HSBC HOLDINGS PLC
Form 6-K
August 11, 2009

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 2009
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 þ Form 40-F o

(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 o No þ

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

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HSBC Holdings plc

By: /s/ P A Stafford

Name: P A Stafford

Title: Deputy Group Company Secretary

Date: August 7, 2009

HSBC HOLDINGS PLC
Interim Report 2009

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. Its international network comprises some 8,500 offices in 86 countries and territories in Europe; Hong Kong; Rest of Asia-Pacific; the Middle East, including Africa; North America and Latin America.

With listings on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by about 220,000 shareholders in 119 countries and territories. The shares are traded on the New York Stock Exchange in the form of American Depositary Shares.

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

Certain defined terms

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

HSBC s Interim Financial Statements and Notes thereon, as set out on pages 199 to 231, have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU). In order to present fairly the financial position, financial performance and cash flows of the Group, as required by IAS 1 Presentation of Financial Statements , and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, as required by section 393 of the Companies Act 2006, HSBC has departed from the requirements of IAS 32 Financial Instruments: Presentation in so far as this standard requires the offer of rights by HSBC to its shareholders in March 2009 to be classified as a derivative financial liability. Further details of this departure including its financial effect are provided in Note 19 on the Financial Statements. The Directors have concluded that the interim consolidated financial statements prepared on this basis present fairly, and give a true and fair view of, the Group s financial position, financial performance and cash flows. The consolidated financial statements of HSBC at 31 December 2008 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 2008, there were no unendorsed standards effective for the year ended 31 December 2008 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 2008 were prepared in accordance with IFRSs as issued by the IASB. At 30 June 2009, there were no unendorsed standards effective for the period ended 30 June 2009 affecting these interim consolidated financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC.

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

When reference is made to underlying or underlying basis in tables or commentaries, comparative information has been expressed at constant currency (see page 12) and adjusted for the effects of acquisitions and disposals.

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Contents

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

HSBC HOLDINGS PLC
Financial Highlights

For the half-year

Total operating income 6 per cent lower at US$40,248 million (US$42,912 million in the first half of 2008).

Net operating income before loan impairment charges 12 per cent lower at US$34,741 million (US$39,475 million in the first half of 2008).

Group pre-tax profit 51 per cent lower at US$5,019 million (US$10,247 million in the first half of 2008).

Profit attributable to shareholders of the parent company 57 per cent lower at US$3,347 million (US$7,722 million in the first half of 2008).

Return on average shareholders equity of 6.4 per cent (12.1 per cent in the first half of 2008).

Earnings per ordinary share 63 per cent lower at US$0.21 (US$0.57 in the first half of 2008).

Dividends and capital position

Second interim dividend for 2009 of US$0.08 per share which, together with the first interim dividend for 2009 of US$0.08 per share already paid, represents US$0.16 per share for 2009 on the enlarged share capital following the rights issue. In 2008, the first and second interim dividends aggregated to US$0.36 per share.

Tier 1 ratio of 10.1 per cent and total capital ratio of 13.4 per cent.

Rights issue

In April 2009, HSBC Holdings raised £12.5 billion (US$17.8 billion), net of expenses, by way of a fully underwritten rights issue, offering its shareholders 5 new ordinary shares for every 12 ordinary shares at a price of 254 pence per new ordinary share.

Profitability and balance sheet data

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
For the period			
Total operating income	**40,248**	42,912	45,659
Profit/(loss) before tax	**5,019**	10,247	(940)
Profit/(loss) attributable to shareholders of the parent company	**3,347**	7,722	(1,994)
Dividends	**2,728**	6,823	4,478
At the period-end			
Total equity	**125,298**	134,011	100,229
Total shareholders equity	**118,355**	126,785	93,591
Capital resources[1]	**155,186**	146,950	131,460
Customer accounts	**1,163,343**	1,161,923	1,115,327
Total assets	**2,421,843**	2,546,678	2,527,465
Risk-weighted assets	**1,159,274**	1,231,481	1,147,974
	US$	US$	US$
Per ordinary share			
Basic earnings[2]	**0.21**	0.57	(0.16)
Diluted earnings[2]	**0.21**	0.57	(0.15)
Dividends[4]	**0.18**	0.57	0.36
Net asset value at period end	**6.63**	10.27	7.44
Capital and performance ratios (annualised)			
	%	%	%
Capital ratios			
Tier 1 ratio	**10.1**	8.8	8.3
Total capital ratio	**13.4**	11.9	11.4
Performance ratios			
Return on average invested capital[5]	**5.0**	11.1	(3.2)
Return on average total shareholders equity[6]	**6.4**	12.1	(3.4)
Post-tax return on average total assets	**0.31**	0.68	(0.14)
Post-tax return on average risk-weighted assets	**0.66**	1.39	(0.31)
Credit coverage ratios			
Loan impairment charges as a percentage of total operating income	**33.1**	23.2	31.0
Loan impairment charges as a percentage of average gross customer advances	**3.08**	2.04	2.86
Total impairment allowances outstanding as a percentage of impaired loans at period end	**86.6**	108.1	94.3
Efficiency and revenue mix ratios			
Cost efficiency ratio[7]	**47.9**	51.0	68.6

As a percentage of total operating income:			
net interest income	**51.0**	49.4	46.8
net fee income	**20.9**	25.6	19.8
net trading income	**15.5**	8.9	6.0
Financial ratio			
Average total shareholders equity to average total assets	**4.3**	5.2	4.9

For footnotes, see page 4.

HSBC HOLDINGS PLC
Financial Highlights (continued)
Share information

	At 30 June 2009	At 30 June 2008	At 31 December 2008
US$0.50 ordinary shares in issue (million)	**17,315**	12,005	12,105
Market capitalisation (billion)	**US$ 141**	US$ 185	US$ 114
Closing market price per ordinary share:			
London	**£ 5.025**	£ 7.76	£ 6.62
Hong Kong	**HK$65.65**	HK$120.90	HK$73.70
Closing market price per American Depositary Share (ADS[8])	**US$ 41.77**	US$ 76.70	US$ 48.67

	Over 1 year	Over 3 years	Over 5 years
HSBC total shareholder return to 30 June 2009[9]	**79.0**	**72.1**	**91.9**
Benchmarks:			
FTSE 100[10]	79.1	81.9	114.5
MSCI World[11]	71.0	79.2	102.9
MSCI Banks[11]	66.0	53.3	74.4

1 *Capital resources are total regulatory capital, the calculation of which is set out on page 190.*

2 *The effect of the bonus element of the rights issue (Note 19 on the Financial Statements) has been included within the calculation of basic and diluted earnings per share.*

3 This footnote is intentionally left blank.

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Dividends recorded in the financial statements are dividends per ordinary share declared in the first six months of 2009 and are not dividends in respect of, or for, the period.

5 *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 25.*

6 *The return on average total shareholders equity is defined as profit attributable to shareholders of the parent company divided by average total shareholders equity.*

7 *The cost efficiency ratio is defined as total operating expenses divided by net operating income before*

loan impairment charges and other credit risk provisions.

8 *Each ADS represents five ordinary shares.*

9 *Total shareholder return is defined on page 19 of the* Annual Report and Accounts 2008.

10 *The Financial Times Stock Exchange 100 Index.*

11 *The Morgan Stanley Capital International World Index and the Morgan Stanley Capital International World Banks Index.*

Cautionary statement regarding forward-looking statements

This *Interim Report 2009* 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 that are not historical facts, such as those that include the words potential , value at risk , estimated , expect anticipates , objective , intends , seeks , plans , believes , estimates , and similar expressions or variations on su 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 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. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they have been revised or updated in the light of new information or future events. Past performance cannot be relied on as a guide to future performance. Trends and factors that are expected to affect HSBC s results of operations are described in the Business Review , the Financial Review , and The Management of Risk . A more detailed cautionary statement is given on pages 6 and 7 of the *Annual Report and Accounts 2008.*

HSBC HOLDINGS PLC

Group Chairman s Statement

Consistently delivering in an uncertain world

In the first half of 2009, we have delivered what we set out to achieve.

In this unprecedented economic environment, every financial institution has had to consider carefully what level of risk is appropriate for its business model in light of mixed economic and financial market indicators. We have continued to position HSBC s balance sheet conservatively, while focusing on enhancing the capabilities which will enable us to deliver sustainable long-term growth once the current global downturn has ended. Michael Geoghegan highlights these actions in his statement.

Our performance proves our ability to deliver profit, generate capital and make distributions to our shareholders throughout the business cycle even in challenging market conditions. We are pleased with our results and profitability overall is ahead of the expectations we had at the outset of this year. In large part this reflects an excellent performance in our Global Banking and Markets business. It also reflects progress made in the US, where we announced our decision to run off a major part of our consumer finance business in March. Following the very difficult conditions experienced in the latter part of last year, provisioning in 2009 has been lower at this stage than might have been expected given the rise in unemployment.

On a reported basis, pre-tax profit was US$5 billion, US$6 billion higher than the second half of 2008, but down 51 per cent on the first half. On an underlying basis and excluding movements in fair value on our own debt credit spreads, our pre-tax profit was US$7.5 billion, broadly in line with the first half of 2008.

HSBC fundamentally remains a deposit-led banking group, with a business model committed to long-term customer relationships and an emphasis on the world s faster-growing markets. This gives us revenue streams diversified by both customer group and geography, providing resilience for the Group in these difficult economic conditions.

Building capital strength

HSBC is both strongly capitalised and highly liquid. The completion of our rights issue in April boosted our financial position, raising US$17.8 billion of shareholders equity. In an environment where many institutions are reliant on government help, the 97 per cent support for our rights issue, given its scale and the environment in which it was launched, was a powerful vote of confidence in our future by you, our shareholders, and we are truly grateful for your support.

Notwithstanding that the rewards from attracting deposits from both personal and corporate customers are currently lower than normal, these remain at the heart of our banking philosophy, and the published ratio of customer advances-to-deposits remained conservative at 79.5 per cent.

The tier 1 ratio further improved to 10.1 per cent. At 31 December 2008, the tier 1 ratio was 8.3 per cent, or 9.8 per cent on a pro forma basis including the proceeds of the rights issue. The core equity tier 1 ratio was 8.8 per cent at 30 June 2008.

As projected at the time of the rights issue, we paid a first interim dividend of 8 cents per ordinary share on 8 July, and the Directors have approved a second interim dividend of 8 cents per ordinary share, payable on 7 October with a scrip alternative.

Pursuing a clear strategy

HSBC s strategy remains unchanged. This is to combine our emerging markets leadership with a global network that offers the advantage of international connectivity and scale, making HSBC the leading international bank. If anything, the recent financial and economic turmoil has only reinforced our conviction that this strategy is the right one. By retaining this focus, we remain confident in our ability to deliver sustainable growth and believe that a return on total shareholders equity within our target range of 15 to 19 per cent remains achievable over the full business cycle.

The proceeds from the rights issue have reinforced our capital strength, allowing us to navigate the economic and regulatory environment, take long-term decisions in support of our brand and

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Group Chairman s Statement (continued)

customer relationships and look confidently at expansion opportunities consistent with our strategy.

Growth in emerging markets

At a time when some organisations may be finding it difficult to look beyond the near-term, our appetite for developing business in emerging markets remains undiminished.

Many banks have disposed of their stakes in strategic investments to generate capital. HSBC has not done so, and we have continued to bring a long-term strategic approach to these relationships. The market value of our three largest strategic investments in mainland China has grown significantly since we acquired them, and increased by US$8.2 billion during the first half of 2009.

In this period of uncertainty, we are very disciplined in reviewing the new opportunities which emerge, but we continue to expand organically in line with our strategy and where there is customer appetite. In mainland China, where HSBC has the largest investment and largest branch network of any international bank, we became the first to settle cross-border trade in renminbi in July and we launched the first floating rate renminbi bond in Hong Kong in June. In Vietnam, HSBC became the first foreign bank to incorporate locally. We have increased the number of HSBC Premier customers to 2.9 million, of whom over half are based in emerging markets.

During the first half of 2009 we completed our previously announced acquisition in Indonesia and fully integrated our acquired business in India. We also received regulatory approval for a new jointly held insurance entity in mainland China.

Changing industry and regulatory trends

Consensus has rightly emerged that regulation must change, and that the quality and quantity of bank capital and liquidity must be improved. The debate is now underway about how this regulatory change should be applied to individual institutions in a way that is proportionate to the risks they assume, and in a way that enhances systemic stability without choking the supply of credit or increasing its cost unnecessarily. As a restructuring of the financial landscape takes place, there is clearly an important role for diversified and integrated banks which can provide services to customers requiring a wide range of financial products and operating across borders.

We are therefore pleased that there has been a rejection of calls for a return to narrow banking and the separation of wholesale banking from retail
and commercial banking that this would involve. It is unrealistic to believe that this approach would deliver greater financial stability; no banking model has emerged from the crisis unscathed and some of the greatest casualties of the crisis so far have been smaller and narrowly-focused institutions. It would be dangerous to pursue any approach that acts as a further brake on global growth and constrains responsible financial innovation and credit formation. Finally, it is unreasonable to compel customers to use different types of institutions for different financial services in an age of global markets.

Of course, regulation cannot be a panacea for the failings that have been exposed in the financial system and the process of renewal must include instilling the right values across our industry. At HSBC we have been carefully developing and nurturing our culture and values for over 140 years. As Group Chairman I know that there can be no more important topic on the Board agenda and it is one of my responsibilities to make sure that we remain true to our standards and focused on the fundamentals of banking.

Economic outlook remains highly uncertain

Operating conditions in the financial sector have continued to improve as the effects of government and central bank policies work through the system and it may be that we have passed, or are about to pass, the bottom of the cycle in the financial markets.

Nonetheless, the timing, shape and scale of any recovery in the wider economy remains highly uncertain. Our view continues to be cautious as long as a number of serious impediments to growth remain.

Despite the macroeconomic uncertainty, we are confident in HSBC s continued ability to deliver results. Sustainable banking is our priority and, as we pursue a strategy of growth in faster-growing markets and in products where connectivity and scale can give us commercial advantage, we are convinced of our ability both to generate sustainable long-term growth for our shareholders and to contribute to balanced economic development in a way that benefits wider society.

Stephen Green, *Group Chairman*

3 August 2009

HSBC HOLDINGS PLC

Group Chief Executive s Review

Managing the business through the downturn, and positioning for the upturn

In these tough times, we are deploying our capital base conservatively in order to build long-term, sustainable returns for our shareholders. We continue to provide responsible support for our customers, both depositors and borrowers. During this period of industry change we are taking opportunities to build market share in our target markets. We are adopting a conservative approach to risk management and have maintained a strong grip on costs. The value of HSBC s brand has been reinforced and we were delighted to be recognised as *Euromoney* s Global Bank of the Year for 2009.

In the first half, we saw much that is encouraging for our future.

We have continued to enhance HSBC s signature financial strength. We have further improved the core equity tier 1 ratio that we strengthened through the rights issue after meeting the dividend payments indicated at the time. By attracting core deposits, we have maintained a conservative advances-to-deposits ratio, which was 79.5 per cent at the end of the period. Although deposit spreads remained compressed in the challenging economic environment, HSBC is fully committed to its strong and distinctive liquidity position.

We delivered a significant increase in underlying operating revenues, excluding movements in fair value on our own debt related to credit spreads. We have stood aside from the aggressive competition for deposits driven by government-influenced banks but, thanks to our strong brand and selective pricing, we retained and grew the high level of personal balances gained during the market turmoil of 2008.

We have continued to strengthen our position in the world s faster-growing markets and we were especially pleased that the 2009 PwC survey *Foreign Banks in China* ranked HSBC top in ten major categories, confirming our position as the leading international bank in the country.

We have balanced our revenue growth with tight cost control. We reduced our total operating expenses and, excluding movements in fair value of own debt credit spreads, our cost efficiency ratio was 44.8 per cent, better than our target range.

This careful positioning of our balance sheet and our focus on the needs of our customers means that HSBC is well placed to build on opportunities as they emerge, as the record performance in Global Banking and Markets shows. Furthermore, as economies begin to recover and interest rates start to rise, we are confident that our deposit strength will reinforce our profitability and our flexibility to respond to new customer demand.

Growing the business in faster-growing markets

HSBC continues to strengthen its position in the world s faster-growing markets.

Mainland China remains key to our growth strategy. We opened 8 new HSBC-branded outlets in the country during the period, and remain on track to have around 100 by the year-end. We have the strongest rural presence of any international bank in mainland China, and added 2 new rural banks, bringing the total to 5. Hang Seng Bank also opened 2 new outlets in the period, bringing their total to 36.

Elsewhere, completion of our acquisition of Bank Ekonomi almost doubled our presence in Indonesia to 207 outlets in 26 cities. In India we successfully integrated the operations of IL&FS Investsmart, which has added further capabilities and 77 outlets to our wealth management business. We grew customer accounts by over US$17 billion in Asia during the period, notably in Hong Kong, India and mainland China. We also attracted deposits in Latin America in the commercial and global banking sectors.

Record performance in Global Banking and Markets

Global Banking and Markets reported a record pre-tax profit for the first half of 2009 of US$6.3 billion, more than double pre-tax profit for the first half of 2008, and a seven-fold increase compared with the second half.

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Group Chief Executive s Review (continued)

The success of our emerging markets-led and financing-focused strategy was proven by strong revenues in both developed and faster-growing markets. This was driven by market share gains in trading and financing as activity increased from earlier depressed conditions. Market conditions were also favourable and our performance in the second half of 2009 will depend in part on whether and how these change.

A record performance in the rates business and continued strong revenues in foreign exchange underscored the strength of our core products. The value of our client franchise was illustrated by strong growth in financing revenues, which rose by 17 per cent to US$1.6 billion compared with the first half of 2008. HSBC ranked first in the Bloomberg bond league table combining all issuance in Europe, the Middle East, Asia excluding Japan, and Latin America, up from third. *Euromoney* named HSBC Best Global Debt House for the first time, as well as Best Debt House in Asia, the Middle East and Latin America.

The benefits of our integrated business model have been reinforced in the current low interest rate environment. In Balance Sheet Management we generated significantly higher treasury revenues of US$3.4 billion as a result of positioning for lower interest rates.

Global Transaction Banking contributed revenues of US$1.5 billion, a decline of US$0.7 billion compared with the first half of 2008. This was largely driven by lower assets under custody and by the low interest rate environment, partially offset by higher deposit balances than in the comparable period in 2008.

With greater liquidity in financial markets and capital concerns receding, credit spreads improved considerably. Write-downs on legacy positions in credit trading, leveraged and acquisition financing, and monoline credit exposures amounted to US$762 million, significantly lower than in both the first and second halves of 2008.

Asset-backed securities held within our available-for-sale portfolios continued to perform in line with expectations and within the parameters of the stress testing we disclosed in March. The carrying value of the portfolio reduced from US$56.2 billion to US$47.1 billion during the first half of 2009, primarily through the sales of government-sponsored enterprise securities and through repayments.

Loan impairment charges rose in Global Banking due to adverse economic conditions, driven by deterioration in the credit position of a small number of clients.

Commercial Banking resilient

Commercial Banking delivered a pre-tax profit of US$2.4 billion in the first half of 2009, a solid performance in the current environment. Underlying pre-tax profit declined by 39 per cent compared with the first half of 2008 as the economic environment weakened. However, given the speed and depth of the downturn, credit quality remained remarkably resilient, and loan impairment charges were in line with the second half of 2008.

Commercial Banking continues to be at the heart of HSBC s strategy of expansion in faster-growing markets and serving customers with international needs. We increased customer numbers to 3.1 million during the period, with 61 per cent of new customers based in emerging markets. We saw strong growth in international product revenues, especially from foreign exchange and in trade and supply chain services. The volume of international referrals through our Global Links programme was 7 per cent higher than in the first half of last year.

During the period, our revenues benefited from a wide range of successful asset re-pricing initiatives, begun in 2008 across both emerging and developed markets. Our ability to re-price assets further in 2009 has reduced somewhat as the availability of credit has started to improve in many economies. Revenues also reflected a lower contribution from Global Transaction Banking, which declined by US$0.5 billion to US$1.9 billion, primarily due to lower deposit margins.

Customer deposits remained high, which we believe reflects in part a flight to quality since 2008. However customer loans and advances held up well despite the downturn, and we supported small and medium size businesses by launching our international SME Fund in Malaysia and further increasing our commitment in Hong Kong to HK$16 billion in July.

Personal Financial Services taking the long term view

The economic environment has been hard for depositors, who make up the majority of our Personal Financial Services customers. As a deposit-rich bank, HSBC has suffered too, and our liability revenues have been particularly depressed.

As a result, Personal Financial Services reported a loss before tax of US$1.2 billion in the first half of 2009, as our profitability outside the US was more

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than offset by losses within the US. Outside the US, credit quality deteriorated, but remains satisfactory in our view in light of economic conditions.

Our commitment to personal customers is unchanged and our liquidity position will drive strong revenue opportunities when a more normal interest rate environment returns. Even in the challenging current climate, we continue to deliver growth in our target customer segments. Through a focus on relationship banking and differentiated service, HSBC is winning new and affluent customers, and the total number of HSBC Premier customers has grown by 23 per cent over the last twelve months.

We committed £15 billion for new mortgage lending in the UK, of which we lent £6.7 billion during the first half of the year. We increased our share of UK mortgage sales from 4.5 per cent to 9.5 per cent and were one of the first major players to come back into the market to support first time buyers. In Hong Kong, we also maintained our leading position in new mortgage lending. Our market share increased to 32 per cent in June, while loan impairment charges remained very low.

Good progress in US Personal Financial Services

In the US, Personal Financial Services reported a pre-tax loss of US$2.9 billion for the first half of 2009, compared with a loss of US$2.2 billion in the first half of 2008 and a loss of US$15.2 billion in the second half including the goodwill impairment of US$10 billion.

HSBC Finance completed the closure of 813 Consumer Lending branches, incurring US$156 million in restructuring costs, which was lower than expected, and we are on track to achieve the financial savings we set out in March.

We are satisfied with the progress achieved on our run-off business at this point. The majority of our customers continue to meet their obligations and dollar delinquency stabilised in the first half of the year. Loan impairment charges increased at a lower rate than we expected, and were lower than in the second half of 2008. This was driven by early action in prior years to reduce exposure to higher risk segments, tight management of accounts and collections, lower loan balances and the impact of government stimulus programmes.

Our customers saw fewer opportunities for refinancing, which slowed the rate of run-off in the mortgage portfolio in the first half of the year. However, all parts of the exit consumer finance portfolio declined during the period and since we began to run down the portfolio, starting with the
Mortgage Services business in the first quarter of 2007, we have cut balances by US$34 billion, or 27 per cent in total, to US$91 billion, including a US$9 billion reduction in the first half of 2009. We also continue to support customers in difficulty where we can. During the first half of 2009, HSBC Finance modified over 69,000 real estate customer loans with an aggregate balance of US$9.8 billion under the foreclosure avoidance account modification programme.

Our cards business was profitable in the first half of 2009, despite difficult economic conditions. The cards portfolio reduced faster than expected during the period due to actions taken to lower origination volumes and reduce credit limits, and the effect of lower customer spending. Overall, our cards performance in the first half of the year was better than expected, due in part to active management of our credit appetite in recent years and government stimulus programmes.

Returns in Private Banking remain healthy

Private Banking reported a pre-tax profit of US$632 million, a decline of 23 per cent compared with the record first half of 2008, but in line with the second half. Revenues were affected by a reduction in the value of funds under management, which reflected falls in equity markets and lower transaction volumes in equities, funds and structured products as a result of lower client risk appetite. In addition, disposal gains recorded in 2008 did not recur.

Client assets remained stable at US$345 billion despite continued deleveraging by clients and our decision not to compete at uneconomic pricing levels for deposits. Net new money fell during the period, although there were net inflows from Asia and Latin America, while intra-group referrals generated more than US$2 billion of net new money.

Good progress in Insurance

Our insurance activities, largely undertaken within Personal Financial Services, contributed US$1.2 billion, representing 16 per cent of the Group s pre-tax profit, excluding movements in fair value on own debt credit spreads. On an underlying basis, the decline in pre-tax profit of 17 per cent compared with the first half of 2008 was partly due to claims deterioration within general insurance in Europe.

However, on an underlying basis, net earned premiums were up by 10 per cent and our bancassurance strategy delivered well in Asia, Latin America and France, focusing on life products. In

HSBC HOLDINGS PLC

Group Chief Executive s Review (continued)

June, the China Insurance Regulatory Commission awarded a licence to our life insurance company, jointly owned with National Trust, which will allow us to establish our insurance manufacturing business in mainland China.

Strong grip on costs and efficiency

In the first half of 2009 we increased our efforts to manage costs and improve efficiency across the Group. Despite one-off restructuring and redundancy costs, underlying costs were 3 per cent lower than in the first half of 2008, excluding the impact of the 2008 goodwill impairment. We also reduced staff numbers by 5 per cent to 296,000.

Through our *One HSBC* programme, we have promoted our direct channels, automated manual processes, developed our offshore centres of excellence and eliminated redundant systems. In 2009, we anticipate investing more than US$450 million in the *One HSBC* programme.

HSBCnet is one of our most successful examples of developing a global platform for our customers. By the end of the period it was used by close to 50,000 large corporations, an increase of 41 per cent over the last two years. The number of customers using Business Direct, targeted at small and micro businesses, also increased to nearly 300,000 during the first half of 2009.

