HSBC HOLDINGS PLC
Form 6-K
August 04, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

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

For the month of August, 2006

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 Form 40-F

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

Yes No

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

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

H S B C H O L D I N G S P L C

Interim Report 2006

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Cautionary Statement Regarding Forward-Looking Statements

This *Interim Report 2006* contains certain forward-looking statements with respect to the financial condition, results of operations and business of HSBC. These forward-looking statements represent HSBC s expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. For example, certain of the market risk disclosures, some of which are only estimates and, therefore, could be materially different from actual results, are dependent on key model characteristics and assumptions and are subject to various limitations. Certain statements, such as those that include the words potential , value at risk , estimated , expects , anticipates , objective , intends , plans , believes , estim expressions or variations on such expressions may be considered forward-looking statements .

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

Forward-looking statements involve inherent risks and uncertainties. Readers should be cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they have been reviewed or updated in the light of new information or future events. Trends and factors that are expected to affect HSBC s results of operations are described in the Financial Review . A more detailed cautionary statement is given on pages 5 and 6 of the *Annual Report and Accounts 2005*.

Certain Defined Terms

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

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H S B C H O L D I N G S P L C

Financial Highlights

HSBC s interim Financial Statements and Notes thereon, as set out on pages 119 to 148, have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting . HSBC prepares its annual consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union (EU). At 30 June 2006, there is no difference between IFRSs as endorsed by the EU and IFRSs as issued by the International Accounting Standards Board (IASB) in terms of their application by HSBC.

In implementing IFRSs for the first time during the course of 2005, guidance on the interpretation and practical application of IFRSs was necessarily evolving, in particular with regard to the presentation of financial instruments, an area on which IFRSs are generally not prescriptive. Following publication of the *Interim Report 2005*, having regard to further interpretation and emerging consensus on the presentation of financial instruments, in particular those measured at fair value, HSBC revised the presentation of certain items in the *Annual Report and Accounts 2005* compared with the presentation adopted at 30 June 2005. Accordingly, the presentation of comparative information in respect of the half-year to 30 June 2005 which appears in this *Interim Report 2006* conforms with the presentation adopted in the *Annual Report and Accounts 2005*. The changes are presentational only and have no impact on profit for the period or total equity. The effect of the changes in presentation on the consolidated income statement and consolidated balance sheet is set out on pages 145 to 148 and on the presentation of segmental analysis by customer groups is set out in a section of the Financial Review on pages 85 to 86.

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

	Half-year to		
	30 June 2006 US$m	30 June 2005 US$m	31 December 2005 US$m
For the period			
Total operating income	**34,334**	29,789	31,915
Profit before tax	**12,517**	10,640	10,326
Profit attributable to shareholders of the parent company	**8,729**	7,596	7,485
Dividends	**(5,263)**	(4,575)	(3,175)
At period-end			
Total equity	**107,370**	91,681	98,226
Total shareholders equity	**101,381**	86,713	92,432
Capital resources[1]	**116,636**	101,722	105,449
Deposits by banks and customer accounts	**916,881**	812,211	809,146
Total assets	**1,738,138**	1,466,810	1,501,970
Risk-weighted assets	**872,893**	794,834	827,164
	US$	US$	US$
Per ordinary share			
Basic earnings	**0.78**	0.69	0.67
Diluted earnings	**0.77**	0.68	0.67
Dividends	**0.46**	0.41	0.28
Net asset value at period end	**8.71**	7.73	8.03

	At 30 June 2006	At 30 June 2005	At 31 December 2005
Share information			

US$0.50 ordinary shares in issue (million)	**11,481**	11,222	11,334
Market capitalisation (billion)	**US$ 202**	US$ 179	US$ 182
Closing market price per ordinary share:			
London	**£9.52**	£8.90	£9.33
Hong Kong	**HK$ 136.10**	HK$ 125.00	HK$ 124.50
Closing market price per American Depositary Share (ADS[2])	**US$ 88.35**	US$ 79.65	US$ 80.47

	Over 1 year	Over 3 years	Over 5 years
HSBC total shareholder return (TSR) to 30 June 2006[3]	**112.2**	**154.7**	**145.0**
Benchmarks:			
FTSE 100[4]	**118.0**	**160.3**	**122.0**
MSCI World[5]	**117.5**	**161.9**	**135.2**

For footnotes, see page 3.

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Financial Highlights (continued)

Capital and performance ratios (annualised)

	Half-year to		
	30 June 2006 %	30 June 2005 %	31 December 2005 %
Capital ratios			
Tier 1 capital	**9.4**	8.7	9.0
Total capital	**13.4**	12.8	12.8
Performance ratios			
Return on average invested capital[6]	**17.2**	16.5	15.3
Return on average total shareholders equity[7]	**18.1**	17.6	16.1
Post-tax return on average total assets	**1.12**	1.18	0.95
Post-tax return on average risk-weighted assets	**2.21**	2.09	1.93
Credit coverage ratios			
Loan impairment charges as a percentage of total operating income	**11.3**	11.0	14.3
Loan impairment charges as a percentage of average gross customer advances	**1.04**	1.02	1.30
Total impairment allowances outstanding as a percentage of impaired loans at period end	**92.5**	101.1	99.1
Efficiency and revenue mix ratios			
Cost efficiency ratio[8]	**50.1**	51.4	51.0
As a percentage of total operating income:			
net interest income	**48.7**	51.4	50.2
net fee income	**24.4**	23.6	23.2
net trading income	**12.4**	9.7	9.3
Financial ratio			
Average total shareholders equity to average total assets	**5.9**	6.4	5.6

For footnotes, see page 3.

Constant currency

Constant currency comparatives for the half-years to 30 June 2005 and 31 December 2005, used in the 2006 commentaries, are computed by retranslating into US dollars:

- the income statements for the half-years to 30 June 2005 and 31 December 2005 of non-US dollar branches, subsidiaries, joint ventures and associates at the average rates of exchange for the half-year to 30 June 2006; and
- the balance sheets at 30 June 2005 and 31 December 2005 for non-US dollar branches, subsidiaries, joint ventures and associates at the rates of exchange ruling at 30 June 2006.

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

	Growth in revenue and costs: half-year to 30 June 2006 compared with the half-year to			
	30 June 2005		31 December 2005	
	As reported	Constant currency on an underlying basis	As reported	Constant currency on an underlying basis
	%	%	%	%
Operating income and cost growth				
Total operating income	15	14	8	5
Net operating income before loan impairment charges and other credit risk provisions	15	13	9	6
Total operating expenses	12	11	7	5

For details of the underlying constant currency basis, see Comparison of financial information on page 3.

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Distribution of Results

By geographical region

	Half-year to					
	30 June 2006		30 June 2005		31 December 2005	
	US$m	**%**	US$m	%	US$m	%
Profit before tax						
Europe	**3,600**	**28.8**	2,886	27.2	3,470	33.6
Hong Kong	**2,654**	**21.2**	2,419	22.7	2,098	20.3
Rest of Asia-Pacific	**1,657**	**13.2**	1,280	12.0	1,294	12.5
North America	**4,272**	**34.1**	3,713	34.9	3,159	30.6
South America	**334**	**2.7**	342	3.2	305	3.0
Profit before tax	**12,517**	**100.0**	10,640	100.0	10,326	100.0
Tax expense	**(3,272)**		(2,658)		(2,435)	
Profit for the period	**9,245**		7,982		7,891	
Profit attributable to shareholders of the parent company	**8,729**		7,596		7,485	
Profit attributable to minority interests	**516**		386		406	

By customer group

	Half-year to					
	30 June 2006		30 June 2005		31 December 2005	
	US$m	**%**	US$m	%	US$m	%
Profit before tax						
Personal Financial Services	**5,908**	**47.2**	5,219	49.1	4,685	45.4
Commercial Banking	**2,862**	**22.9**	2,374	22.3	2,587	25.0
Corporate, Investment Banking and Markets	**3,144**	**25.1**	2,301	21.6	2,862	27.7
Private Banking	**600**	**4.8**	451	4.2	461	4.5
Other	**3**		295	2.8	(269)	(2.6)
Profit before tax	**12,517**	**100.0**	10,640	100.0	10,326	100.0

Comparison of financial information

When reference is made to constant currency or constant exchange rates in the commentaries, comparative data reported in the functional currencies of HSBC s operations have been translated at the exchange rates applied in the current period on the basis described under Constant currency on page 2. When reference to underlying is made, comparative data have been expressed at constant currency and adjusted for the impact of acquisitions.

Footnotes to Financial Highlights

1 *Capital resources are total regulatory capital, the calculation of which is set out on page 117.*
2 *Each ADS represents five ordinary shares.*
3 *TSR is defined on page 220 of the* Annual Report and Accounts 2005.
4 *The Financial Times-Stock Exchange 100 Index.*
5 *The Morgan Stanley Capital International World Index.*
6 *The definition of return on average invested capital and a reconciliation to the equivalent Generally Accepted Accounting Principles (GAAP) measures are set out on page 28.*
7 *The return on average total shareholders equity is defined as profit attributable to shareholders of the parent company divided by average total shareholders equity.*
8 *The cost efficiency ratio is defined as total operating expenses divided by net operating income before loan impairment charges and other credit risk provisions.*

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Group Chairman s Comment

In the first half of the year, HSBC achieved strong revenue growth in new business streams in which we have invested and also in our emerging markets businesses generally. At the same time, our businesses in the mature economies continued to perform well. Furthermore, we have grown our income strongly and faster than our costs, in line with our strategy of *Managing for Growth* .

