**(0.09)**	**(0.63)**	**(0.14)**
Total charge for impairment losses	**0.49**	**0.05**	**0.19**	**(0.33)**	**1.01**	**5.47**	**0.69**
Amount written off net of recoveries	**0.33**	**0.08**	**0.17**	**0.36**	**1.36**	**3.68**	**0.61**
Half-year to 30 June 2012							
New allowances net of allowance releases	0.55	0.07	0.42	1.26	2.89	4.59	1.12
Recoveries	(0.10)	(0.02)	(0.12)	(0.29)	(0.10)	(0.57)	(0.13)
Total charge for impairment losses	0.45	0.05	0.30	0.97	2.79	4.02	0.99
Amount written off net of recoveries	0.47	0.10	0.18	0.53	3.20	3.01	0.99
Half-year to 31 December 2012							
New allowances net of allowance releases	0.62	0.07	0.33	1.08	1.76	4.17	0.90
Recoveries	(0.11)	(0.02)	(0.11)	(0.24)	(0.06)	(0.67)	(0.12)
Total charge for impairment losses	0.51	0.05	0.22	0.84	1.70	3.50	0.78
Amount written off net of recoveries	0.53	0.13	0.41	1.10	1.97	3.44	0.87

Loans and advances to customers are excluded from average balances when reclassified to Assets held for sale .

Reconciliation of reported and constant currency changes by geographical region

	31 Dec 12 as reported US$m	Currency translation adjustment[21] US$m	31 Dec 12 at 30 Jun 13 exchange rates US$m	Movement on a constant currency basis US$m	**30 Jun 13 as reported US$m**	**Reported change[22] %**	**Constant currency change[22] %**
Impaired loans							
Europe	11,145	(525)	10,620	1,646	**12,266**	**10**	**15**
Hong Kong	477		477	(31)	**446**	**(6)**	**(6)**
Rest of Asia-Pacific	1,147	(61)	1,086	9	**1,095**	**(5)**	**1**

Middle East and North Africa	2,474	(8)	2,466	(130)	**2,336**	**(6)**	**(5)**
North America	20,345	(45)	20,300	(1,598)	**18,702**	**(8)**	**(8)**
Latin America	3,188	(165)	3,023	337	**3,360**	**5**	**11**
	38,776	(804)	37,972	233	**38,205**	**(1)**	**1**
Impairment allowances							
Europe	5,361	(251)	5,110	264	**5,374**		**5**
Hong Kong	473		473	(32)	**441**	**(7)**	**(7)**
Rest of Asia-Pacific	746	(38)	708	(4)	**704**	**(6)**	**(1)**
Middle East and North Africa	1,811	(12)	1,799	(101)	**1,698**	**(6)**	**(6)**
North America	5,616	(23)	5,593	(551)	**5,042**	**(10)**	**(10)**
Latin America	2,162	(134)	2,028	324	**2,352**	**9**	**16**
	16,169	(458)	15,711	(100)	**15,611**	**(3)**	**(1)**

For footnotes, see page 178.

Concentration of exposure

Concentrations of credit risk are described in the Appendix to Risk on page 259 of the Annual Report and Accounts 2012.

The geographical diversification of our lending portfolio and our broad range of global businesses and products ensured that we did not overly depend on a few markets to generate growth in the first half of 2013. This diversification also supported our strategies for growth in faster-growing regions and markets with international connectivity. An analysis of credit quality is provided on page 124.

Financial investments

Our holdings of available-for-sale government and government agency debt securities, corporate debt securities, ABSs and other securities were spread across a wide range of issuers and geographical regions, with 15% invested in securities issued by banks and other financial institutions and 70% in government or quasi-government debt. We also hold assets backing insurance and investment contracts. For an analysis of financial investments, see Note 12 on the Financial Statements.

Trading assets

Trading assets

	At 30 Jun 2013 US$bn	At 30 Jun 2012 US$bn	At 31 Dec 2012 US$bn
Trading securities[23]	**218**	191	213
Loans and advances to banks	**97**	95	78
Loans and advances to customers	**118**	105	118
	433	391	409

For footnote, see page 178.

The largest concentration of securities held within trading assets was in government and government agency debt securities. We had significant exposures to US Treasury and government agency securities (US$30.2bn) and UK (US$11.2bn) and Hong Kong (US$7.2bn) government securities. For an analysis of securities held for trading, see Note 7 on the Financial Statements. The majority of trading loans and advances relate to reverse repos.

Derivatives

Derivative assets were US$299bn at 30 June 2013 (31 December 2012: US$357bn), of which the largest concentrations were interest rate and, to a lesser extent, foreign exchange derivatives. Our exposure to derivatives decreased by 16% as upward movements in yield curves in major currencies led to a decline in the fair value of interest rate contracts, largely in Europe, although this was partly offset by a reduction in netting. For an analysis of derivatives, see Note 11 on the Financial Statements.

Loans and advances

Gross loans and advances to customers (excluding the financial sector) of US$908bn at 30 June 2013 decreased by US$24.7bn compared with 31 December 2012 on a reported basis. On a constant currency basis they were US$6.2bn higher.

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Interim Management Report (continued)

Gross loans and advances by industry sector

	At 31 December 2012 US$m	Currency effect US$m	Movement US$m	At 30 June 2013 US$m
Personal	415,093	**(14,171)**	**(6,413)**	**394,509**
first lien residential mortgages[4]	301,862	**(10,802)**	**(1,412)**	**289,648**
other personal[18]	113,231	**(3,369)**	**(5,001)**	**104,861**
Corporate and commercial	513,493	**(16,516)**	**12,828**	**509,805**
manufacturing	112,149	**(4,385)**	**(6,172)**	**101,592**
international trade and services	169,389	**(5,198)**	**10,235**	**174,426**
commercial real estate	76,760	**(2,190)**	**(1,100)**	**73,470**
other property-related	40,532	**(669)**	**791**	**40,654**
government	10,785	**(205)**	**(2,083)**	**8,497**
other commercial[8]	103,878	**(3,869)**	**11,157**	**111,166**
Financial	81,258	**(2,610)**	**(1,485)**	**77,163**
non-bank financial institutions	79,817	**(2,548)**	**(2,492)**	**74,777**
settlement accounts	1,441	**(62)**	**1,007**	**2,386**
Asset-backed securities reclassified	3,891	**(216)**	**(209)**	**3,466**
Total gross loans and advances to customers (A)[24]	1,013,735	**(33,513)**	**4,721**	**984,943**
Gross loans and advances to banks	152,603	**(3,766)**	**36,335**	**185,172**
Total gross loans and advances	1,166,338	**(37,279)**	**41,056**	**1,170,115**
Impaired loans and advances to customers	38,671	**(800)**	**249**	**38,120**
as a percentage of (A)	3.8%			**3.9%**
Impairment allowances on loans and advances to customers	16,112	**815**	**(1,366)**	**15,561**
as a percentage of (A)	1.6%			**1.6%**
	Half-year to 30 June 2012 US$m			**Half-year to 30 June 2013 US$m**
Charge for impairment losses in the period	4,525	**(670)**	**(666)**	**3,189**
new allowances net of allowance releases	5,093	**(108)**	**(1,157)**	**3,828**
recoveries	(568)	**(562)**	**491**	**(639)**

For footnotes, see page 178.

The following commentary is on a constant currency basis:

Personal lending was 40% of gross lending to customers at 30 June 2013. Personal lending balances of US$395bn were broadly in line with 31 December 2012 for reasons explained under Personal lending (see page 116). First lien residential mortgage lending continued to represent the Group s largest concentration in a single exposure type, the most significant balances being in the UK (42%), Hong Kong (18%) and the US

(16%).

Corporate and commercial lending was 52% of gross lending to customers at 30 June 2013, representing our largest lending category. International trade and services was the biggest portion of the corporate and commercial lending category, which increased by 6% compared with 31 December 2012, driven by a significant rise in term and trade-related lending to CMB and GB&M customers in Hong Kong and Rest of Asia-Pacific.

Commercial real estate lending represented 7% of total gross lending to customers, which was broadly unchanged from December 2012. The main concentrations of commercial real estate lending were in the UK and Hong Kong.

Lending to non-bank financial institutions was US$77bn, a reduction of 2% compared with 31 December 2012 due to a decline in reverse repo activity in Europe and North America, partly offset by higher reverse repo balances in Hong Kong. Our exposure was spread across a range of institutions, with the most significant in the UK, France and the US.

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

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Interim Management Report (continued)

The following tables analyse loans by industry sector and by the location of the principal operations of the lending subsidiary or, in the case of the operations of The Hongkong and Shanghai Banking Corporation, HSBC Bank, HSBC Bank Middle East

and HSBC Bank USA, by the location of the lending branch. The commentary on these loans and advances can be found in the Personal lending and Wholesale lending sections on pages 116 and 121, respectively.

Gross loans and advances to customers by industry sector and by geographical region

	Gross loans and advances to customers							As a % of total gross loans
	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	MENA US$m	North America US$m	Latin America US$m	Total US$m	
At 30 June 2013								
Personal	**173,270**	**72,288**	**48,534**	**6,377**	**78,959**	**15,081**	**394,509**	**40.0**
first lien residential mortgages[4]	**127,434**	**53,475**	**36,605**	**2,296**	**66,277**	**3,561**	**289,648**	**29.4**
other personal[13]	**45,836**	**18,813**	**11,929**	**4,081**	**12,682**	**11,520**	**104,861**	**10.6**
Corporate and commercial	**211,128**	**111,610**	**86,873**	**21,416**	**48,327**	**30,451**	**509,805**	**51.8**
manufacturing	**46,202**	**10,944**	**19,300**	**3,409**	**9,609**	**12,128**	**101,592**	**10.3**
international trade and services	**66,317**	**42,707**	**35,091**	**9,458**	**13,082**	**7,771**	**174,426**	**17.7**
commercial real estate	**30,764**	**24,158**	**9,258**	**898**	**6,064**	**2,328**	**73,470**	**7.5**
other property-related	**7,403**	**17,182**	**6,533**	**1,526**	**7,725**	**285**	**40,654**	**4.1**
government	**1,834**	**2,813**	**407**	**1,664**	**348**	**1,431**	**8,497**	**0.9**
other commercial[8]	**58,608**	**13,806**	**16,284**	**4,461**	**11,499**	**6,508**	**111,166**	**11.3**
Financial	**51,060**	**6,168**	**4,630**	**1,822**	**12,103**	**1,380**	**77,163**	**7.8**
non-bank financial institutions	**49,526**	**5,563**	**4,475**	**1,821**	**12,103**	**1,289**	**74,777**	**7.6**
settlement accounts	**1,534**	**605**	**155**	**1**		**91**	**2,386**	**0.2**
Asset-backed securities reclassified	**3,319**				**147**		**3,466**	**0.4**
Total gross loans and advances to customers (A)[24]	**438,777**	**190,066**	**140,037**	**29,615**	**139,536**	**46,912**	**984,943**	**100.0**
Percentage of (A) by geographical region	**44.5%**	**19.3%**	**14.2%**	**3.0%**	**14.2%**	**4.8%**	**100%**	
Impaired loans	**12,217**	**446**	**1,095**	**2,314**	**18,688**	**3,360**	**38,120**	
as a percentage of (A)	**2.8%**	**0.1%**	**0.8%**	**7.8%**	**13.4%**	**7.2%**	**3.9%**	
Total impairment allowances	**5,341**	**441**	**704**	**1,681**	**5,042**	**2,352**	**15,561**	
as a percentage of (A)	**1.2%**	**0.2%**	**0.5%**	**5.7%**	**3.6%**	**5.0%**	**1.6%**	
At 30 June 2012								
Personal	173,650	65,669	45,409	6,015	91,611	18,448	400,802	40.4
first lien residential mortgages[4]	125,729	48,951	33,636	1,937	71,582	4,945	286,780	28.9
other personal[13]	47,921	16,718	11,773	4,078	20,029	13,503	114,022	11.5

Corporate and commercial	214,423	96,164	81,029	22,216	43,540	34,829	492,201	49.6
manufacturing	55,245	10,235	17,550	3,888	8,594	12,538	108,050	10.9
international trade and services	64,843	31,631	30,777	8,574	11,471	9,399	156,695	15.8
commercial real estate	32,563	21,510	9,544	940	6,706	3,451	74,714	7.5
other property-related	7,506	17,079	6,849	2,060	6,120	344	39,958	4.0
government	2,073	2,906	390	1,514	774	1,853	9,510	1.0
other commercial[8]	52,193	12,803	15,919	5,240	9,875	7,244	103,274	10.4
Financial	58,322	3,907	3,897	1,438	25,237	1,754	94,555	9.5
non-bank financial institutions	57,460	3,413	3,492	1,433	25,186	1,547	92,531	9.3
settlement accounts	862	494	405	5	51	207	2,024	0.2
Asset-backed securities reclassified	4,243				401		4,644	0.5
Total gross loans and advances to customers (B)[24]	450,638	165,740	130,335	29,669	160,789	55,031	992,202	100.0
Percentage of (B) by geographical region	45.5%	16.7%	13.1%	3.0%	16.2%	5.5%	100.0%	
Impaired loans	10,881	555	1,148	2,514	22,186	3,460	40,744	
as a percentage of (B)	2.4%	0.3%	0.9%	8.5%	13.8%	6.3%	4.1%	
Total impairment allowances	5,193	536	846	1,773	6,798	2,071	17,217	
as a percentage of (B)	1.2%	0.3%	0.6%	6.0%	4.2%	3.8%	1.7%	

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	Gross loans and advances to customers							
	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	MENA US$m	North America US$m	Latin America US$m	Total US$m	As a % of total gross loans
At 31 December 2012								
Personal	186,274	70,341	49,305	6,232	84,354	18,587	415,093	41.0
first lien residential mortgages[4]	135,172	52,296	36,906	2,144	70,133	5,211	301,862	29.8
other personal[13]	51,102	18,045	12,399	4,088	14,221	13,376	113,231	11.2
Corporate and commercial	223,061	99,199	85,305	22,452	47,886	35,590	513,493	50.6
manufacturing	56,690	10,354	19,213	3,373	9,731	12,788	112,149	11.1
international trade and services	70,954	33,832	32,317	9,115	13,419	9,752	169,389	16.6
commercial real estate	33,279	23,384	9,286	865	6,572	3,374	76,760	7.6
other property-related	7,402	16,399	6,641	2,103	7,607	380	40,532	4.0
government	2,393	2,838	1,136	1,662	774	1,982	10,785	1.1
other commercial[8]	52,343	12,392	16,712	5,334	9,783	7,314	103,878	10.2
Financial	55,732	4,546	4,255	1,196	13,935	1,594	81,258	8.0
non-bank financial institutions	55,262	4,070	3,843	1,194	13,935	1,513	79,817	7.9
settlement accounts	470	476	412	2		81	1,441	0.1
Asset-backed securities reclassified	3,694				197		3,891	0.4
Total gross loans and advances to customers (C)[24]	468,761	174,086	138,865	29,880	146,372	55,771	1,013,735	100.0
Percentage of (C) by geographical region	46.3%	17.2%	13.7%	2.9%	14.4%	5.5%	100.0%	
Impaired loans	11,080	477	1,147	2,448	20,331	3,188	38,671	
as a percentage of (C)	2.4%	0.3%	0.8%	8.2%	13.9%	5.7%	3.8%	
Total impairment allowances	5,321	473	746	1,794	5,616	2,162	16,112	
as a percentage of (C)	1.1%	0.3%	0.5%	6.0%	3.8%	3.9%	1.6%	

For footnotes, see page 178.

Loans and advances to banks by geographical region

	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	MENA US$m	North America US$m	Latin America US$m	Total US$m	Impairment allowances[25] US$m
At 30 June 2013	**68,281**	**33,293**	**48,965**	**9,454**	**11,818**	**13,361**	**185,172**	**(50)**
At 30 June 2012	58,652	29,673	50,228	9,512	14,528	19,654	182,247	(56)
At 31 December 2012	45,320	23,500	44,592	9,198	13,465	16,528	152,603	(57)

For footnote, see page 178.

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Gross loans and advances to customers by country

	First lien residential mortgages US$m	Other personal US$m	Property-related US$m	Commercial, international trade and other US$m	Total US$m
At 30 June 2013					
Europe	127,434	45,836	38,167	227,340	438,777
UK	120,740	20,395	28,615	170,490	340,240
France	2,563	11,533	7,775	37,595	59,466
Germany	6	193	126	5,488	5,813
Malta	1,848	531	454	1,560	4,393
Switzerland	350	8,506	94	288	9,238
Turkey	952	4,152	280	3,908	9,292
Other	975	526	823	8,011	10,335
Hong Kong	53,475	18,813	41,340	76,438	190,066
Rest of Asia-Pacific	36,605	11,929	15,791	75,712	140,037
Australia	9,183	1,284	2,064	6,350	18,881
India	1,060	360	455	4,959	6,834
Indonesia	81	526	104	5,592	6,303
Mainland China	4,210	285	5,226	22,678	32,399
Malaysia	5,079	2,027	1,900	5,917	14,923
Singapore	9,999	4,840	4,060	10,980	29,879
Taiwan	3,495	631	107	4,500	8,733
Vietnam	52	251	76	1,552	1,931
Other	3,446	1,725	1,799	13,184	20,154
Middle East and North Africa (excluding Saudi Arabia)	2,296	4,081	2,424	20,814	29,615
Egypt	1	479	150	2,455	3,085
Qatar	10	379	263	1,000	1,652
UAE	1,879	1,826	1,391	12,457	17,553
Other	406	1,397	620	4,902	7,325
North America	66,277	12,682	13,789	46,788	139,536
US	47,186	6,805	9,532	28,539	92,062
Canada	17,455	5,540	3,679	17,071	43,745
Bermuda	1,636	337	578	1,178	3,729
Latin America	3,561	11,520	2,613	29,218	46,912
Argentina	25	1,487	66	2,340	3,918
Brazil	1,715	7,052	1,193	17,715	27,675
Mexico	1,821	2,981	1,336	8,440	14,578
Panama				205	205
Other			18	518	536

	289,648	**104,861**	**114,124**	**476,310**	**984,943**
At 30 June 2012					
Europe	125,729	47,921	40,069	236,919	450,638
UK	116,949	21,807	30,021	165,913	334,690
France	3,244	9,436	8,067	49,885	70,632
Germany	8	355	104	5,108	5,575
Malta	1,710	546	480	1,563	4,299
Switzerland	312	8,885	86	126	9,409
Turkey	989	3,550	296	3,665	8,500
Other	2,517	3,342	1,015	10,659	17,533
Hong Kong	48,951	16,718	38,589	61,482	165,740
Rest of Asia-Pacific	33,636	11,773	16,393	68,533	130,335
Australia	9,528	1,415	2,477	6,504	19,924
India	866	436	584	4,818	6,704
Indonesia	83	479	85	5,048	5,695
Mainland China	3,021	302	5,425	17,092	25,840
Malaysia	4,630	2,076	1,592	5,871	14,169
Singapore	8,745	4,448	3,921	9,938	27,052
Taiwan	3,189	581	123	3,381	7,274
Vietnam	43	205	44	1,537	1,829
Other	3,531	1,831	2,142	14,344	21,848

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	First lien residential mortgages US$m	Other personal US$m	Property-related US$m	Commercial, international trade and other US$m	Total US$m
At 30 June 2012 (continued)					
Middle East and North Africa (excluding Saudi Arabia)	1,937	4,078	3,000	20,654	29,669
Egypt	2	466	100	2,900	3,468
Qatar	11	423	466	1,244	2,144
UAE	1,573	1,830	1,556	11,452	16,411
Other	351	1,359	878	5,058	7,646
North America	71,582	20,029	12,826	56,352	160,789
US	50,773	12,405	8,015	39,241	110,434
Canada	19,071	7,214	4,160	16,072	46,517
Bermuda	1,738	410	651	1,039	3,838
Latin America	4,945	13,503	3,795	32,788	55,031
Argentina	31	1,459	105	2,239	3,834
Brazil	1,678	8,479	1,220	18,024	29,401
Mexico	1,898	2,531	1,360	8,906	14,695
Panama	1,307	1,015	1,049	2,550	5,921
Other	31	19	61	1,069	1,180
	286,780	114,022	114,672	476,728	992,202
At 31 December 2012					
Europe	135,172	51,102	40,681	241,806	468,761
UK	127,024	23,446	30,342	179,799	360,611
France	2,643	10,960	8,465	42,891	64,959
Germany	9	284	126	5,212	5,631
Malta	1,821	563	454	1,631	4,469
Switzerland	298	9,403	66	191	9,958
Turkey	1,062	4,084	317	3,356	8,819
Other	2,315	2,362	911	8,726	14,314
Hong Kong	52,296	18,045	39,783	63,962	174,086
Rest of Asia-Pacific	36,906	12,399	15,927	73,633	138,865
Australia	10,037	1,490	2,311	7,208	21,046
India	1,000	394	521	5,389	7,304
Indonesia	83	508	95	5,349	6,035
Mainland China	3,539	302	5,078	19,083	28,002
Malaysia	5,025	2,175	1,813	5,880	14,893
Singapore	10,123	4,812	3,938	9,854	28,727
Taiwan	3,323	597	120	5,180	9,220
Vietnam	50	252	60	1,710	2,072
Other	3,726	1,869	1,991	13,980	21,566
Middle East and North Africa (excluding Saudi Arabia)	2,144	4,088	2,968	20,680	29,880
Egypt	2	479	124	2,600	3,205
Qatar	11	385	484	1,082	1,962

UAE	1,743	1,822	1,533	12,264	17,362
Other	388	1,402	827	4,734	7,351
North America	70,133	14,221	14,179	47,839	146,372
US	49,417	7,382	9,449	29,315	95,563
Canada	19,040	6,444	4,136	17,369	46,989
Bermuda	1,676	395	594	1,155	3,820
Latin America	5,211	13,376	3,754	33,430	55,771
Argentina	28	1,532	85	2,465	4,110
Brazil	1,745	8,042	1,287	18,022	29,096
Mexico	1,989	2,756	1,280	9,447	15,472
Panama	1,402	1,023	1,049	2,405	5,879
Other	47	23	53	1,091	1,214
	301,862	113,231	117,292	481,350	1,013,735

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Interim Management Report (continued)

Risk elements in the loan portfolio

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

- impaired loans;
- unimpaired loans contractually past due 90 days or more as to interest or principal; and
- troubled debt restructurings not included in the above.

Impaired loans

In the following tables, we present information on our impaired loans and advances in accordance with the classification approach described on page 155.

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

The balance of impaired loans at 30 June 2013 was US$0.6bn lower than at 31 December 2012. This reduction occurred primarily in North America due to the continued run-off of the CML portfolio, partly offset by increases in individually assessed impaired balances in Europe and Latin America.

Unimpaired loans past due 90 days or more

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

The amount of unimpaired loans past due 90 days or more at 30 June 2013 was US$91m, US$133m lower than at 31 December 2012. The decrease was primarily in the Middle East and North Africa due to the repayment of a significant loan relating to an individual customer.

Troubled debt restructurings

Under US GAAP, a troubled debt restructuring (TDR) is a loan the terms of which have been modified for economic or legal reasons related to the borrower s financial difficulties to grant a concession to the borrower that the lender would not otherwise consider. A modification which results in a delay in payment that is considered insignificant is not regarded as a concession for the purposes of this disclosure. The SEC requires separate disclosure of any loans which meet the definition of a TDR that are not included in the previous two loan categories. These are classified as TDR s in the table on page [16a-c]. Loans that have been identified as a TDR under the US guidance retain this designation until they are repaid or are derecognised. This treatment differs from the Group s impaired loans disclosure convention under IFRS under which a loan may return to unimpaired status after demonstrating a significant reduction in the risk of non-payment of future cash flows. As a result reported TDRs include those loans that have returned to unimpaired status under the Group s disclosure convention for renegotiated loans.

The balance of TDRs not included as impaired loans at 30 June 2013 was US$0.2bn higher than at 31 December 2012. The increase is mainly in North America and reflects the effect of certain loans returning to unimpaired status after the demonstration of a significant reduction in the risk of non-payment of future cash flows, while retaining TDR status. This was partially offset by a decrease in Europe, driven by repayment of loans in CMB.

Potential problem loans

Potential problem loans are loans where information on possible credit problems among borrowers causes management to seriously doubt their ability to comply with the loan repayment terms. There are no potential problem loans other than those identified in the table of risk elements on page [16a-c]. The following concentrations of credit risk have a higher risk of containing potential problem loans.