By the end of 2009 we expect the *One HSBC* payments programme to handle more than three-quarters of the Group s high value payments. Similarly, we expect to have more than 80 per cent of our cards on a common platform by the end of the year, reducing our reliance on external service providers and enabling us to use scale to reduce processing costs per card.

Actively managing risk

In most major economies, the outlook for recovery remains uncertain and we can expect levels of loan impairment charges to remain elevated. HSBC therefore continues to manage the quality of its asset base carefully, and we maintain a conservative approach to risk.

Within our personal customer portfolios, we have progressively tightened underwriting criteria, improved our assessment of customer affordability and improved collection processes. We have actively withdrawn from some higher risk consumer products, and we are targeting higher quality and lower risk business.

In our commercial businesses, we have continued to support customers in the downturn through more active relationship management and, in our wholesale businesses, we are focused on serving our long-standing core customers and have lowered our risk appetite for certain vulnerable and high-risk industry sectors.

Other actions taken to manage risk over the last few years have also produced results. We started to reduce our appetite for exposure to commercial real estate in 2007. We are now seeing the benefits of this, and have to date avoided any significant impairments within the Group. Our appetite for highly leveraged and acquisition financing opportunities has always been modest and concentrated on the top end of the market. We considerably reduced our exposure to the major US auto manufacturers and had no material exposure to those which fell into bankruptcy. Finally, HSBC s exposure to Eastern Europe, where certain economies have suffered particular stress recently, has remained modest.

Leveraging our brand and competitive position

We are encouraged by HSBC s performance in the first half of 2009. We have again proven our ability to deliver consistently through diversity, and to execute on our strategic priorities. Despite the continuing economic uncertainty, we remain confident in our ability to do so.

We are proud of HSBC s strong global reputation and during the period we were named the world s top banking brand by *Brand Finance.* We are equally proud of our staff and I would like to thank all of them for their continued hard work and commitment to our customers around the world.

Because of this powerful brand and our excellent team of people, we can be confident that customers will continue to choose HSBC for deposits, borrowing and all other financial services. As a result, we are confident that HSBC is strongly and competitively placed both to attract market share in developed markets and to grow our business in the faster-growing markets of the future.

Michael Geoghegan, *Group Chief Executive*

3 August 2009

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HSBC HOLDINGS PLC

Interim Management Report: Operating and Financial Review

Principal activities

HSBC is one of the largest banking and financial services organisations in the world, with a market capitalisation of US$141 billion at 30 June 2009.

Through its subsidiaries and associates, HSBC provides a comprehensive range of banking and related financial services. Headquartered in London, HSBC operates through long-established businesses and has an international network of some 8,500 offices in 86 countries and territories in six geographical regions: Europe; Hong Kong; Rest of Asia-Pacific; the Middle East, including Africa; North America; and Latin America. Previously, the Middle East was reported as part of Rest of Asia-Pacific. Within these regions, a comprehensive range of financial services is offered to personal, commercial, corporate, institutional, investment and private banking clients. Services are delivered primarily by domestic or regional banks, typically with large retail deposit bases, and by consumer finance operations.

Strategic direction

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

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

HSBC is, therefore, continuing to direct incremental investment primarily to the faster growing markets and, in the more developed markets, is focusing on businesses and customer segments which have international connectivity. A policy of maintaining HSBC s capital strength and strong liquidity position remains complementary to these reshaping activities.

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

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

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

- the HSBC brand and global networks will be leveraged to reach new customers and offer further services to existing clients;
- efficiency will be enhanced by taking full advantage of local, regional and global economies of scale, in particular by adopting a common systems architecture wherever possible; and
- objectives and incentives will be aligned to motivate and reward staff for being fully engaged in delivering the strategy.

Risks and uncertainties

A detailed account of HSBC s risks and uncertainties is provided on pages 12 to 17 of the *Annual Report and Accounts 2008*. Further comments on expected risks and uncertainties are made throughout this Interim Management Report, particularly in the sections on Market Turmoil and Risk.

Fair presentation of rights issue

The interim consolidated financial statements of HSBC have been prepared in accordance with IAS 34 Interim Financial Reporting (IAS 34) as issued by the International Accounting Standards Board (IASB) and as endorsed by the EU. In order to present fairly the financial position, financial performance and cash flows of the Group, as required by IAS 1 Presentation of Financial

HSBC HOLDINGS PLC

Interim Management Report: Operating and Financial Review (continued)

Statements , and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as required by section 393 of the Companies Act 2006, HSBC has departed from the requirements of IAS 32 Financial Instruments: Presentation (IAS 32) in so far as this standard requires the offer of rights by HSBC to its shareholders in March 2009 to be classified as a derivative financial liability. Further details of this departure including its financial effect are provided in Note 19 on the Financial Statements. The Directors have concluded that the interim consolidated financial statements prepared on this basis present fairly, and give a true and fair view of, the Group s financial position, financial performance and cash flows.

The requirement to classify the offer of rights as a derivative financial liability was disclosed in the *Rights Issue Prospectus* in March 2009 and the effect on the income statement of this accounting treatment was disclosed in the HSBC s *Interim Management Statement* in May 2009. As a result of representations from a number of corporate entities, the accounting treatment of rights issues was discussed at the International Financial Reporting Interpretations Committee and the IASB in July 2009. The Directors gave further consideration to the question of whether they would be able to approve interim consolidated financial statements which complied with the requirements of IAS 32 in respect of the offer of rights, and meet their obligation under IFRSs and the Companies Act to approve interim consolidated financial statements which present fairly, and give a true and fair view of, the Group s financial performance. The Directors concluded that it was necessary to depart from the requirements of IAS 32 as discussed above in order to present fairly, and give a true and fair view of, the Group s financial position, financial performance and cash flows.

Reconciliation of reported and underlying profit before tax

HSBC measures its performance internally on a like-for-like basis by eliminating the effects of foreign currency translation differences and acquisitions and disposals of subsidiaries and businesses, which distort period-on-period comparisons. HSBC refers to this as its underlying performance.

Constant currency

Constant currency comparatives for the half-years to 30 June 2008 and 31 December 2008, used in the 2009 commentaries, are computed by retranslating into US dollars:

- the income statements for the half-years to 30 June 2008 and 31 December 2008 of non-US dollar branches, subsidiaries, joint ventures and associates at the average rates of exchange for the half-year to 30 June 2009; and

- the balance sheets at 30 June 2008 and 31 December 2008 for non-US dollar branches, subsidiaries, joint ventures and associates at the rates of exchange ruling at 30 June 2009.

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

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

Underlying performance

The tables below compare the underlying performance of HSBC for the half-year to 30 June 2009 with the half-years to 30 June 2008 and 31 December 2008. Equivalent tables are provided for each of HSBC s customer groups and geographical segments in their respective sections below.

The foreign currency translation differences reflect the general strengthening of the US dollar compared with its value throughout 2008, and were most significant in Europe due to the size of HSBC s operations in the UK. The Group s reported profit before tax for the first half of 2009 decreased by 51 per cent compared with the first half of 2008. On an underlying basis the decline was 9 percentage points smaller. Reported profit before tax improved compared with the second half of 2008, by 634 per cent or 217 per cent on an underlying basis.

The following acquisitions and disposals affected these comparisons:

- the sale of HSBC s UK merchant acquiring business to a joint venture 49 per cent owned by the Group in June 2008 and the subsequent sale of the Group s share in this joint venture to the Group s partner in the venture in

June 2009; and

the disposal of seven French regional banking subsidiaries in July 2008.

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2009 (1H09) compared with half-year to 30 June 2008 (1H08)								
HSBC	1H08 as reported US$m	1H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	1H08 at 1H09 exchange rates[3] US$m	1H09 acquisitions and disposals[1] US$m	Underlying change US$m	1H09 as reported US$m	Reported change[4] %	Underlying change[4] %
Net interest income	21,178	(65)	(1,841)	19,272		1,266	20,538	(3)	7
Net fee income	10,991	(58)	(1,181)	9,752		(1,324)	8,428	(23)	(14)
Changes in fair value[5]	577		36	613		(2,913)	(2,300)	(499)	(475)
Other income[6]	6,729	(514)	(1,511)	4,704	280	3,091	8,075	20	66
Net operating income[7]	39,475	(637)	(4,497)	34,341	280	120	34,741	(12)	
Loan impairment charges and other credit risk provisions	(10,058)	6	592	(9,460)		(4,471)	(13,931)	(39)	(47)
Net operating income	29,417	(631)	(3,905)	24,881	280	(4,351)	20,810	(29)	(17)
Operating expenses (excluding goodwill impairment)	(19,613)	68	2,376	(17,169)		511	(16,658)	15	3
Goodwill impairment	(527)			(527)		527		100	100
Operating profit	9,277	(563)	(1,529)	7,185	280	(3,313)	4,152	(55)	(46)
Income from associates	970		26	996		(129)	867	(11)	(13)
Profit before tax	10,247	(563)	(1,503)	8,181	280	(3,442)	5,019	(51)	(42)

Half-year to 30 June 2009 (1H09) compared with half-year to 31 December 2008 (2H08)

HSBC	2H08 as reported US$m	2H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	2H08 at 1H09 exchange rates[8] US$m	1H09 acquisitions and disposals[1] US$m	Underlying change US$m	1H09 as reported US$m	Reported change[4] %	Underlying change[4] %
Net interest income	21,385		(1,093)	20,292		246	20,538	(4)	1
Net fee income	9,033		(558)	8,475		(47)	8,428	(7)	(1)
Changes in fair value[5]	6,102		(100)	6,002		(8,302)	(2,300)	(138)	(138)
Gain on disposal of French regional banks	2,445	(2,445)							
Other income[6]	3,242	(166)	(577)	2,499	280	5,296	8,075	149	212
Net operating income[7]	42,207	(2,611)	(2,328)	37,268	280	(2,807)	34,741	(18)	(8)
Loan impairment charges and other credit risk provisions	(14,879)		520	(14,359)		428	(13,931)	6	3
Net operating income	27,328	(2,611)	(1,808)	22,909	280	(2,379)	20,810	(24)	(10)
Operating expenses (excluding goodwill impairment)	(18,922)		1,315	(17,607)		949	(16,658)	12	5
Goodwill impairment	(10,037)			(10,037)		10,037		100	100
Operating profit/(loss)	(1,631)	(2,611)	(493)	(4,735)	280	8,607	4,152	355	182
Income from associates	691		(2)	689		178	867	25	26
Profit/(loss) before tax	(940)	(2,611)	(495)	(4,046)	280	8,785	5,019	634	217

For footnotes, see page 94.

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Financial summary
Income statement

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Interest income	**32,479**	47,164	44,137
Interest expense	**(11,941)**	(25,986)	(22,752)
Net interest income	**20,538**	21,178	21,385
Fee income	**10,191**	13,381	11,383
Fee expense	**(1,763)**	(2,390)	(2,350)
Net fee income	**8,428**	10,991	9,033
Trading income excluding net interest income	**4,301**	639	208
Net interest income on trading activities	**1,954**	3,195	2,518
Net trading income	**6,255**	3,834	2,726
Changes in fair value of long-term debt issued and related derivatives[1]	**(2,300)**	577	6,102
Net income/(expense) from other financial instruments designated at fair value	**777**	(1,161)	(1,666)
Net income/(expense) from financial instruments designated at fair value	**(1,523)**	(584)	4,436
Gains less losses from financial investments	**323**	817	(620)
Dividend income	**57**	88	184
Net earned insurance premiums	**5,012**	5,153	5,697
Gains on disposal of French regional banks			2,445
Other operating income	**1,158**	1,435	373
Total operating income	**40,248**	42,912	45,659

Net insurance claims incurred and movement in liabilities to policyholders	**(5,507)**	(3,437)	(3,452)
Net operating income before loan impairment charges and other credit risk provisions	**34,741**	39,475	42,207
Loan impairment charges and other credit risk provisions	**(13,931)**	(10,058)	(14,879)
Net operating income	**20,810**	29,417	27,328
Employee compensation and benefits	**(9,207)**	(10,925)	(9,867)
General and administrative expenses	**(6,258)**	(7,479)	(7,781)
Depreciation and impairment of property, plant and equipment	**(814)**	(863)	(887)
Goodwill impairment		(527)	(10,037)
Amortisation and impairment of intangible assets	**(379)**	(346)	(387)
Total operating expenses	**(16,658)**	(20,140)	(28,959)
Operating profit/(loss)	**4,152**	9,277	(1,631)
Share of profit in associates and joint ventures	**867**	970	691
Profit/(loss) before tax	**5,019**	10,247	(940)
Tax expense	**(1,286)**	(1,941)	(868)
Profit/(loss) for the period	**3,733**	8,306	(1,808)
Profit/(loss) attributable to shareholders of the parent company	**3,347**	7,722	(1,994)
Profit attributable to minority interests	**386**	584	186

1 *The change in fair value related to movements in the Group s credit spread on long-term debt resulted in an expense of US$2.5 billion in the first half of 2009 (first half of 2008: income*

of
US$824 million;
second half of
2008: income of
US$5.7 billion).

Pre-tax profits in the first half of 2009 were US$5.0 billion, a fall of 51 per cent compared with the first half of 2008. On an underlying basis, profit before tax was 42 per cent lower than the first half of 2008.

This underlying movement can be attributed to a turnaround in the movement in the fair value of HSBC s own debt from changes in HSBC s credit spread, which the Group does not regard as part of managed performance. The credit spread on the Group s long-term debt narrowed during the period as market conditions improved for financial sector debt instruments, and HSBC incurred a US$2.5 billion loss due to movements in the fair value of that debt attributed to credit spread, compared with a US$0.8 billion gain in the first half of 2008. These adjustments were recorded in the Other segment, were not allocated to customer groups and were not included within regulatory capital calculations.

Stripping out credit spread-related fair value movements on own debt from this underlying figure, profit before tax was 3 per cent lower than in the first half of 2008. The difference between reported and underlying results is explained on page 12. Except where otherwise stated, the commentaries in the Financial Summary are on an underlying basis.

Excluding the movement in fair value of own debt, HSBC s net revenues were driven by a record performance in Global Banking and Markets, and these revenues, together with a US$1.0 billion reduction in expenses, largely offset a US$4.5 billion rise in loan impairment charges and other credit risk provisions.

A record performance in Global Banking and Markets underpinned a 10 per cent growth in Group revenue, excluding credit spread-related movements in fair value of own debt.

The rise in loan impairment charges, which reflected continuing weakness in the US consumer finance business and the effect of deteriorating global economic conditions, and the fall in interest rates globally, which reduced the value of the Group s strong deposit base, meant that pre-tax profit declined in all regions and customer groups compared with the first half of 2008, apart from Global Banking and Markets. Its record performance was driven by market share and margin improvements in core business areas such as foreign exchange, interest rate and credit products and financing, and substantially higher treasury earnings within Balance Sheet Management from deployment of other customer groups surplus deposits and from positions taken during 2008 in anticipation of the reduction in short-term interest rates. HSBC also benefited from significantly lower write-downs on legacy structured credit positions and asset-backed securities.

Earnings per share declined to US$0.21 compared with US$0.57 in the first half of 2008, adjusted for the rights issue.

Group performance by income and expense item

Net interest income

	Half-year to		
	30 June 2009	30 June 2008	31 December 2008
Net interest income[9] (US$m)	**20,538**	21,178	21,385
Average interest-earning assets (US$m)	**1,345,569**	1,420,288	1,512,452
Gross interest yield[10] (per cent)	**4.87**	6.68	5.80
Net interest spread[11] (per cent)	**3.05**	3.03	2.73
Net interest margin[12] (per cent)	**3.08**	3.00	2.81

For footnotes, see page 94.

Reported net interest income of US$20.5 billion was 3 per cent lower than in the first half of 2008, 7 per cent higher on an underlying basis.

Growth in net interest income was driven by strong treasury earnings recorded in Balance Sheet Management, which benefited from the deployment of large and growing core deposit surpluses within the Group and from positions taken during 2008 in anticipation of the significant reduction in short-term interest rates as central banks responded to the turmoil in markets. The fall in interest rates also reduced the cost of funding for the Group s trading assets, further boosting net interest income. By contrast, in Personal Financial Services and Commercial Banking, the unprecedentedly low short-term interest rates reduced the value of deposits which, in normal times, are a principal driver of revenues for HSBC.

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Net interest income benefited from the deployment of large and growing commercial surpluses within the Group.

Average interest-earning assets increased due to a significant rise in financial investments as Balance Sheet Management increased HSBC s liquidity and deployed the Group s growing commercial deposit surpluses and the funds received from the rights issue. This was accompanied by an increase in loans and advances to customers in Europe which more than offset a decrease in North America as the consumer finance business continued to run off.

Average interest-bearing liabilities increased due to the sharp rise in savings accounts in the second half of 2008, when clients liquidated riskier investments and sought to deposit funds with stable financial institutions. This growth was partly reversed during the first half of 2009 as conditions stabilised.

As short-term interest rates fell to very low levels, liability spreads remained under pressure, particularly on savings accounts. Repricing led to a widening of asset spreads, despite the expansion in the lower yielding financial investments portfolio. The overall net interest spread remained stable.

Net fee income

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Cards	**2,209**	3,089	2,755
Account services	**1,771**	2,260	2,093
Funds under management	**945**	1,572	1,185
Broking income	**749**	954	784
Credit facilities	**729**	639	674
Insurance	**688**	942	829
Global custody	**471**	757	554
Imports/exports	**438**	496	518
Underwriting	**348**	204	121
Remittances	**281**	307	303
Corporate finance	**164**	232	149
Unit trusts	**137**	337	165
Trust income	**134**	164	161
Taxpayer financial services	**91**	154	14
Mortgage servicing	**62**	56	64
Maintenance income on operating leases	**55**	70	60
Other	**919**	1,148	954
Total fee income	**10,191**	13,381	11,383
Less: fee expense	**(1,763)**	(2,390)	(2,350)
Net fee income	**8,428**	10,991	9,033

Reported net fee income declined by US$2.6 billion to US$8.4 billion, 14 per cent lower on an underlying basis.

The reduction in fee income was driven by two principal causes: lower credit card origination and utilisation fees caused by the economic downturn and changes to charging practices, primarily in the US; and investor preference for the security of deposit products which reduced flows into, and the value of, equity products.

Credit card fee income fell significantly, primarily in the US and the UK. In the US, this resulted from lower volumes and changes in customer behaviour. In the UK, the decline was partly due to the disposal of the card-acquiring business to a joint venture in June 2008 and lower transaction volumes reflecting reduced customer demand.

Equity market-related revenues fell, primarily in Asia and Europe, driven by lower trading volumes in equity products, which was attributable to lower equity values and weakened investor sentiment. This reduced broking, global custody, funds under management and unit trust fee income.

Fees from Taxpayer Financial Services in the US fell due to a change in product mix towards lower revenue products and the termination of all partner relationships but one.

Partly offsetting the above, corporate credit facility and underwriting fees increased, reflecting strong performances in credit and lending due to higher syndication fees as a result of increased debt originations in Europe and North America.

Net trading income

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Trading activities	**3,294**	559	2,429
Net interest income on trading activities	**1,954**	3,195	2,518
Other trading income hedge ineffectiveness:			
on cash flow hedges	**33**	(15)	(25)
on fair value hedges	**(3)**	(20)	25
Non-qualifying hedges	**977**	115	(1,237)
Losses on collapse of Bernard L Madoff Investment Securities LLC			(984)
Net trading income[13,14]	**6,255**	3,834	2,726

For footnotes, see page 94.

Reported net trading income increased by 63 per cent to US$6.3 billion, 123 per cent higher on an underlying basis.

Net income from trading activities increased significantly, with a record performance in Rates, increased foreign exchange earnings and significantly lower write-downs on legacy structured credit positions and asset-backed securities portfolios. With greater liquidity in the market, credit spreads improved considerably, which favourably affected performance in the core Credit business as customer appetite for corporate bonds increased and the market diversified away from government bond holdings. HSBC s strong capital position and its strength in emerging markets remained key attributes in attracting customer business to the Group.

HSBC s strong capital position and strength in emerging markets remained key attributes in attracting customer business to the Group.

The increase in Rates income was driven by correct positioning against interest rate movements, an increase in customer demand for trading and hedging products and an improvement in bid-offer spreads. This was partly offset by fair value losses on structured liabilities as credit spreads narrowed compared with gains in the first half of 2008. Similarly, the increase in foreign exchange trading

income was driven by market volatility and increased customer volumes.

Equities trading declined due to lower demand for structured equity products, compounded by the non-recurrence of gains in the first half of 2008.

The rise in income from trading activities was partly offset by a reduction in the net interest income earned on trading activities, as interest rates fell sharply. The internal funding cost of trading activities was also lower than in the first half of 2008. This compensating benefit is reported within Net interest income .

Within net trading income the benefit from non-qualifying hedges increased, mainly due to fair value gains on currency swaps held against non-dollar denominated debt instruments.

During the second half of 2008, HSBC reclassified US$17.9 billion of assets from held for trading to loans and receivables and available for sale following the IASB s amendment to IAS 39. Had these reclassifications not taken place and the reclassified assets had continued to be accounted for on a fair value basis, an additional net loss of US$0.3 billion would have been recorded in the first half of 2009. Further information on the effect of reclassifying these assets can be found in Impact of Market Turmoil on pages 96 to 137.

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HSBC HOLDINGS PLC

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Net income/(expense) from financial instruments designated at fair value

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Net income/(expense) arising from:			
financial assets held to meet liabilities under insurance and investment contracts	**956**	(2,023)	(3,041)
liabilities to customers under investment contracts	**(197)**	745	1,006
HSBC s long-term debt issued and related derivatives	**(2,300)**	577	6,102
Change in own credit spread on long-term debt	**(2,457)**	824	5,746
Other changes in fair value[15]	**157**	(247)	356
other instruments designated at fair value and related derivatives	**18**	117	369
Net income/(expense) from financial instruments designated at fair value	**(1,523)**	(584)	4,436
Financial assets designated at fair value at period end	**33,361**	40,786	28,533
Financial liabilities designated at fair value at period end	**77,314**	89,758	74,587

For footnote, see page 94.

HSBC designates certain financial instruments at fair value to remove or reduce accounting mismatches in measurement or recognition, or where financial instruments are managed and their performance is evaluated together on a fair value basis. All income and expense from financial instruments designated at fair value are included in this line except for interest arising from HSBC s issued debt securities and related derivatives managed in conjunction with those debt securities, which is recognised in Interest expense .

HSBC principally uses the fair value designation in the following instances:

for certain fixed-rate long-term debt issues whose rate profile has been changed to floating through interest rate swaps as part of a documented interest rate management strategy. US$61 billion (31 December 2008: US$59 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 widen or narrow, accounting profits or losses are booked, respectively. The size and direction of the accounting consequences of changes in own credit spread and ineffectiveness can be volatile from year to year, but do not alter the cash flows envisaged as part of the documented interest rate management strategy; as a consequence of this, gains and losses arising from changes in own credit spread on long-term debt are not regarded internally as part of managed performance. Similarly, such gains and losses are ignored in the calculation of regulatory capital;

for US$12 billion (31 December 2008: US$11 billion) of financial assets held to meet liabilities under insurance contracts, and certain liabilities under investment contracts with discretionary participation features; and for US$7 billion (31 December 2008: US$7 billion) of financial assets held to meet liabilities under unit-linked and other investment contracts.

A net expense from financial instruments designated at fair value of US$1.5 billion was reported, compared with a net expense of US$584 million in the first half of 2008.

Credit spreads narrowed markedly during the second quarter of 2009, leading to a significant negative fair value movement on certain long-term debt in issue by the Group in the second quarter as positive movements booked in previous periods partially reversed. This more than offset the positive movement in respect of the first quarter, resulting in US$2.5 billion of negative fair value movement attributed to credit spread movement on HSBC s own debt for the first half of 2009. The cumulative fair value adjustment at 30 June 2009 amounted to a net reduction in the carrying value of the debt (gains recognised) of US$5.5 billion; this will fully reverse over the life of the debt.

A positive fair value movement of US$1.0 billion was recorded on assets held to back insurance and investment contracts, compared with a negative movement of US$2.0 billion in the first half of 2008. This reflected investment gains in the current year driven by improvement in investment market performance, predominantly affecting the value of assets held in unit-linked and participating funds in Hong Kong, the UK and France. The positive movement in fair value is partly offset by a corresponding increase in Net insurance claims and movement in liabilities to policyholders to reflect the extent to which unit-linked policyholders, in particular, participate in the investment performance experienced on the linked investment portfolios.

For assets held to meet liabilities under investment contracts, a corresponding increase in the liability to customers is also reported within net income from financial instruments designated at fair value. The increase of US$197 million in the fair value of liabilities held under investment contracts reflected the improved performance of investment markets in the period and compared with a US$745 million reduction in the first half of 2008.

Gains less losses from financial investments

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Net gains/(losses) from disposal of:			
debt securities	**329**	38	(19)
equity securities	**268**	1,107	109
other financial investments	**7**	(11)	15
	604	1,134	105
Impairment of available-for-sale equity securities	**(281)**	(317)	(725)
Gains less losses from financial investments	**323**	817	(620)

Reported net gains from financial investments of US$323 million were 60 per cent lower than in the first half of 2008, 47 per cent lower on an underlying basis. This was driven by a lower level of gains from disposals of equity investments compared with the first half of 2008, partly offset by gains on the disposal of debt securities in North America.