Profit attributable to shareholders for the first half of 2006 rose by 15 per cent to US$8.7 billion a new high and represented earnings per share of US$0.78, a rise of 13 per cent. The Directors have approved a second interim dividend of US$0.15 per share, taking the total dividends declared to date in respect of 2006 to US$0.30 per share (US$0.02, or 7 per cent, higher than in the prior period).

Income grew by US$4.5 billion and costs rose by US$1.7 billion. Net operating income growth compared with the first half of 2005 was 14 per cent. It is a measure of the success of the investments we have made in support of our *Managing for Growth* strategy that growth in net operating income was 65 per cent more than in the first half of 2005. This has been achieved almost entirely organically; the effect of acquisitions made in 2005 and 2006 was small.

Our cost efficiency ratio improved to 50.1 per cent. Cost growth, including significant investment in our business, in the first half of 2006 was US$100 million lower than the increase in the first half of 2005. Substantially, this reflects the completion during 2005 of the major investment phase of our Corporate, Investment Banking and Markets strategy.

Operating environment

The global operating environment has been broadly favourable, with a stable US economy and a resurgent Japan counterbalancing the tightening effect of higher interest rates in most countries and increased energy costs.

The credit environment was generally stable, with corporate and commercial credit continuing to be benign. Retail credit deterioration, where it occurred, was largely offset by improved performance in other retail portfolios.

Global equity markets enjoyed strong gains for a large part of the period, encouraging an expansion in investment flows and a receptive marketplace for mergers and acquisitions activity and initial public offerings.

A key element of our strategy and a competitive advantage is to manage our businesses around the world in a joined-up way. Linking our customer bases in the developed world to our capabilities in emerging markets remains a core competitive strength of HSBC and one whose potential we are increasingly tapping. We also continue to export products and services developed in mature economies to the faster growing emerging markets. As a result, our emerging market operations have provided increases of 20 per cent or more in pre-tax profit in a range of countries: Brazil, mainland China, India, Malaysia, Mexico, the Middle East and the Philippines. Furthermore, strong interest in emerging markets by corporates and investors played to our strengths in foreign exchange, in custody, in asset management and in cross-border transactional and investment banking.

Investment in our existing businesses has proved to be the most attractive use of capital in recent years when, in our view, enthusiasm for emerging market and consolidation targets has run ahead of value. The Group s return on equity improved to 18.1 per cent in the first half of 2006 driven by improved returns; capital ratios strengthened modestly.

Investing in the customer experience in Personal Financial Services

In Personal Financial Services, we continue to invest in areas designed to grow the customer base and to improve customer experience.

We are positioning HSBC to provide for our customers future needs. We published a major global study on the future of retirement, based on a survey of 21,000 people and 6,000 companies in 20 countries and territories. As retirement issues will become ever more important to our customers, we are now planning how best to configure financial services in an ageing world.

We are working hard to improve our existing services. In the UK, we started an ambitious programme to upgrade the branch network, committing to spend some US$715 million in the single largest refurbishment programme in recent history. We have extended our opening hours at our top branches to reflect retail, not banking, hours.

Improvement programmes have been launched in many other countries including the US, Mexico, Turkey and mainland China. Also, in the US we launched a new internet savings proposition at the end of 2005 which, to date, has added US$5 billion in deposits, diversifying our funding base and increasing our brand visibility.

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We invest where we see growth. So, for example, strong growth in Mexico has led us to recruit 1,700 new employees in 2006, principally in front office, collections, credit cards and in sales of microfinance, mortgages and investments.

We continue to see strong demand for new financial services in emerging markets, particularly in consumer finance. We are using HSBC Finance s expertise to drive this business. In emerging markets, we are piloting 23 consumer finance offices in India and four centres in Indonesia. We also opened branches in 2006 in the Czech Republic, Ireland, Poland and Slovakia.

Growing businesses in Commercial Banking

Small and medium-sized enterprises (SMEs) are vital to any successful economy. This very important sector grew to 2.4 million customers, an increase of 8 per cent. One million of them are now registered for internet banking services, and online transaction volumes increased by 29 per cent.

As the world s local bank, we are working with many of our customers to support their increasingly international businesses an area where we see opportunities to improve our service and profitability. For example, we completed the roll-out of a cross-border referral system connecting 4,000 relationship managers in over 50 countries.

We also aim to serve our customers *local* needs. Among many such initiatives, I would highlight: HSBC Business Direct, a fee-free internet and phone banking service in the UK; new commercial cards in Hong Kong and the UK; a dedicated SME centre in Sri Lanka; and commercial insurance initiatives in Brazil, Indonesia and China.

Real momentum in Corporate, Investment Banking and Markets

In the first half of 2006 we moved from the build phase in this business into full execution mode. Our overall investment spend was considerably lower and, most encouragingly, cost growth was largely in performance-related expenses as revenue growth accelerated.

The results are clear. Pre-tax profit rose 37 per cent, compared to the first half of 2005. In the first half of 2005 net operating income was broadly unchanged on the first half of 2004 while costs rose by some US$650 million. In the first half of 2006 net operating revenues grew by US$1,368 million, while cost growth, largely in performance-related pay and the volume-driven businesses in Global Transaction

Banking, was US$429 million. This translated into a positive gap between revenue growth and cost growth of 12 per cent.

Under the leadership of Stuart Gulliver, we restructured the business into four principal product lines: Global Markets, Global Banking, Group Investment Businesses and Global Transaction Banking.

Whilst financial performance remains somewhat constrained, due to the continuing impact on balance sheet management revenues of the flat interest rate yield curves in major currencies, this is more than offset by strong growth in sales and trading revenues and in transactional banking revenues.

All elements of the Global Markets business developed strongly in 2006 and past investment in structured derivatives, asset-backed securities, equity and equity derivative products and fixed income capabilities paid off. Our share of international bond issuance rose, placing HSBC fourth in global market share.

We captured a growing number of headline investment banking deal positions, including four of the five largest deals announced during the period in Europe, where our ability to offer a combination of financing, structuring, hedging and advice gave a strong competitive edge.

Group Investment Businesses also delivered a record result across its broad range of activities, boosted by exceptional performance fees in emerging market funds and higher assets under management in emerging markets.

Global Transaction Banking had another record period, primarily driven by strong growth in emerging markets, and the beneficial effect of the higher interest rate environment on larger balances.

Building one of the world s leading Private Banks

The transformation of our Private Banking business has been one of the great successes in HSBC. In just a few years, the private banking arms of the various Group entities have been knitted together into one global proposition for our high net worth customers.

We rebranded as HSBC Private Bank in 2004 and a measure of our success is that pre-tax profits of US$600 million in the first half of 2006 have more than doubled over the past three years.

We have succeeded by extending the product range available to customers, in particular in the area

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Group Chairman's Comments (continued)

of alternative investments, and by adding capabilities relevant to our wealthiest customers in the areas of residential property advice, trust and tax advice.

Client assets increased by 22 per cent to US$305 billion, benefiting from net new money of US$18.6 billion in the first half of 2006. Again we are managing the business in a more joined-up way, with increasing cross-referrals from the wider Group contributing some US$2.9 billion of net new money. Regional expansion within the UK and France, as well as a good start from the recently launched onshore operations in Dubai and India, have established a solid foundation for further growth.

The credit environment

The generally benign credit environment has been driven by continuing strong global growth, stable employment patterns in major economies, modest inflationary pressures and good liquidity, which have kept asset prices most importantly residential real estate values high.

There is now evidence of slowing residential housing markets, particularly in the US. The consequent effect on future price appreciation, together with the impact of higher interest rates on adjustable rate mortgages that reach reset dates, will put pressure on some borrowers. Although overall retail credit experience in the US has been favourable in the first half of 2006, we began to see some deterioration in certain segments amongst recent mortgage originations. We are taking action to mitigate the potential effects.

In the UK, the unsecured personal sector again contributed the major portion of the impairment charge in the period, largely as a result of rising bankruptcy filings and individual voluntary arrangements. Although the charge was considerably higher than the first half of 2005, it was in line with that incurred in the second half of last year. We are seeing an improvement in the credit quality of more recent originations.

Excessive consumer indebtedness is increasingly an issue in the public domain. Banks have an obligation here. We were the first major UK bank to share positive credit information, and we have deliberately reduced our market share of unsecured lending in the UK.

In the first half of 2006, we have seen public policy interventions in a number of countries, both emerging and developed. It is clearly in everyone s interest to ensure regulation targets individuals who

need support and does so without causing unintended consequences, as we have seen in several countries.

Outlook

The world economy remains fundamentally strong. China continues to grow at an intense pace, attracting huge investment flows and providing a massive opportunity for the world s exporters.

During the first half of 2006, the Federal Reserve in the US continued to increase interest rates and was followed by many other central banks. Consumers are experiencing significantly higher energy prices. Concerns about inflation persist although there is little evidence of any significant pick-up in either wages or inflationary expectations. We remain alert, however, to the possibility that these factors, together with slowing housing markets, may constrain economic growth.

The apparent collapse of the Doha round of the WTO is disappointing. Overall, we believe that trade liberalisation is a force for good in terms of economic development, which is intimately related to people s wellbeing. We are concerned by signs that the world is heading towards a more protectionist trading system, when in fact we should be moving in the other direction.

In any event, we will continue to position HSBC to take best advantage of the changing nature of the world s economy. We have a unique set of franchises around the world: well over 100 million customers in more than 200 countries and operations in 76 economies. Our diversification combined with our strong capital position is a crucial strength.

We believe that we are well positioned to take advantage of opportunities as they arise. Indeed, earlier this month we announced an agreement to acquire Grupo Banistmo, the leading banking group in Central America. This will improve our franchise in Panama and extend it to Costa Rica, Honduras, Colombia, Nicaragua and El Salvador.