Mortgage lending on page 117 includes disclosure about certain homogeneous groups of loans which are collectively assessed for impairment, which may represent exposures to potential problem loans, including interest-only mortgages and affordability mortgages, including ARMs. Collectively assessed loans and advances, as set out on page 134, although not classified

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as impaired until more than 90 days past due, are assessed collectively for losses that have been incurred but have not yet been individually identified. This policy is further described on pages 371 and 502 of the Form 20-F for 2012 filed with the Securities and Exchange Commission and available on our website www.hsbc.com under Investor Relations.

Renegotiated loans and forbearance on page 129 includes disclosure about the credit quality of loans whose contractual payment terms have been changed at some point in the life of the loan because of significant concerns about the borrower s ability to make contractual payments when due. Renegotiated loans are classified as impaired when:

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

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

This presentation applies unless the concession is insignificant and there are no other indicators of impairment. The renegotiated loan will continue to be disclosed as impaired until there is sufficient

evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment.

Renegotiated loans that are not classified as impaired may have a higher risk of becoming delinquent in the future, and may therefore be potential problem loans. Further information regarding the credit quality classification of renegotiated loans can be found on page 255 of the Form 20-F for 2012 filed with the Securities and Exchange Commission and available on our website www.hsbc.com under Investor Relations.

Areas of special interest on page 103 includes information on refinancing risk which is a focus of scrutiny in key commercial real estate markets. Where a loan which is due to be repaid through refinancing over the short term cannot, at maturity, be refinanced by HSBC or other banks on current market terms this will either lead to the loan being treated as impaired due to repayment default or, if refinanced within HSBC, may result in it being treated as a renegotiated loan because of the degree of forbearance required. Therefore loans in portfolios subject to refinancing risk may include potential problem loans.

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Interim Management Report (continued)

Analysis of risk elements in the loan portfolio by geographical region

	At 30 June 2013 US$m	At 30 June 2012 US$m	At 31 December 2012 US$m
Impaired loans	**38,205**	40,832	38,776
Europe	**12,266**	10,935	11,145
Hong Kong	**446**	555	477
Rest of Asia-Pacific	**1,095**	1,148	1,147
Middle East and North Africa	**2,336**	2,534	2,474
North America	**18,702**	22,200	20,345
Latin America	**3,360**	3,460	3,188
Unimpaired loans contractually past due 90 days or more as to principal or interest	**91**	170	224
Europe	**12**	30	33
Hong Kong	**4**	3	4
Rest of Asia-Pacific	**26**	16	10
Middle East and North Africa	**40**	80	108
North America	**9**	38	69
Latin America		3	
Troubled debt restructurings (not included in the classifications above)	**7,197**	5,980	6,949
Europe	**1,105**	1,084	1,306
Hong Kong	**155**	123	134
Rest of Asia-Pacific	**105**	118	102
Middle East and North Africa	**606**	573	593
North America	**4,368**	2,860	3,813
Latin America	**858**	1,222	1,001
Trading loans classified as in default			
North America	**126**	183	166
Risk elements on loans[1]	**45,619**	47,165	46,115
Europe	**13,383**	12,049	12,484
Hong Kong	**605**	681	615
Rest of Asia-Pacific	**1,226**	1,282	1,259
Middle East and North Africa	**2,982**	3,187	3,175
North America	**23,205**	25,281	24,393
Latin America	**4,218**	4,685	4,189
Assets held for resale[2]	**446**	432	444
Europe	**57**	50	51
Hong Kong	**3**	14	5
Rest of Asia-Pacific	**9**	9	14
Middle East and North Africa			
North America	**346**	313	319
Latin America	**31**	46	55
Total risk elements	**46,065**	47,597	46,559

Europe	**13,440**	12,099	12,535
Hong Kong	**608**	695	620
Rest of Asia-Pacific	**1,235**	1,291	1,273
Middle East and North Africa	**2,982**	3,187	3,175
North America	**23,551**	25,594	24,712
Latin America	**4,249**	4,731	4,244
	%	%	%
Loan impairment allowances as a percentage of risk elements on loans[3]	**34.3**	36.8	35.2

1 *In addition to the numbers presented there were US$0.7bn (31 December 2012: US$1.3bn) of impaired loans;US$0.04bn (31 December 2012: nil) of unimpaired loans contractually past due 90 days or more as to principal or interest; and US$0.04bn (31 December 2012: US$0.4bn) of troubled debt restructurings (not included in the classifications above), all relating to assets held for sale at 30 June 2013.*

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

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

Interim Management Report (continued)

Securitisation exposures and other structured products

This section contains information about our exposure to the following:

- asset-backed securities (ABS s), including mortgage-backed securities (MBS s) and related collateralised debt obligations (CDO s);
- direct lending at fair value through profit or loss;
- monoline insurance companies (monolines);
- leveraged finance transactions; and
- representations and warranties related to mortgage sales and securitisation activities.

Within the above is included information on the GB&M legacy credit activities in respect of Solitaire Funding Limited (Solitaire), the securities investment conduits (SIC s), the ABSs trading portfolios and derivative transactions with monolines.

Business model

Balance Sheet Management (see page 169) holds ABSs primarily issued by government agency and sponsored enterprises as part of our investment portfolios.

Our investment portfolios include SICs and money market funds. We also originate leveraged finance loans for the purpose of syndicating or selling them down to generate trading profit or holding them to earn interest margin over their lives.

Exposure in the first half of 2013

Early 2013 saw an improvement in the US housing market and a continued increase in the market appetite for structured assets. This appetite reduced in the second quarter with the expectation that the scale of government repurchase schemes and quantitative measures may reduce. This particularly affected the values of ABSs issued by government agencies and sponsored enterprises. Unrealised losses in our available-for-sale portfolios reduced in the first half of 2013 from US$2.2bn to US$1.9bn, as price appreciation in other ABS asset classes offset movements in the government related assets.

Within the following table are assets held in the GB&M legacy credit portfolio with a carrying value of US$29.2bn (30 June 2012: US$33.3bn; 31 December 2012: US$31.6bn).

A summary of the nature of HSBC s exposures is provided in the Appendix to Risk on page 259 of the Annual Report and Accounts 2012.

Overall exposure of HSBC

	At 30 June 2013		At 30 June 2012		At 31 December 2012	
	Carrying amount[26]	**Including sub-prime and Alt-A**	Carrying amount[26]	Including sub-prime and Alt-A	Carrying amount[26]	Including sub-prime and Alt-A
	US$bn	**US$bn**	US$bn	US$bn	US$bn	US$bn
Asset-backed securities (ABS s)	**54.6**	**7.0**	60.5	6.6	59.0	7.0
fair value through profit or loss	**3.1**	**0.2**	3.2	0.2	3.4	0.2
available for sale[27]	**46.4**	**6.2**	50.3	5.5	49.6	6.1
held to maturity[27]	**1.3**		1.8	0.2	1.6	0.1
loans and receivables	**3.8**	**0.6**	5.2	0.7	4.4	0.6
Direct lending at fair value through profit or loss	**0.2**	**0.1**	1.1	0.8	1.0	0.6
Total ABSs and direct lending at fair value through profit or loss	**54.8**	**7.1**	61.6	7.4	60.0	7.6
Less securities subject to risk mitigation from credit derivatives with monolines and other financial institutions	**(1.7)**	**(0.2)**	(2.4)	(0.3)	(1.9)	(0.2)
	53.1	**6.9**	59.2	7.1	58.1	7.4
Leveraged finance loans	**1.3**		3.0		2.8	
fair value through profit or loss			0.1			
loans and receivables	**1.3**		2.9		2.8	
	54.4	**6.9**	62.2	7.1	60.9	7.4
Exposure including securities mitigated by credit derivatives with monolines and other financial institutions	**56.1**	**7.1**	64.6	7.4	62.8	7.6

For footnotes, see page 178.

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Interim Management Report (continued)

ABSs classified as available for sale

Our principal holdings of available-for-sale ABSs are in GB&M through structured entities (SE s) which were established with the benefit of external investor first loss protection support from the outset,

together with positions held directly and by Solitaire, where we provide first loss risk protection of US$1.2bn through credit enhancement and a liquidity facility.

Movement in the available-for-sale reserve

	Half-year to 30 June 2013			Half-year to 30 June 2012			Half-year to 31 December 2012		
	Directly held/ Solitaire[28] US$m	**SEs US$m**	**Total US$m**	Directly held/ Solitaire[28] US$m	SEs US$m	Total US$m	Directly held/ Solitaire[28] US$m	SEs US$m	Total US$m
Available-for-sale reserve at beginning of period	**(1,473)**	**(720)**	**(2,193)**	(3,085)	(2,061)	(5,146)	(2,365)	(1,554)	(3,919)
Increase/(decrease) in fair value of securities	**(215)**	**374**	**159**	475	267	742	720	647	1,367
Effect of impairments[29]	**124**	**8**	**132**	79	119	198	260	275	535
Repayment of capital	**(35)**	**55**	**20**	18	99	117	146	75	221
Other movements	**13**	**(79)**	**(66)**	148	22	170	(234)	(163)	(397)
Available-for-sale reserve at end of period	**(1,586)**	**(362)**	**(1,948)**	(2,365)	(1,554)	(3,919)	(1,473)	(720)	(2,193)

For footnotes, see page 178.

Securities investment conduits

The total carrying amount of ABSs held through SEs in the table overleaf represents holdings in which significant first loss protection is provided through capital notes issued by SICs, excluding Solitaire.

At each reporting date, we assess whether there is any objective evidence of impairment in the value of the ABSs held by SEs. Impairment charges incurred on these assets are offset by a credit to the impairment line for the amount of the

loss allocated to capital note holders, subject to the carrying amount of the capital notes being sufficient to offset the loss. In one SE, Mazarin Funding Limited (Mazarin), the aggregate impairment charges exceeded the carrying value of the capital notes liability. Writebacks of US$33m (30 June 2012: a charge of US$108m; 31 December 2012: a charge of US$11m) were attributed to HSBC as shown in the table below. In respect of the SICs, the capital notes held by third parties are expected to absorb the cash losses in the vehicles.

Available-for-sale reserve and economic first loss protection in SICs, excluding Solitaire

	SICs excluding Solitaire at		
	30 Jun 2013 US$m	30 Jun 2012 US$m	31 Dec 2012 US$m
Available-for-sale reserve	**(382)**	(1,873)	(787)
related to ABSs	**(362)**	(1,554)	(720)
Economic first loss protection	**2,286**	2,286	2,286
Carrying amount of capital notes liability	**373**	167	249
Impairment (writeback)/charge for the period:			
borne by HSBC	**(33)**	108	11
allocated to capital note holders	**(70)**	11	(11)

Impairment methodologies

The accounting policy for impairment and indicators of impairment is set out on page 389 of the *Annual Report and Accounts 2012*.

A summary of our impairment methodologies is provided in the Appendix to Risk on page 260 of the Annual Report and Accounts 2012.

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Interim Management Report (continued)

Carrying amount of HSBC s consolidated holdings of ABSs, and direct lending held at fair value through profit or loss

	Trading	Available for sale	Held to maturity	Designated at fair value through profit or loss	Loans and receivables	Total	Of which held through consolidated SEs	Gross principal exposure[30]	Credit default swap protection[31]	Net principal exposure[32]
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m
At 30 June 2013										
Mortgage-related assets:										
Sub-prime residential	**195**	**2,607**			**419**	**3,221**	**2,380**	**4,318**	**121**	**4,197**
direct lending	**54**					**54**		**127**		**127**
MBSs and MBS CDOs	**141**	**2,607**			**419**	**3,167**	**2,380**	**4,191**	**121**	**4,070**
US Alt-A residential	**104**	**3,641**	**30**		**127**	**3,902**	**2,996**	**6,208**	**100**	**6,108**
direct lending	**11**					**11**		**17**		**17**
MBSs	**93**	**3,641**	**30**		**127**	**3,891**	**2,996**	**6,191**	**100**	**6,091**
US Government agency and sponsored enterprises:										
MBSs	**196**	**21,814**	**1,257**			**23,267**		**22,663**		**22,663**
Other residential	**579**	**1,877**			**449**	**2,905**	**1,324**	**3,727**	**62**	**3,665**
direct lending	**166**					**166**		**166**		**166**
MBSs	**413**	**1,877**			**449**	**2,739**	**1,324**	**3,561**	**62**	**3,499**
Commercial property										
MBSs and MBS CDOs	**197**	**6,082**		**105**	**1,155**	**7,539**	**5,270**	**8,260**		**8,260**
	1,271	**36,021**	**1,287**	**105**	**2,150**	**40,834**	**11,970**	**45,176**	**283**	**44,893**
Leveraged finance-related assets:										
ABSs and ABS CDOs	**279**	**4,980**			**239**	**5,498**	**4,164**	**5,845**	**374**	**5,471**
Student loan-related assets:										
ABSs and ABS CDOs	**205**	**4,003**			**120**	**4,328**	**3,662**	**5,286**	**199**	**5,087**
Other assets:										

ABSs and ABS CDOs	**1,398**	**1,395**		**63**	**1,279**	**4,135**	**1,016**	**5,352**	**1,143**	**4,209**
	3,153	**46,399**	**1,287**	**168**	**3,788**	**54,795**	**20,812**	**61,659**	**1,999**	**59,660**

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Interim Management Report (continued)

	Trading US$m	Available for sale US$m	Held to maturity US$m	Designated at fair value through profit or loss US$m	Loans and receivables US$m	Total US$m	Of which held through consolidated SEs US$m	Gross principal exposure[30] US$m	Credit default swap protection[31] US$m	Net principal exposure[32] US$m
At 30 June 2012										
Mortgage-related assets:										
Sub-prime residential	835	2,086			506	3,427	2,308	5,835	266	5,569
direct lending	668					668	441	1,555		1,555
MBSs and MBS CDOs	167	2,086			506	2,759	1,867	4,280	266	4,014
US Alt-A residential	169	3,414	146		200	3,929	2,772	7,825	100	7,725
direct lending	91					91		97		97
MBSs	78	3,414	146		200	3,838	2,772	7,728	100	7,628
US Government agency and sponsored enterprises: MBSs	214	23,103	1,656			24,973		23,401		23,401
Other residential	568	3,052			952	4,572	1,855	5,221	97	5,124
direct lending	321					321		316		316
MBSs	247	3,052			952	4,251	1,855	4,905	97	4,808
Commercial property MBSs and MBS CDOs	295	7,107		107	1,450	8,959	5,898	10,440		10,440
	2,081	38,762	1,802	107	3,108	45,860	12,833	52,722	463	52,259
Leveraged finance-related assets: ABSs and ABS CDOs	389	5,322			317	6,028	4,306	6,837	758	6,079
Student loan-related assets: ABSs and ABS CDOs	172	4,651			151	4,974	4,036	6,505	99	6,406
Other assets: ABSs and ABS CDOs	1,455	1,598		65	1,586	4,704	1,716	6,593	1,326	5,267
	4,097	50,333	1,802	172	5,162	61,566	22,891	72,657	2,646	70,011

Interim Management Report (continued)

Carrying amount of HSBC s consolidated holdings of ABSs, and direct lending held at fair value through profit or loss (continued)

	Trading US$m	Available for sale US$m	Held to maturity US$m	Designated at fair value through profit or loss US$m	Loans and receivables US$m	Total US$m	Of which held through consolidated SEs US$m	Gross principal exposure[30] US$m	Credit default swap protection[31] US$m	Net principal exposure[32] US$m
At 31 December 2012										
Mortgage-related assets:										
Sub-prime residential	698	2,455			435	3,588	2,723	5,483	130	5,353
direct lending	566					566	482	1,221		1,221
MBSs and MBS CDOs	132	2,455			435	3,022	2,241	4,262	130	4,132
US Alt-A residential	157	3,658	118		157	4,090	2,994	6,992	100	6,892
direct lending	71					71		77		77
MBSs	86	3,658	118		157	4,019	2,994	6,915	100	6,815
US Government agency and sponsored enterprises: MBSs	369	23,341	1,455			25,165		23,438		23,438
Other residential	695	2,084			499	3,278	1,459	3,888	87	3,801
direct lending	322					322		322		322
MBSs	373	2,084			499	2,956	1,459	3,566	87	3,479
Commercial property MBSs and MBS CDOs	164	6,995		109	1,319	8,587	5,959	9,489		9,489
	2,083	38,533	1,573	109	2,410	44,708	13,135	49,290	317	48,973
Leveraged finance-related assets: ABSs and ABS CDOs	450	5,330			284	6,064	4,303	6,726	717	6,009
Student loan-related assets: ABSs and ABS CDOs	179	4,219			156	4,554	3,722	5,826	199	5,627
Other assets:										

ABSs and ABS CDOs	1,511	1,553		49	1,537	4,650	1,140	5,769	1,318	4,451
	4,223	49,635	1,573	158	4,387	59,976	22,300	67,611	2,551	65,060

For footnotes, see page 178.

The above table excludes leveraged finance transactions, which are shown separately on page 152.

Interim Management Report (continued)

Exposures and significant movements

Sub-prime residential mortgage-related assets

There was an increase in market prices for sub-prime assets during the first half of 2013. A further net writeback of US$91m on assets was recognised in the first half of 2013 (30 June 2012: writebacks of US$29m; 31 December 2012: writebacks of US$15m). Of the above, there were US$83m of writebacks (30 June 2012: writebacks of US$30m; 31 December 2012: writebacks of US$37m) in the SICs of which US$46m (30 June 2012: US$14m; 31 December 2012: US$13m) were attributed to the capital note holders.

US Alt-A residential mortgage-related assets

In respect of US Alt-A assets there were writebacks of US$72m (30 June 2012: impairments of US$144m; 31 December 2012: writebacks of US$163m). Writebacks of US$26m (30 June 2012: impairments of US$149m; 31 December 2012: impairments of US$41m) occurred in the SICs, of which writebacks of US$24m (30 June 2012: impairments of US$25m; 31 December 2012: impairments of US$7m) were attributed to the capital note holders.

Commercial property mortgage-related assets

Spreads continued to tighten on both US and non-US commercial property mortgage-related assets during the first half of 2013. Impairments of US$9m were recognised (30 June 2012: impairments of US$127m; 31 December 2012: writebacks of US$2m).

Transactions with monoline insurers

HSBC s exposure to derivative transactions entered into directly with monolines

Our principal exposure to monolines is through a number of over-the-counter (OTC) derivative transactions, mainly credit default swaps (CDS s). We entered into these CDSs primarily to purchase credit protection against securities held in the trading portfolio at the time.

During the first half of 2013, the notional value of contracts with monolines reduced. The table overleaf sets out the fair value of the derivative transactions at 30 June 2013, and hence the amount at risk if the CDS protection purchased were to be wholly ineffective because, for example, the monoline insurer was unable to meet its obligations. The value of protection purchased is divided between those monolines that were rated by Standard and Poor s (S&P) at BBB or above at 30 June 2013, and those that were below BBB (BBB is the S&P cut-off for an investme grade classification). The Credit valuation adjustment column indicates the valuation adjustment taken against the net exposures, and reflects our best estimate of the likely loss of value on purchased protection arising from the deterioration in creditworthiness of the monolines. These valuation adjustments, which reflect a measure of the irrecoverability of the protection purchased, have been charged to the income statement.

Market prices are generally not readily available for CDSs, so they are valued on the basis of market prices of the referenced securities.

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HSBC s exposure to derivative transactions entered into directly with monoline insurers

	Notional amount US$m	Net exposure before credit valuation adjustment[33] US$m	Credit valuation adjustment[34] US$m	Net exposure after credit valuation adjustment US$m
At 30 June 2013				
Derivative transactions with monoline counterparties				
Monolines investment grade (BBB or above)	**3,439**	**388**	**(68)**	**320**
Monolines sub-investment grade (below BBB)	**947**	**217**	**(130)**	**87**
	4,386	**605**	**(198)**	**407**
At 30 June 2012				
Derivative transactions with monoline counterparties				
Monolines investment grade (BBB or above)	4,213	789	(118)	671
Monolines sub-investment grade (below BBB)	1,502	343	(216)	127
	5,715	1,132	(334)	798
At 31 December 2012				
Derivative transactions with monoline counterparties				
Monolines investment grade (BBB or above)	4,191	606	(121)	485
Monolines sub-investment grade (below BBB)	957	303	(158)	145
	5,148	909	(279)	630

For footnotes, see page 178.

Credit valuation adjustments for monolines

For monolines, the standard CVA methodology (as described on page 56 of the *Annual Report and Accounts 2012*) applies, with the exception that the future exposure profile is deemed to be constant (equal to the current market value) over the weighted average life of the referenced security.

HSBC s exposure to debt securities which benefit from guarantees provided by monolines

Within both the trading and available-for-sale portfolios, we hold bonds that are wrapped with a credit enhancement from a monoline. As the bonds are traded explicitly with the benefit of this enhancement, any deterioration in the credit profile of the monoline is reflected in market prices and, therefore, in the carrying amount of these securities at 30 June 2013. For wrapped bonds held in our trading portfolio, the mark-to-market movement has been reflected through the income statement. For wrapped bonds held in the available-for-sale portfolio, the mark-to-market movement is reflected in equity unless there is objective evidence of impairment, in which case the impairment loss is reflected in the income statement.

Leveraged finance transactions

Leveraged finance transactions include sub-investment grade acquisition or event-driven financing. The following table shows our exposure to leveraged finance transactions arising from primary transactions. Our additional exposure to leveraged finance loans through holdings of ABSs from our trading and investment activities is shown in the table on page 148.

We held leveraged finance commitments of US$1.3bn at 30 June 2013 (30 June 2012: US$3.0bn; 31 December 2012: US$2.8bn), of which US$1.2bn (30 June 2012: US$2.7bn; 31 December 2012: US$2.6bn) was funded. At 30 June 2013, our principal exposures were to companies in two sectors: US$0.1bn to data processing (30 June 2012: US$0.8bn; 31 December 2012: US$0.7bn) and US$1.1bn to communications and infrastructure (30 June 2012: US$1.9bn; 31 December 2012: US$1.8bn).

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HSBC s exposure to leveraged finance transactions

	Exposures at 30 June 2013			Exposures at 30 June 2012			Exposures at 31 December 2012		
	Funded[35]	Unfunded[36]	Total	Funded[35]	Unfunded[36]	Total	Funded[35]	Unfunded[36]	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Europe	**1,183**	**142**	**1,325**	2,194	221	2,415	2,108	162	2,270
North America				443	126	569	414	92	506
	1,183	**142**	**1,325**	2,637	347	2,984	2,522	254	2,776
Held within:									
loans and receivables	**1,183**	**142**	**1,325**	2,593	323	2,916	2,522	252	2,774
fair value through profit or loss				44	24	68		2	2

For footnotes, see page 178.

Representations and warranties related to mortgage sales and securitisation activities

We have been involved in various activities related to the sale and securitisation of residential mortgages, which are not recognised on our balance sheet. These activities include:

- the purchase of US$24bn of third-party originated mortgages by HSBC Bank USA and the securitisation of these by HSBC Securities (USA) Inc. (HSI) between 2005 and 2007;
- HSI acting as underwriter for third-party issuance of private label MBSs with an original issuance value of US$37bn, most of which were sub-prime; and
- the origination and sale by HSBC Bank USA of mortgage loans, primarily to government sponsored entities.

In sales and securitisations of mortgage loans, various representations and warranties regarding the loans may be made to purchasers of the mortgage loans and MBSs. In respect of the purchase and securitisation of third-party originated mortgages and the underwriting of third-party MBSs, the obligation to repurchase loans in the event of a breach of loan level representations and warranties resides predominantly with the organisation that originated the loan.

Participants in the US mortgage securitisation market that purchased and repackaged whole loans have been the subject of lawsuits and governmental and regulatory investigations and inquiries which have been directed at groups within the US mortgage market such as servicers, originators, underwriters, trustees or sponsors of securitisations. Further details are provided in Note 24 on the Financial Statements.