Net gains on the disposal of equity securities decreased significantly. A sale of Visa Inc. (Visa) shares in the first half of 2009 generated a gain of US$225 million, lower than the gain of US$332 million earned from disposals in the first half of 2008. Certain gains recognised in the first half of 2008 were not repeated in 2009, including from the sale of MasterCard Inc. (MasterCard) shares, four French mutual funds and HSBC s residual interest in the Hermitage Fund.

Net gains from the disposal of debt securities increased compared with the first half of 2008. This was primarily due to gains recorded on the sale of mortgage-backed securities in North America.

The level of impairments on equity investments fell slightly as the absence of impairments recognised in the first half of 2008 on strategic investments held in the available-for-sale portfolio in Asia was largely offset by impairments on certain Private Equity investments as the markets for unlisted investments remained illiquid.

Net earned insurance premiums

Half-year to

	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Gross insurance premium income	**5,255**	6,591	5,956
Reinsurance premiums	**(243)**	(1,438)	(259)
Net earned insurance premiums	**5,012**	5,153	5,697

Reported net earned insurance premiums amounted to US$5.0 billion, 3 per cent lower than in the first half of 2008. On an underlying basis, net earned insurance premiums increased by 10 per cent.

The growth in net earned insurance premiums was largely due to increased sales of traditional life products in Hong Kong, as a result of a strong focus on insurance sales within the branch network, and the non-recurrence of a large reinsurance transaction in France in June 2008, which passed insurance premiums to a third-party reinsurance provider. Adjusting for this, net earned insurance premiums in France were relatively unchanged despite a significant reduction in the distribution network following the disposal of the regional banks in July 2008.

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Insurance sales also developed well in Singapore following the launch of a new individual life single premium product, and in Ireland due to higher inward reinsurance premiums.

Partially offsetting this growth was the withdrawal of the Guaranteed Income Bond from sale in the UK as the product was no longer commercially viable in the prevailing economic environment. Furthermore, sales of insurance products in North America, which are strongly linked to loan originations and volumes, were adversely affected by the decision to run-off the branch-based consumer finance business.

Other operating income

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Rent received	**273**	326	280
Losses recognised on assets held for sale	**(120)**	(16)	(114)
Valuation gains/(losses) on investment properties	**(43)**	27	(119)
Gain on disposal of property, plant and equipment, intangible assets and non-financial investments	**305**	412	53
Change in present value of in-force long-term insurance business	**290**	324	(38)
Gain on repurchase of 8 Canada Square			416
Other	**453**	362	(105)
Other operating income	**1,158**	1,435	373

Reported other operating income of US$1.2 billion was 19 per cent lower than in the first half of 2008. This included gains of US$425 million in the first half of 2008 and US$280 million in 2009 on the sale, in two tranches, of the card merchant-acquiring business in the UK. On an underlying basis, other operating income rose by 21 per cent, primarily driven by gains on the sale of prime residential mortgages and lower losses on foreclosed properties in the US due to a reduction in stock of unsold properties.

Net insurance claims incurred and movement in liabilities to policyholders

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Insurance claims incurred and movement in liabilities to policyholders:			
gross	**5,505**	4,769	4,437
reinsurers share	**2**	(1,332)	(985)

net[16]	**5,507**	3,437	3,452

For footnote, see page 94.

Reported net insurance claims incurred and movement in liabilities to policyholders increased by 60 per cent to US$5.5 billion. On an underlying basis, they grew by 81 per cent.

The increase in net insurance claims incurred and movement in liabilities to policyholders primarily reflected an improvement in investment market performance compared with the first half of 2008. This led to investment gains and therefore a positive movement in liabilities to policyholders on unit-linked and, to a certain extent, participating policies where policyholders share in the investment performance of the assets supporting a policy. The gains experienced on the assets held to support insurance contract liabilities are reported in Net income from financial instruments designated at fair value.

As well as market value movements, premium growth, particularly in Hong Kong, also contributed to the increase in policyholder liabilities, as did the non-recurrence of certain events which occurred in the first half of 2008, including the significant reinsurance transaction in France referred to above.

As a consequence of a rising incidence and severity of claims, there was a US$105 million strengthening of reserves in the UK motor book during the period.

Loan impairment charges and other credit risk provisions

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Loan impairment charges			
New allowances net of allowance releases	**13,710**	10,436	14,529
Recoveries of amounts previously written off	**(377)**	(479)	(355)
	13,333	9,957	14,174
Individually assessed allowances	**2,250**	332	1,732
Collectively assessed allowances	**11,083**	9,625	12,442
Impairment of available-for-sale debt securities	**591**	67	670
Other credit risk provisions	**7**	34	35
Loan impairment charges and other credit risk provisions	**13,931**	10,058	14,879
	%	%	%
as a percentage of net operating income before loan impairment charges and other credit risk provisions	**40.1**	25.5	35.3
Impairment charges on loans and advances to customers as a percentage of gross average loans and advances to customers (annualised)	**3.1**	2.0	2.9
	US$m	US$m	US$m
Customer impaired loans	**31,826**	20,702	25,352
Customer loan impairment allowances	**27,701**	20,580	23,909

Reported loan impairment charges and other credit risk provisions were US$13.9 billion, an increase of 39 per cent compared with the first half of 2008. On an underlying basis, loan impairment charges and other credit risk provisions were 47 per cent higher than in the first half of 2008 and 3 per cent lower than in the second half of the year.

Compared with the first half of 2008, deterioration in credit quality was experienced across all customer groups and regions as the global economy weakened, with significant reductions in trade flows, falls in commodity prices and rising unemployment. In addition, stresses within many financial systems reduced the supply of credit to both personal and corporate customers, restricting refinancing options. This resulted in a rise in Group loan impairment charges and other credit risk provisions notwithstanding an underlying 5 per cent decline in lending to customers, primarily from the run-off within the US consumer finance business.

Loan impairment charges and other credit risk provisions rose significantly in Personal Financial Services, by 20 per cent to US$10.7 billion, due to a widespread deterioration in credit quality affecting all regions, most notably North America as the US economy weakened further and unemployment grew.

The continued rise in unemployment, higher levels of personal bankruptcy filings, portfolio seasoning, further declines in house prices and limited refinancing options adversely affected loan impairment charges in US Personal Financial
Services. In HSBC Bank USA, N.A. (HSBC Bank USA), higher loan impairment charges were driven by an increase in delinquencies in the first lien prime residential mortgage portfolio. In the real-estate secured portfolios within HSBC Finance Corporation (HSBC Finance), which are in run-off, credit delinquency was most notable within first lien loans in Consumer Lending. Loan impairment charges in Mortgage Services, however, declined due to lower balances as the portfolio, which was put into run-off during 2007, further seasoned and continued to shrink. Underlying loan impairment charges and other credit provisions were lower than in the second half of 2008.

In the Consumer Lending unsecured portfolio, loan impairment charges rose due to credit delinquency in the 2006 and 2007 vintages, the effect of which was uneven, being more pronounced in certain geographical regions. In US Card and Retail Services, loan impairment charges increased for the reasons explained above, partly offset by an extended seasonal effect as consumers experienced a higher availability of cash due to various government economic stimulus programmes, reduced expenditure on energy, and lower levels of consumption, as well as management action taken to tighten credit availability.

Notwithstanding the above, loan impairment charges in HSBC Finance were lower than in the second half of 2008 and were lower than might

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have been anticipated given the rise in unemployment.

To date, delinquency levels, which might have been affected by the closure of the Consumer Lending branches, continue to perform within expectations.

In the UK, a rise in loan impairment charges in Personal Financial Services reflected rising delinquency rates in the personal loan and credit card portfolios due to a weakening economy. This was partly mitigated by the early implementation of improved collection practices and previous decisions to curtail growth in unsecured lending, which resulted in a year-on-year decline in other personal lending. In the real estate secured portfolios, overall delinquencies rose only modestly despite higher unemployment and continued house price depreciation, and loan impairment charges were low, reflecting modest growth in 2006 and 2007 and HSBC s very limited participation in the buy-to-let and brokered segments of the market. HSBC s mortgage exposure remained well-secured with average loan to value ratios in the UK of below 60 per cent. Credit quality in the unsecured portfolios deteriorated slightly in the period as consumers were affected by higher unemployment and lower household incomes.

In Brazil, loan impairment charges in Personal Financial Services rose as increased unemployment led to higher delinquencies across a range of products, in addition to the non-recurrence of a significant recovery in the first half of 2008 from the sale of a portfolio of written-down loans. In Mexico, higher loan impairment charges reflected higher delinquency rates, most notably in the credit cards business, as the deterioration in economic conditions was exacerbated by the impact of the H1N1 flu virus. Tighter credit origination policies have been put in place in Mexico to limit new issuance and the existing portfolio is being worked down. In the first half of 2009, credit card outstanding balances fell from US$2.4 billion to US$2.1 billion.

In Rest of Asia-Pacific, the rise in loan impairment charges in Personal Financial Services principally reflected a deterioration in the credit card and unsecured personal loan portfolios in India. HSBC took specific actions to mitigate loan losses there, including discontinuing origination in certain segments and tightening lending criteria, which resulted in a decline in balances.

In Personal Financial Services in Hong Kong, loan impairment charges rose from a low base, with increased delinquency in the credit card portfolio as economic conditions weakened.

In the Middle East, lower oil prices, a significant reduction in construction activity and the effect of falling equity and property prices on personal wealth contributed to the rise from a low base in loan impairment charges in the credit card and personal loan portfolios in Personal Financial Services, as economic activity in the region slowed and an increased numbers of expatriate workers departed leaving debts unpaid.

In Global Banking and Markets, loan impairment charges and other credit risk provisions rose by US$1.6 billion to US$1.7 billion, which reflected deterioration in the credit position of a small number of clients. Within this total, US$0.6 billion reflected impairments recognised in the available-for-sale debt securities portfolio, most notably on monoline-wrapped bonds where the monoline insurer s credit rating had been downgraded in the period; these impairments were in line with the stress test parameters described on page 149 of the *Annual Report and Accounts 2008.*

In Commercial Banking, loan impairment charges rose by US$1.0 billion to US$1.5 billion. Loan impairment charges in the UK grew as continued weakness in the economy led to higher impairment charges particularly against exposures to the real estate and construction sectors. Higher loan impairment charges in India were mainly on a small number of exposures to technology-related companies. They also rose in Hong Kong as exporters experienced a sharp downturn in business due to the contraction in global trade, and in Brazil, where they were driven by credit quality deterioration on exposures to firms in the small and mid-market sectors due to a general slowdown in economic activity.

Loan impairment charges in North America Commercial Banking rose from a relatively low base, driven by credit deterioration in business banking and commercial real estate exposures in the US, and among firms in the manufacturing, commercial real estate and export sectors in Canada which were affected by the continued weakness in the US economy.

HSBC s total outstanding customer loan impairment allowances at 30 June 2009 of US$28 billion represented 3.1 per cent of gross customer advances (net of reverse repos and settlement accounts), compared with 2.0 per cent at 30 June 2008.

Operating expenses

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
By expense category			
Employee compensation and benefits	**9,207**	10,925	9,867
Premises and equipment (excluding depreciation and impairment)	**2,048**	2,137	2,168
General and administrative expenses	**4,210**	5,342	5,613
Administrative expenses	**15,465**	18,404	17,648
Depreciation and impairment of property, plant and equipment	**814**	863	887
Amortisation and impairment of intangible assets	**379**	346	387
Goodwill impairment		527	10,037
Operating expenses	**16,658**	20,140	28,959

	At 30 June 2009	At 30 June 2008	At 31 December 2008
Staff numbers (full-time equivalent)			
Europe	**79,132**	84,457	82,093
Hong Kong	**28,259**	29,467	29,330
Rest of Asia-Pacific[17]	**87,567**	85,581	89,706
Middle East[17]	**8,819**	8,166	8,453
North America	**37,021**	48,069	44,725
Latin America	**54,812**	63,851	58,559
	295,610	319,591	312,866

For footnote, see page 94.

Reported operating expenses fell by US$3.5 billion to US$16.7 billion. On an underlying basis, operating expenditure fell by 6 per cent, primarily from the non-recurrence of a goodwill impairment charge in the first half of 2008 and an accounting benefit in the first half of 2009 from a change in the way certain staff benefits are provided to employees in the UK, partly offset by restructuring costs, primarily in the US and the UK, in 2009.

Operating expenses fell by 6 per cent despite continuing business expansion in selected markets and growth in performance-related compensation in Global Banking and Markets.

Employee compensation and benefits fell by 4 per cent. The decrease in staff numbers in the US was primarily driven by the closure of the branch-based consumer finance business and lower volumes. In the UK, a reduction in costs reflected a change in the basis of delivering death-in-service, ill health and early retirement benefits for some UK employees, which generated an accounting gain of US$499 million partly offset by a change in actuarial valuation on the defined benefit pension scheme. Higher costs in Global Banking and Markets reflected a rise in performance-related pay.

Premises and equipment costs increased as one-off costs were incurred due to the closure of the Consumer Lending branch network in the US and HFC UK branches in the UK. Business expansion, primarily in the Rest of Asia-Pacific region and the Middle East, also resulted in higher infrastructure costs.

General and administrative expenses decreased as HSBC maintained its efforts to manage costs, increase efficiency and join up the Group. The *One HSBC* programme continued to contribute to progress through better use of direct channels, increased automation of manual processes, enhanced utilisation of global service centres and elimination of redundant systems. Marketing and advertising costs fell in all regions, but most notably in North America as credit origination was heavily curtailed. There was an aggregate increase in deposit insurance costs of US$190 million in the US and in the UK as part of the bailout costs of failed banks. The recovery of transactional taxes in Brazil in 2008 also affected the period-on-period comparison.

A goodwill impairment charge amounting to US$527 million was booked in the first half of 2008 to reflect deterioration in economic and credit conditions in North America at that time.

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Cost efficiency ratios

	Half-year to		
	30 June 2009	30 June 2008	31 December 2008
	%	%	%
HSBC	**47.9**	51.0	68.6
Personal Financial Services	**49.1**	49.5	108.1
Europe	**65.7**	57.3	69.4
Hong Kong	**34.6**	29.1	36.1
Rest of Asia-Pacific[17]	**79.9**	75.0	88.2
Middle East[17]	**48.7**	51.4	54.8
North America	**36.9**	44.6	181.9
Latin America	**62.9**	57.4	62.1
Commercial Banking	**43.2**	40.2	46.1
Europe	**40.7**	39.4	50.6
Hong Kong	**33.4**	23.7	28.9
Rest of Asia-Pacific[17]	**45.4**	44.9	46.7
Middle East[17]	**32.1**	31.9	32.2
North America	**49.3**	44.7	47.6
Latin America	**54.4**	55.2	54.7

For footnote, see page 94.
Share of profit in associates and joint ventures

	Half-year to		
	30 June 2009	30 June 2008	31 December 2008
	US$m	US$m	US$m
Associates			
Bank of Communications Co., Limited	**358**	349	392
Ping An Insurance (Group) Company of China, Limited	**235**	297	27
Industrial Bank Co., Limited	**92**	102	119
The Saudi British Bank	**136**	146	105
Other	**19**	47	16
Share of profit in associates	**840**	941	659
Share of profit in joint ventures	**27**	29	32

Share of profit in associates and joint ventures	**867**	970	691

HSBC s share of profit from its associates and joint ventures was US$867 million, a decrease of 11 per cent compared with the first half of 2008, and 13 per cent lower on an underlying basis.

This decrease was principally driven by lower contributions from Ping An Insurance (Group) Company of China, Limited (Ping An Insurance), Industrial Bank Co., Limited (Industrial Bank) and The Saudi British Bank.

HSBC accounts for its associates in mainland China one quarter in arrears in order to meet the Group reporting timetable, so in the current period the contributions reflect the fourth quarter of 2008 and the first quarter of 2009.

HSBC s share of profits from the Bank of Communications Co., Limited (Bank of Communications) remained in line with the first half of 2008 as increased fee income from cards and
advisory services and cost savings were offset by reduced income from narrower deposit spreads.

HSBC s share of profits from Ping An Insurance decreased by 25 per cent due to the non-recurrence of favourable changes in investment assumptions in the first half of 2008.

Profits from The Saudi British Bank were lower than in the first half of 2008 as an increase in net operating income due to strong foreign exchange and trade-related performance was offset by a rise in loan impairment charges and marginally higher operating expenses from business expansion.

Profits from Industrial Bank declined marginally, due to a fall in net interest income as deposit spreads narrowed.

The fall in share of profits from joint ventures reflected a decline in the profitability of HSBC Saudi Arabia Ltd (IBSA) attributable to lower investment banking activity in 2009, offset in part by the inclusion in 2009 of profits from HSBC Merchant Services UK Ltd, which was created in June 2008. HSBC s 49 per cent share of the latter was sold in June 2009.

Economic profit

HSBC s internal performance measures include economic profit, a calculation which compares the return on financial capital invested in HSBC by its shareholders with the cost of that capital. HSBC prices its cost of capital internally and the difference between that cost and the post-tax profit attributable to ordinary shareholders represents the amount of economic profit generated. Economic profit generated is used by management as one input in deciding where to allocate capital and other resources.

In order to concentrate on external factors rather than measurement bases, HSBC emphasises the trend in economic profit ahead of absolute amounts within business units. The long-term cost of capital is regularly benchmarked on a consolidated basis and for 2009 remains at 10 per cent.

Economic profit decreased by US$4.0 billion. A decline in profit attributable reflected a significant increase in loan impairment charges and other credit risk provisions, and fair value losses on own debt of US$2.5 billion as credit spreads tightened, compared with a gain of US$0.8 billion in the first half of 2008.

Average invested capital decreased by 7 per cent due to the impact on shareholders equity of the effect of a stronger US dollar on foreign currency translation, partly offset by the additional equity raised through the rights issue. The benefit of the rights issue was not fully reflected in the average invested capital as the transaction was not completed until the second quarter of 2009.

The lower return on average invested capital led to a decrease in economic profit and an erosion in economic spread, which fell by 6.1 percentage points compared with the first half of 2008.

Economic profit

	Half-year to					
	30 June 2009		30 June 2008[18]		31 December 2008	
	US$m	**%**[19]	US$m	%[19]	US$m	%[19]
Average total shareholders equity	**105,734**		128,409		116,241	
Adjusted by:						
Goodwill previously amortised or written off	**8,123**		8,172		8,132	
Property revaluation reserves	**(804)**		(847)		(809)	
Reserves representing unrealised losses on effective cash flow hedges	**582**		1,069		926	
Reserves representing unrealised losses on available-for-sale securities	**19,456**		3,989		14,281	
Preference shares and other equity instruments	**(3,538)**		(1,939)		(3,423)	
Average invested capital[20]	**129,553**		138,853		135,348	
Return on average invested capital[21]	**3,213**	**5.0**	7,677	11.1	(2,180)	(3.2)

Benchmark cost of capital	**(6,424)**	**(10.0)**	(6,905)	(10.0)	(6,804)	(10.0)
Economic profit/(loss) and spread	**(3,211)**	**(5.0)**	772	1.1	(8,984)	(13.2)

For footnotes, see page 94.

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

	Half-year to 30 June 2009	Year ended 31 December 2008	2007	2006	2005	2004
Ratios of earnings to combined fixed charges and preference share dividends						
Ratios in accordance with IFRSs:						
excluding interest on deposits	**3.46**	2.97	6.96	7.22	9.16	8.64
including interest on deposits	**1.28**	1.13	1.34	1.40	1.59	1.86
Ratios in accordance with UK GAAP:						
excluding interest on deposits						8.07
including interest on deposits						1.81
Ratios of earnings to combined fixed charges						
Ratios in accordance with IFRSs:						
excluding interest on deposits	**3.89**	3.17	7.52	7.93	9.60	8.64
including interest on deposits	**1.30**	1.14	1.34	1.41	1.59	1.86
Ratios in accordance with UK GAAP:						
excluding interest on deposits						8.07
including interest on deposits						1.81

For the purpose of calculating the ratios, earnings consist of income from continuing operations before taxation and minority interests, 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, preference share dividends, as applicable, and the proportion of rental expense deemed representative of the interest factor.
The above table contains ratios based on UK GAAP, HSBC s previous primary GAAP, which is not comparable to financial information based upon IFRSs, as explained in HSBC s 2004 IFRSs Comparative Financial Information *published on 5 July 2004.*

Balance sheet

	At 30 June 2009 US$m	At 30 June 2008 US$m	At 31 December 2008 US$m
ASSETS			
Cash and balances at central banks	**56,368**	13,473	52,396
Trading assets	**414,358**	473,537	427,329
Financial assets designated at fair value	**33,361**	40,786	28,533
Derivatives	**310,796**	260,664	494,876

Loans and advances to banks	**182,266**	256,981	153,766
Loans and advances to customers	**924,683**	1,049,200	932,868
Financial investments	**353,444**	274,750	300,235
Other assets	**146,567**	177,287	137,462
Total assets	**2,421,843**	2,546,678	2,527,465
LIABILITIES AND EQUITY			
Liabilities			
Deposits by banks	**129,151**	154,152	130,084
Customer accounts	**1,163,343**	1,161,923	1,115,327
Trading liabilities	**264,562**	340,611	247,652
Financial liabilities designated at fair value	**77,314**	89,758	74,587
Derivatives	**298,876**	251,357	487,060
Debt securities in issue	**156,199**	230,267	179,693
Liabilities under insurance contracts	**48,184**	46,851	43,683
Other liabilities	**158,916**	137,748	149,150
Total liabilities	**2,296,545**	2,412,667	2,427,236
Equity			
Total shareholders equity	**118,355**	126,785	93,591
Minority interests	**6,943**	7,226	6,638
Total equity	**125,298**	134,011	100,229
Total equity and liabilities	**2,421,843**	2,546,678	2,527,465

A more detailed consolidated balance sheet is contained in the Financial Statements on page 201.

Movement between 31 December 2008 and 30 June 2009

Total assets amounted to US$2.4 trillion, 4 per cent lower than at 31 December 2008. On an underlying basis total assets fell by 9 per cent. A reconciliation of the reported to the underlying movement in the balance sheet is provided in the table on page 28. The following commentary is on an underlying basis.

The reduction in the size of the Group s balance sheet was largely attributable to a decline in the value of both derivative asset and liability positions as market volatility, credit spreads and interest rates all fell.

The Group s reported tier 1 ratio increased from 8.3 per cent to 10.1 per cent mainly due to additional equity of US$17.8 billion raised through the rights issue. For details of regulatory capital and risk-weighted assets, see pages 187 to 192.

Assets

Cash and balances at central banks increased by 5 per cent due to an increase in short-term funds held with central banks in Europe. This was partly offset by a redeployment of cash placements to treasury repos and government agency securities. Furthermore, additional liquidity was held in the US at 31 December 2008 to cover the pending card portfolio and vehicle finance asset transfers from HSBC Finance to HSBC Bank USA which were completed in January 2009.

Trading assets fell by 8 per cent. In Hong Kong, reductions in both government debt securities and debt securities held for trading were reported. Funds were redeployed to interbank placements and available-for-sale debt securities, supporting a trend towards secured and government-guaranteed investments. In Europe, the decrease was led by a reduction in reverse repo balances as liquidity improved following government intervention.

Financial assets designated at fair value increased by 8 per cent, primarily due to the purchase of UK government debt securities as part of Balance Sheet Management activities.

Derivative assets decreased by 41 per cent with reductions across all asset classes, notably foreign exchange, interest rate and credit derivatives. Lower volatility within the financial markets, steepening yield curves in major currencies and narrowing credit spreads led to a fall in the fair value of outstanding derivative contracts.

Loans and advances to banks grew by 15 per cent, mainly in Asia, as funds were redeployed from maturing debt securities to interbank placements.

HSBC s published advances-to-deposits ratio remained conservative at 79.5 per cent at the end of the period.

Loans and advances to customers fell by 6 per cent, driven by the run-off of the US Consumer Lending business, the sale of selected portfolios and lower credit origination as risk appetite was reduced in certain segments and customer demand declined. These factors were compounded by customer deleveraging in certain businesses and a decline in customer overdraft balances that are managed on a net basis but reported gross under IFRSs. By contrast, mortgage balances increased strongly in Europe and Hong Kong as HSBC targeted growth in these markets.

Financial investments grew by 13 per cent due to the continued investment of surplus deposits in government-guaranteed, agency, supra-national and government debt securities. These were partly offset by maturing available-for-sale treasury bills in the UK and a lower level of available-for-sale asset-backed securities within the Group s securities investment conduits (SIC s) due to both disposal and maturity of securities.

Other assets increased by 5 per cent, driven by growth in items in the course of transmission from other banks in Hong Kong as improved market sentiment led to a rise in equity-related transactions.

Liabilities

Deposits by banks fell by 6 per cent, mainly from lower Fed funds and maturing positions being settled and not replaced.

Customer accounts decreased by 1 per cent, driven by an outflow of deposits in Europe as the economic situation improved and investor risk appetite increased. There was also a fall in deposits from customers whose accounts are managed net but reported gross under IFRSs, as referred to under Loans and advances to customers above. These factors were partly offset by an increase in deposits in Hong Kong.