We aspire to be the number one brand in financial services. Customer experience will remain a key driver of our success in achieving this, so we will focus relentlessly on improving the quality of that experience. Technology will play an increasingly important role in this.

However, at its heart, banking is a people business, and our people will be at the forefront of our success. Engaging our 280,000 colleagues is critical to the delivery of our strategy, and with well

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over 100,000 participants, we believe that HSBC has one of the largest employee bases in the world with an interest in their company s shares. It is the talent and dedication of the HSBC team around the world that will secure success for our people, our customers and our shareholders.

Stephen Green, *Group Chairman*

31 July 2006

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HSBC HOLDINGS PLC

Board of Directors and Senior Management

Directors

S K Green, Group Chairman

Age 57. An executive Director since 1998; Group Chief Executive from 2003 to 26 May 2006. Joined HSBC in 1982. Chairman of HSBC Bank plc, HSBC Bank USA, N.A., HSBC Private Banking Holdings (Suisse) SA, and HSBC USA Inc. A Director of HSBC France, The Hongkong and Shanghai Banking Corporation Limited, Grupo Financiero HSBC, S.A. de C.V., HSBC North America Holdings Inc. and HSBC Trinkaus & Burkhardt KGaA. Group Treasurer from 1992 to 1998. Executive Director, Corporate, Investment Banking and Markets from 1998 to 2003.

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

Age 66. An executive Director of John Swire & Sons Limited and a Director of Swire Pacific Limited. A non-executive Director since 1990 and a non-executive Deputy Chairman since 1992. A member of the Nomination Committee. A non-executive Director of The Hongkong and Shanghai Banking Corporation Limited from 1981 to 1996. A member of the Asia Task Force. A former Senior Member of the Hong Kong Executive Council and Legislative Council.

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

Age 67. A non-executive Director since 1998 and a non-executive Deputy Chairman since 2001. Chairman of the Group Audit Committee and of the Nomination Committee. A non-executive Director of Macsteel Global BV. Former Chairman of Corus Group plc and a former member of the Court of the Bank of England.

M F Geoghegan, CBE, Group Chief Executive

Age 52. An executive Director since 2004. Joined HSBC in 1973. A Director and, since 6 March 2006, Deputy Chairman of HSBC Bank plc. A Director of The Hongkong and Shanghai Banking Corporation Limited, HSBC France and HSBC Private Banking Holdings (Suisse) SA. President of HSBC Bank Brasil S.A.-Banco Múltiplo from 1997 to 2003 and responsible for all of HSBC s business throughout South America from 2000 to 2003. Chief Executive of HSBC Bank plc from 2004 to 6 March 2006. A non-executive Director and Chairman of Young non-executive Director and Chairman of Young Enterprise.

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

Age 68. Master, University College, Oxford. A non-executive Director since 1998. Chairman of the Corporate Responsibility Committee, a member of the Nomination Committee and Chairman of the HSBC Global Education Trust. A non-executive Director of Imperial Chemical Industries plc. A member of the International Advisory Board of Marsh McLennan Inc. Chaired the UK Government Review of Intelligence on Weapons of Mass Destruction in 2004. Secretary of the Cabinet and Head of the Home Civil Service in the United Kingdom from 1988 to 1998.

R K F Ch ien, CBE

Age 54. Chairman of CDC Corporation and of its subsidiary, China.com Inc. A non-executive Director since 1998. A member of the Group Audit Committee. Non-executive Chairman of HSBC Private Equity (Asia) Limited and a non-executive Director of The Hongkong and Shanghai Banking Corporation Limited since 1997. Non-executive Chairman of MTR Corporation Limited and a non-executive Director of Convenience Retail Asia Limited, Inchcape plc, VTech Holdings Limited and The Wharf (Holdings) Limited.

J D Coombe

Age 61. Chairman of Hogg Robinson plc. A non-executive Director since March 2005. A member of the Group Audit Committee and, since 1 June 2006, a member of the Remuneration Committee. A non-executive Director of GUS plc and of the Supervisory Board of Siemens AG. A member of The Code Committee of the Panel on Takeovers and Mergers. A trustee of the Royal Academy Trust. Former executive Director and Chief Financial Officer of GlaxoSmithKline plc. A former Chairman of The Hundred Group of Finance Directors and a former member of the Accounting Standards Board.

R A Fairhead

Age 44. Chief Executive Officer of the Financial Times Group Limited and a Director of Pearson plc. A non-executive Director since 2004. A member of the Group Audit Committee. A non-executive Director of The Economist Newspaper Limited. Former Executive Vice President, Strategy and Group Control of Imperial Chemical Industries plc.

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D J Flint, CBE, Group Finance Director

Age 51. Joined HSBC as an executive Director in 1995. A Director of HSBC Bank Malaysia Berhad. A non-executive Director of BP p.l.c. Chaired the Financial Reporting Council s review of the Turnbull Guidance on Internal Control. Served on the Accounting Standards Board and the Standards Advisory Council of the International Accounting Standards Board from 2001 to 2004. A former partner in KPMG.

W K L Fung, OBE

Age 57. Group Managing Director of Li & Fung Limited. A non-executive Director since 1998. A member of the Corporate Responsibility Committee and of the Remuneration Committee. A non- executive Director of The Hongkong and Shanghai Banking Corporation Limited and Deputy Chairman since May 2005. A non-executive Director of CLP Holdings Limited, Integrated Distribution Services Group Limited and VTech Holdings Ltd. A member of The Trade Development Council and the Hong Kong Logistics Development Council. Former Chairman of the Hong Kong General Chamber of Commerce, the Hong Kong Exporters Association and the Hong Kong Committee for the Pacific Economic Co-operation Council.

S Hintze

Age 61. Former Chief Operating Officer of Barilla S.P.A.A non-executive Director since 2001. A member of the Corporate Responsibility Committee and of the Remuneration Committee. A non- executive Director of Premier Foods plc. A former non-executive Director of Safeway plc and the Society of Genealogists, a registered charity. A former Senior Vice President of Nestlé S.A. With Mars Incorporated from 1972 to 1993, latterly as Executive Vice President of M&M/Mars in New Jersey.

J W J Hughes-Hallett

Age 56. Chairman of John Swire & Sons Limited. A non-executive Director since March 2005. A member of the Group Audit Committee since 1 June 2006. A non-executive Director of The Hongkong and Shanghai Banking Corporation Limited from 1999 to 2004. A non-executive Director and formerly Chairman of Cathay Pacific Airways Limited and Swire Pacific Limited. A trustee of the Dulwich Picture Gallery, the Hong Kong Maritime Museum and the Esmée Fairbairn Foundation. A member of the London School of Oriental and African Studies Governing Body.

Sir Mark Moody-Stuart, KCMG

Age 65. Chairman of Anglo American plc. A non-executive Director since 2001. Chairman of the Remuneration Committee and a member of the Corporate Responsibility Committee. A non-executive Director of Accenture Limited, a Governor of Nuffield Hospitals, President of the Liverpool School of Tropical Medicine and Chairman of the Global Business Coalition on HIV/AIDS, Chairman of the Global Compact Foundation. A former Director and Chairman of The Shell Transport and Trading Company, plc and former Chairman of the Committee of Managing Directors of the Royal Dutch/Shell Group of Companies.

S W Newton

Age 64. Chairman of The Real Return Holdings Company Limited. A non-executive Director since 2002. A non-executive Director of Flying Brands Limited. A Member of the Advisory Board of the East Asia Institute and of the Investment Board at Cambridge University. A member of The Wellcome Trust Investment Committee. Founder of Newton Investment Management, from which he retired in 2002.

S M Robertson

Age 65. Non-executive Chairman of Rolls-Royce Group plc and the founder member of Simon Robertson Associates LLP. A non-executive Director since 3 January 2006. A non-executive Director of Berry Bros. & Rudd Limited, The Economist Newspaper Limited and The Royal Opera House Covent Garden Limited. Chairman of Trustees of the Royal Academy Trust and the Ernest Kleinwort Charitable Trust. A trustee of the Eden Project and the Royal Opera House Endowment Fund. A former Managing Director of Goldman Sachs International. Former Chairman of Dresdner Kleinwort Benson and a former non-executive Director of Inchcape plc, Invensys plc and the London Stock Exchange.

* **H Sohmen,** OBE

Age 66. Chairman of Bergesen Worldwide Limited, Bergesen Worldwide Offshore Limited and Bergesen Worldwide Gas ASA. Chairman and President of BW Corporation Limited (formerly World-Wide Shipping Group Limited) and Chairman of The International Tanker Owners Pollution Federation Limited. A non-executive Director since 1990. A non-executive Director of The Hongkong and Shanghai Banking Corporation Limited from 1984 to 2005 and Deputy Chairman from 1996 to 2005.

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Board of Directors and Senior Management (continued)

Sir Brian Williamson, CBE

Age 61. Chairman of Electra Private Equity plc. A non-executive Director since 2002. A member of the Nomination Committee. A non-executive Director of Resolution plc and a member of the Supervisory Board of Euronext NV. A senior adviser to Fleming Family and Partners. Former Chairman of London International Financial Futures and Options Exchange, Gerrard Group plc and Resolution Life Group Limited. A former non-executive Director of the Financial Services Authority and of the Court of The Bank of Ireland.

* *Non-executive Director*

Independent non-executive Director

Adviser to the Board

D J Shaw

Age 60. An Adviser to the Board since 1998. Solicitor. A partner in Norton Rose from 1973 to 1998. A Director of The Bank of Bermuda Limited and HSBC Private Banking Holdings (Suisse) SA.

Secretary

R G Barber

Age 55. Group Company Secretary since 1990. Joined HSBC in 1980; Corporation Secretary of The Hongkong and Shanghai Banking Corporation Limited from 1986 to 1992. Company Secretary of HSBC Bank plc from 1994 to 1996.