At 30 June 2013, a liability of US$217m (30 June 2012: US$222m; 31 December 2012: US$219m) was recognised in respect of various representations and warranties relating to the origination and sale by HSBC Bank USA of mortgage loans, primarily to government sponsored entities. These relate to, among other things, the ownership of the loans, the validity of the liens, the loan selection and origination process, and compliance with the origination criteria established by the agencies. In the event of a breach of our representations and warranties, HSBC Bank USA may be obliged to repurchase the loans with identified defects or to indemnify the buyers. The liability is estimated based on the level of outstanding repurchase demands, the level of outstanding requests for loan files and estimated future demands in respect of mortgages sold to date which are either two or more payments delinquent or are expected to become delinquent at an estimated conversion rate. Repurchase demands of US$53m were outstanding at 30 June 2013 (30 June 2012: US$167m; 31 December 2012: US$89m).

Exposures to countries in the eurozone

Eurozone countries are members of the EU and part of the euro single currency bloc. The peripheral eurozone countries are those that exhibited levels of market volatility that exceeded other eurozone countries, demonstrating fiscal or political uncertainty which may persist through the second half of 2013. The peripheral eurozone countries have been identified as Greece, Ireland, Italy, Portugal, Spain and Cyprus as they continued to exhibit a high ratio of sovereign debt to gross domestic product and excessive fiscal deficits. Other eurozone countries analysed in the table on page 154 are those to which HSBC has a net on-balance sheet exposure exceeding 5% of the Group s total equity at 30 June 2013. The remaining eurozone countries have been reported together under Others .

In the *Annual Report and Accounts 2012*, we disclosed detailed information on our exposures to peripheral eurozone countries. At 30 June 2013,

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there were no significant changes in our exposures to peripheral eurozone countries compared with 31 December 2012.

The basis of preparation for our reported exposures is described on page 192 in the *Annual Report and Accounts 2012*.

Our total net exposures to eurozone countries increased by 6% or US$18.1bn, to US$328bn at 30 June 2013. This movement was due to increases in net exposures to France of US$11.1bn, and the Netherlands of US$5.2bn. While our total exposure to France, Germany and the

Netherlands was commensurate with the size of our operations in these countries the increase in exposures to France was due to increased reverse repo activity with French banks and the increase in the Netherlands was due to increased exposures to other financial institutions and corporates. Exposures to other eurozone countries not specifically mentioned which are reported together in Others are not significant to the Group.

Summary of exposures to eurozone countries

						Total net exposure			
	On-balance sheet exposures US$bn	**Off-balance sheet exposures US$bn**	**Total gross exposures US$bn**	**Risk miti-gation US$bn**	**Total net exposure US$bn**	**Sovereign and agencies US$bn**	**Banks US$bn**	**Other financial institutions and corporates US$bn**	**Personal US$bn**
At 30 June 2013									
Spain	**13.6**	**3.7**	**17.3**	**(5.3)**	**12.0**	**0.2**	**3.7**	**8.0**	**0.1**
Ireland	**15.1**	**1.8**	**16.9**	**(7.1)**	**9.8**	**0.4**	**1.6**	**7.7**	**0.1**
Italy	**13.8**	**2.7**	**16.5**	**(8.3)**	**8.2**	**2.0**	**1.3**	**4.8**	**0.1**
Greece	**6.9**	**0.8**	**7.7**	**(0.5)**	**7.2**	**0.1**	**1.8**	**4.4**	**0.9**
Portugal	**1.0**	**0.1**	**1.1**	**(0.4)**	**0.7**	**0.4**	**0.1**	**0.2**	
Cyprus	**0.3**	**0.2**	**0.5**	**(0.1)**	**0.4**			**0.4**	
France	**166.2**	**28.9**	**195.1**	**(38.5)**	**156.6**	**25.6**	**48.1**	**66.3**	**16.6**
Germany	**98.0**	**11.8**	**109.8**	**(41.2)**	**68.6**	**33.1**	**13.6**	**21.4**	**0.5**
The Netherlands	**39.9**	**4.6**	**44.5**	**(9.9)**	**34.6**	**11.4**	**4.8**	**18.3**	**0.1**
Others	**36.3**	**5.0**	**41.3**	**(11.6)**	**29.7**	**10.1**	**4.4**	**12.1**	**3.1**
	391.1	**59.6**	**450.7**	**(122.9)**	**327.8**	**83.3**	**79.4**	**143.6**	**21.5**
At 31 December 2012									
Spain	15.3	3.2	18.5	(6.4)	12.1	1.0	2.8	8.3	
Ireland	20.7	1.3	22.0	(12.1)	9.9	0.4	1.8	7.6	0.1
Italy	12.6	3.0	15.6	(6.0)	9.6	2.7	1.6	5.2	0.1
Greece	5.9	0.7	6.6	(0.8)	5.8	0.1	0.6	4.1	1.0
Portugal	1.1	0.3	1.4	(0.4)	1.0	0.2	0.4	0.4	

Cyprus	0.3	0.1	0.4		0.4			0.4	
France	158.3	28.0	186.3	(40.8)	145.5	33.0	30.5	65.7	16.3
Germany	112.4	11.6	124.0	(56.6)	67.4	27.4	14.3	25.1	0.6
The Netherlands	39.7	4.1	43.8	(14.4)	29.4	10.0	5.3	14.0	0.1
Others	38.0	4.9	42.9	(14.3)	28.6	9.8	3.6	12.0	3.2
	404.3	57.2	461.5	(151.8)	309.7	84.6	60.9	142.8	21.4

Redenomination risk

As the peripheral eurozone countries of Greece, Ireland, Italy, Portugal, Spain and Cyprus continue to exhibit distress, there is the continuing possibility of a member state exiting from the eurozone. There remains no established legal framework within the European treaties to facilitate such an event; consequently, it is not possible to accurately predict the course of events and legal consequences that would ensue.

In the *Annual Report and Accounts 2012*, we disclosed information on our in-country funding exposures to the peripheral eurozone countries. At 30 June 2013, there were no significant changes in our in-country funding exposures to peripheral eurozone countries compared with 31 December 2012. Our view remains that there would be a greater potential impact on HSBC from a euro exit of Greece, Italy or Spain than from Ireland, Portugal or Cyprus. As a result, only exposures to Greece, Italy or Spain are reported in the table below.

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In-country funding exposure

		Denominated in: Euros	US dollars	Other currencies	Total
		US$bn	US$bn	US$bn	US$bn
At 30 June 2013					
Greece	In-country assets	**1.6**	**0.1**		**1.7**
	In-country liabilities	**(1.6)**	**(0.7)**	**(0.1)**	**(2.4)**
	Net in-country funding exposure		**(0.6)**	**(0.1)**	**(0.7)**
	Off-balance sheet exposure	**(0.3)**		**0.3**	
Italy	In-country assets	**1.0**			**1.0**
	In-country liabilities[37]	**(1.9)**	**(0.2)**		**(2.1)**
	Net in-country funding exposure	**(0.9)**	**(0.2)**		**(1.1)**
	Off-balance sheet exposure	**0.6**			**0.6**
Spain	In-country assets	**1.7**	**0.9**		**2.6**
	In-country liabilities	**(1.4)**	**(0.1)**		**(1.5)**
	Net in-country funding exposure	**0.3**	**0.8**		**1.1**
	Off-balance sheet exposure	**0.8**	**0.1**		**0.9**
At 31 December 2012					
Greece	In-country assets	2.1	0.1		2.2
	In-country liabilities	(1.5)	(0.8)	(0.1)	(2.4)
	Net in-country funding exposure	0.6	(0.7)	(0.1)	(0.2)
	Off-balance sheet exposure	(0.3)	0.2	0.2	0.1
Italy	In-country assets	1.0			1.0
	In-country liabilities[37]	(2.0)			(2.0)
	Net in-country funding exposure	(1.0)			(1.0)
	Off-balance sheet exposure	0.8			0.8
Spain	In-country assets	2.4	0.8		3.2
	In-country liabilities	(1.7)	(0.1)		(1.8)
	Net in-country funding exposure	0.7	0.7		1.4
	Off-balance sheet exposure	0.7	0.2		0.9

For footnote, see page 178.

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Liquidity and funding

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

There were no material changes to our policies and practices for the management of liquidity and funding risks in the first half of 2013.

A summary of our current policies and practices regarding liquidity and funding is provided in the Appendix to Risk on page 261 of the Annual Report and Accounts 2012.

Our liquidity and funding risk management framework

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

Our liquidity and funding risk management framework requires:

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

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

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

Further details of the metrics are provided in the Appendix to Risk on page 261 of the *Annual Report and Accounts 2012*.

Liquidity and funding in the first half of 2013

The liquidity position of the Group remained strong in the first half of 2013, as demonstrated by the Group s key liquidity and funding metrics presented below. During the first half of 2013, customer accounts decreased by 1.8% (US$24bn) while loans and advances to customers decreased by 2.8% (US$28bn), leading to a small reduction in our advances to deposits ratio to 73.7% (30 June 2012: 76.3%; 31 December 2012: 74.4%). The decrease in customer accounts in the first half of 2013 was primarily due to the reclassification of customer account balances of around US$14bn relating to non-strategic businesses, notably in Europe and Latin America, to Liabilities of disposal groups held for sale .

Wholesale funding markets

Wholesale funding conditions were generally positive in the first half of 2013, although there was volatility in June as a result of uncertainty surrounding a reduction in economic stimulus and therefore the interest rate outlook. The volume of term debt issued by banks remained low, primarily reflecting reduced wholesale funding requirements compared with recent years.

HSBC continued to have good access to debt capital markets throughout the first half of 2013 with Group entities issuing US$8.5bn of public transactions of which US$6.8bn was in the form of senior unsecured debt.

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Liquidity regulation

The European adoption of the Basel Committee framework, via legislative texts known as CRR/CRD IV, which were published on 27 June 2013, requires the reporting of the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) from January 2014, with the regulatory LCR standard being implemented from January 2015, initially set at 60%, increasing to 100% by January 2018. There is currently a significant level of interpretation required to calculate the LCR as defined in the CRR text; in particular the definitions of operational deposits and several of the outflow assumptions. We expect more clarity on many of these points by 31 December 2013, as technical standards with regard to these are consulted upon and finalised by the European Banking Authority (EBA), as mandated by the CRR text. The European adoption of the Basel Committee framework diverges from the Basel recommendations with respect to the outflow assumption to be applied to undrawn committed liquidity facilities, where the CRR requires a 100% outflow to be used, compared with the 30-40% outflow recommended by Basel.

Regarding the finalisation of the NSFR standard, the Basel Committee is expected to issue a consultation on a revised framework in the coming months.

Management of liquidity and funding risk

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

The three principal entities listed in the tables below represented 63% (30 June 2012: 61%; 31 December 2012: 62%) of the Group s customer accounts (excluding repos); including other principal entities, 95% (30 June 2012: 97%; 31 December 2012: 94%) was represented.

Advances to core funding ratio

The table below shows the extent to which loans and advances to customers in our principal banking entities (see footnotes 39 to 41 on page 179), were financed by reliable and stable sources of funding.

There were no material movements in the first half of 2013 and all principal banking entities remained within their advances to core funding limit.

Advances to core funding limits set for principal operating entities at 30 June 2013 ranged between 80% and 115%.

Advances to core funding ratios[38]

	Half-year to		
	30 Jun 2013	30 Jun 2012	31 Dec 2012
	%	%	%
HSBC UK[39]			
Period-end	**104**	104	106
Maximum	**107**	104	106
Minimum	**103**	100	103

Average	**105**	102	105
The Hongkong and Shanghai Banking Corporation[40]			
Period-end	**77**	74	73
Maximum	**77**	75	74
Minimum	**73**	71	73
Average	**74**	73	73
HSBC USA[41]			
Period-end	**84**	68	78
Maximum	**84**	86	78
Minimum	**78**	68	68
Average	**80**	80	74
Total of HSBC s other principal entities[42]			
Period-end	**92**	88	91
Maximum	**92**	88	92
Minimum	**89**	85	88
Average	**91**	86	91

For footnotes, see page 178.

Stressed coverage ratios

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

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

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

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Stressed one-month and three-month coverage ratios[38]

	Stressed one-month coverage ratios for the half-year to			Stressed three-month coverage ratios for the half-year to		
	30 Jun 2013	30 Jun 2012	31 Dec 2012	**30 Jun 2013**	30 Jun 2012	31 Dec 2012
	%	%	%	**%**	%	%
HSBC UK[39]						
Period-end	**105**	111	114	**104**	102	103
Maximum	**114**	117	114	**104**	103	103
Minimum	**103**	111	108	**101**	101	101
Average	**108**	114	111	**102**	102	102
The Hongkong and Shanghai Banking Corporation[40]						
Period-end	**113**	124	129	**109**	123	126
Maximum	**131**	134	130	**126**	125	126
Minimum	**113**	123	124	**109**	118	122
Average	**120**	130	128	**114**	123	124
HSBC USA[41]						
Period-end	**111**	134	126	**110**	130	119
Maximum	**126**	137	136	**119**	130	130
Minimum	**111**	115	126	**109**	113	119
Average	**117**	125	131	**113**	123	125
Total of HSBC s other principal entities[42]						
Period-end	**114**	118	127	**109**	110	117
Maximum	**129**	123	127	**119**	113	117
Minimum	**114**	118	119	**109**	108	109
Average	**122**	120	122	**114**	110	112

For footnotes, see page 178.

Liquid assets of HSBC s principal operating entities

The table below shows the estimated liquidity value (before assumed haircuts) of assets categorised as liquid used for the purposes of calculating the three-month stressed coverage ratios, as defined under the LFRF.

Liquid assets of HSBC s principal entities

	Estimated liquidity value[43]		
	30 Jun 2013	30 Jun 2012	31 Dec 2012
	US$m	US$m	US$m
HSBC UK[39]			
Level 1	**142,005**	120,690	138,812
Level 2	**933**	475	374
Level 3	**44,866**	9,320	27,656
	187,804	130,485	166,842
The Hongkong and Shanghai Banking Corporation[40]			
Level 1	**91,742**	104,944	112,167
Level 2	**5,131**	5,928	5,740
Level 3	**3,861**	4,889	3,968
	100,734	115,761	121,875
HSBC USA[41]			
Level 1	**49,715**	62,966	60,981
Level 2	**12,233**	16,511	15,609
Level 3	**5,359**	8,405	5,350
Other	**5,842**	6,238	6,521
	73,149	94,120	88,461
Total of HSBC s other principal entities[42]			
Level 1	**140,529**	118,616	154,445
Level 2	**12,984**	36,713	18,048
Level 3	**12,693**	11,205	6,468
Other			2,447
	166,206	166,534	181,408

For footnotes, see page 178.

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Any unencumbered asset held as a consequence of a reverse repo transaction with a residual contractual maturity within the stressed coverage ratio time period and unsecured interbank loans maturing within three months are not included in liquid assets, as these assets are reflected as contractual cash inflows.

Liquid assets are held and managed on a standalone operating entity basis. Most of the liquid assets shown are held directly by each operating entity s Balance Sheet Management function, primarily for the purpose of managing liquidity risk, in line with the LFRF.

Liquid assets also include any unencumbered liquid assets held outside Balance Sheet Management for any other purpose. The LFRF gives ultimate control of all unencumbered assets and sources of liquidity to Balance Sheet Management.

All assets held within the liquid asset portfolio are unencumbered. Liquid assets held by HSBC UK increased predominantly as a result of higher deposits, some of which have been deployed in Level 3 securities. In addition there has been a reclassification of some securities as Level 3 liquid assets (previously illiquid) as they meet the criteria of liquid assets in accordance with the LFRF.

Liquid assets held by The Hongkong and Shanghai Banking Corporation and HSBC USA decreased predominantly as surplus liquidity, as measured by the LFRF, was deployed into alternative asset classes or deployed into loans and advances to customers, as demonstrated by the increase in the respective advances to core funding ratio and/or the decrease in the respective stressed coverage ratios.

Net contractual cash flows

The following table quantifies the contractual cash flows from interbank and intra-Group loans and deposits, and reverse repo, repo (including intra- Group transactions) and short positions for the principal entities shown. These contractual cash inflows and outflows are reflected gross in the numerator and denominator, respectively, of the one-month and three-month stressed coverage ratios and should be considered alongside the level of liquid assets.

Outflows included in the denominator of the stressed coverage ratios include the principal outflows associated with the contractual maturity of wholesale debt securities reported in the table headed Wholesale funding principal cash flows payable by HSBC under financial liabilities by remaining contractual maturities on page 162.

Net cash inflows/(outflows) for interbank and intra-Group loans and deposits and reverse repo, repo and short positions

	Cash flows at 30 June 2013		Cash flows at 30 June 2012		Cash flows at 31 December 2012	
	within one month	**from one to three months**	within one month	from one to three months	within one month	from one to three months
	US$m	**US$m**	US$m	US$m	US$m	US$m
Interbank and intra-Group loans and deposits						
HSBC UK[39]	**(17,173)**	**(3,696)**	(13,569)	(1,206)	(16,464)	(1,429)

The Hongkong and Shanghai Banking Corporation[40]	**(4,368)**	**8,638**	4,089	8,147	4,402	9,685
HSBC USA[41]	**(23,320)**	**2,629**	(30,186)	1,060	(30,269)	(473)
Total of HSBC s other principal entities[42]	**4,500**	**10,894**	3,898	12,972	5,419	10,511
Reverse repo, repo, stock borrowing, stock lending and outright short positions (including intra-Group)						
HSBC UK[39]	**(11,569)**	**(8,080)**	(7,687)	(2,498)	(4,184)	(13,776)
The Hongkong and Shanghai Banking Corporation[40]	**7,746**	**2,354**	5,314	708	13,672	2,501
HSBC USA[41]	**(10,818)**	**(219)**	7,289	(786)	(4,003)	62
Total of HSBC s other principal entities[42]	**(42,359)**	**8,114**	(38,184)	8,281	(31,951)	(231)

For footnotes, see page 178.

Net cash flow arising from interbank and intra-Group loans and deposits

Under the LFRF, a net cash inflow within three months arising from interbank and intra-Group loans and deposits will give rise to a lower liquid asset

requirement. Conversely, a net cash outflow within three months arising from interbank and intra-Group loans and deposits will give rise to a higher liquid assets requirement.

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Net cash flow arising from reverse repo, repo, stock borrowing, stock lending and outright short positions (including intra-Group)

A net cash inflow represents additional liquid resources, in addition to liquid assets, because any unencumbered asset held as a consequence of a reverse repo transaction with a residual contractual maturity within the stressed coverage ratio time period is not reflected as a liquid asset.

The impact of net cash outflow depends on whether the underlying collateral encumbered as a result will qualify as a liquid asset when released at the maturity of the repo. The majority of the Group s repo transactions are collateralised by liquid assets and, as such, any net cash outflow shown is offset by the return of liquid assets, which are excluded from the liquid asset table above.

Contingent liquidity risk arising from committed lending facilities

The Group s operating entities provide commitments to various counterparties. In terms of liquidity risk, the most significant risk relates to committed lending facilities which, whilst undrawn, give rise to contingent liquidity risk, as these could be drawn during a period of liquidity stress. Commitments are

given to customers and committed lending facilities are provided to consolidated multi-seller conduits, established to enable clients to access a flexible market-based source of finance, consolidated SICs and third-party sponsored conduits.

The consolidated SICs primarily represent Solitaire and Mazarin (see page 147). These conduits issue asset-backed commercial paper secured against the portfolio of securities held by these conduits. At 30 June 2013, HSBC UK had undrawn committed lending facilities to these conduits of US$16bn (30 June 2012: US$20bn; 31 December 2012: US$18bn), of which Solitaire represented US$12bn (30 June 2012: US$14bn; 31 December 2012: US$13bn) and the remaining US$4bn (30 June 2012: US$6bn; 31 December 2012: US$5bn) pertained to Mazarin. At 30 June 2013, the commercial paper issued by Solitaire and Mazarin was entirely held by HSBC UK. Since HSBC controls the size of the portfolio of securities held by these conduits, no contingent liquidity risk exposure arises as a result of these undrawn committed lending facilities.

The table below shows the level of undrawn commitments to customers outstanding for the five largest single facilities and the largest market sector, and the extent to which they are undrawn.

The Group s contractual undrawn exposures monitored under the contingent liquidity risk limit structure

	HSBC UK[39]			HSBC USA[41]			HSBC Canada			The Hongkong and Shanghai Banking Corporation[40]		
	At 30 Jun	At 30 Jun	At 31 Dec	**At 30 Jun**	At 30 Jun	At 31 Dec	**At 30 Jun**	At 30 Jun	At 31 Dec	**At 30 Jun**	At 30 Jun	At 31 Dec

	2013 US$bn	2012 US$bn	2012 US$bn	**2013 US$bn**	2012 US$bn	2012 US$bn	**2013 US$bn**	2012 US$bn	2012 US$bn	**2013 US$bn**	2012 US$bn	2012 US$bn
Conduits												
Client-originated assets												
total lines	**7.9**	10.0	7.8	**3.1**	1.7	2.3	**0.9**	0.9	1.0			
largest individual lines	**0.7**	0.6	0.7	**0.5**	0.5	0.5	**0.7**	0.8	0.8			
HSBC-managed assets												
total lines	**16.1**	20.0	18.1									
Other conduits												
total lines				**0.8**	1.0	0.8						
Single-issuer liquidity facilities												
five largest[44]	**6.6**	4.0	6.0	**6.2**	5.9	6.0	**1.4**	1.7	1.7	**2.8**	1.6	2.1
largest market sector[45]	**11.7**	8.4	11.0	**7.2**	7.1	7.5	**3.7**	4.2	4.5	**2.2**	2.5	2.4

For footnotes, see page 178.

Sources of funding

Our primary sources of funding are customer current accounts and customer savings deposits payable on demand or at short notice. We issue wholesale securities (secured and unsecured) to supplement

our customer deposits and change the currency mix, maturity profile or location of our liabilities.

The funding sources and uses table, which provides a consolidated view of how our balance sheet is funded, should be read in the light of the

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LFRF, which requires operating entities to manage liquidity and funding risk on a stand-alone basis.

The table analyses our consolidated balance sheet according to the assets that primarily arise from operating activities and the sources of funding primarily supporting these activities. The assets and liabilities that do not arise from operating activities are presented as a net balancing source or deployment of funds.

The level of customer accounts continued to exceed the level of loans and advances to customers.

Excluding the effect of repos from customer accounts and reverse repos from loans and advances to customers, the adjusted advances to deposits ratio at 30 June 2013 was 74.1% (30 June 2012; 73.9%; 31 December 2012: 73.4%). The positive funding gap was predominantly deployed into liquid assets; cash and balances with central banks and financial investments, as required by the LFRF.

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

Funding sources and uses

	At 30 Jun 2013 US$m	At 30 Jun 2012 US$m	At 31 Dec 2012 US$m
Sources			
Customer accounts	**1,316,182**	1,278,489	1,340,014
repos	**49,277**	26,426	28,618
cash deposits	**1,266,905**	1,252,063	1,311,396
Deposits by banks	**110,023**	123,553	107,429
repos	**17,314**	17,054	11,949
cash deposits	**92,709**	106,499	95,480
Debt securities issued	**109,389**	125,543	119,461
Liabilities of disposal groups held for sale	**19,519**	12,599	5,018
Subordinated liabilities	**28,821**	29,696	29,479
Financial liabilities designated at fair value	**84,254**	87,593	87,720
Liabilities under insurance contracts	**69,771**	62,861	68,195
Trading liabilities	**342,432**	308,564	304,563
repos	**134,506**	112,628	130,223
stock lending	**10,097**	6,013	6,818
settlement accounts	**41,092**	35,162	17,108
other trading liabilities	**156,737**	154,761	150,414

Total equity	**182,361**	173,766	183,129
	2,262,752	2,202,664	2,245,008
	At 30 Jun 2013 US$m	At 30 Jun 2012 US$m	At 31 Dec 2012 US$m
Uses			
Loans and advances to customers	**969,382**	974,985	997,623
reverse repos	**31,088**	49,320	34,651
loans or other receivables	**938,294**	925,665	962,972
Loans and advances to banks	**185,122**	182,191	152,546
reverse repos	**57,312**	42,429	35,461
loans or other receivables	**127,810**	139,762	117,085
Assets held for sale	**20,377**	12,383	19,269
Trading assets	**432,601**	391,371	408,811
reverse repos	**104,273**	104,335	118,681
stock borrowing	**17,372**	16,509	16,071
settlement accounts	**53,749**	32,547	14,510
other trading assets	**257,207**	237,980	259,549
Financial investments	**404,214**	393,736	421,101
Cash and balances with central banks	**148,285**	147,911	141,532
Net deployment in other balance sheet assets and liabilities	**102,771**	100,087	104,126
	2,262,752	2,202,664	2,245,008

Wholesale term debt maturity profile

The maturity profile of the Group s wholesale term debt obligations is set out below in the table headed Wholesale funding principal cash flows payable by HSBC under financial liabilities by remaining contractual maturities .