Trading liabilities increased by 1 per cent, driven by a seasonal rise in trading settlement account balances. This was partly offset by a reduction in repo balances in line with the decision to manage down reverse repo exposure described under Trading assets above.

Derivatives are managed within market risk limits and, as a consequence, the movement in the value of *derivative liabilities* broadly matched that of derivative assets.

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Debt securities in issue decreased by 16 per cent, primarily driven by a reduction in the North American funding requirements in line with the run-off of the consumer finance business.

Liabilities under insurance contracts increased by 8 per cent, with higher insurance sales, particularly of traditional life products in Asia following the launch of several new products, and gains recorded on unit-linked funds due to an improvement in investment market performance.

Other liabilities grew by 4 per cent, largely due to an increase in items in the course of transmission to other banks in Hong Kong as improved market conditions led to a rise in equity-related transactions.

Equity

Total shareholders equity increased by 23 per cent, mainly due to the additional equity raised through the rights issue.

Reconciliation of reported and underlying assets and liabilities

	30 June 2009 compared with 31 December 2008						
HSBC	**31 Dec 08 as reported US$m**	**Currency translation US$m**	**31 Dec 08 at 30 Jun 09 exchange rates US$m**	**Underlying change US$m**	**30 Jun 09 as reported US$m**	**Reported change %**	**Under-lying change %**
Cash and balances at central banks	**52,396**	**1,543**	**53,939**	**2,429**	**56,368**	**8**	**5**
Trading assets	**427,329**	**20,655**	**447,984**	**(33,626)**	**414,358**	**(3)**	**(8)**
Financial assets designated at fair value	**28,533**	**2,353**	**30,886**	**2,475**	**33,361**	**17**	**8**
Derivative assets	**494,876**	**30,237**	**525,113**	**(214,317)**	**310,796**	**(37)**	**(41)**
Loans and advances to customers	**932,868**	**50,260**	**983,128**	**(58,445)**	**924,683**	**(1)**	**(6)**
Loans and advances to banks	**153,766**	**4,347**	**158,113**	**24,153**	**182,266**	**19**	**15**
Financial investments	**300,235**	**12,937**	**313,172**	**40,272**	**353,444**	**18**	**13**
Other assets	**137,462**	**1,879**	**139,341**	**7,226**	**146,567**	**7**	**5**
Total assets	**2,527,465**	**124,211**	**2,651,676**	**(229,833)**	**2,421,843**	**(4)**	**(9)**
Deposits by banks	**130,084**	**7,205**	**137,289**	**(8,138)**	**129,151**	**(1)**	**(6)**
Customer accounts	**1,115,327**	**57,629**	**1,172,956**	**(9,613)**	**1,163,343**	**4**	**(1)**
Trading liabilities	**247,652**	**13,104**	**260,756**	**3,806**	**264,562**	**7**	**1**
Financial liabilities designated at fair value	**74,587**	**2,773**	**77,360**	**(46)**	**77,314**	**4**	
Derivative liabilities	**487,060**	**29,862**	**516,922**	**(218,046)**	**298,876**	**(39)**	**(42)**
	179,693	**5,597**	**185,290**	**(29,091)**	**156,199**	**(13)**	**(16)**

Debt securities in issue							
Liabilities under insurance contracts	**43,683**	**1,097**	**44,780**	**3,404**	**48,184**	**10**	**8**
Other liabilities	**149,150**	**3,903**	**153,053**	**5,863**	**158,916**	**7**	**4**
Total liabilities	**2,427,236**	**121,170**	**2,548,406**	**(251,861)**	**2,296,545**	**(5)**	**(10)**
Total shareholders equity	**93,591**	**2,862**	**96,453**	**21,902**	**118,355**	**26**	**23**
Minority interests	**6,638**	**179**	**6,817**	**126**	**6,943**	**5**	**2**
Total equity	**100,229**	**3,041**	**103,270**	**22,028**	**125,298**	**25**	**21**
Total equity and liabilities	**2,527,465**	**124,211**	**2,651,676**	**(229,833)**	**2,421,843**	**(4)**	**(9)**

In 2009, the effect of acquisitions was not material.

Other information

Funds under management

	Half-year to		
	30 June 2009 US$bn	30 June 2008 US$bn	31 December 2008 US$bn
Funds under management			
At beginning of period	**735**	844	857
Net new money	**1**	23	(24)
Value change	**21**	(49)	(110)
Exchange and other	**6**	39	12
At end of period	**763**	857	735
Funds under management by business			
HSBC Global Asset Management	**387**	389	370
Private Banking	**223**	289	219
Affiliates	**3**	5	2
Other	**150**	174	144
	763	857	735

Funds under management at 30 June 2009 were US$763 billion, an increase of 4 per cent when compared with 31 December 2008. Both Global Asset Management and Private Banking fund holdings increased, primarily as a result of the improved performance of global equity markets in the first half of the year.

Global Asset Management funds increased to US$387 billion as a result of positive net flows into retail investment products, favourable foreign exchange movements and market performance.

Emerging markets funds increased during the first half of 2009, driven by performance gains. HSBC remains one of the world s largest emerging market asset managers with funds under management of US$69 billion.

Private Banking funds increased by 2 per cent to US$223 billion, driven by equity market performance.

Client assets, which provide an indicator of overall Private Banking volumes and include funds under management, were US$345 billion, broadly in line with 31 December 2008.

Other funds under management, which are mainly held by a corporate trust business in Asia, increased to US$150 billion.

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 2009, assets held by HSBC as custodian amounted to US$4.5 trillion, 25 per cent higher than the US$3.6 trillion held at 31 December 2008. This increase was largely a result of increased asset values.

HSBC s 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 2009, the value of assets held under administration by the Group amounted to US$2.8 trillion, compared with US$3.3 trillion at 31 December 2008.

Review of transactions with related parties

As required by the Financial Services Authority s (FSA s) Disclosure and Transparency Rules, a fair review of related party transactions that have taken place in the first six months of the current financial year and any changes in the related parties transactions described in the *Annual Report and Accounts 2008* has been undertaken. Pursuant to this review, where transactions and balances with related parties have a material effect on the financial position or performance of HSBC they have been disclosed in the Notes on the Financial Statements.

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)
Customer groups and global businesses
Summary
HSBC manages its business through two customer groups, Personal Financial Services and Commercial Banking, and two global businesses, Global Banking and Markets, and Private Banking. Personal Financial Services incorporates the Group s consumer finance businesses.

All commentaries on the customer groups and global businesses are on an underlying basis unless stated otherwise.

Profit/(loss) before tax

	Half-year to					
	30 June 2009		30 June 2008		31 December 2008	
	US$m	**%**	US$m	%	US$m	%
Personal Financial Services	**(1,249)**	**(24.9)**	2,313	22.6	(13,287)	(1,413.5)
Commercial Banking	**2,432**	**48.5**	4,611	45.0	2,583	274.8
Global Banking and Markets	**6,298**	**125.5**	2,690	26.2	793	84.3
Private Banking	**632**	**12.6**	822	8.0	625	66.5
Other[22]	**(3,094)**	**(61.7)**	(189)	(1.8)	8,346	887.9
	5,019	**100.0**	10,247	100.0	(940)	(100.0)

Total assets[23]

	At 30 June 2009		At 30 June 2008		At 31 December 2008	
	US$m	**%**	US$m	%	US$m	%
Personal Financial Services	**547,084**	**22.6**	619,528	24.3	527,901	20.9
Commercial Banking	**249,030**	**10.3**	292,871	11.5	249,218	9.9
Global Banking and Markets	**1,770,618**	**73.1**	1,823,167	71.6	1,991,852	78.8
Private Banking	**117,468**	**4.9**	144,331	5.7	133,216	5.2
Other	**170,414**	**7.0**	141,946	5.6	145,581	5.8
Intra-HSBC items	**(432,771)**	**(17.9)**	(475,165)	(18.7)	(520,303)	(20.6)
	2,421,843	**100.0**	2,546,678	100.0	2,527,465	100.0

For footnotes, see page 94.
Basis of preparation

Customer group results are presented in accordance with the accounting policies used in the preparation of HSBC s consolidated financial statements. HSBC s operations are closely integrated and, accordingly, the presentation of customer group data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and GMO functions, to the extent that these can be meaningfully attributed to operational business lines. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity.

Where relevant, income and expense amounts presented include the results of inter-segment funding as well as inter-company and inter-business line transactions. All such transactions are undertaken on arm s length terms.

Personal Financial Services
Profit/(loss) before tax

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Net interest income	**12,650**	15,217	14,202
Net fee income	**4,045**	5,626	4,481
Trading income excluding net interest income	**450**	142	33
Net interest income on trading activities	**39**	42	37
Net trading income[24]	**489**	184	70
Net income/(expense) from financial instruments designated at fair value	**744**	(1,135)	(1,777)
Gains less losses from financial investments	**195**	585	78
Dividend income	**17**	15	75
Net earned insurance premiums	**4,585**	4,746	5,337
Other operating income/ (expense)	**302**	390	(131)
Total operating income	**23,027**	25,628	22,335
Net insurance claims[25]	**(5,144)**	(3,206)	(3,268)
Net operating income[7]	**17,883**	22,422	19,067
Loan impairment charges and other credit risk provisions	**(10,673)**	(9,384)	(11,836)
Net operating income	**7,210**	13,038	7,231
Total operating expenses (excluding goodwill impairment)	**(8,774)**	(10,572)	(10,568)
Goodwill impairment		(527)	(10,037)
Operating profit/(loss)	**(1,564)**	1,939	(13,374)
Share of profit in associates and joint ventures	**315**	374	87
Profit/(loss) before tax	**(1,249)**	2,313	(13,287)

By geographical region			
Europe	**212**	1,324	334
Hong Kong	**1,337**	2,036	1,392
Rest of Asia-Pacific[17]	**135**	326	(115)
Middle East[17]	**35**	209	80
North America	**(2,843)**	(2,050)	(15,178)
Latin America	**(125)**	468	200
	(1,249)	2,313	(13,287)
	%	%	%
Share of HSBC s profit before tax	**(24.9)**	22.6	(1,413.5)
Cost efficiency ratio	**49.1**	49.5	108.1
Balance sheet data[23]			
	US$m	US$m	US$m
Loans and advances to customers (net)	**400,692**	458,302	401,402
Total assets	**547,084**	619,528	527,901
Customer accounts	**482,935**	474,263	440,338

For footnotes, see page 94.

Financial and business highlights

The reported loss before tax of US$1.2 billion compared with a profit of US$2.3 billion in the first half of 2008 as loan impairment charges rose in all regions, particularly in North America, following further deterioration in global economic conditions.

Net interest income was constrained by lower average customer loans as the US loan portfolio contracted, and by deposit spread compression following lower base rates. Revenue was further affected by a reduction in non-interest income due to lower spending levels and reduced transaction volumes in most regions, and weaker investment and insurance income.

Costs were essentially unchanged excluding the US$527 million goodwill impairment charge in North America in the first half of 2008 and a US$225 million accounting benefit from a change in the first half of 2009 in the way death-in-service, ill health and early retirement benefits for some UK employees is delivered. Further restructuring of the consumer finance businesses, principally in the US, and tight control of discretionary expenditure in all regions funded infrastructure growth in developing markets.

Loan impairment charges grew by 20 per cent, most notably in Consumer Lending in the US, as the economic downturn continued. Outside the US, credit quality deteriorated across a range of products and regions, with stresses most evident in the unsecured lending portfolios in the UK, the Middle East, Brazil, Mexico and India. HSBC continued to limit asset growth and to reduce risk in these markets where economic conditions remain uncertain and unemployment is rising by improving collections, reducing credit lines and further tightening lending criteria.

Customer accounts were broadly in line with December 2008 levels as HSBC retained most of the balances gained during the market turmoil experienced in 2008, and deposit growth was strong in Asia. Loans and advances to customers fell by 5 per cent as the US consumer finance portfolio declined and, globally, customers reduced their use of credit. At 30 June 2009, the aggregate ratio of customer advances to deposits was 83 per cent, compared with 91 per cent at the end of December 2008.

The HSBC Premier (Premier) product offering grew to 2.9 million customers in the first half of 2009 and remained at the core of HSBC s wealth

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HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)

management proposition. The Premier service was launched in Russia and Colombia during the period, taking the total number of territories to 43. 541,000 net new customers joined Premier, of whom more than 68 per cent were new to the Group.

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

	Half-year to 30 June 2009 (1H09) compared with half-year to 30 June 2008 (1H08)								
	1H08 as reported US$m	1H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	1H08 at 1H09 exchange rates[3] US$m	1H09 acquisitions and disposals[1] US$m	Under-lying change US$m	1H09 as reported US$m	Re-ported change[4] %	Under-lying change[4] %
Personal Financial Services									
Net interest income	**15,217**	**(36)**	**(1,363)**	**13,818**		**(1,168)**	**12,650**	**(17)**	**(8)**
Net fee income	**5,626**	**(32)**	**(536)**	**5,058**		**(1,013)**	**4,045**	**(28)**	**(20)**
Other income[6]	**1,579**	**(50)**	**(224)**	**1,305**		**(117)**	**1,188**	**(25)**	**(9)**
Net operating income[7]	**22,422**	**(118)**	**(2,123)**	**20,181**		**(2,298)**	**17,883**	**(20)**	**(11)**
Loan impairment charges and other credit risk provisions	**(9,384)**	**3**	**488**	**(8,893)**		**(1,780)**	**(10,673)**	**(14)**	**(20)**
Net operating income	**13,038**	**(115)**	**(1,635)**	**11,288**		**(4,078)**	**7,210**	**(45)**	**(36)**
Operating expenses (excluding goodwill impairment)	**(10,572)**	**38**	**1,228**	**(9,306)**		**532**	**(8,774)**	**17**	**6**
Goodwill impairment	**(527)**			**(527)**		**527**		**100**	**100**
Operating profit/(loss)	**1,939**	**(77)**	**(407)**	**1,455**		**(3,019)**	**(1,564)**	**(181)**	**(207)**

Income from associates	**374**		**14**	**388**		**(73)**	**315**	**(16)**	**(19)**
Profit/(loss) before tax	**2,313**	**(77)**	**(393)**	**1,843**		**(3,092)**	**(1,249)**	**(154)**	**(168)**

Half-year to 30 June 2009 (1H09) compared with half-year to 31 December 2008 (2H08)

	2H08 as reported US$m	2H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	2H08 at 1H09 exchange rates[8] US$m	1H09 acquisitions and disposals[1] US$m	Under-lying change US$m	1H09 as reported US$m	Re-ported change[4] %	Under-lying change[4] %
Personal Financial Services									
Net interest income	14,202		(740)	13,462		(812)	12,650	(11)	(6)
Net fee income	4,481		(288)	4,193		(148)	4,045	(10)	(4)
Other income[6]	384	(71)	(94)	219		969	1,188	209	442
Net operating income[7]	19,067	(71)	(1,122)	17,874		9	17,883	(6)	
Loan impairment charges and other credit risk provisions	(11,836)		318	(11,518)		845	(10,673)	10	7
Net operating income	7,231	(71)	(804)	6,356		854	7,210		13
Operating expenses (excluding goodwill impairment)	(10,568)		707	(9,861)		1,087	(8,774)	17	11
Goodwill impairment	(10,037)			(10,037)		10,037		100	100
Operating loss	(13,374)	(71)	(97)	(13,542)		11,978	(1,564)	88	88
Income from associates	87			87		228	315	262	262

Loss before tax	(13,287)	(71)	(97)	(13,455)	12,206	(1,249)	91	91

For footnotes, see page 94.

Commercial Banking
Profit before tax

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Net interest income	**3,809**	4,747	4,747
Net fee income	**1,749**	2,165	1,932
Trading income excluding net interest income	**183**	197	172
Net interest income/ (expense) on trading activities	**11**	24	(7)
Net trading income[24]	**194**	221	165
Net expense from financial instruments designated at fair value	**(17)**	(59)	(165)
Gains less losses from financial investments	**25**	191	2
Dividend income	**3**	3	85
Net earned insurance premiums	**390**	360	319
Other operating income	**519**	718	221
Total operating income	**6,672**	8,346	7,306
Net insurance claims[25]	**(328)**	(190)	(145)
Net operating income[7]	**6,344**	8,156	7,161
Loan impairment charges and other credit risk provisions	**(1,509)**	(563)	(1,610)
Net operating income	**4,835**	7,593	5,551
Total operating expenses	**(2,740)**	(3,280)	(3,301)
Operating profit	**2,095**	4,313	2,250
Share of profit in associates and joint ventures	**337**	298	333
Profit before tax	**2,432**	4,611	2,583

By geographical region

Europe	**852**	1,940	782
Hong Kong	**424**	869	446
Rest of Asia-Pacific[17]	**459**	653	582
Middle East[17]	**252**	308	250
North America	**224**	430	228
Latin America	**221**	411	295
	2,432	4,611	2,583
	%	%	%
Share of HSBC s profit before tax	**48.5**	45.0	274.8
Cost efficiency ratio	**43.2**	40.2	46.1

Balance sheet data[23]

	US$m	US$m	US$m
Loans and advances to customers (net)	**198,903**	238,116	203,949
Total assets	**249,030**	292,871	249,218
Customer accounts	**239,933**	247,705	235,879

For footnotes, see page 94.

Financial and business highlights

Commercial Banking demonstrated considerable resilience in difficult economic markets, generating pre-tax profits of US$2.4 billion, including US$1.4 billion from emerging markets. The decline of 39 per cent on the first half of 2008 resulted from reduced deposit spreads in the low interest rate environment and from increased loan impairment charges. A gain on disposal of HSBC s remaining stake in its UK merchant card-acquiring business reported in other operating income was less than the related gain in the comparable period last year.

Revenues declined by 6 per cent, as the fall in deposit spreads exceeded increased spreads on new lending, and fee income was constrained by lower business volumes. The increase in loan impairment charges was broadly spread across geographical regions and segments, reflecting the global spread of the economic downturn and representing 153 basis points of average advances. Operating expenses were in line, as modest cost growth was offset by an accounting benefit of US$190 million (see page 23).

Customer balances were 3 per cent lower than at the end of 2008, but 7 per cent higher than at 30 June 2008 at US$240 billion, as the Group retained the majority of the balance growth attracted to HSBC s brand strength during the second half of 2008. Growth in new lending was achieved in selected emerging markets, though loans and advances to customers declined overall as muted customer demand reflected the contraction in global trade and the difficult economic situation. These movements strengthened liquidity, as seen in the ratio of aggregate customer advances to deposits of 83 per cent.

The success of the strategy of leading international business was demonstrated by strong growth in product revenues, notably 19 per cent and 11 per cent increases in revenue from foreign exchange and from trade and supply chain products, respectively. The number of customers using the HSBCnet platform increased, particularly in India and Canada. The volume of successful referrals from Global Links increased by 7 per cent compared with the first half of 2008, contributing US$4 billion in aggregate transaction value.

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Interim Management Report: Operating and Financial Review (continued)

A deposit base of over US$100 billion illustrated Commercial Banking s success in positioning itself as the best bank for small business as the vast majority of such customers are deposit and payment services customers. The recruitment of new customers in the small and micro segments increased total customer numbers to 3.1 million with developing markets contributing over 61 per cent of organic growth. Business Direct is now available in eight countries, with nearly 300,000 registered customers. New receivables finance and insurance offerings were also launched in a number of countries.

Commercial Banking deepened its connections within the Group through an initiative to increase cross-referrals with Premier. Referrals to Private Banking contributed over US$650 million in new client assets.

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2009 (1H09) compared with half-year to 30 June 2008 (1H08)								
	1H08 as reported US$m	1H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	1H08 at 1H09 exchange rates[3] US$m	1H09 acquisitions and disposals[1] US$m	Under-lying change US$m	1H09 as reported US$m	Re-ported change[4] %	Under-lying change[4] %
Commercial Banking									
Net interest income	**4,747**	**(29)**	**(638)**	**4,080**		**(271)**	**3,809**	**(20)**	**(7)**
Net fee income	**2,165**	**(26)**	**(337)**	**1,802**		**(53)**	**1,749**	**(19)**	**(3)**
Other income[6]	**1,244**	**(464)**	**(198)**	**582**	**280**	**(76)**	**786**	**(37)**	**(13)**
Net operating income[7]	**8,156**	**(519)**	**(1,173)**	**6,464**	**280**	**(400)**	**6,344**	**(22)**	**(6)**
Loan impairment charges and other credit risk provisions	**(563)**	**3**	**98**	**(462)**		**(1,047)**	**(1,509)**	**(168)**	**(227)**
Net operating income	**7,593**	**(516)**	**(1,075)**	**6,002**	**280**	**(1,447)**	**4,835**	**(36)**	**(24)**
Operating expenses	**(3,280)**	**30**	**485**	**(2,765)**		**25**	**(2,740)**	**17**	**1**

Operating profit	**4,313**	**(486)**	**(590)**	**3,237**	**280**	**(1,422)**	**2,095**	**(51)**	**(44)**
Income from associates	**298**		**6**	**304**		**33**	**337**	**13**	**11**
Profit before tax	**4,611**	**(486)**	**(584)**	**3,541**	**280**	**(1,389)**	**2,432**	**(47)**	**(39)**

	Half-year to 30 June 2009 (1H09) compared with half-year to 31 December 2008 (2H08)								
	2H08 as reported US$m	2H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	2H08 at 1H09 exchange rates[8] US$m	1H09 acquisitions and disposals[1] US$m	Under-lying change US$m	1H09 as reported US$m	Re-ported change[4] %	Under-lying change[4] %
Commercial Banking									
Net interest income	4,747		(347)	4,400		(591)	3,809	(20)	(13)
Net fee income	1,932		(151)	1,781		(32)	1,749	(9)	(2)
Other income[6]	482		(39)	443	280	63	786	63	14
Net operating income[7]	7,161		(537)	6,624	280	(560)	6,344	(11)	(8)
Loan impairment charges and other credit risk provisions	(1,610)		64	(1,546)		37	(1,509)	6	2
Net operating income	5,551		(473)	5,078	280	(523)	4,835	(13)	(10)
Operating expenses	(3,301)		265	(3,036)		296	(2,740)	17	10
Operating profit	2,250		(208)	2,042	280	(227)	2,095	(7)	(11)
Income from associates	333		(1)	332		5	337	1	2
Profit before tax	2,583		(209)	2,374	280	(222)	2,432	(6)	(9)

For footnotes, see page 94.

Global Banking and Markets
Profit before tax

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Net interest income	**4,667**	3,737	4,804
Net fee income	**1,968**	2,354	1,937
Trading income/(expense) excluding net interest income	**3,422**	360	(203)
Net interest income on trading activities	**1,056**	273	51
Net trading income/(expense)[24]	**4,478**	633	(152)
Net income/(expense) from financial instruments designated at fair value	**329**	(211)	(227)
Gains less losses from financial investments	**158**	244	(571)
Dividend income	**23**	49	27
Net earned insurance premiums	**40**	62	43
Other operating income	**603**	551	317
Total operating income	**12,266**	7,419	6,178
Net insurance claims[25]	**(35)**	(40)	(39)
Net operating income[7]	**12,231**	7,379	6,139
Loan impairment charges and other credit risk provisions	**(1,732)**	(115)	(1,356)
Net operating income	**10,499**	7,264	4,783
Total operating expenses	**(4,405)**	(4,827)	(4,265)
Operating profit	**6,094**	2,437	518
Share of profit in associates and joint ventures	**204**	253	275
Profit before tax	**6,298**	2,690	793

By geographical region			
Europe	**2,891**	1,190	(995)
Hong Kong	**907**	770	666
Rest of Asia-Pacific[17]	**1,239**	1,546	1,424
Middle East[17]	**304**	426	390
North America	**477**	(1,625)	(950)
Latin America	**480**	383	258
	6,298	2,690	793
	%	*%*	*%*
Share of HSBC s profit before tax	**125.5**	26.2	84.3
Cost efficiency ratio	**36.0**	65.4	69.5

For footnotes, see page 94.

Financial and business highlights

Global Banking and Markets delivered a record half-year performance with pre-tax profits of US$6.3 billion, an increase of US$3.6 billion or 134 per cent compared with the first half of 2008, on a reported basis, underscored by robust performance in both developed and emerging markets. Higher margins and an increase in market share gave impetus to revenue growth across core businesses, with a record performance in Rates and an increase in revenues in foreign exchange and financing and equity capital markets. Balance Sheet Management also reported record revenues. The reported cost efficiency ratio improved by 29.4 percentage points to 36.0 per cent as revenues grew faster than operating expenses, with active cost management limiting the latter to a relatively modest rise.

Write-downs on legacy positions in credit trading, leveraged and acquisition financing and monoline credit exposures, which totalled US$762 million, were significantly lower than those recorded in the first and second halves of 2008. The reduction was driven by relatively smaller decreases in asset prices, coupled with the non-recurrence of impairments on trading assets which were reclassified from trading assets to loans and receivables in the second half of 2008, following the IASB s amendments to IAS 39. This was partly offset by a fair value loss of US$127 million resulting from tightening credit spreads on structured liabilities; a gain of US$262 million was reported in the first half of 2008.