Group Managing Directors

C C R Bannister

Age 47. Group Managing Director, Insurance with effect from 1 August 2006. Joined HSBC in 1994. Appointed a Group General Manager in 2001. Deputy Chief Executive Officer HSBC Securities Inc, USA from 1996 to 1998 and Chief Executive Officer, Group Private Banking from 1998 to 2006.

V H C Cheng, OBE

Age 58. Chairman of The Hongkong and Shanghai Banking Corporation Limited. A Group Managing Director since May 2005. Joined HSBC in 1978. Appointed a Group General Manager in 1995. Deputy Chairman and Chief Executive Officer of Hang Seng Bank Limited from 1998 to 2005.

C-H Filippi

Age 53. Chairman and Chief Executive Officer of HSBC France. A Group Managing Director since 2004. A Director of HSBC Bank plc. Joined HSBC France in 1987 having previously held senior appointments in the French civil service. Appointed a Group General Manager in 2001. Global Head of Corporate and Institutional Banking from 2001 to 2004.

A A Flockhart

Age 54. Group Managing Director and President, Latin America and the Caribbean with effect from 1 October 2006. Joined HSBC in 1974. Appointed a Group General Manager and Chief Executive Officer, Mexico in 2002. Chief Executive Officer, HSBC Thailand from 1992 to 1994. Managing Director of The Saudi British Bank from 1997 to 1999 and Senior Executive Vice-President, Commercial Banking, HSBC Bank USA Inc. from 1999 to 2002.

S T Gulliver

Age 47. Head of Corporate, Investment Banking and Markets and Group Investment Businesses. A Group Managing Director since 2004. Joined HSBC in 1980. Appointed a Group General Manager in 2000. Head of Treasury and Capital Markets in Asia-Pacific from 1996 to 2002, Head of Global Markets from 2002 to 2003 and Co-Head of Corporate, Investment Banking and Markets from 2003 to May 2006.

D H Hodgkinson

Age 55. Group Chief Operating Officer. Appointed a Group Managing Director on 26 May 2006 and, since 24 July 2006, Chairman of HSBC Bank Middle East Limited. Joined HSBC in 1969. Appointed a Group General Manager in 2003. Managing Director of The Saudi British Bank from 1999 to 2003. Deputy Chairman and Chief Executive Officer of HSBC Bank Middle East Limited from 2003 to May 2006.

D D J John

Age 56. Chief Executive, HSBC Bank plc. Appointed a Group Managing Director on 6 March 2006. Joined HSBC Bank plc in 1971. Appointed a Group General Manager in 2000. Deputy Chairman and Chief Executive Officer, HSBC Bank Malaysia Berhad from 1999 to 2002. Chief Operating Officer of HSBC Bank plc from 2003 to May 2005 and Deputy Chief Executive from May 2005 to 6 March 2006.

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S N Mehta

Age 48. Chief Executive of HSBC North America Holdings Inc, and Chairman and Chief Executive Officer of HSBC Finance Corporation. A Group Managing Director since April 2005. Joined HSBC Finance Corporation in 1998 and was appointed Vice Chairman in 2004.

Y A Nasr

Age 51. President, HSBC Bank Brasil S.A.-Banco Múltiplo. With effect from 1 October 2006, Group Managing Director, Strategic Investments. A Group Managing Director since 2004. Joined HSBC in 1976. Appointed a Group General Manager in 1998. President and Chief Executive Officer of HSBC Bank Canada from 1997 to 1999. President and Chief Executive Officer of HSBC USA Inc. from 1999 to 2003.

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Financial Review

Summary

	Half-year to		
	30 June 2006 US$m	30 June 2005 US$m	31 December 2005 US$m
Interest income	**35,785**	29,202	30,892
Interest expense	**(19,054)**	(13,886)	(14,874)
Net interest income	**16,731**	15,316	16,018
Fee income	**10,441**	8,558	8,928
Fee expense	**(2,061)**	(1,514)	(1,516)
Net fee income	**8,380**	7,044	7,412
Trading income excluding net interest income	**3,112**	1,804	1,852
Net interest income on trading activities	**1,149**	1,087	1,121
Net trading income	**4,261**	2,891	2,973
Net income from financial instruments designated at fair value	**260**	547	487
Gains less losses from financial investments	**493**	354	338
Dividend income	**222**	95	60
Net earned insurance premiums	**2,834**	2,396	3,040
Other operating income	**1,153**	1,146	1,587
Total operating income	**34,334**	29,789	31,915
Net insurance claims incurred and movement in policyholders liabilities	**(2,149)**	(1,760)	(2,307)
Net operating income before loan impairment charges and other credit risk provisions	**32,185**	28,029	29,608
Loan impairment charges and other credit risk provisions	**(3,890)**	(3,277)	(4,524)
Net operating income	**28,295**	24,752	25,084
Employee compensation and benefits	**(8,992)**	(7,869)	(8,276)
General and administrative expenses	**(6,065)**	(5,444)	(5,739)
Depreciation of property, plant and equipment	**(748)**	(831)	(801)
Amortisation and impairment of intangible assets	**(334)**	(276)	(278)
Total operating expenses	**(16,139)**	(14,420)	(15,094)
Operating profit	**12,156**	10,332	9,990
Share of profit in associates and joint ventures	**361**	308	336

Profit before tax	**12,517**	10,640	10,326
Tax expense	**(3,272)**	(2,658)	(2,435)
Profit for the period	**9,245**	7,982	7,891
Profit attributable to shareholders of the parent company	**8,729**	7,596	7,485
Profit attributable to minority interests	**516**	386	406

HSBC made a profit before tax of US$12,517 million, a rise of US$1,877 million, or 18 per cent, compared with the first half of 2005.

Of particular note was the strong revenue growth following investment in new business streams and within the Group s emerging markets businesses. Operations in the mature economies also continued to perform well. All customer groups were ahead of both the comparable period in 2005 and the intervening six months.
The economic backdrop to the 2006 interim results was favourable. Global equity markets enjoyed strong gains for much of the period,

encouraging expanded investment flows and a receptive marketplace for the high levels of mergers and acquisitions and initial public offering (IPO) activity which followed. The credit environment was generally stable, with corporate and commercial credit continuing to be exceptionally good and retail credit deterioration, where it arose, largely compensated for through improved performance in other retail portfolios. Strong interest in emerging markets from corporates and investors seeking growth opportunities played to HSBC s strengths in foreign exchange, custody, asset management and cross-border transactional and investment banking. Linking the Group s customer bases in the

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developed world to its capabilities in emerging markets remains a core competitive strength of HSBC as globalisation grows.

The rate of revenue growth accelerated in the period. Net operating income grew by US$3.5 billion, or 14 per cent, compared with the first half of 2005 and this incremental net operating income was 65 per cent higher than that achieved in the first half of 2005 against the first half of 2004. Cost growth of US$1.7 billion, or 12 per cent, in the first half of 2006 was lower than the cost growth of US$1.8 billion in the first half of 2005 compared with the first half of 2004.

Efficiency improved. The Group s cost efficiency ratio fell 1.3 percentage points to 50.1 per cent. Significant investment in HSBC s businesses continued in emerging markets, in new business streams and to support higher volumes. The impact of this was shielded by a significant slowdown in cost growth in the Group s Corporate, Investment Banking and Markets businesses, where growth in net operating income of 25 per cent was double the rate of cost growth. Essentially, this reflected the move in 2006 from the investment phase to the execution phase as the build-up of the business peaked in 2005.

These results were almost entirely achieved through organic expansion and a focus on efficiency, and the impact from acquisitions and investments was small. Incremental contributions to pre-tax profit from Metris Companies Inc. (Metris), the Argentine retail bank, Banca Nazionale del Lavoro S.A. (Banca Nazionale) and Ping An Insurance Company (Group) of China, Limited (Ping An Insurance) added US$208 million to pre-tax profits in the period. These represented the bulk of changes in the constitution of the Group.

Profit growth was achieved without diluting returns on capital, as investment in the Group s existing businesses proved to be the most attractive use of capital in a period when enthusiasm for emerging markets and consolidation targets ran ahead of value.

Average invested capital increased by US$9.0 billion compared with the first half of 2005 and returns on that capital improved by 0.7 per cent to 17.2 per cent. This represented a 24 per cent annualised return on the incremental capital invested. The Group s Tier 1 ratio strengthened to 9.4 per cent.

Net interest income

	Half-year to					
	30 June 2006		30 June 2005		31 December 2005	
	US$m	**%**	US$m	%	US$m	%
By geographical region						
Europe	**4,094**	**24.5**	4,056	26.5	4,165	26.0
Hong Kong	**2,158**	**12.9**	2,019	13.2	2,045	12.8
Rest of Asia-Pacific	**1,479**	**8.8**	1,157	7.6	1,255	7.8
North America	**7,859**	**47.0**	7,279	47.4	7,608	47.5
South America	**1,141**	**6.8**	805	5.3	945	5.9
Net interest income[1]	**16,731**	**100.0**	15,316	100.0	16,018	100.0

	Half-year to		
	30 June 2006	30 June 2005	31 December 2005
	US$m	US$m	US$m
Net interest income[1]	**16,731**	15,316	16,018

Average interest-earning assets	**1,081,398**	969,059	1,029,289
Gross interest yield (per cent)[2]	**6.67**	6.08	5.95
Net interest spread (per cent)[3]	**3.01**	2.83	2.85
Net interest margin (per cent)[4]	**3.12**	3.19	3.09

1 *Net interest income comprises interest income less interest expense on financial assets and liabilities which is not recognised as part of Net trading income or Net income earned from financial instruments designated at fair value .*

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

3 *Net interest spread is the difference between the average annualised interest rate earned on AIEA and the average annualised interest rate paid on average interest-bearing funds.*

4 *Net interest margin is net interest income expressed as an annualised percentage of AIEA.*

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Financial Review (continued)

Net interest income of US$16,731 million was US$1,415 million, or 9 per cent, higher than in the first half of 2005. Underlying growth was 7 per cent. The commentary below is on an underlying basis.