The balances in the table will not agree directly with those in our consolidated balance sheet as the table presents gross cash flows relating to principal payments and not the balance sheet carrying value,

which includes debt securities and subordinated liabilities measured at fair value.

The basis of preparation of this table has changed from that presented in the *Annual Report and Accounts 2012*, which included future coupon payments in addition to the principal amounts. The inclusion of principal amounts only is more consistent with how the Group manages the associated liquidity and funding risk.

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Wholesale funding principal cash flows payable by HSBC under financial liabilities by remaining contractual maturities

	Due within 1 month US$m	Due between 1 and 3 months US$m	Due between 3 and 6 months US$m	Due between 6 and 9 months US$m	Due between 9 months and 1 year US$m	Due between 1 and 2 years US$m	Due between 2 and 5 years US$m	Due after 5 years US$m	Total US$m
At 30 June 2013									
Debt securities issued	**25,197**	**16,162**	**18,123**	**14,894**	**9,158**	**30,335**	**44,591**	**27,194**	**185,654**
unsecured CDs and CP	**9,228**	**9,146**	**9,505**	**3,578**	**3,664**	**2,584**	**2,326**		**40,031**
unsecured senior medium-term notes (MTN s)	**2,636**	**3,570**	**6,947**	**8,745**	**3,607**	**19,219**	**31,828**	**18,708**	**95,260**
unsecured senior structured notes	**435**	**705**	**646**	**1,164**	**1,344**	**2,936**	**4,868**	**6,059**	**18,157**
secured covered bonds		**397**	**667**	**939**	**287**	**3,179**	**3,459**	**425**	**9,353**
secured asset-backed commercial paper (ABCP)	**12,725**	**2,159**						**495**	**15,379**
secured ABS	**70**	**142**	**315**	**461**	**181**	**1,384**	**1,517**	**92**	**4,162**
others	**103**	**43**	**43**	**7**	**75**	**1,033**	**593**	**1,415**	**3,312**
Subordinated liabilities		**10**		**26**	**1,170**	**336**	**4,349**	**39,084**	**44,975**
subordinated debt securities		**10**		**26**	**1,170**	**336**	**3,349**	**32,560**	**37,451**
preferred securities							**1,000**	**6,524**	**7,524**
	25,197	**16,172**	**18,123**	**14,920**	**10,328**	**30,671**	**48,940**	**66,278**	**230,629**
At 30 June 2012									
Debt securities issued	16,541	25,847	16,662	8,738	16,658	31,681	59,260	28,484	203,871
unsecured CDs and CP	10,280	9,086	7,138	2,367	3,795	3,752	2,813		39,231
unsecured senior MTNs	2,216	4,856	6,052	4,557	9,718	21,180	41,041	18,985	108,605
unsecured senior structured notes	472	897	2,045	1,291	1,549	1,773	4,126	6,640	18,793
secured covered bonds			1,027		1,105	2,527	6,671	793	12,123
secured ABCP	2,985	10,477						278	13,740
secured ABS	85	168	226	377	486	1,262	2,610	611	5,825
others	503	363	174	146	5	1,187	1,999	1,177	5,554
Subordinated liabilities	306		2,881	43		1,150	2,425	41,148	47,953
subordinated debt securities	306		2,881	43		1,150	1,425	33,386	39,191
preferred securities							1,000	7,762	8,762
	16,847	25,847	19,543	8,781	16,658	32,831	61,685	69,632	251,824

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	Due within 1 month US$m	Due between 1 and 3 months US$m	Due between 3 and 6 months US$m	Due between 6 and 9 months US$m	Due between 9 months and 1 year US$m	Due between 1 and 2 years US$m	Due between 2 and 5 years US$m	Due after 5 years US$m	Total US$m
At 31 December 2012									
Debt securities issued	19,280	20,724	22,479	10,269	14,934	27,716	56,543	25,970	197,915
unsecured CDs and CP	3,736	12,176	6,707	1,632	1,709	3,502	763		30,225
unsecured senior MTNs	201	5,360	12,655	6,772	10,411	15,318	41,381	17,299	109,397
unsecured senior structured notes	487	1,112	1,694	1,075	897	2,584	5,779	6,208	19,836
secured covered bonds			1,133	422	758	3,578	4,557	826	11,274
secured ABCP	14,583	1,891							16,474
secured ABS	104	175	211	339	633	1,677	2,072	525	5,736
others	169	10	79	29	526	1,057	1,991	1,112	4,973
Subordinated liabilities	7	44			10	1,296	2,550	43,949	47,856
subordinated debt securities	7	44			10	1,296	1,550	36,005	38,912
preferred securities							1,000	7,944	8,944
	19,287	20,768	22,479	10,269	14,944	29,012	59,093	69,919	245,771

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Market risk

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

There have been no material changes to our policies and practices for the management of market risk as described in the *Annual Report and Accounts 2012*.

Exposure to market risk

Exposure to market risk is separated into two portfolios:

Trading portfolios comprise positions arising from the market-making and warehousing of customer-derived positions.

Non-trading portfolios comprise positions that primarily arise from the interest rate management of our retail and commercial banking assets and liabilities, financial investments designated as available for sale and held to maturity, and exposures arising from our insurance operations (see page 175).

Monitoring and limiting market risk exposures

Our objective is to manage and control market risk exposures while maintaining a market profile consistent with our risk appetite.

We use a range of tools to monitor and limit market risk exposures, including:

sensitivity measures include sensitivity of net interest income and sensitivity for structural foreign exchange, which are used to monitor the market risk positions within each risk type;

value at risk (VAR) is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence; and

in recognition of VAR s limitations we augment VAR with *stress testing* to evaluate the potential impact on portfolio values of more extreme, though plausible, events or movements in a set of financial variables. Examples of scenarios reflecting current market concerns are the slowdown in mainland China and the potential effects of a sovereign debt default, including its wider contagion effects.

A summary of our current policies and practices regarding market risk is provided in the Appendix to Risk on page 265 of the Annual Report and Accounts 2012.

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Market risk in the first half of 2013

Following a pattern observed recently, 2013 started with generally positive market sentiment despite concerns around the US fiscal cliff, the bailout of Cyprus and slowing economic growth in Europe and major emerging markets. The accommodative policies followed by leading central banks provided the backdrop for major equity markets reaching recent highs, while credit spreads narrowed further and long-term interest rates fell. Generally low returns led investors to continue to search for yield, which resulted in strong levels of demand for high yielding debt.

The second quarter was characterised by increased turbulence in currency markets triggered by expansionary monetary policy in Japan and the US Federal Reserve discussing tapering off its asset purchase programme. The latter led to US longer term interest rates climbing rapidly, driving up yield curves in most developed and emerging markets. This led to volatilities increasing across most asset classes.

Against the backdrop of rising volatility in global financial markets, the equity business maintained a defensive risk profile and foreign exchange exposures remained low, leading to lower trading VAR. Non-trading VAR increased during the period as a result of rising levels of interest rate volatility, together with the extension of the asset profile in the non-trading book.

Trading and non-trading portfolios

The following tables provide an overview of the types of risks within the different global businesses.

Types of risk by global business

Risk types	Global businesses
Trading risk Foreign exchange and commodities Interest rate Equities Credit spread	GB&M including Balance Sheet Management (BSM)
Non-trading risk Foreign exchange (structural) Interest rate Credit spread	GB&M including BSM, RBWM, CMB and GPB

Market risk reporting measures

The following table provides an overview of the reporting of risks within this section:

Overview of risk reporting

	Portfolio

	Trading	Non-trading
Risk type		
Foreign exchange and commodity	**VAR**	**VAR**
Interest rate	**VAR**	**VAR/ Sensitivity**
Equity	**VAR**	**Sensitivity**
Credit spread	**VAR**	**VAR**
Structural foreign exchange	**n/a**	**Sensitivity**

The reporting of commodity risk is consolidated with foreign exchange risk. There is no commodity risk in the non-trading portfolios. The interest rate risk on the fixed-rate securities issued by HSBC Holdings is not included in the Group VAR. The management of this risk is described on page 172.

Market risk linkages to the accounting balance sheet

The market risk linkages to the accounting balance sheet are described on page 219 in the *Annual Report and Accounts 2012*.

For a description of the parameters used in calculating VAR, see the Appendix to Risk on page 266 of the Annual Report and Accounts 2012.

Trading portfolios

Value at risk of the trading portfolios

Trading value at risk

	Half-year to		
	30 June	30 June	31 December
	2013	2012	2012
	US$m	US$m	US$m
At period-end	**52.9**	69.2	78.8
Average	**50.1**	88.7	60.1
Minimum	**41.4**	62.0	47.3
Maximum	**71.5**	130.9	79.1

The daily levels of trading VAR over the course of 2012 and the first half of 2013 are set out in the graph below.

Daily VAR (trading portfolios)

Interim Management Report (continued)

Almost all trading VAR resides within Global Markets. The VAR for trading activity at 30 June 2013 was lower than at 31 December 2012 due primarily to the benefit of the defensive contribution from the equity business and reduced positions in the foreign exchange business. These contributions and higher diversification benefit across asset classes led to VAR trending lower during the period, even though financial markets became more volatile.

We routinely validate the accuracy of our VAR models by back-testing the actual daily profit and loss results, adjusted to remove non-modelled items such as fees and commissions, against the corresponding VAR numbers. We would expect on average to see two to three losses in excess of VAR at the 99% confidence level, over a one-year period. The actual number of losses in excess of VAR over this period can therefore be used to gauge how well the models are performing. In the first half of 2013, there were no exceptions at the Group level.

For footnotes, see page 178.

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VAR by risk type for trading activities[49]

	Foreign exchange and commodity US$m	Interest rate US$m	Equity US$m	Credit spread US$m	Portfolio diversification[50] US$m	Total[51] US$m
First half of 2013	**14.9**	**35.5**	**4.2**	**18.1**	**(19.7)**	**52.9**
Average	**15.2**	**33.0**	**5.1**	**17.6**	**(20.9)**	**50.1**
Minimum	**8.8**	**22.8**	**2.2**	**11.9**		**41.4**
Maximum	**25.8**	**52.3**	**14.1**	**25.5**		**71.5**
First half of 2012	28.8	42.9	13.8	26.4	(42.7)	69.2
Average	30.0	45.0	5.9	37.4	(29.7)	88.7
Minimum	14.4	33.3	2.7	22.4		62.0
Maximum	46.0	60.0	13.8	77.9		130.9
Second half of 2012	20.5	37.5	17.7	16.1	(12.9)	78.8
Average	17.3	40.3	12.5	16.5	(26.4)	60.1
Minimum	6.9	29.5	6.0	12.2		47.3
Maximum	29.6	54.9	24.9	29.1		79.1

For footnotes, see page 178.

Stressed value at risk of the trading portfolios

Stressed VAR is primarily used for regulatory capital purposes but is integrated into the risk management process to facilitate efficient capital management and to highlight potentially risky positions based on previous market volatility. Stressed VAR complements other risk measures by providing the potential losses arising from market turmoil. Calculations are based on a continuous one-year period of stress for the trading portfolio, based on the assessment at the Group level of the most volatile period in recent history.

Stressed value at risk (1-day equivalent)

	At 30 Jun 2013 US$m	At 31 Dec 2012 US$m
At period-end	**74.7**	172.4

Stressed VAR significantly reduced during the first quarter of 2013 following the defensive positions taken by the Equity and Foreign Exchange businesses. As a consequence, the overall risk profile minimised the losses from highly volatile periods and led to a relatively low stressed VAR when compared with trading VAR. The risk profile was unchanged during the second quarter and the stressed VAR remained stable.

Non-trading portfolios

Value at risk of the non-trading portfolios

Non-trading value at risk

	At 30 Jun 2013 US$m	At 30 Jun 2012 US$m	At 31 Dec 2012 US$m
At period-end	**194.9**	204.6	119.2
Average	**141.4**	237.3	159.7
Minimum	**114.7**	181.9	118.1
Maximum	**212.7**	322.5	206.4

The daily levels of non-trading VAR over the course of 2012 and the first half of 2013 are set out in the graph below.

Daily VAR (non-trading portfolios)

Most of the Group non-trading VAR relates to Balance Sheet Management or local treasury management functions. Contributions to Group non-trading VAR are driven by interest rates and credit spread risks arising from all global businesses.

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The increase of non-trading VAR during the first half of 2013 was due mainly to the effect of higher levels of volatility in interest rates utilised in the VAR calculations, together with the extension of the asset profile in the non-trading book.

Non-trading VAR includes the interest rate risk of non-trading financial instruments held by the global businesses and transferred into portfolios managed by Global Markets or local treasury functions. In measuring, monitoring and managing risk in our non-trading portfolios, VAR is just one of the tools used. The management of interest rate risk in the banking book is described further in Non-trading interest rate risk below, including the role of Balance Sheet Management.

Non-trading VAR excludes equity risk on available-for-sale securities, structural foreign exchange risk and interest rate risk on fixed rate securities issued by HSBC Holdings, the management of which is described in the relevant sections below. These sections together describe the scope of HSBC s management of market risks in non-trading books.

Credit spread risk for available-for-sale debt securities

Credit spread VAR for available-for-sale debt securities, excluding those held in insurance operations, is included in the Group non-trading VAR. However, SICs are not included.

At 30 June 2013, the sensitivity of equity capital to the effect of movements in credit spreads on our available-for-sale debt securities, including the gross exposure for the SICs consolidated within our balance sheet, based on credit spread VAR, was US$126m (30 June 2012: US$212m; 31 December 2012: US$150m). This sensitivity was calculated before taking into account losses which would have been absorbed by the capital note holders. Excluding the gross exposure for SICs consolidated in our balance sheet, this exposure reduced to US$109m (30 June 2012: US$165m; 31 December 2012: US$119m).

The decrease in this sensitivity at 30 June 2013 compared with 31 December 2012 was due mainly to the effect of the lower credit spread baselines and volatilities utilised in the VAR calculation during 2013.

At 30 June 2013, the capital note holders would absorb the first US$2.2bn (30 June 2012: US$2.2bn; 31 December 2012: US$2.3bn) of any losses incurred by the SICs before we incur any equity losses.

Equity securities classified as available for sale

Fair values of equity securities

	At 30 Jun 2013 US$bn	At 30 Jun 2012 US$bn	At 31 Dec 2012 US$bn
Private equity holdings[52]	**2.9**	3.0	2.9
Funds invested for short- term cash management	**0.1**	0.1	0.2
Investment to facilitate ongoing business[53]	**1.1**	1.1	1.1

Other strategic investments	**5.3**	2.5	1.6
Total	**9.4**	6.7	5.8

For footnotes, see page 178.

The fair value of the constituents of equity securities classified as available for sale can fluctuate considerably. The table above sets out the maximum possible loss on shareholders equity from available- for-sale equity securities. The increase in other strategic investments is largely due to the reclassification of our investment in Industrial Bank.

Structural foreign exchange exposures

Our policies and procedures for managing structural foreign exchange exposures are described on page 268 in the Annual Report and Accounts 2012. *For details of structural foreign exchange exposures see page 493 in the* Annual Report and Accounts 2012.

Non-trading interest rate risk

The Asset, Liability and Capital Management department is responsible for measuring and controlling non-trading interest rate risk under the supervision of the Risk Management Meeting of the GMB. Its primary responsibilities are:

- to define the rules governing the transfer of interest rate risk from the global businesses to BSM;
- to ensure that all market interest rate risk that can be hedged is transferred from the global businesses to BSM; and

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to define the rules and metrics for monitoring the residual interest rate risk in the global businesses.

The different types of non-trading interest rate risk and the controls which we use to quantify and limit exposure to these risks can be categorised as follows:

risk which is transferred to BSM and managed by BSM within a defined risk mandate (see below);

risk which remains outside BSM because it cannot be hedged or which arises due to our behaviouralised transfer pricing assumptions. This risk is captured by our net interest income or Economic Value of Equity (EVE) sensitivity, and corresponding limits are part of our global and regional risk appetite statements for non-trading interest rate risk. A typical example would be margin compression created by unusually low rates in key currencies;

basis risk which is transferred to BSM when it can be hedged. Any residual basis risk remaining in the global businesses is reported to the Asset and Liability Management Committee (ALCO). A typical example would be a managed rate savings product transfer-priced using a Libor-based interest rate curve; and

model risks which cannot be captured by net interest income or EVE sensitivity, but are controlled by our stress testing framework. A typical example would be prepayment risk on residential mortgages or pipeline risk.

Balance Sheet Management

Effective governance across BSM is supported by the dual reporting lines it has to the CEO of GB&M and to the Group Treasurer. In each operating entity, BSM is responsible for managing liquidity and funding under the supervision of the local ALCO. It also manages the structural interest rate position of the entity within a Global Markets limit structure.

BSM reinvests excess liquidity into highly rated liquid assets. The majority of the liquidity is

invested in central bank deposits and government, supranational and agency securities with most of the remainder held in short-term interbank and central bank loans.

Analysis of third-party assets in Balance Sheet Management

	At 30 Jun 2013 US$m	At 31 Dec 2012 US$m
Cash and balances at central banks	**118,139**	93,946
Trading assets	**7,830**	8,724

Financial assets designated at fair value	**73**	74
Loans and advances:		
to banks	**75,195**	72,771
to customers	**23,805**	22,052
Financial investments	**279,051**	293,421
Other	**3,284**	2,948
	507,377	493,936

Central bank deposits are accounted for as cash balances. Interbank loans and loans to central banks are accounted for as loans and advances to banks. BSM s holdings of securities are accounted for as available-for-sale or, to a lesser extent, held-to- maturity assets.

BSM is permitted to use derivatives as part of its mandate to manage interest rate risk. Derivative activity is predominantly through the use of vanilla interest rate swaps which are part of cash flow hedging and fair value hedging relationships.

Credit risk in BSM is predominantly limited to short-term bank exposure created by interbank lending and exposure to central banks, high quality sovereigns, supranationals or agencies. These constitute the majority of BSM s liquidity portfolio. BSM does not manage the structural credit risk of any Group entity balance sheets.

BSM is permitted to enter into single name and index credit derivatives activity, but it does so to manage credit risk on the exposure specific to its securities portfolio in limited circumstances only.

Interim Management Report (continued)

The risk limits are extremely limited and closely monitored. At 30 June 2013 and 31 December 2012 BSM had no open credit derivative index risk.

VAR is calculated on both trading and non-trading positions held in BSM. It is calculated by applying the same methodology used for the Global Markets business and is utilised as a tool for market risk control purposes.

BSM holds trading portfolio instruments in only very limited circumstances. Positions and the associated VAR were not significant during the first half of 2013.

Sensitivity of net interest income

The table below sets out the effect on our future net interest income of an incremental 25 basis points parallel rise or fall in all yield curves worldwide at the beginning of each quarter during the 12 months from 1 July 2013. Assuming no management response, a sequence of such rises would increase planned net interest income for the 12 months to 30 June 2014 by US$1,155m (to 31 December 2013: US$1,403m), while a sequence of such falls would decrease planned net interest income by US$1,544m (31 December 2013: US$1,550m). These figures incorporate the effect of any option features in the underlying exposures.

Sensitivity of projected net interest income[54]

	US dollar bloc US$m	Rest of Americas bloc US$m	Hong Kong dollar bloc US$m	Rest of Asia bloc US$m	Sterling bloc US$m	Euro bloc US$m	Total US$m
Change in July 2013 to June 2014 projected net interest income arising from a shift in yield curves at the beginning of each quarter of:							
+ 25 basis points	**112**	**56**	**283**	**152**	**593**	**(41)**	**1,155**
25 basis points	**(351)**	**(65)**	**(399)**	**(181)**	**(524)**	**(24)**	**(1,544)**
Change in January 2013 to December 2013 projected net interest income arising from a shift in yield curves at the beginning of each quarter of:							
+ 25 basis points	133	64	246	237	679	44	1,403
25 basis points	(366)	(52)	(305)	(168)	(602)	(57)	(1,550)

For footnote, see page 178.

The interest rate sensitivities set out in the table above are indicative and based on simplified scenarios. The limitations of this analysis are discussed in the Appendix to Risk on page 269 of the *Annual Report and Accounts 2012*.

The change in the sensitivity of the Group s net interest income to the change in rates shown in the table above is largely driven by changes in BSM exposure, in balance sheet composition and in yield curves. Net interest income and its associated sensitivity as reflected in the table above include the

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

We monitor the sensitivity of reported reserves to interest rate movements on a monthly basis by assessing the expected reduction in valuation of available-for-sale portfolios and cash flow hedges due to parallel movements of plus or minus 100bps in all yield curves. The table below describes the sensitivity of our reported reserves to these movements and the maximum and minimum month-end figures during the period.

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Sensitivity of reported reserves to interest rate movements[54]

		Impact in the preceding 6 months	
		Maximum	Minimum
	US$m	US$m	US$m
At 30 June 2013			
+ 100 basis point parallel move in all yield curves	**(5,991)**	**(5,991)**	**(5,507)**
As a percentage of total shareholders equity	**(3.4%)**	**(3.4%)**	**(3.2%)**
100 basis point parallel move in all yield curves	**5,752**	**5,752**	**4,910**
As a percentage of total shareholders equity	**3.3%**	**3.3%**	**2.8%**
At 30 June 2012			
+ 100 basis point parallel move in all yield curves	(5,199)	(5,748)	(5,199)
As a percentage of total shareholders equity	(3.1%)	(3.4%)	(3.1%)
100 basis point parallel move in all yield curves	4,879	5,418	4,879
As a percentage of total shareholders equity	2.9%	3.3%	2.9%
At 31 December 2012			
+ 100 basis point parallel move in all yield curves	(5,602)	(5,748)	(5,166)
As a percentage of total shareholders equity	(3.2%)	(3.3%)	(2.9%)
100 basis point parallel move in all yield curves	4,996	5,418	4,734
As a percentage of total shareholders equity	2.9%	3.1%	2.7%

For footnote, see page 178.

The sensitivities above are indicative and based on simplified scenarios. The table shows the potential sensitivity of reported reserves to valuation changes in available-for-sale portfolios and from cash flow hedges following the specified shifts in yield curves. These particular exposures form only a part of our overall interest rate exposures. The accounting treatment of our remaining interest rate exposures, while economically largely offsetting the exposures shown in the above table, does not require revaluation movements to go to reserves.

Defined benefit pension schemes

Market risk arises within our defined benefit pension schemes to the extent that the obligations of the schemes are not fully matched by assets with determinable cash flows.

HSBC s defined benefit pension schemes

	At 30 Jun 2013	At 30 Jun 2012	At 31 Dec 2012

	US$bn	US$bn	US$bn
Liabilities (present value)	**37.1**	35.9	38.1
	%	%	%
Assets:			
Equity investments	**19**	17	18
Debt securities	**71**	72	71
Other (including property)	**10**	11	11
	100	100	100

For details of the latest actuarial valuation of the HSBC Bank (UK) Pension Scheme and other defined benefit plans, see page 415 in the Annual Report and Accounts 2012.

Additional market risk measures applicable only to the parent company

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

Foreign exchange risk

Total foreign exchange VAR arising within HSBC Holdings in the first half of 2013 was as follows:

HSBC Holdings foreign exchange VAR

	Half-year to		
	30 Jun 2013	30 Jun 2012	31 Dec 2012
	US$m	US$m	US$m
At period end	**46.9**	39.4	69.9
Average	**52.6**	48.2	52.2
Minimum	**46.6**	39.4	39.2
Maximum	**64.1**	54.2	69.9

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

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Interest repricing gap table

The interest rate risk on the fixed-rate securities issued by HSBC Holdings is not included within the Group VAR but is managed on a repricing gap basis.

The interest rate repricing gap table below analyses the full-term structure of interest rate mismatches within HSBC Holdings balance sheet.