Loan impairment charges and other credit risk provisions increased by US$1.6 billion, from a very low base. Loan impairment charges were US$1.2 billion compared with only US$23 million in the first half of 2008, primarily driven by a deterioration in the credit position of a small number of clients. This is reflective of the continuing market trends of a rise in the number and severity of defaults on loans despite recent improvements in investor sentiment. Impairment charges on the available-for-sale portfolio were US$564 million compared with US$51 million and US$575 million in the first and second halves of 2008, respectively. These remained within the parameters of the stress tests described on page 149 of the *Annual Report and Accounts 2008.*

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Management view of total operating income

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Global Markets[26]	**5,991**	1,688	988
Credit	**1,066**	(3,124)	(2,378)
Rates	**1,964**	1,303	730
Foreign exchange	**1,797**	1,546	2,296
Equities	**315**	746	(810)
Securities services	**712**	1,112	1,004
Asset and structured finance	**137**	105	146
Global Banking	**2,403**	2,432	3,286
Financing and equity capital markets	**1,609**	1,371	2,201
Payments and cash management	**535**	839	826
Other transaction services	**259**	222	259
Balance Sheet Management	**3,350**	1,630	1,988
Global Asset Management	**414**	669	265
Principal Investments	**(38)**	167	(582)
Other[27]	**146**	833	233
Total operating income	**12,266**	7,419	6,178

For footnotes, see page 94.

Within the Group s available-for-sale portfolio, the negative reserves in respect of asset-backed securities reduced to US$17.5 billion. However, due to the underlying credit quality and seniority of the tranches held by HSBC, only a relatively modest impairment charge of US$539 million was identified on securities with a nominal value of US$721 million and was taken to the income statement in the first half of 2009. The expected cash flow impairment on these securities was US$148 million. A further US$646 million impairment was absorbed by income note holders who take the first loss on positions within the SICs now consolidated in HSBC s accounts. Further details on the SICs are provided on page 100.

Reflecting the continuing success of the emerging markets-led and financing-focused strategy were a number of key industry awards, including Best Global Debt House , Best Global Transaction Banking House , Best Debt House in Latin America , Best Debt House in Asia , and Best Debt House in the Middle East in *Euromoney.*

In Global Markets, volatile markets and increased customer activity in Rates, most notably in Europe, provided a backdrop against which market share increased and revenue grew robustly. The increase in foreign exchange revenues was driven by higher margins. Record revenues in Rates were boosted by improved margins and greater opportunities to trade debt issued by governments and corporations, as they sought to alleviate symptoms of a capital drought. With greater liquidity in financial markets, credit spreads improved considerably and, in addition to the fall in write-downs on legacy positions noted above, performance in the Credit trading business improved. Securities services revenues declined as lower interest rates drove down overall margins, and assets under custody fell. In Asia, however, recent improvements in regional equity markets stimulated increases in volumes and assets under custody in the second quarter of 2009.

In Global Banking, robust performance in the credit and lending business highlighted the strength of HSBC s franchise and the quality of the client portfolio; higher margins drove the 17 per cent increase in revenues. This increase was partly offset by modest fair value losses on credit default swap transactions as credit spreads tightened. Payments and cash management activities continued to be adversely affected by the low interest rate environment, partly countered by an increase in liability balances.

Balance Sheet Management continued to benefit from increasing flows of surplus deposits from the other customer groups and correct positioning against interest rate falls.

Global Asset Management continued to be adversely affected by the fall in equity markets during 2008 and the first quarter of 2009, resulting in decreases in management fees and performance fees. However, improving global markets and returning investor confidence resulted in a stronger performance in the second quarter. Funds under management at June 2009 were marginally down on June 2008. Global Asset Management launched a new range of funds, HSBC World Selection , in conjunction with Personal Financial Services, raising US$580 million in the first half of 2009 and demonstrating HSBC s breadth as a global asset manager and the value of close working relationships with other HSBC customer groups.

In Principal Investments, private equity revenues were adversely affected by an illiquid market. This, coupled with a small number of impairments on investments, resulted in a US$205 million decrease in revenues.

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2009 (1H09) compared with half-year to 30 June 2008 (1H08)								
	1H08 as reported US$m	1H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	1H08 at 1H09 exchange rates[3] US$m	1H09 acquisitions and disposals[1] US$m	Underlying change US$m	1H09 as reported US$m	Reported change[4] %	Underlying change[4] %
Global Banking and Markets									
Net interest income	**3,737**		**(411)**	**3,326**		**1,341**	**4,667**	**25**	**40**
Net fee income	**2,354**		**(264)**	**2,090**		**(122)**	**1,968**	**(16)**	**(6)**
Other income[6]	**1,288**		**(425)**	**863**		**4,733**	**5,596**	**334**	**548**
Net operating income[7]	**7,379**		**(1,100)**	**6,279**		**5,952**	**12,231**	**66**	**95**
Loan impairment charges and other credit risk provisions	**(115)**		**7**	**(108)**		**(1,624)**	**(1,732)**	**(1,406)**	**(1,504)**
Net operating income	**7,264**		**(1,093)**	**6,171**		**4,328**	**10,499**	**45**	**70**
Operating expenses	**(4,827)**		**635**	**(4,192)**		**(213)**	**(4,405)**	**9**	**(5)**
Operating profit	**2,437**		**(458)**	**1,979**		**4,115**	**6,094**	**150**	**208**
Income from associates	**253**		**5**	**258**		**(54)**	**204**	**(19)**	**(21)**
Profit before tax	**2,690**		**(453)**	**2,237**		**4,061**	**6,298**	**134**	**182**

	Half-year to 30 June 2009 (1H09) compared with half-year to 31 December 2008 (2H08)								
	2H08 as	2H08 acquisitions and	Currency	2H08 at 1H09 exchange	1H09 acquisitions and	Under-lying	1H09 as	Re-ported	Under-lying

	reported	disposals[1]	translation[2]	rates[8]	disposals[1]	change	reported	change[4]	change[4]
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	%	%
Global Banking and Markets									
Net interest income	4,804		(258)	4,546		121	4,667	(3)	3
Net fee income	1,937		(105)	1,832		136	1,968	2	7
Other income[6]	(602)		(166)	(768)		6,364	5,596	1,030	829
Net operating income[7]	6,139		(529)	5,610		6,621	12,231	99	118
Loan impairment charges and other credit risk provisions	(1,356)		133	(1,223)		(509)	(1,732)	(28)	(42)
Net operating income	4,783		(396)	4,387		6,112	10,499	120	139
Operating expenses	(4,265)		369	(3,896)		(509)	(4,405)	(3)	(13)
Operating profit	518		(27)	491		5,603	6,094	1,076	1,141
Income from associates	275		(1)	274		(70)	204	(26)	(26)
Profit before tax	793		(28)	765		5,533	6,298	694	723

For footnotes, see page 94.

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Balance sheet data significant to Global Banking and Markets

	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific[17] US$m	Middle East[17] US$m	North America US$m	Latin America US$m	Total US$m
At 30 June 2009							
Trading assets[28]	**287,752**	**24,818**	**15,812**	**500**	**68,707**	**7,600**	**405,189**
Derivative assets	**178,579**	**20,034**	**19,355**	**682**	**84,307**	**3,921**	**306,878**
Loans and advances to:							
- customers (net)	**198,290**	**23,182**	**21,682**	**6,799**	**28,320**	**9,055**	**287,328**
- banks (net)	**66,639**	**33,833**	**27,487**	**4,470**	**8,703**	**15,572**	**156,704**
Financial investments[28]	**95,658**	**76,095**	**33,532**	**9,479**	**49,878**	**10,700**	**275,342**
Total assets[23]	**1,060,344**	**221,196**	**138,266**	**27,423**	**269,492**	**53,897**	**1,770,618**
Deposits by banks	**84,262**	**10,006**	**12,394**	**974**	**11,297**	**3,959**	**122,892**
Customer accounts	**208,792**	**34,875**	**42,712**	**7,312**	**19,268**	**18,003**	**330,962**
Trading liabilities	**161,294**	**11,019**	**3,747**	**39**	**66,308**	**5,737**	**248,144**
Derivative liabilities	**173,563**	**20,200**	**18,606**	**678**	**80,583**	**3,680**	**297,310**
At 30 June 2008							
Trading assets[28]	334,769	13,990	21,746	986	89,813	8,792	470,096
Derivative assets	147,265	14,344	17,115	630	68,405	3,511	251,270
Loans and advances to:							
- customers (net)	210,727	20,257	28,609	6,392	27,137	10,704	303,826
- banks (net)	78,488	64,186	30,587	8,996	18,624	13,812	214,693
Financial investments[28]	88,717	34,455	33,595	7,036	35,902	11,781	211,486
Total assets[23]	1,100,421	201,094	151,490	28,966	284,015	57,181	1,823,167
Deposits by banks	105,792	4,417	18,225	1,888	10,909	2,812	144,043
Customer accounts	196,432	31,577	48,625	9,537	23,709	19,072	328,952
Trading liabilities	219,526	13,565	8,388	86	82,312	4,107	327,984
Derivative liabilities	145,997	12,330	16,543	642	69,781	3,771	249,064
At 31 December 2008							
Trading assets[28]	281,089	45,398	19,192	414	74,498	5,004	425,595
Derivative assets	303,265	26,989	25,492	1,014	125,848	5,145	487,753
Loans and advances to:							
- customers (net)	185,818	23,042	27,941	6,649	35,583	8,273	287,306

- banks (net)	49,508	20,970	21,309	5,401	9,238	12,574	119,000
Financial investments[28]	105,546	46,964	29,772	7,574	39,841	8,179	237,876
Total assets[23]	1,180,759	233,187	147,714	27,975	348,347	53,870	1,991,852
Deposits by banks	79,509	11,509	12,261	944	16,244	3,871	124,338
Customer accounts	199,687	30,866	42,977	7,628	23,844	15,384	320,386
Trading liabilities	144,759	13,056	3,633	54	72,325	2,546	236,373
Derivative liabilities	300,200	28,536	25,465	1,016	122,699	4,615	482,531

For footnotes, see page 94.

Private Banking
Profit before tax

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Net interest income	**784**	783	829
Net fee income	**602**	814	662
Trading income excluding net interest income	**154**	211	197
Net interest income on trading activities	**9**	7	7
Net trading income[24]	**163**	218	204
Net income/(expense) from financial instruments designated at fair value		1	(1)
Gains less losses from financial investments	**(2)**	80	(16)
Dividend income	**2**	4	4
Other operating income	**40**	16	33
Total operating income	**1,589**	1,916	1,715
Net insurance claims[25]			
Net operating income[7]	**1,589**	1,916	1,715
Loan impairment (charges)/ recoveries and other credit risk provisions	**(14)**	4	(72)
Net operating income	**1,575**	1,920	1,643
Total operating expenses	**(949)**	(1,098)	(1,018)
Operating profit	**626**	822	625
Share of profit in associates and joint ventures	**6**		
Profit before tax	**632**	822	625

By geographical region			
Europe	**447**	579	419
Hong Kong	**106**	123	114
Rest of Asia-Pacific[17]	**47**	52	57
Middle East[17]	**5**	2	2
North America	**23**	58	25
Latin America	**4**	8	8
	632	822	625
	%	%	%
Share of HSBC s profit before tax	**12.6**	8.0	66.5
Cost efficiency ratio	**59.7**	57.3	59.4

Balance sheet data[23]

	US$m	US$m	US$m
Loans and advances to customers (net)	**34,282**	45,895	37,590
Total assets	**117,468**	144,331	133,216
Customer accounts	**108,278**	109,776	116,683

For footnotes, see page 94.

Financial and business highlights

Pre-tax profits of US$632 million declined by 23 per cent or 18 per cent on an underlying basis. Underlying net operating income decreased by 13 per cent, driven by a fall in the value of client assets and lower transaction volumes as a result of client risk aversion and volatile equity markets. In addition, gains recorded in the first half of 2008 on the sale of HSBC s residual interest in the Hermitage Fund did not recur. These factors were partly offset by an increase in net interest income following successful positioning in the expectation of falling interest rates and growth in deposits. Loan impairment charges remained at a low level, despite the financial crisis. Operating expenses decreased by 9 per cent to US$949 million, mainly from reduced performance-related pay reflecting lower profits and strong cost control, including the implementation of a number of cost saving initiatives. The benefit from lower overall staff numbers was partly offset by redundancy costs and the hiring of almost 300 new front office staff in HSBC s core faster-growing markets, including mainland China, India and Russia, where Private Banking operations continued to expand.

Client assets

	Half-year to		
	30 June 2009	30 June 2008	31 December 2008
	US$bn	US$bn	US$bn
At beginning of period	**352**	421	421
Net new money	**(7)**	15	9
Value change	**7**	(20)	(51)
Exchange/other	**(7)**	5	(27)
At end of period	**345**	421	352

Reported client assets were relatively unchanged at US$345 billion, as portfolio appreciation and foreign exchange movements offset a net outflow of funds caused by redemptions of hedge fund products, client deleveraging and deposit price competition. There were positive inflows in Latin America and Asia, and net inflows of more than US$2 billion were generated from referrals of clients by other parts of the HSBC Group. Reported total client assets remained relatively unchanged at US$426 billion. Total client assets is equivalent to many industry definitions of assets under management which include some non-financial assets held in client trusts.

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HSBC Alternative Investments Limited achieved strong returns on fund of hedge fund products for the year to date, including 5.4 per cent on the flagship HSBC GH fund. Subscription levels improved and a Distressed Markets fund of hedge funds launched in May 2009 received strong support from clients with US$111 million raised so far. Hedge fund redemptions have also reduced.

With interest rates at all time lows, clients invested heavily in higher yielding structured notes products issued by HSBC, with take up of around US$3.0 billion. Other new initiatives are being developed in preparation for the market turnaround.

The Private Bank launched a marketing campaign around HSBC s global ability to open doors and connect clients wealth to a world of opportunities.

The legal merger of HSBC s two Swiss private banks was completed in April 2009 and good progress has been made on IT and operational integration, due to be finished later this year.

Operations were launched in Russia in 2009, supporting HSBC s strategy of investing in emerging markets and domestic operations. Work also commenced with the Group s associate in Saudi Arabia on expanding the local Private Banking business.

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2009 (1H09) compared with half-year to 30 June 2008 (1H08)								
	1H08 as reported US$m	1H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	1H08 at 1H09 exchange rates[3] US$m	1H09 acquisitions and disposals[1] US$m	Under-lying change US$m	1H09 as reported US$m	Re-ported change[4] %	Under-lying change[4] %
Private Banking									
Net interest income	**783**		**(48)**	**735**		**49**	**784**		**7**
Net fee income	**814**		**(36)**	**778**		**(176)**	**602**	**(26)**	**(23)**
Other income[6]	**319**		**(24)**	**295**		**(92)**	**203**	**(36)**	**(31)**
Net operating income[7]	**1,916**		**(108)**	**1,808**		**(219)**	**1,589**	**(17)**	**(12)**
Loan impairment charges and other credit risk provisions	**4**			**4**		**(18)**	**(14)**	**(450)**	**(450)**
Net operating income	**1,920**		**(108)**	**1,812**		**(237)**	**1,575**	**(18)**	**(13)**
Operating expenses	**(1,098)**		**58**	**(1,040)**		**91**	**(949)**	**14**	**9**
	822		**(50)**	**772**		**(146)**	**626**	**(24)**	**(19)**

Operating profit									
Income from associates						**6**	**6**		
Profit before tax	**822**		**(50)**	**772**		**(140)**	**632**	**(23)**	**(18)**

Half-year to 30 June 2009 (1H09) compared with half-year to 31 December 2008 (2H08)

	2H08 as reported US$m	2H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	2H08 at 1H09 exchange rates[8] US$m	1H09 acquisitions and disposals[1] US$m	Underlying change US$m	1H09 as reported US$m	Reported change[4] %	Underlying change[4] %
Private Banking									
Net interest income	829		(20)	809		(25)	784	(5)	(3)
Net fee income	662		(14)	648		(46)	602	(9)	(7)
Other income[6]	224		(2)	222		(19)	203	(9)	(9)
Net operating income[7]	1,715		(36)	1,679		(90)	1,589	(7)	(5)
Loan impairment charges and other credit risk provisions	(72)		6	(66)		52	(14)	81	79
Net operating income	1,643		(30)	1,613		(38)	1,575	(4)	(2)
Operating expenses	(1,018)		22	(996)		47	(949)	7	5
Operating profit	625		(8)	617		9	626		1
Income from associates						6	6		
Profit before tax	625		(8)	617		15	632	1	2

For footnotes, see page 94.

Other
Profit/(loss) before tax

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Net interest expense	**(551)**	(375)	(581)
Net fee income	**64**	32	21
Trading income/(expense) excluding net interest income	**92**	(271)	9
Net interest income/(expense) on trading activities	**18**	(82)	(186)
Net trading income/(expense)[24]	**110**	(353)	(177)
Changes in fair value of long-term debt issued and related derivatives	**(2,300)**	577	6,102
Net income/(expense) from other financial instruments designated at fair value	**(279)**	243	504
Net income/(expense) from financial instruments designated at fair value	**(2,579)**	820	6,606
Gains less losses from financial investments	**(53)**	(283)	(113)
Dividend income	**12**	17	(7)
Net earned insurance premiums	**(3)**	(15)	(2)
Gains on disposal of French regional banks			2,445
Other operating income	**2,172**	1,943	2,318
Total operating income/(expense)	**(828)**	1,786	10,510
Net insurance claims[25]		(1)	
Net operating income/(expense)[7]	**(828)**	1,785	10,510
Loan impairment charges and other credit risk provisions	**(3)**		(5)
Net operating income/(expense)	**(831)**	1,785	10,505
Total operating expenses	**(2,268)**	(2,019)	(2,155)
Operating profit/(loss)	**(3,099)**	(234)	8,350

Share of profit/(loss) in associates and joint ventures	**5**	45	(4)
Profit/(loss) before tax	**(3,094)**	(189)	8,346
By geographical region			
Europe	**(1,426)**	144	5,152
Hong Kong	**(273)**	(725)	(230)
Rest of Asia-Pacific[17]	**142**	57	140
Middle East[17]	**47**	45	34
North America	**(1,584)**	294	3,240
Latin America		(4)	10
	(3,094)	(189)	8,346
	%	%	%
Share of HSBC s profit before tax	**(61.7)**	(1.8)	887.9
Cost efficiency ratio	**(273.9)**	113.1	20.5

For footnotes, see page 94.

Balance sheet data[23]

	At 30 June 2009 US$m	At 30 June 2008 US$m	At 31 December 2008 US$m
Loans and advances to customers (net)	**3,478**	3,061	2,621
Total assets	**170,414**	141,946	145,581
Customer accounts	**1,235**	1,227	2,041

Notes

A loss before tax in Other of US$3.1 billion compared with a loss of US$189 million in the first half of 2008. This was attributable to losses on the fair value of HSBC s own debt which contrasted with gains booked in the comparable periods. For a description of the main items reported under Other , see footnote 22 on page 94.

Net expense from financial investments designated at fair value was US$2.6 billion, compared with income of US$820 million in the first half of 2008. This was largely driven by the partial reversal of fair value gains booked in previous years on certain long-term debt issued by HSBC Holdings and its North American and European subsidiaries, and resulted from a significant contraction of credit spreads in the second quarter of 2009.

Net trading income rose by US$463 million on a reported basis to US$110 million driven largely by fair value gains on certain non-qualifying hedges. These gains were partly offset by losses of US$344 million on a forward foreign exchange contract associated with hedging the proceeds of the Group s US$17.8 billion rights issue, which was completed in April 2009.

Net losses from financial investments amounted to US$53 million compared with a net loss of US$283 million in the first half of 2008, driven by lower impairment losses on certain equity investments.

The Group continued to pursue its Global Resourcing model, migrating further activities to Global Centres of Excellence. As a result, costs rose by 9 per cent in the Group Service Centres All costs are recharged to HSBC s customer groups and global businesses and related revenue reported under Other operating income .

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

Half-year to 30 June 2009 (1H09) compared with half-year to 30 June 2008 (1H08)

	1H08 as reported US$m	1H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	1H08 at 1H09 exchange rates[3] US$m	1H09 acquisitions and disposals[1] US$m	Underlying change US$m	1H09 as reported US$m	Reported change[4] %	Underlying change[4] %
Other									
Net interest expense	(375)		15	(360)		(191)	(551)	(47)	(53)
Net fee income	32		(9)	23		41	64	100	178
Changes in fair value[5]	577		36	613		(2,913)	(2,300)	(499)	(475)
Other income[6]	1,551		(140)	1,411		548	1,959	27	39
Net operating income/ (expense)[7]	1,785		(98)	1,687		(2,515)	(828)	(146)	(149)
Loan impairment charges and other credit risk provisions						(3)	(3)		
Net operating income/ (expense)	1,785		(98)	1,687		(2,518)	(831)	(147)	(149)
Operating expenses	(2,019)		73	(1,946)		(322)	(2,268)	(12)	(16)
Operating loss	(234)		(25)	(259)		(2,840)	(3,099)	(1,224)	(1,097)
Income from associates	45		1	46		(41)	5	(89)	(89)
Loss before tax	(189)		(24)	(213)		(2,881)	(3,094)	(1,537)	(1,353)

Half-year to 30 June 2009 (1H09) compared with half-year to 31 December 2008 (2H08)

	2H08 as reported US$m	2H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	2H08 at 1H09 exchange rates[8] US$m	1H09 acquisitions and disposals[1] US$m	Underlying change US$m	1H09 as reported US$m	Reported change[4] %	Underlying change[4] %
Other									
Net interest expense	(581)		1	(580)		29	(551)	5	5
Net fee income	21			21		43	64	205	205
Changes in fair value[5]	6,102		(101)	6,001		(8,301)	(2,300)	(138)	(138)
Gain on disposal of French regional banks	2,445	(2,445)						(100)	
Other income[6]	2,523	(95)	(84)	2,344		(385)	1,959	(22)	(16)
Net operating income/ (expense)[7]	10,510	(2,540)	(184)	7,786		(8,614)	(828)	(108)	(111)
Loan impairment charges and other credit risk provisions	(5)			(5)		2	(3)	40	40
Net operating income/ (expense)	10,505	(2,540)	(184)	7,781		(8,612)	(831)	(108)	(111)
Operating expenses	(2,155)		33	(2,122)		(146)	(2,268)	(5)	(7)
Operating profit/(loss)	8,350	(2,540)	(151)	5,659		(8,758)	(3,099)	(137)	(155)
Income from associates	(4)			(4)		9	5	225	225
Profit/(loss) before tax	8,346	(2,540)	(151)	5,655		(8,749)	(3,094)	(137)	(155)

For footnotes, see page 94.

Analysis by customer group and global business
Profit/(loss) before tax

	Half-year to 30 June 2009						
	Personal Financial Services	Commercial Banking	Global Banking and Markets	Private Banking	Other[22]	Inter-segment elimination[29]	Total
Total	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Net interest income/(expense)	**12,650**	**3,809**	**4,667**	**784**	**(551)**	**(821)**	**20,538**
Net fee income	**4,045**	**1,749**	**1,968**	**602**	**64**		**8,428**
Trading income excluding net interest income	**450**	**183**	**3,422**	**154**	**92**		**4,301**
Net interest income on trading activities	**39**	**11**	**1,056**	**9**	**18**	**821**	**1,954**
Net trading income[24]	**489**	**194**	**4,478**	**163**	**110**	**821**	**6,255**
Changes in fair value of long-term debt issued and related derivatives					**(2,300)**		**(2,300)**
Net income/(expense) from other financial instruments designated at fair value	**744**	**(17)**	**329**		**(279)**		**777**
Net income/(expense) from financial instruments designated at fair value	**744**	**(17)**	**329**		**(2,579)**		**(1,523)**
Gains less losses from financial investments	**195**	**25**	**158**	**(2)**	**(53)**		**323**
Dividend income	**17**	**3**	**23**	**2**	**12**		**57**
Net earned insurance premiums	**4,585**	**390**	**40**		**(3)**		**5,012**

Other operating income	302	519	603	40	2,172	(2,479)	1,158
Total operating income/ (expense)	23,027	6,672	12,266	1,589	(828)	(2,479)	40,248
Net insurance claims[25]	(5,144)	(328)	(35)				(5,507)
Net operating income/ (expense)[7]	17,883	6,344	12,231	1,589	(828)	(2,479)	34,741
Loan impairment charges and other credit risk provisions	(10,673)	(1,509)	(1,732)	(14)	(3)		(13,931)
Net operating income/ (expense)	7,210	4,835	10,499	1,575	(831)	(2,479)	20,810
Total operating expenses	(8,774)	(2,740)	(4,405)	(949)	(2,268)	2,479	(16,658)
Operating profit/(loss)	(1,564)	2,095	6,094	626	(3,099)		4,152
Share of profit in associates and joint ventures	315	337	204	6	5		867
Profit/(loss) before tax	(1,249)	2,432	6,298	632	(3,094)		5,019
	%	%	%	%	%		%
Share of HSBC s profit before tax	(24.9)	48.5	125.5	12.6	(61.7)		100.0
Cost efficiency ratio	49.1	43.2	36.0	59.7	(273.9)		47.9
Balance sheet data[23]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	400,692	198,903	287,328	34,282	3,478		924,683
Total assets	547,084	249,030	1,770,618	117,468	170,414	(432,771)	2,421,843
Customer accounts	482,935	239,933	330,962	108,278	1,235		1,163,343

For footnotes, see page 94.