The following factors influenced movements in net interest income:

- higher short-term interest rates, primarily in US dollars and linked currencies, increased the value of low-cost deposits and transactional balances. This was particularly relevant to the Personal Financial Services and Commercial Banking customer bases in Hong Kong, but also favourably affected the value of balances within the Group s custody and payments and cash management businesses;

- the cumulative effect of higher short-term interest rates in all major currencies over recent years has, by flattening interest rate yield curves, reduced the opportunities available to Global Markets to generate additional margin.
This effect continued in the first half of 2006;

- strong liquidity and benign credit conditions put lending margins under pressure as credit spreads tightened. Increased competition for core deposits also reduced deposit spreads in certain markets; and

- HSBC concentrated balance sheet expansion on attracting liabilities and, in consequence, customer deposits grew at a rate which exceeded the growth in customer loans.

In Europe, growth in personal and commercial lending and deposits supported a 5 per cent increase in net interest income. In UK Personal Financial Services, growth was strongest in transactional and savings accounts. Mortgage and credit card lending also increased. In Commercial Banking, a greater focus on attracting savings balances, together with strong current account customer acquisition, led to a 16 per cent rise in UK deposit balances. Lending growth was also strong, although much of this was achieved in the second half of 2005. UK balance sheet management revenues fell as short-term interest rates continued to rise and yield curves remained flat. Corporate lending spreads narrowed in a competitive market.

In Hong Kong, net interest income rose by 6 per cent. Interest rate rises led to wider deposit spreads and also contributed to renewed demand for deposit and savings products among HSBC s customers. The resulting strong balance growth in

Commercial and Corporate Banking deposits contrasted with broadly flat balances in Personal Financial Services, reflecting an increasingly competitive environment. A subdued residential property market led to a fall in the average level of personal mortgage balances. Customer recruitment resulted in a 15 per cent increase in average personal credit card balances. Balance sheet management revenues declined as the rising trend in short-term interest rates continued and yield curves remained flat.

In the Rest of Asia-Pacific, business expansion and the launch of several new products contributed to a 28 per cent increase in net interest income. Rising interest rates again stimulated demand for savings products and led to widening liability spreads. Increased promotional activity contributed to higher credit card and mortgage balances as HSBC expanded its regional presence in these areas. Corporate and Commercial Banking deposits grew strongly, most notably in the Middle East, where they benefited from the buoyant oil-based economies. Asset spreads declined throughout the region.

In North America, net interest income was slightly higher than in the first half of 2005, benefiting from strong growth in US mortgage, credit card and motor finance balances. These volume benefits were partly offset by lower asset spreads. A continuing focus on personal savings and deposits in the US, including the recently launched online savings product, contributed to higher liability balances, although spreads declined as customers transferred their savings to higher-yielding products. In Mexico, mortgage and credit card balances grew strongly, although asset spreads declined. Branch expansion and a strong economy led to higher Commercial Banking lending in the US, while credit demand continued to grow in both Canada and Mexico. The flat US dollar yield curve resulted in lower balance sheet management revenues, partly offset by payments and cash management income which increased as customer numbers grew.

In South America, net interest income rose by 23 per cent. Favourable economic conditions and customer acquisition resulted in higher lending balances, and falls in Brazilian interest rates led to higher asset spreads.

Average interest earning assets were US$1,081 billion, or 12 per cent, higher than in the first half of 2005.

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Net fee income

	Half-year to					
	30 June 2006		30 June 2005		31 December 2005	
	US$m	**%**	US$m	%	US$m	%
By geographical region						
Europe	**3,513**	**42.0**	3,159	44.7	3,140	42.3
Hong Kong	**1,000**	**11.9**	842	12.0	832	11.2
Rest of Asia-Pacific	**785**	**9.4**	632	9.0	708	9.6
North America	**2,684**	**32.0**	2,146	30.5	2,460	33.2
South America	**398**	**4.7**	265	3.8	272	3.7
Net fee income	**8,380**	**100.0**	7,044	100.0	7,412	100.0

	Half-year to		
	30 June 2006 US$m	30 June 2005 US$m	31 December 2005 US$m
Account services	**1,688**	1,522	1,610
Credit facilities	**462**	504	376
Remittances	**223**	193	203
Cards	**2,642**	2,085	2,614
Imports/exports	**383**	357	365
Underwriting	**150**	147	127
Insurance	**533**	558	524
Mortgage servicing	**47**	37	39
Trust income	**113**	108	91
Broking income	**728**	529	575
Global custody	**423**	310	346
Maintenance income on operating leases	**59**	99	81
Funds under management	**1,571**	874	957
Unit trusts	**265**	223	165
Corporate finance	**95**	124	87
Other	**1,059**	888	768
Total fee income	**10,441**	8,558	8,928
Less: fee expense	**(2,061)**	(1,514)	(1,516)
Net fee income	**8,380**	7,044	7,412

Net fee income of US$8,380 million was US$1,336 million, or 19 per cent, higher than in the first half of 2005. On an underlying basis, net fee income was 18 per cent higher. The principal drivers of underlying growth were as follows:

- increased personal credit card transaction volumes and balances led to a 30 per cent increase in card fee income, notably in the US, Mexico and the UK;

- in Private Banking, increased funds under management boosted fee income. The Hermitage Fund, a leading public equity fund investing in Russia, performed strongly, which resulted in higher net fee income, including increased performance fee income and a commensurate rise in performance fees paid to the fund s investment advisor. In addition, US tax-based services grew strongly;

- strong performance in asset management activities, particularly in emerging market BRIC (Brazil, Russia, India and China) funds, contributed to significantly higher performance fees from funds under management;

- rising stock markets in the first four months of the year and increased IPO activity stimulated customer demand for equity-related products. This led to higher unit trust, broking and custody income, most notably in Europe and Hong Kong;

- increased sales of packaged accounts in the retail and commercial segments which offer customers bundled services in a fee-based relationship; and

- increased customer numbers and higher transaction volumes, which led to a 12 per cent rise in account services fees, the majority in Europe and the Americas.

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Financial Review (continued)

These factors were partially offset by:

- a subdued UK personal lending market, which led to lower sales of personal loans and associated creditor protection insurance products; and
- the sale of the operational functions of the UK fleet management business in the second half of 2005, which led to a 38 per cent fall in maintenance income on operating leases.

Net trading income

	Half-year to					
	30 June 2006		30 June 2005		31 December 2005	
	US$m	**%**	US$m	%	US$m	%
By geographical region						
Europe	**2,187**	**51.4**	1,385	48.0	1,651	55.6
Hong Kong	**306**	**7.2**	380	13.1	166	5.6
Rest of Asia-Pacific	**551**	**12.9**	387	13.4	473	15.9
North America	**1,046**	**24.5**	521	18.0	492	16.5
South America	**171**	**4.0**	218	7.5	191	6.4
Net trading income	**4,261**	**100.0**	2,891	100.0	2,973	100.0

	Half-year to		
	30 June 2006 US$m	30 June 2005 US$m	31 December 2005 US$m
Trading activities	**3,055**	1,964	1,920
Net interest income on trading activities	**1,149**	1,087	1,121
Other trading income			
Hedge ineffectiveness:			
on cash flow hedges	**(46)**	(68)	(28)
on fair value hedges	**(11)**	37	(23)
Non-qualifying hedges	**114**	(129)	(17)
Net trading income	**4,261**	2,891	2,973

Investment made in widening Global Markets product range and developing its sales and execution capabilities generated a 47 per cent rise in net trading income through increased transaction volumes. Income from structured derivatives improved as investment in technical expertise and systems over the past three years enabled HSBC to address a broader spectrum of client needs. Further benefit was derived from the expansion of the business to include structured fund products, along with higher volumes as market volatility increased. Also, as the business matured, additional income deferred in 2005 was recognised.

Foreign exchange revenues remained strong due to successful positioning against the back-drop of increased currency volatility, particularly in emerging markets. In the US, gains in the metals trading business and increased customer volumes reflected high metals prices and positive sentiment in the market.

Strong performance within the Credit and Rates business reflected gains from interest rate derivatives and emerging market bonds, driven by new deal volumes and interest rate volatility. Revenues also increased in the US residential mortgage-backed securities business, reflecting its first full half-year contribution.