Repricing gap analysis of HSBC Holdings

	Total US$m	Up to 1 year US$m	1 to 5 years US$m	5 to 10 years US$m	More than 10 years US$m	Non-interest bearing US$m
At 30 June 2013						
Total assets	**142,080**	**43,355**	**310**	**2,183**	**594**	**95,638**
Total liabilities and equity	**(142,080)**	**(11,716)**	**(7,215)**	**(7,681)**	**(13,838)**	**(101,630)**
Off-balance sheet items attracting interest rate sensitivity		**(16,799)**	**3,977**	**7,681**	**4,079**	**1,062**
Net interest rate risk gap		**14,840**	**(2,928)**	**2,183**	**(9,165)**	**(4,930)**
Cumulative interest rate gap		**14,840**	**11,912**	**14,095**	**4,930**	
At 30 June 2012						
Total assets	125,392	26,223	1,450	1,010	612	96,097
Total liabilities and equity	(125,392)	(7,333)	(7,051)	(11,052)	(14,005)	(85,951)
Off-balance sheet items attracting interest rate sensitivity		(18,331)	4,632	8,575	4,200	924
Net interest rate risk gap		559	(969)	(1,467)	(9,193)	11,070
Cumulative interest rate gap		559	(410)	(1,877)	(11,070)	
At 31 December 2012						
Total assets	139,484	38,785	300	2,208	630	97,561
Total liabilities and equity	(139,484)	(13,913)	(8,790)	(9,818)	(14,180)	(92,783)
Off-balance sheet items attracting interest rate sensitivity		(18,583)	6,348	7,341	4,325	569
Net interest rate risk gap		6,289	(2,142)	(269)	9,225	5,347
Cumulative interest rate gap		6,289	4,147	3,878	(5,347)	

Operational risk

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

Activity to embed our operational risk management framework policies and procedures continued in the first half of 2013.

A summary of our current policies and practices regarding operational risk is provided in the Appendix to Risk on page 270 of the Annual Report and Accounts 2012.

Operational risk in the first half of 2013

During the first half of 2013, our operational top and emerging risk profile continued to be dominated by compliance and legal risks. Additional losses, at a level lower than seen in 2012, were realised in the first half of 2013 relating to the possible mis-selling of PPI policies in the UK in previous years. In relation to the DPAs, the Group has committed to take, or continue to adhere to, a number of remedial measures. Breach of the DPAs at any time during their terms may allow the DoJ or the New York County District Attorney s Office to prosecute HSBC in relation to the matters which are the subject of DPAs. Various regulators and competition authorities around the world are also investigating and reviewing certain past submissions made by panel banks and the process for making submissions in connection with the setting of Libor, Euribor, and other benchmark

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interest and foreign exchange rates. In response, we have undertaken a number of initiatives by which we seek to address the issues identified, including creating a new global management structure, enhancing our governance and oversight, increasing our Compliance function resource, emphasising HSBC Values and designing and implementing new Global Standards.

Other featured operational risks include:

- *challenges to achieving our strategy in a downturn*: businesses and geographical regions have prioritised strategy and annual operating plans to reflect current economic conditions. Performance against plan is monitored through a number of means including the use of balanced scorecards and performance reporting at all relevant management committees;

- *internet crime and fraud*: increased monitoring and additional controls including internet banking controls have been implemented to enhance our defences against external attack and reduce the level of losses in these areas;

- *level of change creating operational complexity*: risk functions are engaged with business management in business transformation initiatives to ensure robust internal controls are maintained, including through participation in all relevant management committees. The Global Transactions Team has developed an enhanced risk management framework to be applied to the management of disposal risks; and

- *information security*: in common with other banks and multinational organisations, we face a growing threat of cyber attacks. Significant investment has already been made in improving controls, including increased training to raise staff awareness of the requirements, enhanced controls around data access and heightened monitoring of information flows. This area will continue to be a focus of ongoing initiatives to strengthen the control environment.

Other operational risks are also monitored and managed through the use of the operational risk management framework, including investments made to further improve the resilience of our payments infrastructure.

Legal proceedings are discussed in Note 24 on the Financial Statements and further details regarding compliance risk are set out below.

Compliance risk

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

All Group companies are required to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice.

In line with our ambition to be the world s leading international bank, we have committed to adopt and enforce industry leading compliance standards across the Group. One of the ways to achieve this is to ensure that we put in place a robust compliance risk management infrastructure.

We had already made progress on this during 2012 with the appointment of a new Head of Group Financial Crime Compliance with particular expertise and experience in US law and regulation. This was followed by the appointment of a new Global Head of Regulatory Compliance and in April 2013, we commenced the restructuring of our existing Compliance sub-function within Global Risk into two new sub-functions: Financial Crime Compliance and Regulatory Compliance, jointly supported by Compliance Shared Services. This restructuring is ongoing and will allow us to:

- manage different types of regulatory and financial crime compliance risk more effectively;
- focus our efforts appropriately in addressing the issues highlighted by regulatory investigations and reviews, internal audits and risk assessments of our past business activities; and
- ensure we have in place clear, robust accountability and appropriate expertise and processes for all areas of compliance risk.

Financial Crime Compliance will focus on setting policy and managing risks in the following areas:

- anti-money laundering, counter terrorist financing and proliferation finance;
- sanctions; and
- anti-bribery and corruption.

Regulatory Compliance will focus on setting policy and managing risks in the following areas:

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conduct of business;

market conduct; and

general regulatory compliance management including stakeholder support.

We have also continued to invest in the Compliance sub-functions, having doubled spending on the function generally between 2010 and 2012 and increased headcount by over 250% between 2010 and 30 June 2013. This further investment will continue throughout 2013.

In conjunction with the continued implementation of the wider Group strategy, including measures to implement global standards, streamline processes and procedures and simplify our global business activity through the disposal or closure of non-strategic and/or underperforming positions or businesses, these measures should position us well to meet significantly increased levels of new regulation and of activity from regulators and law enforcement agencies in pursuing investigations in relation to possible breaches of regulation. In addition, they will ensure we have in place the appropriate people, processes, systems and training to manage emerging risks, new products and businesses and evolving markets.

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

Reputational risk

Reputational risk can arise from issues, activities and associations that might pose a threat to the reputation of the Group, locally, regionally or internationally.

As noted in the compliance risk section above, we have continued to take steps to tackle the root causes of the deficiencies that, amongst other things, led to the Group entering into DPAs with various US authorities in relation to investigations regarding inadequate compliance with anti-money laundering and sanctions law in December 2012.

A number of measures to address the requirements of the DPAs and otherwise to enhance our anti-money laundering and sanctions compliance framework have been taken and/or are ongoing. These measures, which should also serve over time to enhance our reputational risk management, include the following:

simplifying our business through the ongoing implementation of our Group strategy, including the adoption of a global risk filter which should help to standardise our approach to doing business in higher risk countries;

a substantial increase in resources and investment allocated to the Compliance function, and its reorganisation into two sub-functions (see Compliance risk above);

an increase in dedicated reputational risk resources in each region in which we operate;

the continued roll out of training and communication about the HSBC Values programme that defines the way everyone in the Group should act and seeks to ensure that the Values are embedded into our business as usual operations; and

the ongoing development and implementation of the Global Standards by which we conduct our businesses. This includes ensuring there is a globally consistent approach to knowing and retaining our customers and enforcing a consistent global sanctions policy.

Detecting and preventing illicit actors access to the global financial system calls for constant vigilance and HSBC will continue to cooperate closely with all governments to achieve success. This is integral to the execution of HSBC s strategy, to our core values and to preserving and enhancing our reputation.

The reputational risk policies and practices remain unchanged from those reported on page 278 of the *Annual Report and Accounts 2012*, with the following exception. The Regional Reputational Risk Policy Committees, with the exception of Asia-Pacific, have been demised and their role has been subsumed into Regional Risk Management Committees. Minutes in respect of reputational issues from the regional committees continue to be tabled at Group Reputational Risk Policy Committee.

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Risk management of insurance operations

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

There have been no material changes to our policies and practices for the management of insurance risk, including the risks relating to different life and non-life products.

A summary of HSBC s policies and practices regarding insurance risk and the main contracts we manufacture is provided in the Appendix to Risk on page 273 of the Annual Report and Accounts 2012.

HSBC s bancassurance model

We operate an integrated bancassurance model which provides wealth and protection insurance products principally for customers with whom we have a banking relationship. Insurance products are sold through all global businesses, predominantly by RBWM and CMB, through our branches and direct channels worldwide.

The insurance contracts we sell largely relate to the underlying needs of our banking customers, which we can identify from our point-of-sale contacts and customer knowledge. The majority of sales are of savings and investment products and term and credit life contracts. By focusing largely on personal and SME lines of business we are able to optimise volumes and diversify individual insurance risks.

Where we have operational scale and risk appetite, these insurance products are manufactured by HSBC subsidiaries. Manufacturing insurance allows us to retain the risks and rewards associated

with writing insurance contracts as part of the underwriting profit, investment income and distribution commission are kept within the Group.

Where we do not have the risk appetite or operational scale to be an effective insurance manufacturer, we engage through a handful of leading external insurance companies to provide insurance products to our customers through our banking network and direct channels. These arrangements are generally structured with our exclusive strategic partners and earn the Group a combination of commissions, fees and profit-share.

We distribute insurance products in all of our geographical regions. We have core life insurance manufacturing entities, the majority of which are direct subsidiaries of legal banking entities, in seven countries (Argentina, Brazil, Mexico, France, UK, Hong Kong and Singapore). Our life insurance manufacturing entities in the US previously reported as held for sale were sold in the first half of 2013.

Insurance risk in the first half of 2013

Risks in these operations are managed within the insurance entities using methodologies and processes appropriate to the insurance activities, but remain subject to oversight at Group level.

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

In respect of financial risks, subsidiaries manufacturing products with guarantees are usually exposed to falls in market interest rates and equity prices to the extent that the market exposure cannot be managed by utilising discretionary participation (or bonus) features (DPF) within the policy.

The following table analyses our life insurance risk exposures by geographical region and by type of business. The insurance risk profile and related exposures remain largely consistent with those observed at 31 December 2012.

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Analysis of life insurance risk liabilities to policyholders[55,56]

	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	Latin America US$m	Total US$m
At 30 June 2013					
Life (non-linked)	**1,293**	**27,575**	**1,705**	**2,142**	**32,715**
insurance contracts with DPF[57]	**354**	**25,366**	**502**		**26,222**
credit life	**131**		**68**		**199**
annuities	**585**		**127**	**1,501**	**2,213**
term assurance and other long-term contracts	**223**	**2,209**	**1,008**	**641**	**4,081**
Life (linked)	**3,402**	**3,676**	**627**	**4,995**	**12,700**
Investment contracts with DPF[57,58]	**24,330**				**24,330**
Insurance liabilities to policyholders	**29,025**	**31,251**	**2,332**	**7,137**	**69,745**
At 30 June 2012					
Life (non-linked)	1,185	23,645	1,432	2,079	28,341
insurance contracts with DPF[57]	329	22,028	395		22,752
credit life	167		59		226
annuities	547		110	1,512	2,169
term assurance and other long-term contracts	142	1,617	868	567	3,194
Life (linked)	2,774	3,713	532	4,905	11,924
Investment contracts with DPF[57,58]	21,898		8		21,906
Insurance liabilities to policyholders	25,857	27,358	1,972	6,984	62,171
At 31 December 2012					
Life (non-linked)	1,319	25,615	1,587	2,163	30,684
insurance contracts with DPF[57]	353	23,685	439		24,477
credit life	160		61		221
annuities	586		122	1,579	2,287
term assurance and other long-term contracts	220	1,930	965	584	3,699
Life (linked)	3,249	3,786	594	5,427	13,056
Investment contracts with DPF[57,58]	24,370		4		24,374
Insurance liabilities to policyholders	28,938	29,401	2,185	7,590	68,114

For footnotes, see page 178.

Our most significant life insurance products are investment contracts with DPF issued in France, insurance contracts with DPF issued in Hong Kong and unit-linked contracts issued in Latin America, Hong Kong and the UK.

Balance sheet of insurance manufacturing subsidiaries by type of contract

A principal tool used to manage exposures to both financial and insurance risk, in particular for life insurance contracts, is asset and liability matching.

The table below shows the composition of assets and liabilities by contract type and demonstrates that there were sufficient assets to cover the liabilities to policyholders in each case at 30 June 2013.

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Balance sheet of insurance manufacturing subsidiaries by type of contract

	Insurance contracts					Investment contracts				
	With DPF US$m	Unit-linked US$m	Annuities US$m	Term assurance[59] US$m	Non-life US$m	With DPF[58] US$m	Unit-linked US$m	Other US$m	Other assets[60] US$m	Total US$m
At 30 June 2013										
Financial assets	25,918	12,451	1,733	4,365	45	23,636	8,782	4,303	5,511	86,744
trading assets			4							4
financial assets designated at fair value	3,628	12,258	524	670	14	6,389	8,349	1,550	1,425	34,807
derivatives	13	3		1		191	6	1	59	274
financial investments	19,053		955	3,402	5	15,518		1,906	3,193	44,032
other financial assets	3,224	190	250	292	26	1,538	427	846	834	7,627
Reinsurance assets	174	327	493	339	7				3	1,343
PVIF[61]									4,874	4,874
Other assets and investment properties	730	10	28	105		694	28	26	452	2,073
Total assets	26,822	12,788	2,254	4,809	52	24,330	8,810	4,329	10,840	95,034
Liabilities under investment contracts:										
designated at fair value							8,601	3,740		12,341
carried at amortised cost								452		452
Liabilities under insurance contracts	26,222	12,700	2,213	4,280	26	24,330				69,771
Deferred tax	13		11						1,099	1,123
Other liabilities									1,890	1,890
Total liabilities	26,235	12,700	2,224	4,280	26	24,330	8,601	4,192	2,989	85,577
Total equity									9,457	9,457
Total equity and liabilities[62]	26,235	12,700	2,224	4,280	26	24,330	8,601	4,192	12,446	95,034
At 30 June 2012										
Financial assets	22,712	11,129	1,798	3,758	1,123	21,242	8,138	4,212	6,347	80,459
trading assets			4							4
financial assets designated at fair value	1,989	10,905	376	571	212	5,895	7,432	1,472	2,623	31,475
derivatives	20	1				216	5	91	5	338
financial investments	16,971		1,083	2,929	676	13,728		1,847	3,122	40,356
other financial assets	3,732	223	335	258	235	1,403	701	802	597	8,286
Reinsurance assets	13	826	464	166	102				73	1,644
PVIF[61]									4,426	4,426
Other assets and investment properties	422	8	19	175	145	664	30	28	2,924	4,415
Total assets	23,147	11,963	2,281	4,099	1,370	21,906	8,168	4,240	13,770	90,944

Liabilities under investment contracts:										
designated at fair value							8,057	3,679		11,736
carried at amortised cost								430		430
Liabilities under insurance contracts	22,752	11,924	2,169	3,420	690	21,906				62,861
Deferred tax	17		14	10	1				1,011	1,053
Other liabilities									4,587	4,587
Total liabilities	22,769	11,924	2,183	3,430	691	21,906	8,057	4,109	5,598	80,667
Total equity									10,277	10,277
Total equity and liabilities[62]	22,769	11,924	2,183	3,430	691	21,906	8,057	4,109	15,875	90,944

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	Insurance contracts					Investment contracts				
	With DPF US$m	Unit-linked US$m	Annuities US$m	Term assurance[59] US$m	Non-life US$m	With DPF[58] US$m	Unit-linked US$m	Other US$m	Other assets[60] US$m	Total US$m
At 31 December 2012										
Financial assets	24,288	12,619	1,785	4,350	356	23,620	8,780	4,315	4,692	84,805
trading assets			4							4
financial assets designated at fair value	2,333	12,440	571	756	196	6,043	8,206	1,486	987	33,018
derivatives	40	4		6		117	13	86	69	335
financial investments	18,283		932	3,315	73	16,022		1,853	2,928	43,406
other financial assets	3,632	175	278	273	87	1,438	561	890	708	8,042
Reinsurance assets	124	593	494	320	14				22	1,567
PVIF[61]									4,847	4,847
Other assets and investment properties	448	7	34	110	11	754	24	28	2,420	3,836
Total assets	24,860	13,219	2,313	4,780	381	24,374	8,804	4,343	11,981	95,055
Liabilities under investment contracts:										
designated at fair value							8,691	3,765		12,456
carried at amortised cost								455		455
Liabilities under insurance contracts	24,477	13,056	2,287	3,920	81	24,374				68,195
Deferred tax	13		13	12	1				1,161	1,200
Other liabilities									2,760	2,760
Total liabilities	24,490	13,056	2,300	3,932	82	24,374	8,691	4,220	3,921	85,066
Total equity									9,989	9,989
Total equity and liabilities[62]	24,490	13,056	2,300	3,932	82	24,374	8,691	4,220	13,910	95,055

For footnotes, see below.

Footnotes to Risk

Credit risk

1 *The table presents our maximum exposure to credit risk from balance sheet and off-balance sheet financial instruments before taking account of any collateral held or other credit enhancements (unless such enhancements meet accounting offsetting requirements). For financial assets recognised on the balance sheet, the maximum exposure to credit risk equals their carrying amount; for financial guarantees and similar contracts granted, it is the maximum amount that we would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, it is generally the full amount of the committed facilities.*

2 *The amount of the loan commitments reflects, where relevant, the expected level of take-up of pre-approved loan offers made by mailshots to personal customers. In addition to those amounts, there is a further maximum possible exposure to credit risk of US$48bn (30 June 2012: US$27.9bn; 31 December 2012: US$28bn), reflecting the full take-up of such irrevocable loan commitments. The take-up of such offers is generally at modest levels.*

3 *The US includes residential mortgages of HSBC Bank USA and HSBC Finance. Other regions comprise Rest of Asia-Pacific, Middle East and North Africa, and Latin America.*

4

First lien residential mortgages include Hong Kong Government Home Ownership Scheme loans of US$3.1bn at 30 June 2013 (30 June 2012: US$3.2bn; 31 December 2012: US$3.2bn).

5 *HSBC Finance lending is shown on a management basis and includes loans transferred to HSBC USA Inc. which are managed by HSBC Finance.*

6 *Property acquired through foreclosure is initially recognised at the lower of the carrying amount of the loan or its fair value less estimated costs to sell (Initial Foreclosed Property Carrying Amount). The average loss on sale of foreclosed properties is calculated as the Initial Foreclosed Properties Carrying Amount less cash proceeds divided by the unpaid loan principal balance prior to write-down (excluding any accrued finance income) plus certain other ancillary disbursements that, by law, are reimbursable from the cash proceeds (e.g. real estate tax advances) and were incurred prior to our taking title to the property. This ratio represents the portion of our total loss on foreclosed properties that occurred after we took title to the property. The comparative data for 30 June and 31 December 2012 are restated (previously divided by the Initial Foreclosure Property Carrying Amount).*

7 *The average total loss on foreclosed properties includes both the loss on sale of the foreclosed property as discussed in footnote 6 and the cumulative write-downs recognised on the loans up to the time we took title to the property. This calculation of the average total loss on foreclosed properties uses the unpaid loan principal balance prior to write-down (excluding any accrued finance income) plus certain other ancillary disbursements that, by law, are reimbursable from the cash proceeds (e.g. real estate tax advances) and were incurred prior to our taking title to the property.*

8 *Other commercial loans and advances includes advances in respect of agriculture, transport, energy and utilities.*

9 *For the purpose of this disclosure, retail loans which are past due up to 89 days and are not otherwise classified as impaired in accordance with our disclosure convention (see page 162 in the* Annual Report and Accounts 2012*), are not disclosed within the expected loss (EL) grade to which they relate, but are separately classified as past due but not impaired.*

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10 *Impairment allowances are not reported for financial instruments whereby the carrying amount is reduced directly for impairment and not through the use of an allowance account.*
11 *Impairment is not measured for assets held in trading portfolios or designated at fair value as assets in such portfolios are managed according to movements in fair value, and the fair value movement is taken directly to the income statement. Consequently, we report all such balances under Neither past due nor impaired .*
12 *Loans and advances to customers include asset-backed securities that have been externally rated as strong (30 June 2013: US$2.0bn; 30 June 2012: US$3.5bn; 31 December 2012: US$2.3bn), good (30 June 2013: US$348m; 30 June 2012: US$564m; 31 December 2012: US$457m), satisfactory (30 June 2013: US$338m; 30 June 2012: US$205m; 31 December 2012: US$390m), sub-standard (30 June 2013: US$493m; 30 June 2012: US$649m; 31 December 2012: US$422m) and impaired (30 June 2013: US$246m; 30 June 2012: US$227m; 31 December 2012: US$259m).*
13 *Other personal loans and advances include second lien mortgages and other property-related lending.*
14 *Included in this category are loans of US$2.1bn (30 June 2012: US$2.5bn; 31 December 2012: US$2.3bn) that have been re-aged once and were less than 60 days past due at the point of re-age. These loans are not classified as impaired following re-age due to the overall expectation that these customers will perform on the original contractual terms of their borrowing in the future.*
15 *Impaired loans and advances are those classified as CRR 9, CRR 10, EL 9 or EL 10, retail loans 90 days or more past due, unless individually they have been assessed as not impaired (see page 127, Past due but not impaired gross financial instruments) and renegotiated loans and advances meeting the criteria to be disclosed as impaired (see page 129).*
16 *Collectively assessed loans and advances comprise homogeneous groups of loans that are not considered individually significant, and loans subject to individual assessment where no impairment has been identified on an individual basis, but on which a collective impairment allowance has been calculated to reflect losses which have been incurred but not yet identified.*
17 *Collectively assessed loans and advances not impaired are those classified as CRR1 to CRR8 and EL1 to EL8 but excluding retail loans 90 days past due and renegotiated loans and advances meeting the criteria to be disclosed as impaired.*
18 *Net of repo transactions, settlement accounts and stock borrowings.*
19 *As a percentage of loans and advances to banks and loans and advances to customers, as applicable.*
20 *Included within Exchange and other movements is US$0.8bn of impairment allowances reclassified to held for sale.*
21 *Currency translation is the effect of translating the results of subsidiaries and associates for the previous period at the average rates of exchange applicable in the current period.*
22 *Negative numbers are favourable: positive numbers are unfavourable.*
23 *Equity securities not included.*
24 *Included within Total gross loans and advances to customers is credit card lending of US$28.9bn (30 June 2012: US$29.1bn; 31 December 2012: US$31.2bn).*
25 *The impairment allowances on loans and advances to banks at 30 June 2013 relate to the geographical regions, Europe and Middle East and North Africa (30 June 2012: Europe and Middle East and North Africa; 31 December 2012: Europe, Middle East and North Africa and North America).*
26 *Carrying amount of the net principal exposure.*
27 *Includes holdings of ABSs issued by The Federal Home Loan Mortgage Corporation (Freddie Mac) and The Federal National Mortgage Association (Fannie Mae).*
28 *Directly held includes assets held by Solitaire where we provide first loss protection and assets held directly by the Group.*
29 *Effect of impairments represents the reduction or increase in the reserve on initial impairment and subsequent reversal of impairment of the asset.*
30 *The gross principal is the redemption amount on maturity or, in the case of an amortising instrument, the sum of the future redemption amounts through the residual life of the security.*
31 *A credit default swap (CDS) gross protection is the gross principal of the underlying instrument that is protected by CDSs.*
32 *Net principal exposure is the gross principal amount of assets that are not protected by CDSs. It includes assets that benefit from monoline protection, except where this protection is purchased with a CDS.*
33 *Net exposure after legal netting and any other relevant credit mitigation prior to deduction of the credit risk adjustment.*
34 *Cumulative fair value adjustment recorded against exposures to OTC derivative counterparties to reflect their creditworthiness.*
35 *Funded exposures represent the loan amount advanced to the customer, less any fair value write-downs, net of fees held on deposit.*
36 *Unfunded exposures represent the contractually committed loan facility amount not yet drawn down by the customer, less any fair value write-downs, net of fees held on deposit.*
37 *In-country liabilities in Italy include liabilities issued under local law but booked outside the country.*

Liquidity and funding

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

39 *HSBC UK comprises five legal entities; HSBC Bank plc (including all overseas branches), Marks and Spencer Financial Services Limited, HSBC Private Bank (UK) Ltd, HFC Bank Ltd and HSBC Trust Company (UK) Limited, managed as a single operating entity, in line with the application of UK liquidity regulation as agreed with the UK PRA.*

40 *The Hongkong and Shanghai Banking Corporation represents the bank in Hong Kong including all overseas branches. Each branch is monitored and controlled for liquidity and funding risk purposes as a stand-alone operating entity.*

41 *HSBC USA represents the HSBC USA Inc. consolidated group; predominantly HSBC USA Inc. and HSBC Bank USA, NA. The HSBC USA Inc. consolidated group is managed as a single operating entity.*