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Analysis by customer group and global business (continued)
Profit/(loss) before tax

	Half-year to 30 June 2008						
	Personal Financial Services	Commercial Banking	Global Banking and Markets	Private Banking	Other[22]	Inter-segment elimination[29]	Total
Total	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Net interest income/ (expense)	15,217	4,747	3,737	783	(375)	(2,931)	21,178
Net fee income	5,626	2,165	2,354	814	32		10,991
Trading income/(expense) excluding net interest income	142	197	360	211	(271)		639
Net interest income/ (expense) on trading activities	42	24	273	7	(82)	2,931	3,195
Net trading income/ (expense)[24]	184	221	633	218	(353)	2,931	3,834
Changes in fair value of long-term debt issued and related derivatives					577		577
Net income/(expense) from other financial instruments designated at fair value	(1,135)	(59)	(211)	1	243		(1,161)
Net income/(expense) from financial instruments designated at fair value	(1,135)	(59)	(211)	1	820		(584)
Gains less losses from financial investments	585	191	244	80	(283)		817
Dividend income	15	3	49	4	17		88
Net earned insurance premiums	4,746	360	62		(15)		5,153
Other operating income	390	718	551	16	1,943	(2,183)	1,435
Total operating income	25,628	8,346	7,419	1,916	1,786	(2,183)	42,912
Net insurance claims[25]	(3,206)	(190)	(40)		(1)		(3,437)
Net operating income[7]	22,422	8,156	7,379	1,916	1,785	(2,183)	39,475

Loan impairment (charges)/ recoveries and other credit risk provisions	(9,384)	(563)	(115)	4			(10,058)
Net operating income	13,038	7,593	7,264	1,920	1,785	(2,183)	29,417
Operating expenses (excluding goodwill impairment)	(10,572)	(3,280)	(4,827)	(1,098)	(2,019)	2,183	(19,613)
Goodwill impairment	(527)						(527)
Operating profit/(loss)	1,939	4,313	2,437	822	(234)		9,277
Share of profit in associates and joint ventures	374	298	253		45		970
Profit/(loss) before tax	2,313	4,611	2,690	822	(189)		10,247
	%	%	%	%	%		%
Share of HSBC s profit before tax	22.6	45.0	26.2	8.0	(1.8)		100.0
Cost efficiency ratio	49.5	40.2	65.4	57.3	113.1		51.0
Balance sheet data[23]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	458,302	238,116	303,826	45,895	3,061		1,049,200
Total assets	619,528	292,871	1,823,167	144,331	141,946	(475,165)	2,546,678
Customer accounts	474,263	247,705	328,952	109,776	1,227		1,161,923

For footnotes, see page 94.

	Half-year to 31 December 2008						
Total	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other[22] US$m	Inter-segment elimination[29] US$m	Total US$m
Net interest income/(expense)	14,202	4,747	4,804	829	(581)	(2,616)	21,385
Net fee income	4,481	1,932	1,937	662	21		9,033
Trading income/(expense) excluding net interest income	33	172	(203)	197	9		208
Net interest income/(expense) on trading activities	37	(7)	51	7	(186)	2,616	2,518
Net trading income/(expense)[24]	70	165	(152)	204	(177)	2,616	2,726
Changes in fair value of long-term debt issued and related derivatives					6,102		6,102
Net income/(expense) from other financial instruments designated at fair value	(1,777)	(165)	(227)	(1)	504		(1,666)
Net income/(expense) from financial instruments designated at fair value	(1,777)	(165)	(227)	(1)	6,606		4,436
Gains less losses from financial investments	78	2	(571)	(16)	(113)		(620)
Dividend income	75	85	27	4	(7)		184
Net earned insurance premiums	5,337	319	43		(2)		5,697
Gains on disposal of French regional banks					2,445		2,445

Other operating income/ (expense)	(131)	221	317	33	2,318	(2,385)	373
Total operating income	22,335	7,306	6,178	1,715	10,510	(2,385)	45,659
Net insurance claims[25]	(3,268)	(145)	(39)				(3,452)
Net operating income[7]	19,067	7,161	6,139	1,715	10,510	(2,385)	42,207
Loan impairment charges and other credit risk provisions	(11,836)	(1,610)	(1,356)	(72)	(5)		(14,879)
Net operating income	7,231	5,551	4,783	1,643	10,505	(2,385)	27,328
Operating expenses (excluding goodwill impairment)	(10,568)	(3,301)	(4,265)	(1,018)	(2,155)	2,385	(18,922)
Goodwill impairment	(10,037)						(10,037)
Operating profit/(loss)	(13,374)	2,250	518	625	8,350		(1,631)
Share of profit/(loss) in associates and joint ventures	87	333	275		(4)		691
Profit/(loss) before tax	(13,287)	2,583	793	625	8,346		(940)
	%	%	%	%	%		%
Share of HSBC s loss before tax	(1,413.5)	274.8	84.3	66.5	887.9		100.0
Cost efficiency ratio	108.1	46.1	69.5	59.4	20.5		68.6
Balance sheet data[23]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	401,402	203,949	287,306	37,590	2,621		932,868
Total assets	527,901	249,218	1,991,852	133,216	145,581	(520,303)	2,527,465
Customer accounts	440,338	235,879	320,386	116,683	2,041		1,115,327

For footnotes, see page 94.

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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$1,347 million (first half of 2008: US$1,169 million; second half of 2008: US$1,323 million). Profit/(loss) before tax

	Half-year to					
	30 June 2009		30 June 2008		31 December 2008	
	US$m	**%**	US$m	%	US$m	%
Europe	**2,976**	**59.3**	5,177	50.5	5,692	605.5
Hong Kong	**2,501**	**49.8**	3,073	30.0	2,388	254.1
Rest of Asia-Pacific[17]	**2,022**	**40.3**	2,634	25.7	2,088	222.1
Middle East[17]	**643**	**12.8**	990	9.7	756	80.4
North America	**(3,703)**	**(73.8)**	(2,893)	(28.2)	(12,635)	(1,344.1)
Latin America	**580**	**11.6**	1,266	12.3	771	82.0
	5,019	**100.0**	10,247	100.0	(940)	(100.0)

Total assets[23]

	At 30 June 2009		At 30 June 2008		At 31 December 2008	
	US$m	**%**	US$m	%	US$m	%
Europe	**1,324,687**	**54.7**	1,384,022	54.3	1,392,049	55.1
Hong Kong	**413,107**	**17.1**	371,584	14.6	414,484	16.4
Rest of Asia-Pacific[17]	**217,794**	**9.0**	239,224	9.4	225,573	8.9
Middle East[17]	**48,601**	**2.0**	51,777	2.0	50,952	2.0
North America	**494,778**	**20.4**	568,114	22.3	596,302	23.6
Latin America	**107,515**	**4.4**	122,009	4.8	102,946	4.1
Intra-HSBC items	**(184,639)**	**(7.6)**	(190,052)	(7.5)	(254,841)	(10.1)
	2,421,843	**100.0**	2,546,678	100.0	2,527,465	100.0

For footnotes, see page 94.

Europe
Profit/(loss) before tax by country within customer groups and global businesses

	Personal Financial Services US$m	**Commercial Banking US$m**	**Global Banking and Markets US$m**	**Private Banking US$m**	**Other US$m**	**Total US$m**
Half-year to 30 June 2009						

UK	**205**	**688**	**1,853**	**124**	**(1,214)**	**1,656**
France[30]	**26**	**51**	**661**	**1**	**(219)**	**520**
Germany		**17**	**129**	**8**	**(4)**	**150**
Malta	**13**	**29**	**5**			**47**
Switzerland				**233**		**233**
Turkey	**21**	**54**	**87**	**1**		**163**
Other	**(53)**	**13**	**156**	**80**	**11**	**207**
	212	**852**	**2,891**	**447**	**(1,426)**	**2,976**
Half-year to 30 June 2008						
UK	1,164	1,656	329	162	168	3,479
France[30]	122	151	492	14	(70)	709
Germany		21	122	20	(8)	155
Malta	26	33	12			71
Switzerland				335		335
Turkey	19	51	56			126
Other	(7)	28	179	48	54	302
	1,324	1,940	1,190	579	144	5,177

	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other US$m	Total US$m
Half-year to 31 December 2008						
UK	382	705	(798)	88	2,829	3,206
France[30]	17	25	(219)	(4)	2,312	2,131
Germany		10	62	12	(14)	70
Malta	33	34	4			71
Switzerland				218		218
Turkey	(16)	40	74			98
Other	(82)	(32)	(118)	105	25	(102)
	334	782	(995)	419	5,152	5,692

For footnote, see page 94.

Loans and advances to customers (net) by country

	At 30 June 2009 US$m	At 30 June 2008 US$m	At 31 December 2008 US$m
UK	**342,153**	380,051	313,065
France[30]	**77,096**	78,376	70,896
Germany	**5,201**	7,638	5,756
Malta	**4,480**	4,684	4,343
Switzerland	**9,566**	14,829	12,708
Turkey	**5,586**	8,127	6,125
Other	**13,008**	15,255	13,298
	457,090	508,960	426,191

Customer accounts by country

	At 30 June 2009 US$m	At 30 June 2008 US$m	At 31 December 2008 US$m
UK	**371,675**	413,593	351,253
France[30]	**85,899**	60,281	74,826
Germany	**10,007**	11,054	11,611
Malta	**5,646**	6,292	5,604

Switzerland	**41,122**	42,125	44,643
Turkey	**5,394**	7,090	5,845
Other	**9,982**	9,205	8,694
	529,725	549,640	502,476

For footnote, see page 94.

Economic briefing

The **UK** economy contracted sharply during the first half of 2009, with much of this weakness concentrated in the early months of the year and the second quarter bringing some evidence of a stabilisation of economic conditions. Gross Domestic Product (GDP) fell by 5.3 per cent below the comparable period in 2008, the sharpest contraction on record. Labour market conditions continued to deteriorate with the unemployment rate rising to a twelve-year high of 7.6 per cent in May 2009. Indicators of housing market activity improved only marginally from very subdued levels, although some monthly increases in house prices were recorded during the second quarter of 2009. After reducing interest rates to just 0.5 per cent in March 2009, the Bank of England launched the Asset Purchase Facility in an attempt to improve the circulation of credit across the economy and encourage confidence in future economic activity. Consumer Price Index (CPI) inflation moderated throughout the first half of the year, falling from 3.0 per cent in January 2009 to 1.8 per cent in June, below the Bank of England s 2 per cent target.

The **eurozone** economies performed poorly during the first half of 2009. As in the UK, first

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Profit before tax

	Half-year to		
	30 June 2009	30 June 2008	31 December 2008
Europe	**US$m**	US$m	US$m
Net interest income	**5,978**	4,475	5,221
Net fee income	**2,843**	4,223	3,269
Net trading income	**3,429**	3,649	1,708
Changes in fair value of long-term debt issued and related derivatives	**(788)**	207	2,732
Net income/(expense) from other financial instruments designated at fair value	**212**	(866)	(960)
Net income/(expense) from financial instruments designated at fair value	**(576)**	(659)	1,772
Gains less losses from financial investments	**(60)**	608	(190)
Dividend income	**13**	20	110
Net earned insurance premiums	**2,134**	2,286	3,013
Gains on disposal of French regional banks			2,445
Other operating income	**976**	1,427	669
Total operating income	**14,737**	16,029	18,017
Net insurance claims incurred and movement in liabilities to policyholders	**(2,383)**	(1,388)	(1,979)
Net operating income before loan impairment charges and other credit risk provisions	**12,354**	14,641	16,038
Loan impairment charges and other credit risk provisions	**(2,813)**	(1,272)	(2,482)
Net operating income	**9,541**	13,369	13,556
Total operating expenses	**(6,587)**	(8,193)	(7,879)
Operating profit	**2,954**	5,176	5,677
Share of profit in associates and joint ventures	**22**	1	15

Profit before tax	**2,976**	5,177	5,692
	%	%	%
Share of HSBC s profit before tax	**59.3**	50.5	605.5
Cost efficiency ratio	**53.3**	56.0	49.1
Period-end staff numbers (full-time equivalent)	**79,132**	84,457	82,093
Balance sheet data[23]			
	US$m	US$m	US$m
Loans and advances to customers (net)	**457,090**	508,960	426,191
Loans and advances to banks (net)	**72,491**	94,795	61,949
Trading assets, financial instruments designated at fair value and financial investments[28]	**449,928**	481,015	433,885
Total assets	**1,324,687**	1,384,022	1,392,049
Deposits by banks	**87,159**	112,081	80,847
Customer accounts	**529,725**	549,640	502,476

For footnotes, see page 94.

The commentary on Europe is on an underlying basis unless stated otherwise.

quarter GDP fell by 4.9 per cent on the first quarter of 2008 with the broad range of economic data pointing to some stabilisation of conditions during the second quarter. Investment expenditure proved exceptionally weak, while consumer spending continued to contract as the unemployment rate increased to 9.5 per cent in May 2009 from 8.2 per cent in December 2008. The annual rate of consumer price inflation fell substantially during the period, moving from 1.6 per cent in December 2008 to minus 0.1 per cent in June 2009, the first negative reading since the eurozone s inception, although much of this decline reflected the earlier rise and then fall of energy prices. The European Central Bank cut interest rates by 150 basis points during the first half of the year, leaving the refi rate at a record low level of 1 per cent in June 2009.

In **Turkey**, first quarter GDP fell by 13.8 per cent on the comparable period in 2008, and substantial declines in industrial activity continued to be recorded during the second quarter of the year. Inflationary pressures eased within this weak economic environment as the annual rate of change in consumer prices fell from 10.1 per cent in December 2008 to 5.7 per cent in June 2009. The unemployment rate averaged 15.6 per cent during the first four months of 2009 compared with 11.1 per cent during the equivalent period in 2008. Negotiations over an IMF assistance programme are ongoing.

Review of business performance

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2009 (1H09) compared with half-year to 30 June 2008 (1H08)								
Europe	**1H08 as reported US$m**	**1H08 acquisitions and disposals[1] US$m**	**Currency translation[2] US$m**	**1H08 at 1H09 exchange rates[3] US$m**	**1H09 acquisitions and disposals[1] US$m**	**Under-lying change US$m**	**1H09 as reported US$m**	**Re-ported change[4] %**	**Under-lying change[4] %**
Net interest income	**4,475**	**(65)**	**(866)**	**3,544**		**2,434**	**5,978**	**34**	**69**
Net fee income	**4,223**	**(58)**	**(806)**	**3,359**		**(516)**	**2,843**	**(33)**	**(15)**
Changes in fair value[5]	**207**		**39**	**246**		**(1,034)**	**(788)**	**(481)**	**(420)**
Other income[6]	**5,736**	**(514)**	**(1,127)**	**4,095**	**280**	**(54)**	**4,321**	**(25)**	**(1)**
Net operating income[7]	**14,641**	**(637)**	**(2,760)**	**11,244**	**280**	**830**	**12,354**	**(16)**	**7**
Loan impairment charges and other credit risk provisions	**(1,272)**	**6**	**276**	**(990)**		**(1,823)**	**(2,813)**	**(121)**	**(184)**
Net operating income	**13,369**	**(631)**	**(2,484)**	**10,254**	**280**	**(993)**	**9,541**	**(29)**	**(10)**
Operating expenses	**(8,193)**	**68**	**1,486**	**(6,639)**		**52**	**(6,587)**	**20**	**1**
Operating profit	**5,176**	**(563)**	**(998)**	**3,615**	**280**	**(941)**	**2,954**	**(43)**	**(26)**
Income from associates	**1**			**1**		**21**	**22**	**2,100**	**2,100**

Profit before tax	**5,177**	**(563)**	**(998)**	**3,616**	**280**	**(920)**	**2,976**	**(43)**	**(25)**

For footnotes, see page 94.

HSBC s European operations reported a pre-tax profit of US$3.0 billion, compared with US$5.2 billion in 2008, a decrease of 43 per cent. Within these figures was a negative fair value movement of US$836 million on the Group s own debt held at fair value as financial markets stabilised and credit spreads tightened in the first half of 2009. This movement compared with a gain in the first half of 2008 of US$434 million. As in previous years, HSBC does not regard this movement as part of operating performance. Results also benefited from a gain on the sale of the residual stake in the UK card-acquiring business to Global Payments Inc. of US$280 million in the first half of 2009 following the US$425 million gain realised in the comparable period in 2008 on the sale of the original holding. Adjusting for these gains on sale, the disposal of the French regional banks in July 2008 and the reversal of movements in the fair value of own debt, underlying pre-tax profits grew by US$311 million or 10 per cent. This was driven by a strong performance within Global Banking and Markets, with record revenues in Balance Sheet Management and Rates coupled with a significant fall in credit-related write-downs, partly offset by higher loan impairment charges reflecting the deterioration in the economic environment and increased impairments to assets in the available-for-sale portfolio.

Net interest income increased by 69 per cent, driven by significant growth in Balance Sheet Management revenues, which benefited from favourable positioning in expectation of interest rate cuts by central banks. The fall in interest rates also reduced the cost of funding trading activities, further boosting net interest income.

Mortgage balances increased, reflecting HSBC s continued efforts to support lending to core customers. During the first half of 2009, new mortgage sales in the UK amounted to 45 per cent of the £15 billion (US$25 billion) in new mortgage facilities made available to customers at the beginning of the year. Regionally, lending balances declined in line with reduced customer demand for credit and HSBC s diminished appetite for unsecured lending throughout the region. Lower funding costs, particularly in the personal sector, boosted income in cards, mortgages and personal

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loans. Given the volatility in the markets, and lack of liquidity, the pricing of commercial lending increased.

HSBC also benefited from an increase in customer accounts due to the strong flow of deposits gained during the market turmoil in the second half of 2008. However, both the Personal Financial Services and Commercial Banking businesses were adversely affected by interest rate cuts, which reduced liability spreads across the region. In Personal Financial Services, spreads were further constrained by competitive pressure to retain liability balances in the UK, and by further interest rate cap reductions on credit cards in Turkey.

Net fee income fell by 15 per cent. Card fees declined following the part disposal of the card-acquiring business to a joint venture in June 2008, and lower card utilisation which reduced transaction volumes. The relatively inactive markets resulted in lower mergers and acquisition fees, and the decline in global equity markets drove decreases in equity brokerage commissions in Private Banking and performance and management fees as the value of funds under management declined. As markets increasingly recognised the value of credit commitment and availability, HSBC generated higher underwriting fees as a result of increased debt originations in France and the UK.

Trading income increased by 19 per cent to US$3.4 billion, with a record performance in Rates and strong revenue generation in foreign exchange trading. Rates benefited from favourable positioning for falling interest rates and increased demand, while growth in foreign exchange earnings reflected market volatility. Trading income also benefited from credit spread contraction, which led to significantly lower credit write-downs on legacy positions and asset-backed securities portfolios than in the first half of 2008.

This increase in trading performance was partly offset by a loss on structured liabilities as credit spreads narrowed, compared with a gain last year, and a reduction in net interest income on trading activities due to the decline in interest rates (the compensating benefit is reported within Net interest income).

A net expense of US$576 million was incurred on *financial instruments designated at fair value,* primarily due to the fair value movements arising from the effect of narrowing credit spreads on certain fixed-rate long-term debt issued by HSBC, which partially reversed previous gains. This heading also encompasses movements in the fair value of assets held to meet liabilities under insurance and investment contracts in which, as equity markets recovered from declines sustained in the second half of 2008, gains were recorded.

To the extent that investment gains are attributable to policyholders, the increase in the fair value of assets held to meet liabilities under unit-linked policies and insurance and investment contracts with discretionary participating features is offset by a corresponding increase in claims incurred and movement in liabilities to policyholders.

Gains less losses from financial investments were US$498 million lower than those arising in the first half of 2008 due to the non-recurrence of certain disposals in 2008, including the sale of MasterCard shares, realisations from private equity investments and the disposal of its remaining stake in the Hermitage Fund by Private Banking.

Excluding the reversal of movements in the fair value on own debt credit spreads, underlying pre-tax profit in Europe grew by US$311 million or 10 per cent, with a strong performance in Global Banking and Markets.

Net earned insurance premiums increased by 13 per cent. Premium income rose, mainly because of the non-recurrence of a significant re-insurance transaction in France in the first half of 2008 which passed insurance premiums to a third-party reinsurer. Excluding this transaction, premiums fell in the region. A reduction in premiums was driven by the withdrawal of the Guaranteed Income Bond from sale in the UK as the product was no longer commercially viable in the current economic environment. Sales in France were relatively unchanged despite a significant reduction in the distribution network following the disposal of the regional banks in July 2008.

Other operating income decreased by 9 per cent, with the non-recurrence of a favourable embedded value adjustment following HSBC s introduction of enhanced benefits to existing pension products in the first half of 2008 and reduced gains on the sale and leaseback of branches, partly offset by gains on the sale of properties in Private Banking.

Net insurance claims incurred and movement in liabilities to policyholders increased by US$1.2 billion as the allocation of investment returns to policyholders increased and net insurance premiums rose, in part due to the non-recurrence of the significant reinsurance transaction undertaken in France in 2008. In addition, an increase of US$105 million in claims reserving was required to reflect a higher incidence and severity of motor insurance claims with a standalone UK motor underwriter.

Loan impairment charges and other credit risk provisions grew by US$1.8 billion to US$2.8 billion as the signs of stress observed at the end of 2008 continued into 2009 and economic conditions deteriorated across the region. Within Personal Financial Services and Commercial Banking, which in aggregate experienced a 63 per cent rise in loan impairments to US$1.6 billion, 85 per cent of the charge arose in the UK. Credit impairment charges in the personal sector in France remained low, reflecting the upmarket segmentation of the personal customer base.

Within the UK, the core residential mortgage portfolio continued to experience low impairment, in large part reflecting HSBC s continued focus on in-house origination and control. Stresses were more evident in the cards and other unsecured portfolios, and the secured portfolio of the consumer finance business, as unemployment rose and the ability to refinance existing debt reduced. In UK Commercial Banking, loan impairment charges rose from a low base of US$173 million to US$504 million, reflecting the general economic downturn with problems most evident in the property and retail distribution sectors. In Global Banking and Markets, impairment charges largely reflected HSBC s exposure to the financial and property sectors, as well as additional credit risk provisions from marking to market asset-backed debt securities held within the Group s available-for-sale portfolios on which cash flow impairment emerged in the period. Impairment booked on these exposures reflects mark-to-market losses which HSBC judges to be
significantly in excess of the likely ultimate cash losses.

Outside the UK, higher loan impairment charges reflected deteriorating credit card and personal loan delinquency rates in Turkey, Greece and Central and Eastern Europe. Action taken to mitigate these trends included the strengthening of collection practices and systems, tightening unsecured lending origination criteria and the cessation of new monoline consumer finance lending. The decision was taken during the period to wind down the monoline consumer finance businesses in Hungary and Poland in line with Group strategic objectives.

Operating expenses were broadly in line with the first half of 2008. Staff costs were 5 per cent lower, notwithstanding a rise in Global Banking and Markets from performance-related pay, partly from an accounting gain of US$499 million following a change in the basis of delivering death-in-service, ill health and early retirement benefits for some UK employees.

Non-staff costs were 4 per cent higher as bank failures in the UK led to a US$52 million increase in the Financial Services Compensation Scheme levy. Higher rental charges following the sale and leaseback of properties in 2008 and increased network costs in support of business expansion in Turkey, Russia and Central and Eastern Europe were partly offset by lower advertising and marketing expenditure in response to difficult trading conditions and reduced customer demand.

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2009 (1H09) compared with half-year to 31 December 2008 (2H08)								
Europe	2H08 as reported US$m	2H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	2H08 at 1H09 exchange rates[8] US$m	1H09 acquisitions and disposals[1] US$m	Underlying change US$m	1H09 as reported US$m	Reported change[4] %	Underlying change[4] %
Net interest income	5,221		(580)	4,641		1,337	5,978	14	29
Net fee income	3,269		(365)	2,904		(61)	2,843	(13)	(2)
Changes in fair value[5]	2,732		(100)	2,632		(3,420)	(788)	(129)	(130)
Other income[6]	4,816	(2,540)	(404)	1,872	280	2,169	4,321	(10)	116
	16,038	(2,540)	(1,449)	12,049	280	25	12,354	(23)	

Net operating income[7]									
Loan impairment charges and other credit risk provisions	(2,482)		328	(2,154)		(659)	(2,813)	(13)	(31)
Net operating income	13,556	(2,540)	(1,121)	9,895	280	(634)	9,541	(30)	(6)
Operating expenses	(7,879)		812	(7,067)		480	(6,587)	16	7
Operating profit	5,677	(2,540)	(309)	2,828	280	(154)	2,954	(48)	(5)
Income from associates	15		(2)	13		9	22	47	69
Profit before tax	5,692	(2,540)	(311)	2,841	280	(145)	2,976	(48)	(5)

For footnotes, see page 94.