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Net income from financial instruments designated at fair value

	Half-year to 30 June 2006		**At 30 June 2006**	
	Net income US$m	**%**	**Assets US$m**	**Liabilities US$m**
By geographical region				
Europe	**129**	**49.6**	**10,561**	**28,649**
Hong Kong	**6**	**2.3**	**4,000**	**4,067**
Rest of Asia-Pacific	**(5)**	**(1.9)**	**854**	**307**
North America	**24**	**9.2**		**31,143**
South America	**106**	**40.8**	**1,440**	**188**
Net income from financial instruments designated at fair value	**260**	**100.0**	**16,855**	**64,354**

	Half-year to 30 June 2005		At 30 June 2005	
	Net income US$m	%	Assets US$m	Liabilities US$m
By geographical region				
Europe	224	40.9	8,510	26,414
Hong Kong	(21)	(3.8)	3,783	3,738
Rest of Asia-Pacific	14	2.6	802	195
North America	284	51.9		27,426
South America	46	8.4	938	647
Net income from financial instruments designated at fair value	547	100.0	14,033	58,420

	Half-year to 31 December 2005		At 31 December 2005	
	Net income US$m	%	Assets US$m	Liabilities US$m
By geographical region				
Europe	138	28.3	9,077	27,442
Hong Kong	15	3.1	3,909	3,999
Rest of Asia-Pacific	44	9.0	872	300
North America	150	30.8		29,934
South America	140	28.8	1,188	154
Net income from financial instruments designated at fair value	487	100.0	15,046	61,829

	Half-year to		
	30 June 2006	30 June 2005	31 December 2005

	US$m	US$m	US$m
Income from assets held to meet liabilities under insurance and investment contracts	**318**	571	1,189
Change in fair value of liabilities to customers under investment contracts	**(226)**	(414)	(712)
Movement in fair value of HSBC s long-term debt issued and related derivatives	**135**	363	40
change in own credit spread on long-term debt	**(172)**	(91)	21
other changes in fair value	**307**	454	19
Income from other instruments designated at fair value	**33**	27	(30)
Net income from financial instruments designated at fair value	**260**	547	487

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

- for certain fixed-rate long-term debt issues whose interest rate characteristic has been changed to floating through interest rate swaps, as part of a documented interest rate management strategy. Approximately US$52 billion of the Group s debt issues have been accounted for using the fair value option. The movement in fair value of these debt issues includes the effect of own credit spread changes and any ineffectiveness in the economic relationship between the related swaps and own debt. As credit spreads narrow accounting losses are booked, and the reverse is true in the event of spreads widening. These valuation adjustments have no cash flow implications. Ineffectiveness

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Financial Review (continued)

arises from the different credit characteristics of the swap and own debt coupled with the sensitivity of the floating leg of the swap to changes in short-term interest rates. In addition, the economic relationship between the swap and own debt can be affected by relative movements in market factors, such as bond and swap rates, and the relative bond and swap rates at inception. The size and direction of the accounting consequences of changes in own credit spread and ineffectiveness can be volatile from period to period, but do not alter the cash flows envisaged as part of the documented interest rate management strategy;

- for certain financial assets held by insurance operations and managed at fair value to meet liabilities under insurance contracts (approximately US$5 billion of assets); and
- for financial liabilities under investment contracts and the related financial assets, when the change in value of the assets is correlated with the change in value of the liabilities to policyholders (approximately US$10 billion of assets and related liabilities).

Income from assets designated at fair value and held to meet liabilities under insurance and investment contracts is correlated with changes in

liabilities under the related investment and insurance contracts. Under IFRSs, liabilities under investment contracts are classified as financial instruments. There is, however, a mismatch in presentation of the insurance business results for which asset returns are included within Net interest income and in Net income from financial instruments designated at fair value with the related change in the value of the insurance contract liabilities included within Net insurance claims incurred and movement in policyholders liabilities .

Net income from financial instruments designated at fair value decreased over the comparable period in 2005. This was primarily driven by a narrowing (i.e. improvement) of credit spreads on certain fixed-rate long-term debt issued by HSBC Finance Corporation (HSBC Finance) and lower net mark-to-market movements on this debt and the related interest rate swaps. During the period, HSBC Finance s debt was upgraded to AA- by both Moody s and Standard and Poor s (S&P).

Income from assets held to meet liabilities under insurance and investment contracts was some 45 per cent lower, reflecting movements in the market values of assets. The increase in the fair value of liabilities under investment contracts was also about 45 per cent lower than in the first half of 2005.

Gains less losses from financial investments

	Half-year to					
	30 June 2006		30 June 2005		31 December 2005	
	US$m	**%**	US$m	%	US$m	%
By geographical region						
Europe	**266**	**54.0**	209	59.0	230	68.1
Hong Kong	**122**	**24.7**	65	18.4	43	12.7
Rest of Asia-Pacific	**27**	**5.5**	2	0.6	16	4.7
North America	**60**	**12.2**	40	11.3	48	14.2
South America	**18**	**3.6**	38	10.7	1	0.3

Gains less losses from financial investments	**493**	**100.0**	354	100.0	338	100.0

	Half-year to		
	30 June 2006 US$m	30 June 2005 US$m	31 December 2005 US$m
Net gain/(loss) from disposal of:			
debt securities	**154**	141	(3)
equity securities	**338**	187	318
other financial investments	**8**	7	
	500	335	315
Impairment (charge)/recovery of impairment charge	**(7)**	19	23
Gains less losses from financial investments	**493**	354	338

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The net gains of US$493 million from the disposal of available-for-sale financial investments were 39 per cent higher than in the first half of 2005, primarily due to the following:

- a gain of US$93 million arising from the partial redemption of HSBC s investment in MasterCard Incorporated following its IPO in May: the gain was distributed across all geographical regions as most HSBC Group banks were members of MasterCard; and
- a gain of US$101 million on the sale of part of HSBC s stake in UTI Bank Limited, an Indian retail bank.

In the first half of 2005, HSBC benefited from an impairment reversal of US$31 million of coverage bonds and other items related to 2002 s pesification in Argentina and a US$25 million gain from the sale of investment securities in HSBC s Private Banking operations in 2005 which did not recur in 2006.

Net earned insurance premiums

	Half-year to					
	30 June 2006		30 June 2005		31 December 2005	
	US$m	**%**	US$m	%	US$m	%
By geographical region						
Europe	**668**	**23.6**	870	36.3	729	24.0
Hong Kong	**1,317**	**46.5**	866	36.2	1,468	48.3
Rest of Asia-Pacific	**89**	**3.1**	29	1.2	126	4.1
North America	**317**	**11.2**	290	12.1	312	10.3
South America	**443**	**15.6**	341	14.2	405	13.3
Net earned insurance premiums	**2,834**	**100.0**	2,396	100.0	3,040	100.0

	Half-year to		
	30 June 2006 US$m	30 June 2005 US$m	31 December 2005 US$m
Gross insurance premium income	**3,262**	2,724	3,428
Reinsurance premiums	**(428)**	(328)	(388)
Net earned insurance premiums	**2,834**	2,396	3,040

Net earned insurance premiums of US$2,834 million were US$438 million, or 18 per cent, higher than in the first half of 2005. On an underlying basis, net earned premiums were also 18 per cent higher.

In Europe, net earned premium income decreased by 23 per cent to US$668 million. In the UK, the reduction in premium income primarily reflected lower demand for life and critical illness protection products, coupled with a decline in sales of single premium bonds. This was compounded by lower premiums from the general insurance business, due to lower volumes and a change in reinsurance arrangements.

In Hong Kong, net earned premium income increased by 52 per cent. Improved premium income from the life business was driven by the launch of new endowment products and, complementing HSBC s global study on the future of retirement, a customer proposition designed to meet a number of financial retirement needs. An increase in non-life insurance premiums was primarily attributable to improved renewal premium pricing for health insurance products, as concerns over reforms to

public healthcare provision led to higher demand for private medical insurance services. Sales of home insurance policies grew with the launch of an integrated mortgage and home insurance proposition. The establishment of a dedicated Commercial Banking insurance business in the latter half of 2005 also contributed to an increase in premium income.

In the Rest of Asia-Pacific, HSBC continued to expand its insurance business across the region, increasing the number of in-force policies. New initiatives were launched to grow sales, such as a credit card payment option for non-life insurance policies in India and higher levels of telemarketing in Taiwan.

In North America, an increase in revenues from non-life insurance products reflected higher cross-sales of motor products through the branch network in Mexico.

In South America, the disposal of the Brazilian general insurer, HSBC Seguros de Automoveis e Bens Limitada (HSBC Seguros), during the latter half of 2005 resulted in a significant reduction in non-life premium income. However, during the first

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half of 2006, this was more than offset by an increase in premiums in Argentina, reflecting higher volumes of motor and life insurance sales in response to increased consumer confidence.

Other operating income

	Half-year to					
	30 June 2006		30 June 2005		31 December 2005	
	US$m	**%**	US$m	%	US$m	%
By geographical region						
Europe	**633**	**35.8**	731	46.8	872	41.4
Hong Kong	**443**	**25.0**	423	27.0	382	18.1
Rest of Asia-Pacific	**288**	**16.3**	131	8.4	204	9.7
North America	**397**	**22.4**	240	15.4	500	23.7
South America	**9**	**0.5**	38	2.4	150	7.1
	1,770	**100.0**	1,563	100.0	2,108	100.0
Intra-HSBC elimination	**(617)**		(417)		(521)	
Other operating income	**1,153**		1,146		1,587	

	Half-year to		
	30 June 2006 US$m	30 June 2005 US$m	31 December 2005 US$m
Rent received	**340**	461	398
Gain on disposal of assets held for resale	**79**	11	
Valuation gains on investment properties	**80**	111	90
Gain on disposal of property, plant and equipment, and non-financial investments	**180**	173	530
Gain on disposal of operating leases		26	
Change in present value of in-force long-term insurance business	**57**	54	(14)
Other	**417**	310	583

Other operating income	**1,153**	1,146	1,587

Other operating income of US$1,153 million was US$7 million, or 1 per cent, higher than in the first half of 2005. On an underlying basis, other operating income was 2 per cent higher. Disposal gains within this heading primarily related to sales of non-core assets.

In Europe, lower other operating income was primarily driven by a decline in rental income following the sale of the operational functions of HSBC s vehicle financing and fleet management business, along with the absence of gains on disposal of structured finance leases in the UK. This was partly offset by profit on the sale of HSBC s stake in The Cyprus Popular Bank Limited (Cyprus Popular Bank) for US$93 million and the revaluation of assets held in HSBC Specialist Investment Limited property investment funds.

In Hong Kong, an increase in other operating income reflected profit from the sale of Hang Seng Bank Limited s (Hang Seng Bank) former head-office building, partly offset by the non-recurrence of investment real estate revaluations and profit from the disposal of a leasehold residential property.