42 *The total shown for other principal entities represents the combined position of all the other operating entities overseen directly by the Risk Management Meeting of the GMB.*

43 *Estimated liquidity value represents the expected realisable value of assets prior to management assumed haircuts.*

44 *The undrawn balance for the five largest committed liquidity facilities provided to customers other than facilities to conduits.*

45 *The undrawn balance for the total of all committed liquidity facilities provided to the largest market sector, other than facilities to conduits.*

Market risk

46 *The effect of any month-end adjustments not attributable to a specific daily market move is spread evenly over the days in the month in question.*

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47 *Revenues within the daily distribution graph include all revenues booked in Global Markets (gross of brokerage fees). The 2012 daily distribution of trading revenues excludes the effect of the one-off credit valuation adjustment on derivative assets of US$899m.*
48 *The standard deviation measures the variation of daily revenues about the mean value of those revenues.*
49 *Trading portfolios comprise positions arising from the market-making and warehousing of customer-derived positions.*
50 *Portfolio diversification is the market risk dispersion effect of holding a portfolio containing different risk types. It represents the reduction in unsystematic market risk that occurs when combining a number of different risk types, for example, interest rate, equity and foreign exchange, together in one portfolio. It is measured as the difference between the sum of the VAR by individual risk type and the combined total VAR. A negative number represents the benefit of portfolio diversification. As the maximum and minimum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification benefit for these measures.*
51 *The total VAR is non-additive across risk types due to diversification effects.*
52 *Investments in private equity are primarily made through managed funds that are subject to limits on the amount of investment. Potential new commitments are subject to risk appraisal to ensure that industry and geographical concentrations remain within acceptable levels for the portfolio as a whole. Regular reviews are performed to substantiate the valuation of the investments within the portfolio.*
53 *Investments held to facilitate ongoing business include holdings in government-sponsored enterprises and local stock exchanges.*
54 *Instead of assuming that all interest rates move together, we group our interest rate exposures into currency blocs whose rates are considered likely to move together.*

Risk management of insurance operations

55 *HSBC has no insurance manufacturing subsidiaries in the Middle East and North Africa.*
56 *The life insurance business in North America previously reported as held for sale was disposed of in the first half of 2013.*
57 *Insurance contracts and investment contracts with discretionary participation features (DPF) can give policyholders the contractual right to receive, as a supplement to their guaranteed benefits, additional benefits that may be a significant portion of the total contractual benefits, but whose amount and timing are determined by HSBC. These additional benefits are contractually based on the performance of a specified pool of contracts or assets, or the profit of the company issuing the contracts.*
58 *Although investment contracts with DPF are financial instruments, HSBC continues to account for them as insurance contracts as permitted by IFRS 4.*
59 *Term assurance includes credit life insurance.*
60 *The Other assets column shows shareholder assets as well as assets and liabilities classified as held for sale. The majority of the assets for insurance businesses classified as held for sale are reported as Other assets and investment properties and totalled US$0.1bn at 30 June 2013 (30 June 2012: US$2.4bn; 31 December 2012: US$2.0bn). Assets classified as held for sale consist primarily of debt securities. All liabilities for insurance businesses classified as held for sale are reported in Other liabilities and totalled US$0.1bn at 30 June 2013 (30 June 2012: US$1.6bn; 31 December 2012: US$1.2bn). The majority of these liabilities were life and non-life policyholder liabilities.*
61 *Present value of in-force long-term insurance contracts and investment contracts with DPF.*
62 *Does not include associated insurance company SABB Takaful Company or joint venture insurance company, Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited.*

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Interim Management Report (continued)

Capital

1 Appendix to Capital.

Interim Management Report (continued)

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

Capital highlights

Core tier 1 capital ratio 12.7%, up from 12.3% at year-end 2012, as a result of capital generation and management actions.

Our end point CET1 ratio 10.1%, up from 9.5% at year-end 2012, as a result of similar drivers.

Capital overview

In the first half of 2013, there were no material changes to our capital management policies.

Capital ratios

	At 30 Jun 2013 %	At 30 Jun 2012 %	At 31 Dec 2012 %
Current regime			
Core tier 1 ratio	**12.7**	11.3	12.3
Tier 1 ratio	**13.6**	12.7	13.4
Total capital ratio	**16.6**	15.1	16.1
CRD IV			
Common equity tier 1 ratio[1]	**10.1**	n/a	9.5

For footnote, see page 191.

In March 2013, the Financial Policy Committee (FPC) directed the Prudential Regulation Authority (PRA) to ensure that by December 2013 major UK banks hold capital resources equivalent to at least 7% of their risk-weighted assets, using a Basel III definition of Common Equity Tier 1 (CET1) but after taking deductions to reflect the FPC s assessment of expected future losses and future costs of conduct redress, and adjusting for a more prudent calculation of risk weights.

The PRA has now established a forward-looking Basel III end point CET1 target post-FPC adjustments for the Group. This effectively replaces the Capital Resources Floor that was set by the FSA towards the end of 2012.

Important elements of the new capital framework are yet to be clarified. There remains continued uncertainty around the precise amount of capital that banks will be required to hold. These

include the quantification and interaction of capital buffers and additional regulatory adjustments. Furthermore, there are a significant number of national discretions within the legislation which the UK has yet to implement, and a number of unpublished EBA technical and implementation standards.

We currently manage our capital position to meet an internal target CET1 ratio of greater than 10% on a Basel III end point basis and continue to keep this under review.

Our approach to managing Group capital is designed to ensure that we exceed current regulatory requirements, and are well placed to meet those expected in the future.

A summary of our policies and practices regarding capital management, measurement and allocation is provided in the Appendix to Capital on page 192.

Risk-weighted assets

RWAs by risk type

	At 30 Jun 2013 US$m	At 30 Jun 2012 US$m	At 31 Dec 2012 US$m
Credit risk	**867,014**	931,724	898,416
Standardised approach	**346,089**	389,142	374,469
IRB foundation approach	**10,700**	8,822	10,265
IRB advanced approach	**510,225**	533,760	513,682
Counterparty credit risk	**48,581**	49,535	48,319
Standardised approach[2].	**3,460**	2,880	2,645
IRB approach	**45,121**	46,655	45,674
Market risk	**70,906**	54,281	54,944
Operational risk	**118,263**	124,356	122,264
Total	**1,104,764**	1,159,896	1,123,943
Of which:			
run-off portfolios	**120,314**	170,023	145,689
legacy credit in GB&M	**33,406**	47,730	38,587
US CML and Other	**86,908**	122,293	107,102
Card and Retail Services[3]	**2,858**	9,917	6,858

For footnotes, see page 191.

RWAs reduced by US$19bn to US$1,105bn in the first half of 2013, due to a number of management actions, partially offset by external and internal regulatory updates and business growth.

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Market risk RWAs

	At 30 Jun 2013 US$m	At 30 Jun 2012 US$m	At 31 Dec 2012 US$m
VAR	**5,743**	8,201	7,616
Stressed VAR	**6,936**	11,466	11,048
Incremental risk charge	**24,142**	4,613	11,062
Comprehensive risk measure	**3,063**	5,354	3,387
Other VAR and stressed VAR	**19,597**	11,167	11,355
Internal model based	**59,481**	40,801	44,468
PRA standard rules	**11,425**	13,480	10,476
	70,906	54,281	54,944

RWAs by global businesses

	At 30 Jun 2013 US$bn	At 30 Jun 2012 US$bn	At 31 Dec 2012 US$bn
Retail Banking and Wealth Management	**243.4**	298.7	276.6
Commercial Banking	**385.9**	397.8	397.0
Global Banking and Markets	**429.2**	412.9	403.1
Global Private Banking	**21.8**	21.8	21.7
Other	**24.5**	28.7	25.5
	1,104.8	1,159.9	1,123.9

RWAs by geographical regions[4]

	At 30 Jun 2013 US$bn	At 30 Jun 2012 US$bn	At 31 Dec 2012 US$bn
Total	**1,104.8**	1,159.9	1,123.9
Europe	**305.4**	329.5	314.7

Hong Kong	**128.1**	108.0	111.9
Rest of Asia-Pacific	**285.0**	303.2	302.2
MENA	**64.2**	63.0	62.2
North America	**236.4**	279.2	253.0
Latin America	**96.7**	99.8	97.9

For footnote, see page 191.

Credit risk RWAs

Credit risk RWAs are calculated using three approaches as permitted by the PRA. For consolidated Group reporting we have adopted the advanced IRB approach for the majority of our business, with a small proportion on the foundation IRB approach and the remaining portfolios being on the standardised approach.

For portfolios treated under the standardised approach, credit risk RWAs reduced by US$28bn of which US$5bn was due to foreign exchange movements. The reduction was primarily due to the reclassification of Industrial Bank from an associate

to a financial investment. As a result, the holding was removed from the regulatory consolidation for RWAs and the investment was deducted from capital, resulting in a reduction in RWAs of US$38.1bn. The reduction was partially offset by loan growth in BoCom, increasing RWAs by US$12bn.

Credit risk RWA movements by key driver for portfolios treated under the IRB approach are set out in the table below. For the basis of preparation, see the Appendix to Capital on page 197. The net reduction in IRB RWAs of US$3.0bn comprised a decrease of US$11.7bn due to foreign exchange movements partially offset by a combination of the factors outlined below.

The Group implemented the PRA-determined 45% loss-given-default floor on sovereign exposures under the IRB approach, resulting in an RWA increase of US$19bn from external regulatory updates, affecting most regions.

In Hong Kong and Rest of Asia-Pacific, corporate exposures were identified which did not meet the full modelling requirements and these were subsequently moved temporarily to the standardised approach, reducing RWAs on the IRB approach by US$3.7bn and US$1.6bn respectively, with a corresponding increase in standardised RWAs. This is shown under internal regulatory updates below.

Disposals were a significant contributor to the reduction in RWAs during the period. In North America, in line with our objective to accelerate the run-off of the US CML portfolio, we completed the sale of a tranche of non-real estate and personal home-owner loans, reducing RWAs by US$8.2bn.

Book growth was the key driver of RWA increases in Hong Kong and Rest of Asia-Pacific, with higher term lending and trade finance business. In North America, the book reductions were due to the continuing run-off of the US CML portfolio, partially offset by growth in commercial lending.

Regulatory approval for a new exposure-at-default model for corporate customers in France reduced RWAs in Europe by US$1.8bn through lower credit conversion factors that are more reflective of historical experience.

Book quality remained stable overall, with offsetting effects in different regions. In North America, changes in retail customer behaviour and characteristics in the US CML portfolio resulted in a reduction in RWAs, while further

Interim Management Report (continued)

reductions were due to a favourable shift in corporate portfolio quality from targeting new business with higher quality customers. In Europe, a US$5.3bn management overlay was applied for corporate exposures, increasing RWAs in response to increased loss rates and in advance of model recalibration. This was partially offset by securitisation downgrades, moving exposures from RWAs to capital deductions.

RWA movement by key driver credit risk IRB only

	Europe US$bn	Hong Kong US$bn	Rest of Asia-Pacific US$bn	MENA US$bn	North America US$bn	Latin America US$bn	Total US$bn
RWAs at 1 January 2013	**150.7**	**70.2**	**92.1**	**12.6**	**187.1**	**11.2**	**523.9**
Foreign exchange movement	**(6.0)**	**(0.1)**	**(3.1)**	**(0.4)**	**(1.6)**	**(0.5)**	**(11.7)**
Acquisitions and disposals	**(1.6)**				**(8.2)**		**(9.8)**
Book size	**2.0**	**5.6**	**4.8**	**0.1**	**(5.5)**	**(0.4)**	**6.6**
Book quality	**2.4**	**2.8**	**0.9**	**1.5**	**(7.1)**	**0.1**	**0.6**
Model updates	**(1.8)**			**0.1**	**(0.2)**		**(1.9)**
portfolios moving onto IRB approach							
new/updated models	**(1.8)**			**0.1**	**(0.2)**		**(1.9)**
Methodology and policy	**2.7**	**0.1**	**0.3**		**10.0**	**0.1**	**13.2**
internal regulatory updates	**0.2**	**(3.8)**	**(2.2)**		**(0.2)**	**0.1**	**(5.9)**
external regulatory updates	**2.5**	**3.9**	**2.5**		**10.2**		**19.1**
Total RWA movement	**(2.3)**	**8.4**	**2.9**	**1.3**	**(12.6)**	**(0.7)**	**(3.0)**
RWAs at 30 June 2013	148.4	78.6	95.0	13.9	174.5	10.5	520.9

Counterparty credit risk and market risk RWAs

Trading portfolio movements for the modelled approaches to market risk and counterparty credit risk (CCR) RWAs are outlined in the tables below.

RWA movement by key driver counterparty credit risk IRB only

	US$bn
RWAs at 1 January 2013	**45.7**
Book size	**1.0**

Book quality	**(1.0)**
Model updates	
Methodology and policy	**(0.6)**
internal regulatory updates	**(0.6)**
external regulatory updates	
Total RWA movement	**(0.6)**
RWAs at 30 June 2013	**45.1**

CCR RWAs remained stable during the first half of 2013, as the increases caused by large business volumes and higher fair values were substantially offset by improved portfolio quality.

Market risk RWAs increased by US$16bn during the first half of 2013 primarily due to model

and methodology changes in relation to the incremental risk charge (IRC).

The IRC model was updated as part of an annual review, taking account of regulatory hypothetical portfolio exercise results. This led to the use of a stressed period for calibration of key input parameters along with an increase in granularity. These changes will capture the risk profile more accurately in a stressed environment. This has resulted in a one-time increase in IRC which is reflected in the current period. In order to reflect the changes in market condition we will continue to do periodic re-calibration as part of our model maintenance. In addition, there has been a methodology change in the basis of consolidation further increasing the IRC charge as a result of clarification of regulatory rules. The effect of these changes was partially offset by a reduction in VAR and stressed VAR due to a reduction in positions and changes in the shape of the trading portfolio.

Market risk RWA movements for portfolios not within scope of modelled approaches showed an increase of US$1.0bn. This was due to a number of small movements across multiple portfolios.

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RWA movement by key driver market risk internal model based

	US$bn
RWAs at 1 January 2013	**44.5**
Foreign exchange movement and other	
Movement in risk levels	**(4.6)**
Model updates	**17.6**
Methodology and policy	**2.0**
internal regulatory updates	**2.0**
external regulatory updates	
Total RWA movement	**15.0**
RWAs at 30 June 2013	**59.5**

Operational risk RWAs

The reduction during the first half of 2013 was due to the acceleration of the amortisation of the operational risk RWAs for the US CRS portfolio disposed of in May 2012.

Movement in total regulatory capital in the first half of 2013

Source and application of total regulatory capital

		Half-year to	
	30 June	30 June	31 December
	2013	2012	2012
	US$m	US$m	US$m
Movement in total regulatory capital			
Opening core tier 1 capital	**138,789**	122,496	130,669
Contribution to core tier 1 capital from profit for the period	**10,297**	10,011	7,816
consolidated profits attributable to shareholders of the parent company	**10,284**	8,438	5,589
removal of own credit spread net of tax	**13**	1,573	2,227
Net dividends	**(4,780)**	(3,447)	(2,166)
dividends	**(5,487)**	(4,454)	(3,588)
add back: shares issued in lieu of dividends	**707**	1,007	1,422
Decrease in goodwill and intangible assets deducted	**739**	769	917

Ordinary shares issued	**169**	263	331
Foreign currency translation differences	**(4,387)**	(364)	1,353
Other, including regulatory adjustments	**63**	941	(131)
Closing core tier 1 capital	**140,890**	130,669	138,789
Opening other tier 1 capital	**12,259**	17,094	16,265
Hybrid capital securities redeemed	**(1,239)**	(776)	
Unconsolidated investments	**(1,519)**	43	(4,163)
Other, including regulatory adjustments	**(249)**	(96)	157
Closing tier 1 capital	**150,142**	146,934	151,048
Opening other tier 2 capital	**29,758**	30,744	28,790
Unconsolidated investments	**6,932**	34	230
Redeemed capital	**(457)**	(877)	(606)
Other, including regulatory adjustments	**(2,925)**	(1,111)	1,344
Closing total regulatory capital	**183,450**	175,724	180,806

We complied with the UK regulatory capital adequacy requirements throughout 2012 and the first half of 2013. Internal capital generation contributed US$5.5bn to core tier 1 capital, being profits

attributable to shareholders of the parent company after regulatory adjustment for own credit spread and net of dividends.

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Interim Management Report (continued)

Capital structure

Composition of regulatory capital

	At 30 June 2013 US$m	At 30 June 2012 US$m	At 31 December 2012 US$m
Tier 1 capital			
Shareholders equity	**165,816**	160,606	167,360
shareholders equity per balance sheet[5]	**174,070**	165,845	175,242
preference share premium	**(1,405)**	(1,405)	(1,405)
other equity instruments	**(5,851)**	(5,851)	(5,851)
deconsolidation of special purpose entities[6]	**(998)**	2,017	(626)
Non-controlling interests	**4,754**	4,451	4,348
non-controlling interests per balance sheet	**8,291**	7,921	7,887
preference share non-controlling interests	**(2,395)**	(2,412)	(2,428)
non-controlling interests transferred to tier 2 capital	**(490)**	(496)	(501)
non-controlling interests in deconsolidated subsidiaries	**(652)**	(562)	(610)
Regulatory adjustments to the accounting basis	**178**	(3,308)	(2,437)
unrealised losses on available-for-sale debt securities[7]	**2,354**	1,208	1,223
own credit spread	**137**	(2,115)	112
defined benefit pension fund adjustment[8]	**70**	(116)	(469)
reserves arising from revaluation of property and unrealised gains on available-for-sale equities	**(2,567)**	(2,387)	(3,290)
cash flow hedging reserve	**184**	102	(13)
Deductions	**(29,858)**	(31,080)	(30,482)
goodwill capitalised and intangible assets	**(24,994)**	(26,650)	(25,733)
50% of securitisation positions	**(1,722)**	(1,364)	(1,776)
50% of tax credit adjustment for expected losses	**134**	145	111
50% of excess of expected losses over impairment allowances	**(3,276)**	(3,211)	(3,084)
Core tier 1 capital	**140,890**	130,669	138,789
Other tier 1 capital before deductions	**15,790**	17,110	17,301
preference share premium	**1,405**	1,405	1,405
preference share non-controlling interests	**2,395**	2,412	2,428
hybrid capital securities	**11,990**	13,293	13,468
Deductions	**(6,538)**	(845)	(5,042)
unconsolidated investments[9]	**(6,672)**	(990)	(5,153)
50% of tax credit adjustment for expected losses	**134**	145	111
Tier 1 capital	**150,142**	146,934	151,048
Tier 2 capital			
Total qualifying tier 2 capital before deductions	**45,009**	47,205	48,231
	2,567	2,387	3,290

reserves arising from revaluation of property and unrealised gains on available-for-sale equities			
collective impairment allowances	**2,799**	2,551	2,717
perpetual subordinated debt	**2,777**	2,778	2,778
term subordinated debt	**36,566**	39,189	39,146
non-controlling interests in tier 2 capital	**300**	300	300
Total deductions other than from tier 1 capital	**(11,701)**	(18,415)	(18,473)
unconsolidated investments[9]	**(6,672)**	(13,834)	(13,604)
50% of securitisation positions	**(1,722)**	(1,364)	(1,776)
50% of excess of expected losses over impairment allowances	**(3,276)**	(3,211)	(3,084)
other deductions	**(31)**	(6)	(9)
Total regulatory capital	**183,450**	175,724	180,806

For footnotes, see page 191.

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Interim Management Report (continued)

Regulatory impact of management actions

	At 31 December 2012			
	Risk-weighted assets	Core tier 1 capital	Tier 1 capital	Total regulatory capital
Reported capital ratios before management actions		12.3%	13.4%	16.1%
Reported totals (US$m)	1,123,943	138,789	151,048	180,806
Management actions completed in 2013 (US$m)				
dilution of our shareholding in Industrial Bank and the subsequent change in accounting treatment	(38,073)	981	(423)	(1,827)
completion of the second tranche of the sale of Ping An		553	4,637	7,984
Estimated total after management actions completed in 2013 (US$m)	1,085,870	140,323	155,262	186,963
Estimated capital ratios after management actions completed in 2013		12.9%	14.3%	17.2%

Basel III and CRD IV

In June 2013, the European Commission published the final Regulation and Directive, known collectively as CRD IV, to give effect to the Basel III framework in the EU. This will come into effect on 1 January 2014.

In October 2012, the PRA wrote to large UK firms describing the disclosures it required them to make for capital resources on a first year transitional basis and for the leverage ratio on an end point basis under CRD IV. At 31 December 2012, our disclosures were based on the July 2011 draft version of the CRD IV text. In July 2013, the PRA provided updated instructions to prepare the 30 June 2013 disclosures based on the final CRD IV rules. Our disclosures may be found on our website, www.hsbc.com, as a *Supplementary Regulatory Disclosure* under Investor Relations.

Following publication of the final CRD IV rules and the PRA s setting of a forward-looking CET1 capital target, in order to manage our transition to Basel III under CRD IV, we set out information for investors on the possible effects of these rules on our capital position in the table overleaf: Estimated effect of CRD IV end point rules . This table quantifies the known capital and RWA impacts at this time; however, these are subject to change. The PRA are consulting on the UK implementation of CRD IV and this should consider more than 50 national discretions, the quantification and interaction of capital buffers and other regulatory adjustments.

In addition, more than 100 Regulatory Technical Standards (RTS) and Implementing Technical Standards (ITS) have been issued by the EBA in draft form for consultation or are pending publication. This provides further uncertainty as to the precise capital and RWA requirements under CRD IV. The effects of these draft standards are not captured in our numbers. Consequently, there could

be additional, potentially significant impacts on our capital position and RWAs.

The table overleaf presents a reconciliation of our reported core tier 1 capital and RWAs to the estimated CET1 end point capital and estimated RWAs at 30 June 2013, based on our interpretation of the final CRD IV regulation, as supplemented by PRA guidance. The position at 30 June 2013 is presented in comparison with that at 31 December 2012, where the estimated effect was based on the July 2011 draft CRD IV text.

The presentation of the 31 December 2012 position has changed from the presentation in the 2012 Annual Report and Accounts. Future planned management actions to mitigate the effect of capital deductions for non-significant (or immaterial) holdings of financial sector entities, as outlined in our 31 December 2012 disclosures, have been taken into account at 30 June 2013.

These management actions would eliminate the deduction for non-significant holdings in financial sector entities of US$3.9bn (2012: US$6bn), which is therefore no longer in the table. The effect of this would also increase the 10% and 15% thresholds for the items included in the deductions under threshold approach and the deductions for 31 December 2012 are accordingly re-presented on that basis.

The extent of permissible netting of holdings in financial sector entities remains subject to clarification by regulators and may reduce the extent of management actions necessary. If additional netting were to be recognised in full, the residual management action could be reduced from US$3.9bn to around US$0.4bn.

Although CRD IV final rules have now been published, there remains substantial regulatory uncertainty around the application of the rules for deductions of holdings in the capital of financial sector entities (including those for immaterial holdings). The EBA recently launched a

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consultation on the draft RTS for Own Funds Part III , which introduces fundamentally new concepts in this area and has the potential to significantly increase the level of the capital deduction. This RTS is still in draft. We have responded to the consultation and are engaging in dialogue with regulators regarding its proposals.

Dependent upon the final standard, we will further consider what, if any, management actions will be possible to mitigate its effect, which may not be possible to achieve in full.

For the detailed basis of preparation, see the Appendix to Capital, page 197.