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)
Analysis by customer group and global business
Profit/(loss) before tax

	Half-year to 30 June 2009						
Europe	**Personal Financial Services US$m**	**Commercial Banking US$m**	**Global Banking and Markets US$m**	**Private Banking US$m**	**Other US$m**	**Inter-segment elimination[29] US$m**	**Total US$m**
Net interest income/ (expense)	**2,507**	**1,295**	**2,376**	**506**	**(265)**	**(441)**	**5,978**
Net fee income	**875**	**789**	**706**	**438**	**35**		**2,843**
Trading income excluding net interest income	**78**	**4**	**1,678**	**72**	**167**		**1,999**
Net interest income on trading activities	**(1)**	**7**	**966**	**9**	**8**	**441**	**1,430**
Net trading income[24]	**77**	**11**	**2,644**	**81**	**175**	**441**	**3,429**
Changes in fair value of long-term debt issued and related derivatives					**(788)**		**(788)**
Net income/(expense) from other financial instruments designated at fair value	**170**	**5**	**358**		**(321)**		**212**
Net income/(expense) from financial instruments designated at fair value	**170**	**5**	**358**		**(1,109)**		**(576)**
Gains less losses from financial investments	**5**	**2**	**(47)**	**(2)**	**(18)**		**(60)**
Dividend income		**1**	**11**	**1**			**13**
Net earned insurance premiums	**2,002**	**135**			**(3)**		**2,134**

Other operating income	**89**	**323**	**303**	**26**	**162**	**73**	**976**
Total operating income/ (expense)	**5,725**	**2,561**	**6,351**	**1,050**	**(1,023)**	**73**	**14,737**
Net insurance claims[25]	**(2,249)**	**(134)**					**(2,383)**
Net operating income/ (expense)[7]	**3,476**	**2,427**	**6,351**	**1,050**	**(1,023)**	**73**	**12,354**
Loan impairment charges and other credit risk provisions	**(982)**	**(606)**	**(1,212)**	**(10)**	**(3)**		**(2,813)**
Net operating income/ (expense)	**2,494**	**1,821**	**5,139**	**1,040**	**(1,026)**	**73**	**9,541**
Total operating expenses	**(2,283)**	**(987)**	**(2,251)**	**(593)**	**(400)**	**(73)**	**(6,587)**
Operating profit/(loss)	**211**	**834**	**2,888**	**447**	**(1,426)**		**2,954**
Share of profit in associates and joint ventures	**1**	**18**	**3**				**22**
Profit/(loss) before tax	**212**	**852**	**2,891**	**447**	**(1,426)**		**2,976**
	%	*%*	*%*	*%*	*%*		*%*
Share of HSBC s profit before tax	**4.2**	**17.0**	**57.6**	**8.9**	**(28.4)**		**59.3**
Cost efficiency ratio	**65.7**	**40.7**	**35.4**	**56.5**	**(39.1)**		**53.3**
Balance sheet data[23]							
	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances to customers (net)	**143,886**	**89,788**	**198,290**	**23,774**	**1,352**		**457,090**
Total assets	**205,023**	**112,749**	**1,060,344**	**74,469**	**86,649**	**(214,547)**	**1,324,687**
Customer accounts	**166,295**	**95,132**	**208,792**	**59,503**	**3**		**529,725**

For footnotes, see page 94.

	Half-year to 30 June 2008						
Europe	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[29] US$m	Total US$m
Net interest income/(expense)	3,373	1,739	1,351	515	(156)	(2,347)	4,475
Net fee income	1,479	1,134	999	559	52		4,223
Trading income excluding net interest income	34	18	1,362	106	33		1,553
Net interest income/ (expense) on trading activities	(1)	20	(285)	7	8	2,347	2,096
Net trading income[24]	33	38	1,077	113	41	2,347	3,649
Changes in fair value of long-term debt issued and related derivatives					207		207
Net income/(expense) from other financial instruments designated at fair value	(761)	(75)	(218)		188		(866)
Net income/(expense) from financial instruments designated at fair value	(761)	(75)	(218)		395		(659)
Gains less losses from financial investments	182	140	190	78	18		608
Dividend income	1	2	11	4	2		20
Net earned insurance premiums	2,084	213			(11)		2,286
Other operating income	252	581	362	4	251	(23)	1,427

Total operating income	6,643	3,772	3,772	1,273	592	(23)	16,029
Net insurance claims[24]	(1,290)	(98)					(1,388)
Net operating income[7]	5,353	3,674	3,772	1,273	592	(23)	14,641
Loan impairment (charges)/ recoveries and other credit risk provisions	(963)	(285)	(29)	5			(1,272)
Net operating income	4,390	3,389	3,743	1,278	592	(23)	13,369
Total operating expenses	(3,065)	(1,449)	(2,554)	(699)	(449)	23	(8,193)
Operating profit	1,325	1,940	1,189	579	143		5,176
Share of profit/(loss) in associates and joint ventures	(1)		1		1		1
Profit before tax	1,324	1,940	1,190	579	144		5,177
	%	%	%	%	%		%
Share of HSBC s profit before tax	12.9	18.9	11.6	5.7	1.4		50.5
Cost efficiency ratio	57.3	39.4	67.7	54.9	75.8		56.0
Balance sheet data[23]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	153,460	111,791	210,727	31,933	1,049		508,960
Total assets	219,433	138,494	1,100,421	94,321	65,122	(233,769)	1,384,022
Customer accounts	183,608	105,135	196,432	64,242	223		549,640

For footnotes, see page 94.

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)
Analysis by customer group and global business (continued)
Profit/(loss) before tax

	Half-year to 31 December 2008						
Europe	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[29] US$m	Total US$m
Net interest income/(expense)	3,091	1,696	2,137	531	(303)	(1,931)	5,221
Net fee income	1,133	891	764	461	20		3,269
Trading income/(expense) excluding net interest income	13	53	151	92	(171)		138
Net interest income/(expense) on trading activities	1	(8)	(370)	7	9	1,931	1,570
Net trading income/(expense)[24]	14	45	(219)	99	(162)	1,931	1,708
Changes in fair value of long-term debt issued and related derivatives					2,732		2,732
Net income/(expense) from other financial instruments designated at fair value	(873)	(139)	(393)		445		(960)
Net income/(expense) from financial instruments designated at fair value	(873)	(139)	(393)		3,177		1,772
Gains less losses from financial investments	99	(8)	(220)	(16)	(45)		(190)
Dividend income	34	72	14	1	(11)		110
Net earned insurance premiums	2,843	178			(8)		3,013

Gains on disposal of French regional banks					2,445		2,445
Other operating income/(expense)	(22)	39	36	12	581	23	669
Total operating income	6,319	2,774	2,119	1,088	5,694	23	18,017
Net insurance claims[25]	(1,934)	(45)					(1,979)
Net operating income[7]	4,385	2,729	2,119	1,088	5,694	23	16,038
Loan impairment charges and other credit risk provisions	(1,008)	(582)	(846)	(43)	(3)		(2,482)
Net operating income	3,377	2,147	1,273	1,045	5,691	23	13,556
Total operating expenses	(3,042)	(1,381)	(2,269)	(626)	(538)	(23)	(7,879)
Operating profit/(loss)	335	766	(996)	419	5,153		5,677
Share of profit/(loss) in associates and joint ventures	(1)	16	1		(1)		15
Profit/(loss) before tax	334	782	(995)	419	5,152		5,692
	%	%	%	%	%		%
Share of HSBC s loss before tax	35.5	83.2	(105.9)	44.6	548.1		605.5
Cost efficiency ratio	69.4	50.6	107.1	57.5	9.4		49.1
Balance sheet data[23]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	126,909	87,245	185,818	25,722	497		426,191
Total assets	171,962	107,495	1,180,759	84,485	64,423	(217,075)	1,392,049
Customer accounts	145,411	91,188	199,687	66,007	183		502,476

For footnotes, see page 94.

Hong Kong

Profit/(loss) before tax by customer group and global business

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Personal Financial Services	**1,337**	2,036	1,392
Commercial Banking	**424**	869	446
Global Banking and Markets	**907**	770	666
Private Banking	**106**	123	114
Other	**(273)**	(725)	(230)
Profit before tax	**2,501**	3,073	2,388

Profit before tax

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Net interest income	**2,232**	2,835	2,863
Net fee income	**1,200**	1,469	1,111
Net trading income	**704**	314	879
Changes in fair value of long-term debt and related derivatives	**(3)**	1	2
Net income/(expense) from other financial instruments designated at fair value	**348**	(362)	(832)
Net income/(expense) from financial instruments designated at fair value	**345**	(361)	(830)
Gains less losses from financial investments	**2**	(98)	(211)
Dividend income	**14**	20	21
Net earned insurance premiums	**1,838**	1,650	1,597
Other operating income	**505**	448	369
Total operating income	**6,840**	6,277	5,799
Net insurance claims incurred and movement in liabilities to policyholders	**(2,126)**	(1,169)	(753)

Net operating income before loan impairment charges and other credit risk provisions	**4,714**	5,108	5,046
Loan impairment charges and other credit risk provisions	**(273)**	(81)	(684)
Net operating income	**4,441**	5,027	4,362
Total operating expenses	**(1,935)**	(1,975)	(1,968)
Operating profit	**2,506**	3,052	2,394
Share of profit/(loss) in associates and joint ventures	**(5)**	21	(6)
Profit before tax	**2,501**	3,073	2,388
	%	*%*	*%*
Share of HSBC s profit before tax	**49.8**	30.0	254.1
Cost efficiency ratio	**41.0**	38.7	39.0
Period-end staff numbers (full-time equivalent)	**28,259**	29,467	29,330

Balance sheet data[23]

	US$m	US$m	US$m
Loans and advances to customers (net)	**97,486**	99,741	100,220
Loans and advances to banks (net)	**41,197**	73,461	29,646
Trading assets, financial instruments designated at fair value, and financial investments	**135,916**	78,735	122,602
Total assets	**413,107**	371,584	414,484
Deposits by banks	**10,299**	5,063	11,769
Customer accounts	**267,532**	231,709	250,517

For footnote, see page 94.

The commentary on Hong Kong is on an underlying basis unless stated otherwise.

HSBC HOLDINGS PLC

Interim Management Report: Operating and Financial Review (continued)

Economic briefing

Hong Kong s economy suffered a sharp contraction during the early months of 2009 as first quarter GDP fell by 7.8 per cent from the comparable period in 2008. Economic weakness proved widespread with significant declines in manufacturing activity, investment expenditure and external demand being registered. Labour market conditions continued to deteriorate, the unemployment rate rising from 4.1 per cent in December 2008 to 5.4 per cent in June 2009. Consumer price inflation continued to decline as the annual rate of change fell from 2.1 per cent in December 2008 to a reading of minus 0.9 per cent in June 2009, although this movement largely reflected trends in food and energy prices. Hong Kong maintained its base interest rate at 0.5 per cent during the first half of 2009. Asset prices proved volatile, with the Hang Seng Index first falling sharply before recovering strongly to register a 28 per cent gain during the period.

Review of business performance

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2009 (1H09) compared with half-year to 30 June 2008 (1H08)								
Hong Kong	**1H08 as reported US$m**	**1H08 acquisitions and disposals[1] US$m**	**Currency translation[2] US$m**	**1H08 at 1H09 exchange rates[3] US$m**	**1H09 acquisitions and disposals[1] US$m**	**Under-lying change US$m**	**1H09 as reported US$m**	**Re-ported change[4] %**	**Under-lying change[4] %**
Net interest income	**2,835**		**13**	**2,848**		**(616)**	**2,232**	**(21)**	**(22)**
Net fee income	**1,469**		**7**	**1,476**		**(276)**	**1,200**	**(18)**	**(19)**
Changes in fair value[5]	**1**			**1**		**(4)**	**(3)**	**(400)**	**(400)**
Other income[6]	**803**		**5**	**808**		**477**	**1,285**	**60**	**59**
Net operating income[7]	**5,108**		**25**	**5,133**		**(419)**	**4,714**	**(8)**	**(8)**
Loan impairment charges and other credit risk provisions	**(81)**			**(81)**		**(192)**	**(273)**	**(237)**	**(237)**
Net operating income	**5,027**		**25**	**5,052**		**(611)**	**4,441**	**(12)**	**(12)**
Operating expenses	**(1,975)**		**(10)**	**(1,985)**		**50**	**(1,935)**	**2**	**3**
Operating profit	**3,052**		**15**	**3,067**		**(561)**	**2,506**	**(18)**	**(18)**

Income from associates	**21**			**21**	**(26)**	**(5)**	**(124)**	**(124)**
Profit before tax	**3,073**		**15**	**3,088**	**(587)**	**2,501**	**(19)**	**(19)**

For footnotes, see page 94.

HSBC reported pre-tax profits in Hong Kong of US$2.5 billion, a 19 per cent decline compared with US$3.1 billion in the first half of 2008. HSBC remained one of the market leaders in deposits, mortgages and credit cards. The decrease in profits was largely due to lower revenue as a result of deposit spread compression and weakened investor sentiment, which led to declines in net interest income and net fee income, respectively. The loss of revenue was compounded by a rise, albeit from a low base, in loan impairment charges driven largely by the effects of falling trade activity on the Commercial Banking portfolio and rising delinquency in the personal lending portfolio. Operating costs were reduced to mitigate falling revenue. Global Banking and Markets delivered a strong performance in Rates and financing-related fees. In addition, deposit inflows were significant in the period, adding to the commercial surplus of deposits and contributing to the higher revenues generated from treasury activities within Balance Sheet Management.

Net interest income declined by 22 per cent, driven by significant deposit spread compression evident in Personal Financial Services and Commercial Banking. This was expected in the low interest rate environment and, during this period, HSBC continued to increase deposit balances and reprice customer loans to enhance lending margins and position itself for when the current economic downturn reverses.

Notwithstanding the decline in both GDP and trade activity, personal lending volumes rose, driven by targeted growth in mortgage lending. HSBC led the mortgage market with a combined 32 per cent market share on new loan drawdowns. Commercial lending declined, reflecting the reduction in trade activity, notwithstanding actions taken by HSBC to support local businesses in the difficult economic environment and provide access to funds. This included the SME Fund launched in 2008 to ensure small and medium-sized enterprises continued to have access to credit through the financial and economic crisis, which was trebled to HK$12 billion (and increased a further HK$4 billion in July). These facilities were 86 per cent utilised at 30 June 2009. HSBC s commitment to its SME customer base also included a two-month interest refund scheme introduced in June 2009 for customers who had suffered significant sales contraction, recognising that volumes of trade finance had declined significantly from the first half of 2008 due to reduced international and intra-regional trade.

Asset spreads improved due to active repricing on renewals to reflect current market pricing levels, while funding costs reduced due to the low interest rate environment.

Underlying pre-tax profits in Hong Kong fell by 19 per cent as deposit spreads narrowed and investment activity weakened.

Growth in savings and deposit balances continued, with increases across all customer groups, and by the end of May 2009 HSBC had further improved its market share compared with December 2008. Strong growth in the Commercial Banking segment was driven by a 12 per cent rise in customer numbers through a series of deposit acquisition campaigns launched in the first half of 2009. Liability spreads, however, remained under severe pressure in the first half of 2009 in the low interest rate environment.

In Global Banking and Markets, Balance Sheet Management and Credit and Lending reported increases in net interest income.

Net fee income was 19 per cent lower, as equity market-related revenues declined as customers reduced their risk tolerance, preferring deposit products to equities or structured products. This weaker market sentiment led to a decrease in income from retail brokerage, unit trusts, wealth management and other investment products. However, towards the end of the period there was an improvement in investor sentiment and, accordingly, equity-related products as the local equity market rebounded.

The contraction of trade flows in the region adversely affected commercial customers, and the effect on fees was in line with the decline in import and export volumes.

Net trading income more than doubled compared with the first half of 2008, in part from the

non-recurrence of write-downs on legacy exposures within Global Banking and Markets. Additionally, income from Credit trading increased due to higher volumes of bond trading in institutional markets and increased margins on market-making activities.

Income of US$345 million was generated from *financial instruments designated at fair value,* compared with a net loss of US$361 million in the first half of 2008. This mostly related to the insurance business as asset values increased due to a modest recovery in equity market levels during the period. To the extent that these gains were attributed to policyholders, there was an equivalent increase in *net insurance claims incurred and movement in liabilities to policyholders*.

Net earned insurance premiums grew by 11 per cent to US$1.8 billion as sales, particularly those associated with traditional life products, increased. HSBC continued to maintain its leadership position with a combined 35 per cent share of the market for new individual life business in the first quarter.

Gains less losses from financial investments were US$2 million compared with a loss of US$98 million in the first half of 2008, mainly due to the non-recurrence of impairments against long-term equity investments in that period following declines in market valuations as regional equity markets fell. It is worth noting that the value of investments against which impairments of US$296 million were taken in the first half of 2008 as a result of significant market price declines, recovered by US$214 million in the first half of 2009, most notably in Vietnam. Under IFRSs, while impairments on non-trading equities are taken through the income statement, reversals are credited to reserves. In the first half of 2009, Global Banking and Markets recorded a net loss of US$76 million, mostly in respect of the write-down of certain unlisted investments. This was more than offset by gains of US$104 million on the sale of Visa shares, compared with gains of US$203 million from Visa and MasterCard shares in the first half of 2008.

Loan impairment charges increased from the first half of 2008 s low level of US$81 million to US$273 million as the economic slowdown and trade downturn adversely affected credit conditions.

In Commercial Banking, loan impairment charges increased from a low base, reflecting a broad weakening in credit quality, particularly amongst exporters who were exposed to the slowdown in global trade. By the end of May, the values of Hong Kong s exports and imports had each declined by a fifth compared with the first five months of 2008.

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The rising unemployment rate and an increase in bankruptcy petitions contributed to increased loan impairment charges against unsecured lending within Personal Financial Services. Credit policies were tightened to reduce risk where necessary. Property prices increased in the first half of 2009 and mortgage lending remained well secured with loan-to-value ratios on origination subject to tight regulatory restrictions.

Operating expenses were reduced by 3 per cent to US$1.9 billion in response to the adverse effect of market conditions on revenues. Management restricted non-staff costs, driving a 7 per cent decline. In particular, marketing costs were reduced as new campaigns were targeted carefully. IT costs rose due to higher utilisation of data services as processes were automated to improve productivity. A number of activities are performed at a central data centre in Hong Kong on behalf of other Group entities. Related recoveries are recorded in Other operating income. Staff costs were in line due to tight control of staff numbers.

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2009 (1H09) compared with half-year to 31 December 2008 (2H08)								
Hong Kong	2H08 as reported US$m	2H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	2H08 at 1H09 exchange rates[8] US$m	1H09 acquisitions and disposals[1] US$m	Underlying change US$m	1H09 as reported US$m	Reported change[4] %	Underlying change[4] %
Net interest income	2,863		8	2,871		(639)	2,232	(22)	(22)
Net fee income	1,111		3	1,114		86	1,200	8	8
Changes in fair value[5]	2			2		(5)	(3)	(250)	(250)
Other income[6]	1,070		3	1,073		212	1,285	20	20
Net operating income[7]	5,046		14	5,060		(346)	4,714	(7)	(7)
Loan impairment charges and other credit risk provisions	(684)			(684)		411	(273)	60	60
Net operating income	4,362		14	4,376		65	4,441	2	1
Operating expenses	(1,968)		(5)	(1,973)		38	(1,935)	2	2
Operating profit	2,394		9	2,403		103	2,506	5	4
	(6)			(6)		1	(5)	17	17

Income from associates							
Profit before tax	2,388	9	2,397	104	2,501	5	4

For footnotes, see page 94.

Analysis by customer group and global business
Profit/(loss) before tax

	Half-year to 30 June 2009						
Hong Kong	**Personal Financial Services US$m**	**Commercial Banking US$m**	**Global Banking and Markets US$m**	**Private Banking US$m**	**Other US$m**	**Inter-segment elimination[29] US$m**	**Total US$m**
Net interest income/(expense)	**1,294**	**480**	**713**	**122**	**(313)**	**(64)**	**2,232**
Net fee income	**643**	**244**	**230**	**57**	**26**		**1,200**
Trading income/(expense) excluding net interest income	**69**	**41**	**555**	**42**	**(70)**		**637**
Net interest income/(expense) on trading activities	**2**		**(7)**		**8**	**64**	**67**
Net trading income/(expense)[24]	**71**	**41**	**548**	**42**	**(62)**	**64**	**704**
Changes in fair value of long- term debt issued and related derivatives					**(3)**		**(3)**
Net income/(expense) from other financial instruments designated at fair value	**319**	**(22)**	**28**		**23**		**348**
Net income/(expense) from financial instruments designated at fair value	**319**	**(22)**	**28**		**20**		**345**
Gains less losses from financial investments	**81**	**17**	**(76)**		**(20)**		**2**
Dividend income	**4**		**1**		**9**		**14**
Net earned insurance premiums	**1,622**	**211**	**5**				**1,838**
Other operating income	**146**	**39**	**18**	**5**	**440**	**(143)**	**505**

Total operating income	**4,180**	**1,010**	**1,467**	**226**	**100**	**(143)**	**6,840**
Net insurance claims[25]	**(1,953)**	**(168)**	**(5)**				**(2,126)**
Net operating income[7]	**2,227**	**842**	**1,462**	**226**	**100**	**(143)**	**4,714**
Loan impairment charges and other credit risk provisions	**(122)**	**(137)**	**(14)**				**(273)**
Net operating income	**2,105**	**705**	**1,448**	**226**	**100**	**(143)**	**4,441**
Total operating expenses	**(770)**	**(281)**	**(541)**	**(120)**	**(366)**	**143**	**(1,935)**
Operating profit/(loss)	**1,335**	**424**	**907**	**106**	**(266)**		**2,506**
Share of profit/(loss) in associates and joint ventures	**2**				**(7)**		**(5)**
Profit/(loss) before tax	**1,337**	**424**	**907**	**106**	**(273)**		**2,501**
	%	*%*	*%*	*%*	*%*		*%*
Share of HSBC s profit before tax	**26.6**	**8.4**	**18.1**	**2.1**	**(5.4)**		**49.8**
Cost efficiency ratio	**34.6**	**33.4**	**37.0**	**53.1**	**366.0**		**41.0**
Balance sheet data[23]							
	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances to customers (net)	**42,665**	**26,682**	**23,182**	**3,054**	**1,903**		**97,486**
Total assets	**79,113**	**33,209**	**221,196**	**23,000**	**67,820**	**(11,231)**	**413,107**
Customer accounts	**157,437**	**54,730**	**34,875**	**19,919**	**571**		**267,532**

For footnotes, see page 94.

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Interim Management Report: Operating and Financial Review (continued)
Analysis by customer group and global business (continued)
Profit/(loss) before tax

	Half-year to 30 June 2008						
	Personal Financial Services	Commercial Banking	Global Banking and Markets	Private Banking	Other	Inter-segment elimination[29]	Total
Hong Kong	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Net interest income/(expense)	1,693	770	801	96	(514)	(11)	2,835
Net fee income	856	278	238	95	2		1,469
Trading income/(expense) excluding net interest income	90	37	40	57	(121)		103
Net interest income on trading activities	6	1	177		16	11	211
Net trading income/ (expense)[24]	96	38	217	57	(105)	11	314
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	(455)	15	8		70		(362)
Net income/(expense) from financial instruments designated at fair value	(455)	15	8		71		(361)
Gains less losses from financial investments	159	34	12		(303)		(98)
Dividend income	2	1	3		14		20
Net earned insurance premiums	1,559	84	6		1		1,650
Other operating income	110	17	47	2	448	(176)	448
Total operating income/ (expense)	4,020	1,237	1,332	250	(386)	(176)	6,277
Net insurance claims[25]	(1,104)	(61)	(4)				(1,169)
Net operating income/ (expense)[7]	2,916	1,176	1,328	250	(386)	(176)	5,108

Loan impairment (charges)/ recoveries and other credit risk provisions	(34)	(28)	(20)		1		(81)
Net operating income/ (expense)	2,882	1,148	1,308	250	(385)	(176)	5,027
Total operating expenses	(848)	(279)	(538)	(127)	(359)	176	(1,975)
Operating profit/(loss)	2,034	869	770	123	(744)		3,052
Share of profit in associates and joint ventures	2				19		21
Profit/(loss) before tax	2,036	869	770	123	(725)		3,073
	%	%	%	%	%		%
Share of HSBC s profit before tax	19.9	8.5	7.5	1.2	(7.1)		30.0
Cost efficiency ratio	29.1	23.7	40.5	50.8	(93.0)		38.7
Balance sheet data[23]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	40,608	32,112	20,257	4,912	1,852		99,741
Total assets	69,810	38,553	201,094	31,635	59,923	(29,431)	371,584
Customer accounts	133,454	49,700	31,577	16,602	376		231,709

For footnotes, see page 94.

	Half-year to 31 December 2008						
Hong Kong	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[29] US$m	Total US$m
Net interest income/(expense)	1,688	728	723	118	(155)	(239)	2,863
Net fee income	585	270	176	68	12		1,111
Trading income excluding net interest income	53	42	443	63	151		752
Net interest income/(expense) on trading activities	5		67		(184	239	127
Net trading income/(expense)[24]	58	42	510	63	(33)	239	879
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	(836)	(25)	31		(2		(832)
Net income/(expense) from financial instruments designated at fair value	(836)	(25)	31				(830)
Gains less losses from financial investments	(3)	(2)	(121)		(85)		(211)
Dividend income	1	1	14		5		21
Net earned insurance premiums	1,488	97	11		1		1,597
Other operating income	22	21	54	6	458	(192)	369
Total operating income	3,003	1,132	1,398	255	203	(192)	5,799

Net insurance claims[25]	(669)	(75)	(7)		(2)		(753)
Net operating income[7]	2,334	1,057	1,391	255	201	(192)	5,046
Loan impairment charges and other credit risk provisions	(100)	(307)	(264)	(13)			(684)
Net operating income	2,234	750	1,127	242	201	(192)	4,362
Total operating expenses	(843)	(305)	(462)	(128)	(422)	192	(1,968)
Operating profit/(loss)	1,391	445	665	114	(221)		2,394
Share of profit/(loss) in associates and joint ventures	1	1	1		(9)		(6)
Profit/(loss) before tax	1,392	446	666	114	(230)		2,388
	%	%	%	%	%		%
Share of HSBC s loss before tax	148.1	47.4	70.9	12.1	(24.4)		254.1
Cost efficiency ratio	36.1	28.9	33.2	50.2	210.0		39.0
Balance sheet data[23]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	41,447	30,331	23,042	3,605	1,795		100,220
Total assets	75,419	36,428	233,187	28,800	66,192	(25,542)	414,484
Customer accounts	145,002	54,869	30,866	19,416	364		250,517

For footnotes, see page 94.