In North America, an increase in other operating income reflected, in part, a gain made on the sale of Wesco Insurance Company, disposals of real estate and higher rental income.

A decrease in other operating income in South America was largely due to the non-recurrence of the receipt of coverage bonds issued as compensation for asymmetric pesification in Argentina.

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Net insurance claims incurred and movement in policyholders liabilities

	Half-year to					
	30 June 2006		30 June 2005		31 December 2005	
	US$m	**%**	US$m	%	US$m	%
By geographical region						
Europe	**287**	**13.4**	502	28.5	316	13.7
Hong Kong	**1,193**	**55.5**	751	42.7	1,308	56.7
Rest of Asia-Pacific	**63**	**2.9**	37	2.1	129	5.6
North America	**173**	**8.1**	173	9.8	160	6.9
South America	**433**	**20.1**	297	16.9	394	17.1
Net insurance claims incurred and movement in policyholders liabilities	**2,149**	**100.0**	1,760	100.0	2,307	100.0

	Half-year to		
	30 June 2006 US$m	30 June 2005 US$m	31 December 2005 US$m
Gross insurance claims and movement in policyholders liabilities	**2,270**	1,952	2,201
Reinsurers share of claims incurred and movement in policyholders liabilities	**(121)**	(192)	106
Net insurance claims incurred and movement in policyholders liabilities	**2,149**	1,760	2,307

Net insurance claims incurred and movement in policyholders liabilities of US$2,149 million was 22 per cent higher than in the first half of 2005. On an underlying basis, the increase was also 22 per cent.

Net insurance claims incurred and the movement in policyholders liabilities comprises both life and non-life insurance business. For non-life business, amounts reported in this line represent the cost of the claims paid during the period together with the estimated cost of notified claims. For life business, the main elements of claims are the setting up of the liability to policyholders that is created on the initial underwriting of the policy and the subsequent movement in the liability that arises, primarily as a consequence of the attribution of investment performance to savings-related policies. This means that claims will rise in line with additional sales of savings-related business and with investment market growth.

In Europe, net insurance claims incurred and movement in policyholders liabilities decreased by

43 per cent to US$287 million, primarily driven by lower sales of critical illness and creditor protection products, along with the effect of adverse movements in fixed interest rate markets on the value of policyholders liabilities.

Net insurance claims and movement in policyholders liabilities in Hong Kong increased by 59 per cent. In the life insurance business, reserves for policyholders liabilities rose in line with business growth, partly offset by lower claims paid. Growth in the underwriting of accident and health business resulted in higher non-life insurance claims reserves.

In South America, higher sales of life and pension fund products led to an increase in net insurance claims incurred and movement in policyholders liabilities. Lower movements in the non-life insurance liabilities were due to the sale of the non-life insurance business, HSBC

Seguros, in Brazil during the latter half of 2005.

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Financial Review (continued)

Loan impairment charges and other credit risk provisions

	Half-year to					
	30 June 2006		30 June 2005		31 December 2005	
	US$m	**%**	US$m	%	US$m	%
By geographical region						
Europe	**935**	**24.0**	933	28.5	996	22.0
Hong Kong	**70**	**1.8**	56	1.7	90	2.0
Rest of Asia-Pacific	**271**	**7.0**	23	0.7	111	2.5
North America	**2,244**	**57.7**	2,023	61.7	3,015	66.6
South America	**370**	**9.5**	242	7.4	312	6.9
Loan impairment charges and other credit risk provisions	**3,890**	**100.0**	3,277	100.0	4,524	100.0

	Half-year to		
	30 June 2006	30 June 2005	31 December 2005
	US$m	US$m	US$m
Loan impairment charges			
New allowances	**5,050**	4,404	5,736
Reversal of allowances no longer required	**(811)**	(895)	(891)
Recoveries of amounts previously written off	**(343)**	(222)	(272)
	3,896	3,287	4,573
Individually assessed allowances	**178**	162	356
Collectively assessed allowances	**3,718**	3,125	4,217
Other credit risk provisions	**(6)**	(10)	(49)
Loan impairment charges and other credit risk provisions	**3,890**	3,277	4,524
At end of period			
Customer impaired loans	**12,296**	11,928	11,446
Customer loan impairment allowances	**11,381**	12,084	11,357 `

The charge for loan impairment adjusts the balance sheet allowance for loan impairment to the level deemed adequate to absorb actual and inherent losses in HSBC s loan portfolios. The majority of the Group s loan impairment charges are determined on a portfolio basis, employing statistical calculations using roll rate methodologies.

In the six months to 30 June 2006, the total charge for loan impairment and other credit risk provisions was US$3,890 million, a 19 per cent increase on the total charge of US$3,277 million in the equivalent period in 2005. On an underlying basis, charges increased by 13 per cent. This reflected:

- 11 per cent underlying lending growth (excluding lending to the financial sector and settlement accounts);
- evidence of credit deterioration in the unsecured personal and credit card lending markets in the UK, Brazil, Taiwan and Indonesia; and
- indications of some weaker performance in 2005 originations within the mortgage services business in the US;

offset by:

- favourable experience in unsecured lending in the US driven by the strong economy and an acceleration of bankruptcy filings in the fourth quarter of 2005 in anticipation of the change in bankruptcy law;
- the effect of a change in product mix in the US towards more real estate secured products and higher quality borrowers; and
- modestly higher releases and recoveries.

In Europe, net loan impairment charges were broadly in line with the prior period. In the UK, a rise in new impairment charges, driven by an increase in customer loans and a deterioration in the credit quality of certain pools of unsecured personal lending, was more than offset by an increase in releases and recoveries, boosted by the deployment of greater collection resources. Personal bankruptcies and Individual Voluntary Arrangements (IVAs) reached a record high in the first half of the year caused, in part, by legislative changes in 2004. This was compounded by increased strain from rising unemployment and high levels of personal debt. HSBC tightened underwriting controls in 2005 and began to change the portfolio towards lower risk customers. These measures had a positive

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impact in 2006 by improving the credit quality of new business. In France, net loan impairment charges increased, mainly as a result of the non-recurrence of releases and recoveries.

The credit environment remained relatively benign in Hong Kong, where a modest charge for personal lending contrasted with net releases in the first half of 2005. The effect was limited by a reduction in charges relating to commercial lending.

In the Rest of Asia-Pacific, Taiwan and Indonesia experienced credit deterioration. This was particularly marked in Taiwan, where the imposition of a government debt negotiation mechanism, allowing customers to extend and heavily discount repayment terms, led to systemic losses within the market. HSBC reported a US$133 million charge for credit card impairment in Taiwan. Elsewhere in the region, credit quality remained stable.

In the US, the decline in bankruptcy filings following the significant rise ahead of legislative changes at the end of 2005, a stable economic environment and a fall in the estimated exposure resulting from hurricane Katrina, reduced the underlying impairment charge. This was partially offset by growth in advances and increased charges, following evidence of deterioration in some portions of loans originated in 2005. Second lien loan originations in the mortgage services business increased significantly during 2005 and 2006 as a percentage of total originations. To date, second lien originations from 2005 have underperformed HSBC s first lien mortgages from the same period. As a result, HSBC increased its collective

impairment allowances in the US by US$73 million and took action to mitigate the effects of the deterioration on the portfolio. Credit quality in other parts of the mortgage portfolio and other US businesses remained stable.

In Mexico, loan impairment charges increased as a consequence of loan growth, with credit quality remaining stable.

In South America, the increase in impairment charges arose mainly in the personal sector in Brazil. This was driven by both loan growth and weaker conditions in the consumer market, where significant increases in the availability of credit led to some customers becoming over-indebted. Action was taken in 2005 to improve underwriting procedures and consequently the credit quality of new business improved.

The aggregate outstanding customer loan impairment allowances at 30 June 2006 of US$11,381 million represented 1.4 per cent of gross customer advances (net of reverse repos and settlement accounts), compared with 1.7 per cent at the same time in 2005.

Impaired loans to customers were US$12,296 million at 30 June 2006 compared with US$11,446 million at 31 December 2005. At constant exchange rates, impaired loans were 4 per cent higher than in 2005 compared with underlying lending growth (excluding lending to the financial sector and settlement accounts) of 6 per cent. This was mainly due to the factors noted above.