Estimated effect of CRD IV end point rules

	Final CRR at 30 June 2013		July 2011 text at 31 December 2012	
	RWAs	**Capital**	RWAs	Capital
	US$m	**US$m**	US$m	US$m
Reported core tier 1 capital under the current regime		**140,890**		138,789
Regulatory adjustments applied to core tier 1 in respect of amounts subject to CRD IV treatment				
Deconsolidation of insurance undertakings in reserves		**(6,042)**		
Investments in own shares through the holding of composite products of which HSBC is a component (exchange traded funds, derivatives, and index stock)		**(844)**		(1,322)
Surplus non-controlling interest disallowed in CET1		**(1,269)**		(2,299)
Removal of filters under current regime:				
unrealised gains/(losses) on available-for-sale debt securities		**(2,354)**		(1,223)
unrealised gains on available-for-sale equities		**1,283**		2,088
reserves arising from revaluation of property		**1,284**		1,202
defined benefit pension fund liabilities		**(1,268)**		(1,596)
Unrealised (gains) on available-for-sale exposures to central governments		**(1,509)**		
Excess of expected losses over impairment allowances deducted 100% from CET1		**(3,276)**		(3,084)
Removal of 50% of tax credit adjustment for expected losses		**(134)**		(111)
Securitisations positions risk-weighted under CRD IV		**1,722**		1,776
Deferred tax liabilities on intangibles		**274**		267
Deferred tax assets that rely on future profitability (excluding those arising from temporary differences)		**(389)**		(456)
Additional valuation adjustment (referred to as PVA)		**(2,260)**		(1,720)
Debit valuation adjustment		**(683)**		(372)
Deductions under threshold approach				
Amount exceeding the 10% threshold:				
significant investments in CET1 capital of banks, financial institutions and insurance				(6,097)
Amount in aggregate exceeding the 15% threshold:				
significant investments in CET1 capital of banks, financial institutions and insurance				(2,029)
deferred tax assets				(1,310)
Estimated CET1 capital under CRD IV		**125,425**		122,503

Reported total RWAs	**1,104,764**		1,123,943	
Changes to capital requirements introduced by CRD IV				
Credit valuation adjustment	**38,339**		60,360	
Counterparty credit risk (other than credit valuation adjustment)	**25,769**		25,682	
Amounts in aggregate below 15% threshold and therefore subject to 250% risk weight	**36,775**		45,940	
Securitisation positions and free deliveries risk-weighted under CRD IV	**43,438**		44,513	
Investments in commercial entities now risk-weighted	**405**		393	
Deferred tax assets moved to threshold deduction under CRD IV	**(8,187)**		(8,976)	
Estimated total RWAs under CRD IV	**1,241,303**		1,291,855	
Estimated CET1 ratio		**10.1%**		9.5%
Estimated regulatory impact of management actions				
Management actions completed in 2013:				
Dilution of our shareholding in Industrial Bank and the subsequent change in accounting treatment			(38,880)	(2,150)
Completion of the second tranche of the disposal of Ping An			3,522	9,393
Estimated total after management actions completed in 2013	**1,241,303**	**125,425**	1,256,497	129,746
Estimated CET1 ratio after management actions completed in 2013		**10.1%**		10.3%

For footnote, see page 191.

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In addition to the presentation of holdings in non-significant financial sector entities, there are changes to the following key items as a result of evolving interpretation of the CRD IV final rules.

To effect the deduction of significant investments in insurance companies from CET1, we have removed from the Group consolidated reserves the contribution of our insurance business and calculated the amount of the insurance holding deduction, subject to threshold conditions, at cost. The regulatory treatment of insurance holdings is subject to on-going regulatory consideration.

The amount of surplus non-controlling interests disallowed from CET1 capital of US$1.3bn has been estimated using our interpretation of CRD IV final rules.

For available-for-sale debt instruments issued by central governments, we have derecognised unrealised gains of US$1.5bn from capital in the calculation of the end point capital position.

On the capital requirements, the notable change compared with our 31 December 2012 estimates relates to the CVA risk charge, which has reduced to US$38.3bn mainly as a result of the introduction of exemptions under the final CRD IV rules.

For a detailed description of the items above, see the Appendix to Capital, page 197.

Future developments

Systemically important banks

In parallel with the Basel III proposals, the Basel Committee issued a consultative document in July 2011, Global systemically important banks: assessment methodology and the additional loss absorbency requirement . In November 2011, it published its rules and the Financial Stability Board (FSB) issued the initial list of global systemically important banks (G-SIB s). This list, which included HSBC and 28 other major banks from around the world, will be re-assessed periodically through annual re-scoring of the individual banks and a triennial review of the methodology.

The requirements, initially for those banks identified in November 2014 as G-SIBs, will be phased in from 1 January 2016, becoming fully effective on 1 January 2019. National regulators have discretion to introduce higher thresholds than the minima. In November 2012, the FSB published a revised list of G-SIBs and their current assessment of

the appropriate capital charge. HSBC was assigned an add-on of 2.5%.

UK regulatory update

In March 2013, the interim FPC announced a number of policy recommendations related to regulatory capital and risk-weighted assets, including that the PRA should ensure major UK banks hold capital resources equivalent to at least 7% CET1 post-FPC adjustments to reflect the FPC s estimate of expected future losses, an assessment of future costs of conduct redress and a more prudent calculation of risk-weights.

Relative to the above, the PRA, in June 2013, published that five of eight major UK banks and building societies had an aggregate shortfall in capital of approximately £27bn. However, HSBC met and exceeded this targeted requirement.

The PRA has now established a forward- looking Basel III end point CET1 target post-FPC adjustments for the Group. This is expressed as a minimum target CET1 ratio calculated on a Basel III end point basis, taking into account adjustments identified by the FPC.

Regulatory capital buffers

CRD IV, in addition to giving effect to the Basel Committee s surcharge for G-SIBs in the form of a Global Systemically Important Institution Buffer (G-SIIB), requires banks to maintain a number of additional capital buffers to be met by CET1 capital. These new capital requirements include a Capital Conservation Buffer designed to ensure banks build up capital outside periods of stress that can be drawn down when losses are incurred, currently set at 2.5%, and an institution specific Countercyclical Capital Buffer (CCB), to protect against future losses where unsustainable levels of leverage, debt or credit growth pose a systemic threat. Should a CCB be required, it is expected to be set in the range of 0-2.5%. Additionally, CRD IV set out a Systemic Risk Buffer (SRB) for the banking system as a whole to mitigate structural macro-prudential risk. If applicable, the SRB will be set at a minimum of 1%. The Capital Conservation Buffer and the CCB are to be phased in from 1 January 2016, becoming fully effective from 1 January 2019.

The capital buffer rules are subject to national transposition in the UK. The designated UK authority will have discretion to set the precise buffer rates above the CRD IV minima and to accelerate the timetable for their implementation. In the UK, the regulatory framework gives the FPC

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directive powers over the CCB. However, it is not known if the FPC will be the authority responsible for setting the SRB and the G-SIIB. Until the requirements are transposed into national law and guidance is issued, there remains uncertainty on the interplay between these buffers, the exact buffer rate requirement and the ultimate impact on the Group.

Potential effect of regulatory proposals on HSBC s capital requirements

Given the above, it is uncertain what HSBC s final capital requirement will be. However, the Pillar 1 capital requirements that are quantified with some certainty to date are as follows:

CET1 requirements from 1 January 2019	
Minimum CET1	4.5%
Capital conservation buffer	2.5%
G-SIIB buffer	2.5%

In December 2011, against the backdrop of eurozone instability, the EBA recommended that banks aim to reach a 9% EBA defined core tier 1 ratio by the end of June 2012. In July 2013, the EBA replaced the 2011 recapitalisation recommendation with a new measure on capital preservation. This requires banks to maintain a core tier 1 capital floor corresponding to a nominal level of 9% of RWAs at the end of June 2012. This equates for HSBC to US$104bn, compared with actual core tier 1 capital held of US$141bn at 30 June 2013. To monitor this on an on-going basis, banks will be required to submit additional reporting and capital plans in November 2013 to demonstrate that appropriate levels of capital are being preserved. The EBA have indicated they will review this recommendation by 31 December 2014.

We also hold additional capital in respect of Pillar 2, the process of internal capital adequacy assessment and supervisory review which leads to a final determination by the PRA of individual capital guidance and any capital planning buffer that may be required.

RWA integrity

In February 2013, the EBA published interim results of its investigation into RWAs in the banking book, aimed at identifying any material difference in RWA outcomes between banks and understanding the sources of such differences.

The report concluded that half of the differences between banks stem mainly from the approach for computing RWAs in use (standardised versus internal ratings based (IRB) approaches), partly from the composition of each bank s loan portfolio.

The remaining half stem from the IRB risk parameters applied, reflecting each bank s specific portfolio and risk management practices.

In July 2013, the Basel Committee published its findings on the Analysis of risk-weighted assets for credit risk in the banking book , reporting that while the majority of RWA variability arises from the underlying credit quality of a portfolio, differences also arise from banks choices under the IRB approach. One of its recommendations to counteract this variance is the introduction of new or increased capital floors.

In parallel with the above and as part the review of the Basel capital framework, also in July 2013, the Basel Committee published a discussion paper on its findings, The regulatory framework: balancing risk sensitivity, simplicity and comparability . The report recommended that banks disclose the results of applying their models to standardised hypothetical portfolios and that they disclose both modelled and standardised RWA calculations. Moreover, the Basel Committee again proposed additional floors as a potential tool to constrain the effect of variation in RWAs derived from internal model outputs, to provide additional comfort that banks risks are adequately capitalised and to make capital ratios more comparable.

We are reviewing the merits of these proposals and have implemented additional measures to restore confidence in our RWA metrics. To this end, we fully support the recommendations of the FSB s Enhanced Disclosure Task Force that aims to assist greater understanding of the output of internal models through enhanced risk disclosures, which we have implemented.

Leverage ratio

The leverage ratio was introduced into the Basel III framework as a non-risk-based backstop limit, to supplement risk-based capital requirements. It aims to constrain the build-up of excess leverage in the banking sector, introducing additional safeguards against model risk and measurement errors. The ratio is a volume-based measure calculated as Basel III tier 1 capital divided by total on- and off-balance sheet exposures.

Basel III provided for a transitional period for the introduction of this ratio, comprising a supervisory monitoring period to start in 2011 and a parallel run period from January 2013 to January 2017. The parallel run will be used to assess whether the proposed ratio of 3% is appropriate, with a view to migrating to a Pillar 1 requirement from 1 January 2018.

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In June 2013, the Basel Committee published its consultation paper on a revised Basel III leverage ratio framework, which sets out detailed public disclosure requirements with effect from 1 January 2015.

Under CRD IV, the final calibration and legislative proposal are expected to be determined on the basis of the EBA s assessment of the impact and effectiveness of the leverage ratio during a monitoring period from 1 January 2014 until 30 June 2016. The disclosure requirements will be developed and submitted to the European Commission by 30 June 2014.

Monitoring of leverage has been part of HSBC s regulatory reporting since December 2010. From 2012 year end, ahead of the Basel III disclosure timeline, UK banks were required by the PRA to disclose an estimated leverage ratio at year-end and mid-year, using a hybrid of Basel III and CRD IV rules. This may be found on our website, www.hsbc.com, as a *Supplementary Regulatory Disclosure* under Investor Relations.

Structural banking reform

In September 2011, the Independent Commission on Banking (ICB) recommended heightened capital requirements for UK banking groups. The recommendations were scrutinised by the Parliamentary Commission on Banking Standards (PCBS) which, in a report published in December 2012, gave effect to many of the ICB s

recommendations. The UK government largely accepted the PCBS recommendations with the exception of the higher leverage ratio; the government will continue with the Basel III minimum of 3% of total assets to avoid penalising lower risk assets in the ring-fenced bank.

On 19 June 2013, the PCBS published its final report setting out further recommendations on banking standards, including requesting the UK government reconsider setting the leverage ratio higher than the current 3% and giving the FPC responsibility for determining the ratio. On 8 July 2013, the UK government published its initial response to the final report accepting the PCBS s principal recommendations. Its position on a Basel III basis leverage ratio of 3% remained unchanged.

The government intends to enact the legislation by the end of this parliament in 2015 and to have reforms in place by 2019.

In May 2013, the European Commission issued their consultation on structural reform of the European banking sector. The consultation concentrates on the key attributes of the structural reform including recommendations on ring-fencing, focusing on isolating trading activities, rather than retail business as in the ICB recommendations.

We are monitoring all these proposals and their interaction as they develop.

Footnotes to Capital

1 *The CET1 ratio presented for 31 December 2012 has changed from the presentation in the* Annual Report and Accounts 2012 *and is shown post future management action to mitigate capital deductions for non-significant holdings of financial sector entities.*
2 *The value represents marked-to-market method only.*
3 *Operational risk RWAs, under the standardised approach, are calculated using an average of the last three years revenues. For business disposals, the operational risk RWAs are not removed immediately on disposal, but diminish over a period of time. The RWAs for the CRS business represent the remaining*

operational risk RWAs for the business.

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

5 *Includes externally verified profits for the half-year to 30 June 2013.*

6 *Mainly comprises unrealised gains/losses on available-for-sale debt securities related to SPEs.*

7 *Under PRA rules, unrealised gains/losses on debt securities net of tax must be excluded from capital resources.*

8 *Under PRA rules, any defined benefit asset is derecognised and a defined benefit liability may be substituted with the additional funding that will be paid into the relevant schemes over the following five-year period.*

9 *Mainly comprise investments in insurance entities. Due to the expiry of the transitional provision, with effect from 1 January 2013, material insurance holding companies acquired prior to 20 July 2006 are deducted 50% from tier 1 and 50% from total capital for June 2013.*

Appendix to Capital

Capital management and capital measurement and allocation

Capital management

Approach and policy

Our approach to capital management is driven by our strategic and organisational requirements, taking into account the regulatory, economic and commercial environment in which we operate. Pre-tax return on risk-weighted assets (RoRWA) is an operational metric by which the global businesses are managed on a day-to-day basis. The metric combines return on equity and regulatory capital efficiency objectives. It is our objective to maintain a strong capital base to support the risks inherent in our business and invest in accordance with our six filters framework, exceeding both consolidated and local regulatory capital requirements at all times.

Our policy on capital management is underpinned by a capital management framework which enables us to manage our capital in a consistent manner. The framework, which is approved by the GMB annually, incorporates a number of different capital measures including market capitalisation, invested capital, economic capital and regulatory capital. Following the PRA setting a forward-looking CET1 target as a Basel III ratio, whilst also monitoring capital at a Group level on a Basel II basis, we set our internal target on an end point Basel III CET1 basis.

Capital measures

- market capitalisation is the stock market value of HSBC;
- invested capital is the equity capital invested in HSBC by our shareholders, adjusted for certain reserves and goodwill previously amortised or written off;
- economic capital is the internally calculated capital requirement which we deem necessary to support the risks to which we are exposed; and
- regulatory capital is the capital which we are required to hold in accordance with the rules established by the PRA for the consolidated Group and by our local regulators for individual Group companies.

Our assessment of capital adequacy is aligned to our assessment of risks, including: credit, market, operational, interest rate risk in the banking book, pension fund, insurance, structural foreign exchange risk and residual risks.

Stress testing

We incorporate stress testing in capital plans because it helps us to understand how sensitive the core assumptions in our capital plans are to the adverse effect of extreme but plausible events. Stress testing allows us to formulate our response and mitigate risk in advance of conditions exhibiting the identified stress scenarios. The actual market stresses which occurred throughout the financial system in recent years have been used to inform our capital planning process and enhance the stress scenarios we employ. In addition to our internal stress tests, others are undertaken, both at the request of regulators and by the regulators themselves using their prescribed assumptions. We take into account the results of all such regulatory stress testing when assessing our internal capital requirements.

Risks to capital

Outside the stress-testing framework, a list of top and emerging risks is regularly evaluated for their effect on the core tier 1 capital ratio. In addition, there are risks identified that are technically not within the scope of this list, but which still have the potential to affect our RWAs and/or capital position. These risks are also included in the evaluation of risks to capital. The downside or upside scenarios are assessed against our capital management objectives and mitigating actions are assigned as necessary. The responsibility for global capital allocation principles and decisions rests with the GMB. Through our internal governance processes, we seek to maintain discipline over our investment and capital allocation decisions and seek to ensure that returns on investment are adequate after taking into account capital costs. Our strategy is to allocate capital to businesses and entities on the basis of their ability to achieve established RoRWA objectives and their regulatory and economic capital requirements.

Risk-weighted asset targets

Top-down RWA targets are established for the global business lines, in accordance with the Group s strategic direction and risk appetite. As these targets are deployed to lower levels of management, action plans for

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implementation are developed. These may include growth strategies; active portfolio management; restructuring; business and/or customer-level reviews; RWA efficiency and optimisation initiatives and risk-mitigation. Our capital management process is articulated in the annual Group capital plan which is approved by the Board.

RWA targets are approved by the GMB on an annual basis and business performance against them is monitored through regular reporting to the Group ALCO. The management of capital deductions is also addressed in the RWA monitoring framework through additional notional charges for these items.

A range of analysis is employed in the RWA monitoring framework to identify the key drivers of movements in the position, such as book size and book quality. Particular attention is paid to identifying and segmenting items within the day-to-day control of the business and those items that are driven by changes in risk models or regulatory methodology.

Capital generation

HSBC Holdings is the primary provider of equity capital to its subsidiaries and also provides them with non-equity capital where necessary. These investments are substantially funded by HSBC Holdings own capital issuance and profit retention. As part of its capital management process, HSBC Holdings seeks to maintain a prudent balance between the composition of its capital and its investment in subsidiaries.

Capital measurement and allocation

The PRA supervises HSBC on a consolidated basis and therefore receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. Individual banking subsidiaries are directly regulated by their local banking supervisors, who set and monitor their capital adequacy requirements. In 2013, we calculated capital at a Group level using the current Basel II framework as amended for CRD III, commonly known as Basel 2.5, and on an end-point Basel III basis.

Our policy and practice in capital measurement and allocation at Group level is underpinned by the Basel II rules and the Basel III proposals. However, local regulators are at different stages of implementation and some local reporting, notably in the US, is still on a Basel I basis. In most jurisdictions, non-banking financial subsidiaries are also subject to the supervision and capital requirements of local regulatory authorities.

Basel II is structured around three pillars : minimum capital requirements, supervisory review process and market discipline. The CRD implemented Basel II in the EU and, in the UK, the predecessor to the PRA then gave effect to the CRD by including the latter s requirements in its own rulebooks.

Regulatory capital

For regulatory purposes, our capital base is divided into three main categories, namely core tier 1, other tier 1 and tier 2, depending on the degree of permanency and loss absorbency exhibited.

- core tier 1 capital comprises shareholders equity and related non-controlling interests. The book values of goodwill and intangible assets are deducted from core tier 1 capital and other regulatory adjustments are made for items reflected in shareholders equity which are treated differently for the purposes of capital adequacy;

qualifying capital instruments such as non-cumulative perpetual preference shares and hybrid capital securities are included in other tier 1 capital; and

tier 2 capital comprises qualifying subordinated loan capital, related non-controlling interests, allowable collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available for sale. Tier 2 capital also includes reserves arising from the revaluation of properties.

To ensure the overall quality of the capital base, the PRA s rules set restrictions on the amount of hybrid capital instruments that can be included in tier 1 capital relative to core tier 1 capital, and limits overall tier 2 capital to no more than tier 1 capital.

Pillar 1 capital requirements

Pillar 1 covers the capital resources requirements for credit risk, market risk and operational risk. Credit risk includes counterparty credit risk and securitisation requirements. These requirements are expressed in terms of RWAs.

Credit risk capital requirements

Basel II applies three approaches of increasing sophistication to the calculation of Pillar 1 credit risk capital requirements. The most basic, the standardised approach, requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties. Other counterparties are grouped into broad categories and standardised risk weightings are applied to these categories. The next level, the internal ratings-based (IRB) foundation approach, allows banks to calculate their credit risk capital requirements on the basis of their internal assessment of a counterparty s probability of default (PD), but their estimates of exposure at default (EAD) and loss given default (LGD) are subject to standard supervisory parameters. Finally, the IRB advanced approach allows banks to use their own internal assessment in both determining PD and quantifying EAD and LGD.

The capital resources requirement, which is intended to cover unexpected losses, is derived from a formula specified in the regulatory rules which incorporates PD, LGD, EAD and other variables such as maturity and correlation. Expected losses under the IRB approaches are calculated by multiplying PD by EAD and LGD. Expected losses are deducted from capital to the extent that they exceed total accounting impairment allowances.

For credit risk we have adopted the IRB advanced approach for the majority of our portfolios, with the remainder on either IRB foundation or standardised approaches.

Under our Basel II rollout plans, a number of our Group companies and portfolios are in transition to advanced IRB approaches. In the first half of 2013, portfolios in most of Europe, Hong Kong, Rest of Asia-Pacific and North America were on advanced IRB approaches. Others remain on the standardised or foundation approaches under Basel II, pending definition of local regulations or model approval, or under exemptions from IRB treatment.

Counterparty credit risk

CCR arises for OTC derivatives and securities financing transactions. It is calculated in both the trading and non-trading books and is the risk that the counterparty to a transaction may default before completing the satisfactory settlement of the transaction. Three approaches to calculating CCR and determining exposure values are defined by Basel II: standardised, mark-to-market and internal model method. These exposure values are used to determine capital requirements under one of the credit risk approaches: standardised, IRB foundation and IRB advanced.

We use the mark-to-market and internal model method approaches for CCR. Our longer-term aim is to migrate more positions from the mark-to-market to the internal model method approach.

Securitisation

Securitisation positions are held in both the trading and non-trading books. For non-trading book securitisation positions, Basel II specifies two methods for calculating credit risk requirements, the standardised and the IRB approaches. Both rely on the mapping of rating agency credit ratings to risk weights, which range from 7% to 1,250%. Positions that would otherwise be weighted at 1,250% are deducted from capital.

Within the IRB approach, we use the ratings-based method for the majority of our non-trading book securitisation positions, and the internal assessment approach for unrated liquidity facilities and programme-wide enhancements for asset-backed securitisations.

The majority of securitisation positions in the trading book are treated for capital purposes as if they are held in the non-trading book under the standardised or IRB approaches. Other traded securitisation positions, known as correlation trading, are treated under an internal model approach approved by the PRA.

Market risk capital requirement

The market risk capital requirement is measured using internal market risk models where approved by the PRA, or the PRA s standard rules. Our internal market risk models comprise VAR, stressed VAR, incremental risk charge and correlation trading under the comprehensive risk measure.

Operational risk capital requirement

Basel II includes a capital requirement for operational risk, again utilising three levels of sophistication. The capital required under the basic indicator approach is a simple percentage of gross revenues, whereas under the standardised approach it is one of three different percentages of total operating income less insurance premiums allocated to each of eight defined business lines. Both these approaches use an average of the last three financial years revenues.

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Finally, the advanced measurement approach uses banks own statistical analysis and modelling of operational risk data to determine capital requirements. We have adopted the standardised approach in determining our operational risk capital requirements.

Pillar 2 capital requirements

We conduct an internal capital adequacy assessment process (ICAAP) to determine a forward looking assessment of our capital requirements given our business strategy, risk profile, risk appetite and capital plan. This process incorporates the Group s risk management processes and governance framework. A range of stress tests are applied to our base capital plan. These, coupled with our economic capital framework and other risk management practices, are used to assess our internal capital adequacy requirements.

The ICAAP is examined by the PRA as part of its supervisory review and evaluation process, which occurs periodically to enable the regulator to define the individual capital guidance or minimum capital requirements for HSBC and our capital planning buffer where required.

Pillar 3 disclosure requirements

Pillar 3 of the Basel regulatory framework is related to market discipline and aims to make firms more transparent by requiring them to publish, at least annually, wide-ranging information on their risks and capital, and how these are managed. Our *Pillar 3 Disclosures 2012* are published on our website, www.hsbc.com, under Investor Relations.

RWA movement by key driver basis of preparation and supporting notes

Credit risk and counterparty credit risk drivers definitions and quantification

Our business analysis of RWA movements splits the total movement in IRB RWAs into six drivers, described below. The first four relate to specific, identifiable and measurable changes. The remaining two, book size and book quality, are derived after accounting for movements in the first four specific drivers.

1. Foreign exchange movements

This is the movement in RWAs as a result of changes in the exchange rate between the functional currency of the HSBC company owning each portfolio and US dollars, being our presentation currency for consolidated reporting. Our structural foreign exchange exposures are managed with the primary objective of ensuring, where practical, that our consolidated capital ratios and the capital ratios of individual banking subsidiaries are largely protected from the effect of changes in exchange rates.

2. Acquisitions and disposals

This is the movement in RWAs as a result of the disposal or acquisition of business operations. This can be whole businesses or parts of a business. The movement in RWAs is quantified on the basis of the credit risk exposures as at the end of the month preceding a disposal or following an acquisition.

3. Model updates

New/updated models

RWA movements arising from the implementation of new models and from changes to existing parameter models are allocated to this driver. This figure will also include changes which arise following review of modelling assumptions. Where a model recalibration reflects an update to more recent performance data, the resulting RWA changes are not assigned here, but instead reported under book quality.