Operating expenses

	Half-year to					
	30 June 2006		30 June 2005		31 December 2005	
	US$m	**%**	US$m	%	US$m	%
By geographical region						
Europe	**6,723**	**40.1**	6,364	42.9	6,275	40.2
Hong Kong	**1,504**	**9.0**	1,381	9.3	1,486	9.5
Rest of Asia-Pacific	**1,609**	**9.6**	1,264	8.5	1,498	9.6
North America	**5,768**	**34.4**	4,956	33.4	5,261	33.7
South America	**1,152**	**6.9**	872	5.9	1,095	7.0
	16,756	**100.0**	14,837	100.0	15,615	100.0
Intra-HSBC elimination	**(617)**		(417)		(521)	

Operating expenses	**16,139**	14,420	15,094

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Financial Review (continued)

	Half-year to		
	30 June 2006 US$m	30 June 2005 US$m	31 December 2005 US$m
By expense category			
Employee compensation and benefits[1]	**8,992**	7,869	8,276
Premises and equipment (excluding depreciation)	**1,640**	1,448	1,529
General and administrative expenses	**4,425**	3,996	4,210
Administrative expenses	**15,057**	13,313	14,015
Depreciation of property, plant and equipment	**748**	831	801
Amortisation and impairment of intangible assets[2]	**334**	276	278
Operating expenses	**16,139**	14,420	15,094

1 *A charge of US$135 million was recognised arising from the waiver of the TSR-related performance condition in respect of the 2003 awards under the HSBC Holdings Group Share Option Plan (the Plan). As explained in the* Annual Report and Accounts 2005*, in light of the impressive and sustained performance and shareholder returns over the three years covered by the 2003 awards, the Group Remuneration Committee exercised its discretion, as permitted within the Plan, to waive the TSR performance condition. Under both IFRSs and US GAAP this is treated as a modification which requires an additional accounting charge: this is a non-cash item.*

2 *Intangible asset amortisation comprises the expensing through the income statement of purchased intangibles such as mortgage servicing rights and customer/merchant relationships and amounts allocated to intangible assets on the fair valuation of assets within acquired businesses. This latter category principally includes the value of customer relationships.*

	At 30 June 2006	At 30 June 2005	At 31 December 2005
Staff numbers (full-time equivalent)			
Europe	**77,736**	73,146	77,755
Hong Kong	**26,739**	25,260	25,931
Rest of Asia-Pacific	**63,299**	48,026	55,577
North America	**77,667**	72,638	75,926
South America	**33,952**	31,644	33,282
	279,393	250,714	268,471

Operating expenses of US$16,139 million were US$1,719 million, or 12 per cent, higher than in the first half of 2005. On an underlying basis, cost growth was 11 per cent, contrasting with a 14 per cent increase in net operating income. The main drivers of underlying cost growth were as follows:

- increased performance-related pay, particularly in Corporate, Investment Banking and Markets and Private Banking, reflecting the strong operating performance in the period;
- increased staff and marketing costs as HSBC expanded the range of products and services available to customers through a broader range of distribution channels;
-

increased infrastructure costs as HSBC extended UK branch opening hours, refurbished certain UK branches, added to its branch network in the US, Mexico, Turkey and parts of Asia-Pacific, expanded the US direct deposit initiative and invested in systems to support growth in Corporate, Investment Banking and Markets; and

- volume-related costs in Global Transaction Banking and in US consumer finance.

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Cost efficiency ratios

HSBC s cost efficiency ratio improved from 51.4 per cent to 50.1 per cent. Productivity improved in Personal Financial Services and Commercial Banking, with strong performances in Europe, Hong

Kong and the Rest of Asia-Pacific. Revenues grew significantly faster than costs in Corporate, Investment Banking and Markets, resulting in an improvement in its cost efficiency ratio from 61.1 per cent to 55.4 per cent.

	Half-year to		
	30 June 2006	30 June 2005	31 December 2005
	%	%	%
HSBC	**50.1**	51.4	51.0
Personal Financial Services	**49.0**	49.2	48.3
Europe	**60.2**	60.4	56.0
Hong Kong	**31.1**	32.8	33.8
Rest of Asia-Pacific	**68.6**	69.4	74.8
North America	**43.3**	43.2	42.6
South America	**68.2**	67.5	65.8
Commercial Banking	**44.5**	46.7	44.4
Europe	**48.0**	51.2	48.6
Hong Kong	**27.1**	28.8	25.8
Rest of Asia-Pacific	**40.8**	42.7	44.6
North America	**47.3**	47.6	44.5
South America	**59.0**	58.5	62.2

Share of profit in associates and joint ventures

	Half-year to					
	30 June 2006		30 June 2005		31 December 2005	
	US$m	**%**	US$m	%	US$m	%
By geographical region						
Europe	**(66)**	**(18.3)**	9	2.9	111	33.0
Hong Kong	**10**	**2.8**	4	1.3	19	5.7
Rest of Asia-Pacific	**386**	**106.9**	248	80.5	205	61.0
North America	**31**	**8.6**	47	15.3	1	0.3
Share of profit in associates and joint ventures	**361**	**100.0**	308	100.0	336	100.0

Half-year to		
30 June 2006	30 June 2005	31 December 2005
US$m	US$m	US$m

Share of profit in:			
associates	**357**	305	241
joint ventures	**4**	3	95
Share of profit in associates and joint ventures	**361**	308	336

Income from associates and joint ventures was US$361 million, an increase of 17 per cent compared with the first half of 2005. Improved contributions from The Saudi British Bank, Bank of Communications Limited (Bank of Communications) and Industrial Bank Co. Limited (Industrial Bank) were complemented by a full six months contribution from Ping An Insurance

following an additional investment to take HSBC s stake in this business to 19.9 per cent in August 2005. These strategic investments are of increasing significance to HSBC s operations in the Rest of Asia-Pacific region. These profits were partly offset by a loss arising from an impairment charge on a private equity investment of an associate in Europe.

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Financial Review (continued)

Asset deployment

	At 30 June 2006		At 30 June 2005		At 31 December 2005	
	US$m	**%**	US$m	%	US$m	%
Loans and advances to customers	**814,209**	**46.8**	706,724	48.2	740,002	49.3
Loans and advances to banks	**162,482**	**9.3**	155,141	10.6	125,965	8.4
Trading assets	**299,295**	**17.2**	215,301	14.7	232,909	15.5
Financial investments	**192,334**	**11.1**	188,687	12.9	182,342	12.1
Derivatives	**104,665**	**6.1**	63,594	4.3	73,928	4.9
Goodwill and intangible assets	**34,544**	**2.0**	32,500	2.2	33,200	2.2
Other	**130,609**	**7.5**	104,863	7.1	113,624	7.6
	1,738,138	**100.0**	1,466,810	100.0	1,501,970	100.0
Loans and advances to customers include:						
reverse repos	**15,038**		14,222		14,610	
settlement accounts	**8,094**		3,399		2,142	
Loans and advances to banks include:						
reverse repos	**37,101**		34,328		24,754	
settlement accounts	**6,691**		16,114		2,669	

HSBC s total assets at 30 June 2006 were US$1,738 billion, an increase of US$236 billion or 16 per cent since 31 December 2005. The effect of acquisitions on this growth was negligible. On an underlying basis, total assets grew by 12 per cent.

At 30 June 2006, HSBC s balance sheet remained highly liquid. The proportion of assets deployed in customer advances was 46.8 per cent, 2.5 percentage points lower than at 31 December 2005. Continued expansion of the fixed income business generated marked increases in trading and derivative assets at a rate of growth which exceeded the growth in customer lending.

Customer advances increased by 10 per cent, driven by mortgage financing and, to a lesser extent, lending to fund consumer spending either by way of personal loans or cards. Mortgage growth was mainly in the US consumer finance business and in the UK, where HSBC maintained its market share. Lending to the real estate sector benefited from sustained growth in the UK housing market. Growth in corporate lending was mainly in the Commercial Banking sector, with strong growth in infrastructure lending in the Middle East, trade-related expansion in Asia and real estate secured lending in the UK and US. Growth in France was underpinned by improvements in customer relationship management. On an underlying basis, net loans and advances to customers grew by 7 per cent in 2006.

At 30 June 2006, assets held by HSBC as custodian amounted to US$3,880 billion, 20 per cent higher than the US$3,242 billion held at 31 December 2005. At constant exchange rates, growth was 14 per cent. Custody is the safekeeping and administration of securities and financial instruments on behalf of others.

Complementing this was HSBC s assets under administration business. At 30 June 2006, the value of assets held under administration by the Group amounted to US$954 billion, 22 per cent higher than the US$779 billion held at 31 December 2005. At constant exchange rates, growth was 17 per cent.

Trading assets and financial investments

Trading assets principally consist of debt and equity instruments acquired for the purpose of market making or to benefit from short-term price movements. Securities classified as held for trading are carried in the balance sheet at fair value with movements in fair value reflected within the income statement.

Trading assets of US$299 billion at 30 June 2006 were 29 per cent higher than at 31 December 2005. This increase was primarily driven by the continued expansion of the trading platform in Global Markets, which resulted in an increase in trading assets across all of its asset classes, with a commensurate rise in settlement accounts.

Financial investments include debt and equity instruments that are classified as available for sale or, to a very small extent, held to maturity. The available-for-sale investments essentially represent a core element of the Group s liquidity and may be disposed of either to manage that liquidity or in response to reinvestment opportunities arising from favourable movements in economic indicators, such as interest rates, foreign exchange rates and equity prices. They are carried at fair value with unrealised gains and losses from movements thereon reported in equity until disposal. On disposal, the accumulated unrealised gain or loss is recognised

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through the income statement and reported as 'Gains less losses from financial investments'.

Financial investments of US$192 billion at 30 June 2006 were marginally higher than at 31 December 2005, primarily due to growth in debt securities in Hong Kong and to a lesser extent in the UK. Net unrealised gains included in the valuation of equities amounted to US$1,297 million.

Funds under management

Funds under management of US$615 billion were US$103 billion, or 20 per cent, higher than at 30 June 2005 and US$54 billion, or 10 per cent, higher than at 31 December 2005.

Group Investment Businesses managed US$294 billion of assets at 30 June 2006, a 20 per cent increase compared with 30 June 2005, driven by US$12 billion of net flows from clients in the first half of 2006 and a good investment performance.

Private Banking, which benefited from increased recognition of HSBC in the market and its improved range of products, reported funds under management of US$213 billion.

Client assets, which provide an indicator of overall Private Banking volumes and include funds under management, cash deposits and certain on-balance sheet trust assets, rose by 22 per cent compared with 30 June 2005 to US$305 billion.

	Half-year to		
	30 June 2006 US$bn	30 June 2005 US$bn	31 December 2005 US$bn
Funds under management			
At beginning of period	**561**	476	512
Net new money	**26**	32	31
Value change	**15**	12	33
Exchange and other	**13**	(8)	(15)
At end of period	**615**	512	561
Business analysis			
Group Investment Businesses	**294**	246	272
Private Banking	**213**	183	202
Other	**108**	83	87
	615	512	561