RWA changes are estimated based on the impact assessments made in the testing phase prior to implementation. These values are used to simulate the effect of new or updated models on the portfolio at the point of implementation, assuming there were no major changes in the portfolio from the testing phase to implementation phase.

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Portfolios moving onto IRB approach

Where a portfolio moves from the standardised approach to the IRB approach, the RWA movement by key driver statement shows the increase in IRB RWAs, but does not show the corresponding reduction in standardised approach RWAs as its scope is limited to IRB only.

The movement in RWAs is quantified at the date at which the IRB approach is applied, and not during the testing phase as with a new/updated model.

4. Methodology and policy

Internal regulatory updates

This captures the effect on RWAs resulting from changing the internal treatment of exposures. This may include, but is not limited to, identification of netting and credit risk mitigation.

External regulatory updates

This specifies the effect of additional or changing regulatory requirements. It includes, but is not limited to, regulatory-prescribed changes to the RWA calculation. The movement in RWAs is quantified by comparing the RWAs calculated for that portfolio under the old and the new requirements.

5. Book size

RWA movements attributed to this driver are those we would expect to experience for the given movement in exposure, as measured by EAD, assuming a stable risk profile. These RWA movements arise in the normal course of business, such as growth in credit exposures or reduction in book size from run-offs and write-offs.

The RWA movement is quantified as follows:

- RWA and EAD changes captured in the four drivers above are excluded from the total movements to create an adjusted movement in EAD and RWA for the period; and

- the average RWA to EAD percentage is calculated for the opening position and is applied to the adjusted movement in EAD. This results in an estimated book size RWA movement based on the assumption that the EAD to RWA percentage is constant throughout the period.

As the calculation relies on averaging, the output is dependent upon the degree of portfolio aggregation and the number of discrete time periods for which the calculation is undertaken. For each quarter in the period this calculation was performed for each HSBC company with an IRB portfolio, split by the main Basel categories of credit exposures, as described in the table below:

Basel categories of IRB credit exposures within HSBC		
Central governments and central banks	Corporate foundation IRB	Qualifying revolving retail exposures

Institutions	Other advanced IRB	Retail SMEs
Corporate advanced IRB	Retail mortgages	Other retail

The total of the results is shown in book size within the RWA movement by key driver table.

6. Book quality

This represents RWA movements resulting from changes in the underlying credit quality of customers. These are caused by changes to IRB risk parameters which arise from actions such as, but not limited to, model recalibration, change in counterparty external rating, or the influence of new lending on the average quality of the book. The change in RWAs attributable to book quality is calculated as the balance of RWA movements after taking account of all the drivers described above.

The RWA movement by key driver statement includes only movements which are calculated under the IRB approach. Certain classes of credit risk exposure are treated as capital deductions and therefore reductions are not shown in this statement. If the treatment of a credit risk exposure changes from RWA to capital deduction in the period, then only the reduction in RWAs would appear in the RWA movement by key driver tables. In this instance, a reduction in RWAs does not necessarily indicate an improvement in the capital position.

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Market risk drivers definitions and quantification

The RWA movement by key driver for market risk combines the credit risk drivers 5 and 6 into a single driver called Movements in risk levels . The market risk RWA driver called Foreign exchange movements and other includes foreign exchange movements and additional items which cannot be reasonably assigned to any of the other drivers.

Basis of preparation of the estimated effect of the CRD IV end point applied to the 30 June 2013 position

The table on page 188 presents a reconciliation of our reported core tier 1 and RWA position at 30 June 2013 to the pro-forma estimated CET1 and estimated RWAs based on the Group s interpretation of the final CRD IV legislation supplemented by guidance provided by the PRA, as applicable. At 31 December 2012, we estimated the impact based on the July 2011 draft CRD IV text.

CRD IV was finalised in June 2013 and comes into effect on 1 January 2014. The final text of the legislation still contains material areas of uncertainty, as well as significant provisions for national discretion lending uncertainty to the PRA s ultimate interpretation and transposition of the rules in the UK. In addition, formal Regulatory Technical Standards (RTS) and Implementing Technical Standards (ITS) due for issue by the EBA are still to be drafted and finalised, leaving the CRD IV rules subject to significant interpretation.

Notwithstanding the uncertainty around a number of areas in the rules, our disclosures are based on our interpretation of the final CRD IV text. In relation to material areas of national discretion and following PRA guidance, we have applied the treatment that would lead to the lower capital ratio, as further detailed below.

As the transposition of the CRD IV rules in the UK is pending, we have not upgraded our models and systems used to calculate capital numbers in a CRD IV environment and as a consequence, the latter are subject to change.

Given the above, the final CRD IV impact on the Group s CET1 and RWAs may differ from our current estimates.

The detailed basis of preparation is described below for items that are different from our current treatment under Basel II. We have also outlined where the basis of preparation has changed from our 31 December 2012 disclosures.

We have changed the basis of presentation for individual non-significant holdings in financial sector entities that are, in aggregate, above 10% of the Group s CET1 capital, to take into account future management actions to mitigate the impact of such capital deductions. The EBA s publication on 23 May 2013 of their consultation on Regulatory Technical Standards for Own Funds Part III has a potentially significant impact on the amount of deductions categorised as indirect and synthetic holdings of financial sector entities (including own capital instruments) and the extent of the mitigation we will be able to undertake is uncertain at this stage.

Regulatory adjustments applied to core tier 1 in respect of amounts subject to CRD IV treatment

Deconsolidation of insurance undertakings in reserves: under current rules, the Group consolidated reserves include the post-acquisition reserves of our unconsolidated insurance businesses, which is then reflected in the value of the current deduction from Tier 1 and Tier 2 capital. The CRD IV rules do not consider such treatment and, pending further guidance, we have excluded the post acquisition reserves from both reserves and the deduction, leaving the investment to be deducted from CET1 valued at cost.

Investments in own shares through the holding of composite products of which HSBC is a component (exchange traded funds, derivatives, and index stock): the value of our holdings of own CET1 instruments, where it is not already deducted under IFRSs, is deducted from CET1. Under CRD IV, this deduction comprises not only direct but also indirect and synthetic, actual and contingent, banking and trading book gross long positions. Trading book positions are calculated net of short positions only where there is no counterparty credit risk on these short positions (this restriction does not apply to short index positions being offset against other index positions).

We have not recognised the benefit of non-index short positions, even where they are executed with central counterparties or are fully collateralised.

Under current rules, there is no regulatory adjustment made to the amounts already deducted under IFRS rules.

The EBA s publication of their consultation on Regulatory Technical Standards for Own Funds Part III on 23 May 2013 has a potentially significant impact on the amount of deductions categorised as holdings of own common equity instruments . Given the stage of the consultation process and its ambiguous scope, it has not been possible to

Interim Management Report (continued)

estimate the effect of the draft proposals on our capital position. However, we have responded to the consultation and are engaging in dialogue with regulators regarding these proposals.

Surplus non-controlling interest disallowed in CET1: non-controlling interests arising from the issue of common shares by our banking subsidiaries receive limited recognition. The excess over the minimum capital requirements of the relevant subsidiary including any additional requirements imposed under Pillar 2, calculated on the basis of its local reporting as well as its contribution to the parent consolidated requirements, is not allowable in the Group s CET1 to the extent it is attributable to minority shareholders.

The final rules require a calculation of the surplus to be undertaken at the sub-consolidated level for each relevant subsidiary. In addition, the calculation of the minimum requirements of the subsidiary changed to include any additional capital requirements imposed by the local regulations, to the extent those are to be met by CET1 capital.

In our estimates we have assumed that minority interests originated in subsidiaries outside the EU are treated on the same basis as those within the EU.

Under current rules, there is no regulatory restriction applied to these items.

On 23 May 2013, the EBA published their consultation on Regulatory Technical Standards for Own Funds Part III which could materially change the amount of this deduction. Given the stage of the consultation process we have not been able to reliably estimate the effect of these draft proposals on our capital position and they have not been included.

Unrealised gains/(losses) on available-for-sale debt securities: under CRD IV, there is no adjustment to remove from CET1 capital unrealised gains and losses on available-for-sale debt securities. The final CRD IV text includes a national discretion for competent authorities to retain a prudential filter for those unrealised gains or losses on exposures to central governments. The PRA has requested banks to include the impact of the most conservative approach where material. As of 30 June 2013, this would translate into a negative capital impact corresponding to the derecognition of unrealised gains of US$1.5bn.

Under current PRA rules, both unrealised gains and losses are removed from capital (net of tax).

Unrealised gains on available-for-sale equities and reserves arising from revaluation of property: there is no adjustment for unrealised gains and losses on reserves arising from the revaluation of property and on available-for-sale equities. Under current PRA rules, unrealised net gains on these items are included in tier 2 capital (net of deferred tax) and net losses are deducted from tier 1 capital.

Defined benefit pension fund liabilities: in line with current rules, the amount of retirement benefit assets as reported on the balance sheet is to be deducted from CET1. At 31 December 2012, the amount of retirement benefit liabilities as reported on the balance sheet was fully recognised in CET1.

Excess of expected losses over impairment allowances deducted 100% from CET1: the amount of excess of expected losses over impairment allowances is deducted 100% from CET1. Under current PRA rules, this amount is deducted 50% from core tier 1 and 50% from total capital.

Removal of 50% of tax credit adjustment for expected losses: the amount of expected losses in excess of impairment allowances that is deducted from CET1 capital is not reduced for any related tax effects. Under current PRA rules, any related tax credit offset is recognised 50% in core tier 1 and 50% in tier 1 capital.

Securitisation positions risk-weighted under CRD IV: securitisation positions that were deducted from core tier 1 under current rules have been included in RWAs at 1,250%.

Deferred tax liabilities on intangibles: the amount of intangible assets deducted from CET1 has been reduced by the related deferred tax liability. Under current rules, the goodwill and intangibles are deducted at their accounting value.

Deferred tax assets that rely on future profitability (excluding those arising from temporary differences): the deferred tax assets that rely on future profitability and do not arise from temporary differences are deducted 100% from CET1. The deferred tax assets that rely on future profitability and arise from temporary differences are subject to the separate threshold deduction approach detailed separately. Under current rules, these items receive a risk weighting of 100%.

Additional valuation adjustment (referred to as prudent valuation adjustment or PVA): under current PRA rules, banks are required to comply with requirements for prudent and reliable valuation of any balance sheet position

Interim Management Report (continued)

measured at market or fair value. Under CRD IV, all assets and derivatives measured at fair value are subject to specified standards for prudent valuation, covering uncertainty around the input factors into the fair value valuation models namely, uncertainty around the mark-to-market of positions, model risk, valuation of less liquid positions and credit valuation adjustments.

Where the accounting fair value calculated under IFRSs is higher than the valuation amount resulting from the application of the prudential adjustments, this would result in an additional valuation adjustment or PVA deduction from CET1 capital.

Following PRA direction, we have included an estimate of the impact of PVA, on a tax-effected basis, although there is guidance outstanding following on-going consultation on related EBA draft regulatory technical standards. A new consultation paper was issued by EBA on 10 July 2013 and a Quantitative Impact Study was launched on 22 July 2013 to assess the effect of the proposals. Further clarity on the requirements following finalisation of the EBA process and discussions with our regulator could potentially change this figure.

Debit valuation adjustment (DVA): the amount of all fair value gains and losses on OTC derivative liabilities that results from changes to our own credit spread are derecognised from CET1.

Individually non-significant holdings in CET1 capital of financial sector entities in aggregate above 10% of HSBC CET1: under CRD IV, the investments in CET1 instruments of financial sector entities, where we have a holding of not more than 10% of the CET1 instruments issued by those entities, are deducted from CET1 to the extent the aggregate amount of such holdings exceeds 10% of our CET1 (calculated before any threshold deductions).

The estimated deduction shown at 31 December 2012 of US$6bn followed a strict interpretation of the draft July 2011 CRD IV rules and guidance provided by the PRA. This imposed a restriction on the netting of long and short positions held in the trading book, whereby the maturity of the short positions has to match the maturity of the long position, or have a residual maturity of no less than a year. At 30 June 2013, however we have been able to more precisely match our long and short positions under 1 year maturity and recognise the offset of short positions under one year which mature on exactly the same day as the long position. Consistent with our disclosure at 31 December 2012, we have taken the contractual maturity of derivative positions (without reflecting any early termination rights) and used the delta equivalent value for options.

Future management actions to mitigate the impact of capital deductions have also been taken into account as at June 2013.

The presentation has therefore changed from the *Annual Report and Accounts 2012*. The estimated impact of CRD IV takes into account future management actions to mitigate the impact of capital deductions in respect of non-significant (or immaterial) holdings in CET1 capital of financial sector entities in aggregate above 10% of our CET1 (including the resulting separate effects on the items capture as deductions under threshold approach). At 31 December 2012, the mitigation was presented as a separate line item.

Final CRD IV rules include new provisions in relation to the offsetting of short index holdings of capital instruments which under our interpretation would allow for increased offsetting of positions. The extent of permissible netting of holdings in financial sector entities remains however subject to clarification by regulators. If additional netting is recognised in full, the residual management action could be reduced from US$3.9bn to US$0.4bn.

The uncertainty in the rules has been increased by the publication of the EBA consultation paper Regulatory Technical Standards for Own Funds Part III on 23 May 2013. The extent of the application of those proposals is unclear and has the potential to very significantly change the amount of this deduction. Given the stage of the consultation process and its ambiguous scope, it has not been possible to estimate the effect of the draft proposals on our capital position. However, we have responded to the consultation and are engaging with regulators regarding its proposals.

Deductions under threshold approach: under CRD IV, where we have a holding of more than 10% of the CET1 instruments issued by banks, financial institutions and insurance entities which is not part of our regulatory consolidation, that holding is subject to a threshold deduction approach. Under current rules, these exposures are deducted 50% from tier 1 capital and 50% from total capital, except for certain insurance holdings that met the requirements under the transitional provision of the current rules and until 31 December 2012 that were allowed to be deducted 100% from total capital.

Interim Management Report (continued)

Deferred tax assets that rely on the future profitability of the bank to be realised and which arise from temporary differences are also subject to this threshold deduction approach. Under current rules, these assets would be subject to 100% risk weighting.

Under CRD IV, the amount of such deferred tax assets and significant investments which individually and in aggregate exceed 10% and 15%, respectively, of our CET1 are fully deducted from CET1 capital. Amounts falling below the 10% and 15% thresholds are risk weighted at 250%.

Changes to capital requirements introduced by CRD IV

Credit valuation adjustment (CVA) risk: introduced as a new requirement under CRD IV rules, this is a capital charge to cover the risk of mark-to-market losses on expected counterparty risk, and is referred to as a regulatory CVA risk capital charge.

Where we have both specific risk VAR approval and internal model method approval for a product, the CVA VAR approach has been used to calculate the CVA capital charge. Where we do not hold both approvals, the standardised approach has been applied. We have estimated our regulatory CVA risk capital charge calculated on a full range of OTC derivative counterparties on the basis of the final CRD IV text, which exempts from the calculation of the CVA risk capital charge certain corporates, intra-Group transactions, retirement benefits pension funds and specific sovereign bodies. At 31 December 2012, we estimated our regulatory CVA risk capital charge based on the draft July 2011 CRD IV text, without any exemptions.

We have now identified the counterparties falling under this exemption on a best-endeavours basis. We have included certain corporate counterparties that we believe will be above the clearing threshold although the process for confirming the status of these companies is yet to be concluded. We have also exempted applicable sovereigns.

Counterparty credit risk (other than credit valuation adjustment): the additional requirements introduced by CRD IV and included in the CCR charge include the increase in the asset value correlation multiplier for financial counterparties, additional requirements for collateralised counterparties, margin period of risk and new requirements for exposures to central clearing counterparties (CCPs).

In estimating the capital requirements for exposures to CCPs, we have assumed that our CCPs in major jurisdictions are qualifying under the requirements of CRD IV, although this will ultimately depend on confirmation from the competent regulatory authority. Where we do not have full data disclosed for a given CCP, we have assumed full deduction of default fund exposures.

Amounts in aggregate below 15% threshold and therefore subject to 250% risk weight: as explained above, items that fall under the threshold approach treatment under CRD IV, and which are below the 10% and 15% thresholds, are risk-weighted at 250%.

Securitisation positions and free deliveries risk-weighted under CRD IV: securitisation positions which were deducted 50% from core tier 1 and 50% from total capital, and free deliveries that were deducted from total capital under current rules, are now included in RWAs at 1,250%.

Investment in commercial entities now risk-weighted: under CRD IV, investments in commercial entities that are non-qualifying holdings are risk weighted. These were deducted under the current rules.

Deferred tax assets moved to threshold approach or deduction under CRD IV: deferred tax assets, which were risk-weighted at 100% under the standardised approach under current rules, are treated as a capital deduction from CET1 to the extent they rely on the future profitability of the bank to be realised. Those that do not rely on future profitability continue to be risk-weighted.

Board of Directors and Senior Management

Directors

D J Flint, CBE, 58

Group Chairman

Skills and experience: extensive governance experience gained through membership of the Boards of HSBC and BP p.l.c.; considerable knowledge of finance and risk management in banking, multinational financial reporting, treasury and securities trading operations; honoured with a CBE in recognition of his services to the finance industry; member of the Institute of Chartered Accountants of Scotland and the Association of Corporate Treasurers. Fellow of The Chartered Institute of Management Accountants. Joined HSBC in 1995.

Appointed to the Board: 1995

Current appointments include: director of The Hong Kong Association; and Chairman of the Institute of International Finance. A member of the Mayor of Beijing s International Business Leaders Advisory Council as well as the Mayor of Shanghai s International Business Leaders Advisory Council; and a member of the International Advisory Board of the China Europe International Business School, Shanghai.

Former appointments include: Group Finance Director; Chief Financial Officer and Executive Director, Risk and Regulation. Co-Chairman of the Counterparty Risk Management Policy Group III; Chairman of the Financial Reporting Council s review of the Turnbull Guidance on Internal Control; member of the Accounting Standards Board and the Standards Advisory Council of the International Accounting Standards Board; served on the Large Business Forum on Tax and Competitiveness and the Consultative Committee of the Large Business Advisory Board of HM Revenue and Customs; partner in KPMG; and non-executive director and Chairman of the Audit Committee of BP p.l.c.

S T Gulliver, 54

Group Chief Executive

Skills and experience: a career banker with over 30 years international experience with HSBC; has held a number of key roles in the Group s operations worldwide, including in London, Hong Kong, Tokyo, Kuala Lumpur and the United Arab Emirates; played a leading role in developing and expanding Global Banking and Markets, the wholesale banking division of the Group with operations in over 65 countries and territories. Joined HSBC in 1980.

Appointed to the Board: 2008

Current appointments include: Chairman of The Hongkong and Shanghai Banking Corporation Limited; and Chairman of the Group Management Board. A member of the Monetary Authority of Singapore International Advisory Panel and the International Advisory Council of the China Banking Regulatory Commission.

Former appointments include: Chairman, Europe, Middle East and Global Businesses and Chairman of HSBC Bank plc, HSBC Bank Middle East Limited and HSBC Private Banking Holdings (Suisse) SA. Head of Global Banking and Markets; Co-Head of Global Banking and Markets; Head of Global Markets; Head of Treasury and Capital Markets in Asia-Pacific; Deputy Chairman of HSBC Trinkaus & Burkhardt AG and a member of its Supervisory Board; and Chairman of HSBC France.

S A Catz, 51

Skills and experience: a background in international business leadership, having helped transform Oracle into the largest producer of business management software and the world s leading supplier of software for information management.

Appointed to the Board: 2008

Current appointments include: President and Chief Financial Officer of Oracle Corporation. Joined Oracle in 1999 and appointed to the board of directors in 2001.

Former appointments include: Managing Director of Donaldson, Lufkin & Jenrette.

L M L Cha, GBS, 63

Member of the Corporate Sustainability Committee and, since 1 January 2013, Chairman.

Skills and experience: extensive regulatory and policy making experience in the finance and securities sector in Hong Kong and mainland China; formerly Vice Chairman of the China Securities Regulatory Commission, being the first person outside mainland China to join the Central Government of the People s Republic of China at vice-ministerial rank; awarded Gold and Silver Bauhinia Stars by the Hong Kong Government for public service; formerly Deputy Chairman of the Securities and Futures Commission in Hong Kong; and has worked in the US and Asia.

Appointed to the Board: 2011

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HSBC HOLDINGS PLC

Board of Directors and Senior Management (continued)

Current appointments include: non-executive Deputy Chairman of The Hongkong and Shanghai Banking Corporation Limited; non-official member of the Executive Council of Hong Kong SAR; a Hong Kong Deputy to the 12th National People s Congress of China; non-executive director of China Telecom Corporation Limited; Senior International Advisor for Foundation Asset Management Sweden AB; member of the State Bar of California; and Chairman of the Financial Services Development Council of Hong Kong SAR since 17 January 2013.
A non-executive director of Unilever PLC and Unilever N.V. since 14 May 2013. Member of the International Advisory Council of the China Banking Regulatory Commission since 12 July 2013.

Former appointments include: non-executive director of Bank of Communications Co., Ltd., Baoshan Iron and Steel Co. Limited; Johnson Electric Holdings Limited; and Chairman of the University Grants Committee in Hong Kong. Non-executive director of Hong Kong Exchanges and Clearing Limited; and Tata Consultancy Services Limited; and Chairman of the ICAC Advisory Committee on Corruption. Ceased to be a member of the Advisory Board of the Yale School of Management on 18 April 2013.

M K T Cheung, GBS, OBE, 65

Member of the Group Audit Committee.

Skills and experience: a background in international business and financial accounting, particularly in Greater China and the wider Asian economy; retired from KPMG Hong Kong in 2003 after more than 30 years; awarded the Gold Bauhinia Star by the Hong Kong Government. Fellow of the Institute of Chartered Accountants in England and Wales.

Appointed to the Board: 2009

Current appointments include: non-executive director of Hang Seng Bank Limited and HKR International Limited; non-executive Chairman of the Airport Authority Hong Kong and the Council of the Hong Kong University of Science and Technology; director of The Association of Former Council Members of The Stock Exchange of Hong Kong Limited and The Hong Kong International Film Festival Society Ltd; and a member of the Working Group on Transportation under the Economic Development Commission of the Hong Kong SAR Government since 17 January 2013.

Former appointments include: non-executive director of Sun Hung Kai Properties Limited and Hong Kong Exchanges and Clearing Limited;

Chairman and Chief Executive Officer of KPMG Hong Kong; council member of the Open University of Hong Kong; and non-official member of the Executive Council of the Hong Kong SAR.

J B Comey, 52

Member of the Financial System Vulnerabilities Committee since 4 March 2013.

Skills and experience: extensive experience in both the public and private sectors in the US federal and state justice systems and as General Counsel to leading international businesses. Former US Deputy Attorney General responsible for supervising operations of the US Department of Justice. As US Attorney for the Southern District of New York, oversaw the prosecution of corporate executives on fraud and securities-related charges and international drug cartels.

Appointed to the Board: 4 March 2013

Following his confirmation by the US Senate as the next Director of the Federal Bureau of Investigation, Jim will cease to be a Director and a member of the Financial System Vulnerabilities Committee with effect from 4 September 2013.

Current appointments include: Columbia University Law School, Senior Research Scholar and Hertog Fellow on National Security Law.

Former appointments include: General Counsel of Bridgewater Associates, LP; Senior Vice President and General Counsel of Lockheed Martin Corporation; US Deputy Attorney General; US Attorney for the Southern District of New York; and Assistant US Attorney for the Eastern District of Virginia.

J D Coombe, 68

Chairman of the Group Audit Committee and member of the Group Risk Committee and Group Remuneration Committee.

Skills and experience: a background in international business, financial accounting and the pharmaceutical industry. Formerly Chief Financial Officer of GlaxoSmithKline plc with responsibility for the group s financial operations globally. Fellow of the Institute of Chartered Accountants in England and Wales.

Appointed to the Board: 2005

Board of Directors and Senior Management (continued)

Current appointments include: non-executive Chairman of Hogg Robinson Group plc and Home Retail Group plc.

Former appointments include: executive director and Chief Financial Officer of GlaxoSmithKline plc; non-executive director of GUS plc; member of the Supervisory Board of Siemens AG; Chairman of The Hundred Group of Finance Directors; member of the Accounting Standards Board; and a council member of The Royal Academy of Arts.

Sir Jonathan Evans