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Interim Management Report: Operating and Financial Review (continued)
Rest of Asia-Pacific[17]
Profit/(loss) before tax by country within customer groups and global businesses

	Personal Financial Services US$m	**Commercial Banking US$m**	**Global Banking and Markets US$m**	**Private Banking US$m**	**Other US$m**	**Total US$m**
Half-year to 30 June 2009						
Australia	**12**	**9**	**60**		**3**	**84**
India	**(124)**	**(39)**	**244**		**120**	**201**
Indonesia	**(12)**	**16**	**77**		**(1)**	**80**
Japan	**(41)**		**38**	**(4)**	**(1)**	**(8)**
Mainland China	**188**	**292**	**258**	**(3)**	**17**	**752**
Associates	**287**	**255**	**143**			**685**
Other mainland China	**(99)**	**37**	**115**	**(3)**	**17**	**67**
Malaysia	**38**	**27**	**76**		**(2)**	**139**
Singapore	**67**	**43**	**126**	**54**	**(7)**	**283**
South Korea	**(6)**	**(6)**	**186**		**11**	**185**
Taiwan	**(7)**	**32**	**55**		**1**	**81**
Other	**20**	**85**	**119**		**1**	**225**
	135	**459**	**1,239**	**47**	**142**	**2,022**
Half-year to 30 June 2008						
Australia	15	34	47		4	100
India	(53)	75	301	2	46	371
Indonesia	(1)	19	52		(4)	66
Japan	(39)		42	1		4
Mainland China	277	306	357	(2)	(31)	907
Associates	321	268	159			748
Other mainland China	(44)	38	198	(2)	(31)	159
Malaysia	61	51	94		3	209
Singapore	63	45	185	51	(4)	340
South Korea	(10)	(2)	168		21	177
Taiwan	(5)	12	106		2	115
Other	18	113	194		20	345

	326	653	1,546	52	57	2,634
Half-year to 31 December 2008						
Australia	4	34	55		(17)	76
India	(102)	43	277		77	295
Indonesia	(21)	(2)	74		4	55
Japan	(49)	(1)	46		4	
Mainland China	7	316	331	(3)	47	698
Associates	72	290	176			538
Other mainland China	(65)	26	155	(3)	47	160
Malaysia	33	45	77		5	160
Singapore	41	38	152	59	(33)	257
South Korea	(6)	(11)	136		17	136
Taiwan	(36)	33	73		(10)	60
Other	14	87	203	1	46	351
	(115)	582	1,424	57	140	2,088

For footnote, see page 94.

Loans and advances to customers (net) by country[17]

	At 30 June 2009 US$m	At 30 June 2008 US$m	At 31 December 2008 US$m
Australia	**10,594**	12,664	9,321
India	**5,236**	7,585	6,244
Indonesia	**2,540**	1,924	1,904
Japan	**2,486**	4,710	5,839
Mainland China	**10,784**	12,653	11,440
Malaysia	**8,873**	9,295	9,404
Singapore	**12,956**	13,724	13,441
South Korea	**4,426**	6,581	5,336
Taiwan	**4,123**	5,330	4,329
Other	**12,044**	14,287	13,403
	74,062	88,753	80,661

For footnote, see page 94.

Customer accounts by country[17]

	At 30 June 2009 US$m	At 30 June 2008 US$m	At 31 December 2008 US$m
Australia	**9,621**	13,864	9,201
India	**11,719**	11,365	9,767
Indonesia	**4,557**	2,557	2,896
Japan	**4,673**	4,728	6,204
Mainland China	**19,874**	18,205	19,171
Malaysia	**12,080**	12,836	11,963
Singapore	**32,920**	32,784	32,748
South Korea	**4,336**	4,509	4,383
Taiwan	**9,819**	12,227	9,689
Other	**16,984**	17,464	18,172
	126,583	130,539	124,194

For footnote, see page 94.

Economic briefing

Growth in **mainland China** recovered during the first half of 2009 as the effect on domestic demand of the government s fiscal stimulus package and the reversal of the earlier tightening of monetary conditions helped offset the very sharp decline registered in exports. Second quarter GDP rose by 7.9 per cent in year-on-year terms, implying a substantial acceleration in growth from the 6.1 per cent year-on-year increase recorded during the first quarter of

2009. Growth in industrial production also accelerated during the first half of 2009, while expectations for a continuation of the rapid expansion in fixed asset investment were supported by very strong growth in bank lending. Consumer spending remained robust, with retail sales rising by 15 per cent over the year to June 2009. The annual rate of consumer price inflation turned negative during the early months of 2009, largely reflecting the earlier movements in food and energy prices. The renminbi was little changed against the US dollar during the period.

Economic conditions proved extremely difficult in **Japan** during the first half of 2009, although some signs of stabilisation did emerge towards the end of the period. First quarter GDP fell by 8.8 per cent against the comparable period in 2008, and industrial production fell by 30 per cent in year-on-year terms in May 2009 as demand within key export markets proved weak. Unemployment rose from 4.3 per cent in December 2008 to 5.2 per cent in May 2009, while the consumer price index fell by 1.1 per cent during the year to May 2009.

Elsewhere in Asia, growth rates were volatile during the first half of 2009. The substantial monetary and fiscal policy measures introduced across the region helped to stabilise conditions

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Profit before tax

	Half-year to		
Rest of Asia-Pacific[17]	**30 June 2009 US$m**	30 June 2008 US$m	31 December 2008 US$m
Net interest income	**1,768**	1,919	2,018
Net fee income	**719**	1,004	863
Net trading income	**909**	1,090	952
Changes in fair value of long-term debt issued and related derivatives	**(2)**		1
Net income/(expense) from other financial instruments designated at fair value	**31**	(88)	(84)
Net income/(expense) from financial instruments designated at fair value	**29**	(88)	(83)
Gains less losses from financial investments	**(21)**	24	
Dividend income	**1**	1	1
Net earned insurance premiums	**152**	114	83
Other operating income	**608**	475	580
Total operating income	**4,165**	4,539	4,414
Net insurance claims incurred and movement in liabilities to policyholders	**(156)**	(4)	32
Net operating income before loan impairment charges and other credit risk provisions	**4,009**	4,535	4,446
Loan impairment charges and other credit risk provisions	**(531)**	(328)	(524)
Net operating income	**3,478**	4,207	3,922
Total operating expenses	**(2,151)**	(2,324)	(2,380)
Operating profit	**1,327**	1,883	1,542

Share of profit in associates and joint ventures	**695**	751	546
Profit before tax	**2,022**	2,634	2,088
	%	%	%
Share of HSBC s profit before tax	**40.3**	25.7	222.1
Cost efficiency ratio	**53.7**	51.2	53.5
Period-end staff numbers (full-time equivalent)	**87,567**	85,581	89,706
Balance sheet data[23]			
	US$m	US$m	US$m
Loans and advances to customers (net)	**74,062**	88,753	80,661
Loans and advances to banks (net)	**34,278**	40,695	28,665
Trading assets, financial instruments designated at fair value, and financial investments	**55,328**	59,934	53,167
Total assets	**217,794**	239,224	225,573
Deposits by banks	**12,980**	18,600	12,688
Customer accounts	**126,583**	130,539	124,194

For footnotes, see page 94.

The commentary on Rest of Asia-Pacific is on an underlying basis unless stated otherwise.

following very sharp contractions in economic activity during the early months of the year. Such trends were particularly evident in **Singapore**, where the very sharp recession continued during the first quarter as GDP fell by 9.6 per cent on the comparable period in 2008, before exports and industrial production staged a sustained recovery. Second quarter GDP fell by 3.7 per cent against the comparable period in 2008. Growth proved more durable in **India**, with first quarter GDP rising by 5.8 per cent on the comparable period in 2008. Declining inflationary pressures and concerns over the global economic outlook nevertheless led the Reserve Bank of India to reduce interest rates and reserve requirements during the first half of 2009.

Although growth slowed during the first quarter of the year in **Indonesia**, the 4.4 per cent increase in GDP against the comparable period in 2008 left the country as a major out-performer in the region.

Economic conditions proved very weak during the early months of 2009 in **Malaysia** as first quarter GDP fell by 6.2 per cent compared with the equivalent period in 2008. The open nature of the **South Korean** economy and relatively high levels of household and corporate sector indebtedness proved detrimental during the early months of 2009 as first quarter GDP fell by 4.2 per cent against the comparable period in 2008. However, industrial production increased monthly during the second quarter and surveys indicated consumer confidence rebounding strongly. Deteriorating external demand
and weaker capital inflows proved problematic for the **Philippines** economy as first quarter GDP fell on a quarter-on-quarter basis, encouraging a further decline in interest rates. **Taiwan** s economy proved particularly vulnerable to the contraction in global trade in early 2009, with a record 10.2 per cent decline in GDP on the comparable period in 2008. A substantial fiscal stimulus package in **Vietnam** contributed to improved growth during the first half of 2009. After rising by 3.1 per cent in the year to the first quarter of 2009, year-on-year GDP growth accelerated to 3.9 per cent in the second quarter.

Review of business performance
Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2009 (1H09) compared with half-year to 30 June 2008 (1H08)								
	1H08 as reported	**1H08 acquisitions and disposals[1]**	**Currency translation[2]**	**1H08 at 1H09 exchange rates[3]**	**1H09 acquisitions and disposals[1]**	**Under-lying change**	**1H09 as reported**	**Re-ported change[4]**	**Under-lying change[4]**
Rest of Asia-Pacific[17]	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**%**	**%**
Net interest income	**1,919**		**(181)**	**1,738**		**30**	**1,768**	**(8)**	**2**
Net fee income	**1,004**		**(96)**	**908**		**(189)**	**719**	**(28)**	**(21)**
Changes in fair value[5]						**(2)**	**(2)**		
Other income[6]	**1,612**		**(226)**	**1,386**		**138**	**1,524**	**(5)**	**10**
Net operating income[7]	**4,535**		**(503)**	**4,032**		**(23)**	**4,009**	**(12)**	**(1)**
Loan impairment charges and other credit risk provisions	**(328)**		**49**	**(279)**		**(252)**	**(531)**	**(62)**	**(90)**
Net operating income	**4,207**		**(454)**	**3,753**		**(275)**	**3,478**	**(17)**	**(7)**
Operating expenses	**(2,324)**		**237**	**(2,087)**		**(64)**	**(2,151)**	**7**	**(3)**
Operating profit	**1,883**		**(217)**	**1,666**		**(339)**	**1,327**	**(30)**	**(20)**
Income from associates	**751**		**26**	**777**		**(82)**	**695**	**(7)**	**(11)**
Profit before tax	**2,634**		**(191)**	**2,443**		**(421)**	**2,022**	**(23)**	**(17)**

For footnotes, see page 94.

HSBC s operations in the Rest of Asia-Pacific region reported a pre-tax profit of US$2.0 billion compared with US$2.6 billion in the first half of 2008, a decline of 23 per cent or 17 per cent on an underlying basis. Global Banking and Markets performance remained robust, delivering US$1.2 billion or 61 per cent of the regional pre-tax profit compared with US$1.5 billion or 59 per cent in the first half of 2008. The decline in regional performance was primarily attributable to the Personal Financial Services and Commercial Banking customer groups, which were adversely affected by the impact of sustained low interest rates, reduced economic activities and trade flows and the consequential deterioration in credit quality.

HSBC continued to demonstrate its commitment to the region through the purchase of Bank Ekonomi in Indonesia in May 2009, and by becoming the first
foreign bank to incorporate locally in Vietnam, in January 2009. Organic expansion continued in mainland China with the opening of eight new HSBC branded outlets in the first half of 2009 in addition to two more rural banks, consolidating HSBC s position as the largest foreign international bank in the country. In insurance, HSBC expanded its joint ventures with Canara Bank and Oriental Bank of Commerce in India and National Trust in mainland China. The operations of The Chinese Bank in Taiwan and IL&FS Investsmart (Investsmart) in India were successfully integrated during the period; the former is proceeding ahead of expectations: the latter added 77 outlets to the existing branch network to enhance wealth management product distribution.

Net interest income increased by 2 per cent, driven by lower interest rates, particularly related to

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the cost of funding the trading book. This benefit was partly offset by lower deposit spreads in the low interest rate environment and strong price competition for core deposit acquisition.

Asset balances declined as demand for financing reduced and the rate of increase in personal unsecured lending origination, which had contributed to lending growth in previous years, was curtailed in order to manage asset quality. This was particularly evident in India, where the decline in lending reflected measures to improve the quality of the asset portfolio, including eliminating the use of third-party agents in the credit card origination process as experience highlighted areas of relative weakness. The effect was readily discernible, with credit card lending balances in India falling to US$539 million at 30 June 2009 from US$647 million at the beginning of the year. As credit availability was constrained in certain sectors, HSBC was able to undertake a series of repricing initiatives throughout the region which, along with the reduced funding costs in the low interest rate environment, resulted in wider spreads being achieved on lending products. This was particularly notable in respect of corporate loans and, in India, trade advances.

HSBC remained highly successful in attracting deposits, particularly through Premier, where customer numbers increased by 14 per cent to almost half a million in the region. Balances grew in most countries, most notably India, Indonesia and mainland China. Deposit growth in India was attributable to a 12 per cent increase in the number of Premier customers and, in mainland China, to branch network expansion.

Net fee income was 21 per cent lower than in the first half of 2008, and reflected a decline in sales of investment and wealth management products. Sales of investment products, notably unit trusts, fell, particularly in Taiwan and India as investor sentiment remained risk averse and equity markets continued to have little momentum for much of the period. Similarly, in Singapore reduced demand for managed funds and depressed market values led to a decline in funds under management and lower performance fees, partly mitigated by higher sales of structured products.

Notwithstanding the decline in trade flows, fees from trade and supply chain products rose due to revised pricing strategies, most significantly in India.

Net trading income declined by 2 per cent, as the fall in interest rates reduced net interest income from trading activities.

Trading performance in Global Banking and Markets was strong as market volatility continued across the region, encouraging increased corporate hedging activity and delivering increased margins on market-making activity as investors demonstrated heightened risk aversion. Trading income growth was largely attributable to Rates trading and Credit. Revenues from Rates rose, most notably in South Korea, Indonesia and Japan, driven by increased customer demand and volatile markets. Credit related revenues rose, particularly in India, as credit spreads tightened significantly.

HSBC continued to expand in the Rest of Asia-Pacific region despite a fall of 17 per cent in underlying pre-tax profit.

Net income from *financial instruments designated at fair value* of US$29 million was recorded compared with a net expense of US$88 million in the first half of 2008. This was primarily attributable to equity market-related gains on unit-linked insurance products, particularly in Singapore, and was largely offset by a corresponding increase in liabilities to policyholders reflected in net insurance claims incurred and movement in liabilities to policyholders.

Net earned insurance premiums increased by 45 per cent to US$152 million, largely in Singapore due to increased sales of a new Guaranteed Saver life product.

Loan impairment charges nearly doubled, reflecting a deterioration in the credit environment across the region, but remained low in absolute terms at US$531 million.

In Personal Financial Services, loan impairment charges rose by 43 per cent, primarily in India and, to a lesser extent, in Indonesia. In India, higher loan impairment charges were driven by increased delinquency across the unsecured lending portfolio, notably credit cards and personal lending, following strong growth ahead of the economic slowdown. HSBC took specific action to mitigate loan losses, including discontinuing consumer finance loan origination towards the end of 2008, and tightening lending criteria on other unsecured lending products. In Indonesia, loan impairment charges rose due to higher delinquencies on credit cards and personal lending.

In Commercial Banking, the rise in loan impairment charges reflected an increase in corporate failures as economic growth slowed, notably in certain export sectors. Loan impairment charges also increased from the low level recorded

in 2008, notably in India where there were a few individually significant charges recorded. Other countries in the region were also affected but to a lesser degree.

Operating expenses increased by 3 per cent to US$2.2 billion to support the ongoing expansion of infrastructure in the region. Operating expenses rose in mainland China as the branch network grew and staff numbers increased accordingly. In India, operating expenses rose by 10 per cent, driven by expansion of the branch network following the integration of Investsmart and an increase in staff numbers. In Taiwan, a fifth Commercial Banking Centre was opened in Neihu, a prominent science and technology zone, and six branch renovations were completed as part of the integration of the operations of The Chinese Bank. Infrastructure investment growth was partly offset by a reduction in marketing costs, notably in respect of unsecured lending products.

The number of transactions completed through direct channels, including internet banking, telephone services and self-service machines
increased and represented more than 60 per cent of commercial banking transactions.

Operating expenses within the Group Service and Software Development Centres rose by 10 per cent as the number of migrated activities and processes increased in accordance with the Group s global resourcing strategy to develop Centres of Excellence . All related costs are recharged to other Group entities and the income from these recharges is reported within *other operating income.*

Profit from associates and joint ventures in the region was 11 per cent lower, driven by a reduction in contribution from Ping An Insurance due to the non-recurrence of favourable changes in investment assumptions in the first half of 2008. The profit contribution from the Bank of Communications was unchanged as the combination of increased fee income from cards, advisory services and cost savings were offset by reduced income from narrowing deposit spreads. The contribution from Industrial Bank declined due to a fall in net interest income as deposit spreads narrowed.

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2009 (1H09) compared with half-year to 31 December 2008 (2H08)								
Rest of Asia-Pacific[17]	2H08 as reported US$m	2H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	2H08 at 1H09 exchange rates[8] US$m	1H09 acquisitions and disposals[1] US$m	Underlying change US$m	1H09 as reported US$m	Reported change[4] %	Underlying change[4] %
Net interest income	2,018		(75)	1,943		(175)	1,768	(12)	(9)
Net fee income	863		(32)	831		(112)	719	(17)	(13)
Changes in fair value[5]	1			1		(3)	(2)	(300)	(300)
Other income[6]	1,564		(74)	1,490		34	1,524	(3)	2
Net operating income[7]	4,446		(181)	4,265		(256)	4,009	(10)	(6)
Loan impairment charges and other credit risk provisions	(524)		16	(508)		(23)	(531)	(1)	(5)
Net operating income	3,922		(165)	3,757		(279)	3,478	(11)	(7)
Operating expenses	(2,380)		92	(2,288)		137	(2,151)	10	6

Operating profit	1,542	(73)	1,469	(142)	1,327	(14)	(10)
Income from associates	546		546	149	695	27	27
Profit before tax	2,088	(73)	2,015	7	2,022	(3)	

For footnotes, see page 94.

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	Half-year to 30 June 2009						
Rest of Asia-Pacific[17]	**Personal Financial Services US$m**	**Commercial Banking US$m**	**Global Banking and Markets US$m**	**Private Banking US$m**	**Other US$m**	**Inter-segment elimination**[29] **US$m**	**Total US$m**
Net interest income	**730**	**380**	**626**	**55**	**63**	**(86)**	**1,768**
Net fee income	**254**	**154**	**294**	**25**	**(8)**		**719**
Trading income/(expense) excluding net interest income	**40**	**71**	**609**	**35**	**(15)**		**740**
Net interest income/(expense) on trading activities	**(1)**		**82**		**2**	**86**	**169**
Net trading income/(expense)[24]	**39**	**71**	**691**	**35**	**(13)**	**86**	**909**
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	**34**		**(3)**				**31**
Net income/(expense) from financial instruments designated at fair value	**34**		**(3)**		**(2)**		**29**
Gains less losses from financial investments	**5**	**3**	**(10)**		**(19)**		**(21)**
Dividend income			**1**				**1**
Net earned insurance premiums	**136**	**16**					**152**
Other operating income	**36**	**28**	**17**		**590**	**(63)**	**608**
Total operating income	**1,234**	**652**	**1,616**	**115**	**611**	**(63)**	**4,165**

Net insurance claims[25]	**(145)**	**(11)**					**(156)**
Net operating income[7]	**1,089**	**641**	**1,616**	**115**	**611**	**(63)**	**4,009**
Loan impairment charges and other credit risk provisions	**(375)**	**(151)**	**(5)**				**(531)**
Net operating income	**714**	**490**	**1,611**	**115**	**611**	**(63)**	**3,478**
Total operating expenses	**(870)**	**(291)**	**(517)**	**(68)**	**(468)**	**63**	**(2,151)**
Operating profit	**(156)**	**199**	**1,094**	**47**	**143**		**1,327**
Share of profit/(loss) in associates and joint ventures	**291**	**260**	**145**		**(1)**		**695**
Profit before tax	**135**	**459**	**1,239**	**47**	**142**		**2,022**
	%	*%*	*%*	*%*	*%*		*%*
Share of HSBC s profit before tax	**2.7**	**9.1**	**24.7**	**0.9**	**2.9**		**40.3**
Cost efficiency ratio	**79.9**	**45.4**	**32.0**	**59.1**	**76.6**		**53.7**
Balance sheet data[23]							
	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances to customers (net)	**27,780**	**21,693**	**21,682**	**2,739**	**168**		**74,062**
Total assets	**36,761**	**29,760**	**138,266**	**13,068**	**5,958**	**(6,019)**	**217,794**
Customer accounts	**45,179**	**26,031**	**42,712**	**12,624**	**37**		**126,583**

For footnotes, see page 94.

	Half-year to 30 June 2008						
	Personal Financial Services	Commercial Banking	Global Banking and Markets	Private Banking	Other	Inter-segment elimination[29]	Total
Rest of Asia-Pacific[17]	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Net interest income	864	446	759	45	68	(263)	1,919
Net fee income	320	175	456	41	12		1,004
Trading income/(expense) excluding net interest income	32	72	674	36	(49)		765
Net interest income/(expense) on trading activities	(2)		59		5	263	325
Net trading income/(expense)[24]	30	72	733	36	(44)	263	1,090
Changes in fair value of long-term debt issued and related derivatives							
Net expense from other financial instruments designated at fair value	(85)	(1)	(2)				(88)
Net expense from financial instruments designated at fair value	(85)	(1)	(2)				(88)
Gains less losses from financial investments	14	3	6		1		24
Dividend income			1				1
Net earned insurance premiums	98	16					114
Other operating income	18	7	37	1	516	(104)	475
Total operating income	1,259	718	1,990	123	553	(104)	4,539
Net insurance claims[25]	6	(9)			(1)		(4)
Net operating income[7]	1,265	709	1,990	123	552	(104)	4,535

Loan impairment (charges)/ recoveries and other credit risk provisions	(310)	(7)	(11)				(328)
Net operating income	955	702	1,979	123	552	(104)	4,207
Total operating expenses	(949)	(318)	(591)	(71)	(499)	104	(2,324)
Operating profit	6	384	1,388	52	53		1,883
Share of profit in associates and joint ventures	320	269	158		4		751
Profit before tax	326	653	1,546	52	57		2,634
	%	%	%	%	%		%
Share of HSBC s profit before tax	3.2	6.4	15.0	0.5	0.6		25.7
Cost efficiency ratio	75.0	44.9	29.7	57.7	90.3		51.2
Balance sheet data[23]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	31,402	25,285	28,609	3,297	160		88,753
Total assets	39,336	32,012	151,490	10,798	10,498	(4,910)	239,224
Customer accounts	43,479	27,540	48,625	10,830	65		130,539

For footnotes, see page 94.

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Profit before tax

	Half-year to 31 December 2008						
Rest of Asia-Pacific[17]	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[29] US$m	Total US$m
Net interest income	844	488	765	58	71	(208)	2,018
Net fee income	272	180	375	30	6		863
Trading income/(expense) excluding net interest income	33	50	559	41	(3)		680
Net interest income/(expense) on trading activities	(3)		64		3	208	272
Net trading income[24]	30	50	623	41		208	952
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	(87)	1	(2)		4		(84)
Net income/(expense) from financial instruments designated at fair value	(87)	1	(2)		5		(83)
Dividend income					1		1
Net earned insurance premiums	74	9					83
Other operating income/(expense)	41	70	42	(2)	558	(129)	580
Total operating income	1,174	798	1,803	127	641	(129)	4,414

Net insurance claims[25]	36	(4)					32
Net operating income[7]	1,210	794	1,803	127	641	(129)	4,446
Loan impairment charges and other credit risk provisions	(330)	(131)	(62)	(1)			(524)
Net operating income	880	663	1,741	126	641	(129)	3,922
Total operating expenses	(1,067)	(371)	(494)	(69)	(508)	129	(2,380)
Operating profit	(187)	292	1,247	57	133		1,542
Share of profit/(loss) in associates and joint ventures	72	290	177		7		546
Profit/(loss) before tax	(115)	582	1,424	57	140		2,088
	%	%	%	%	%		%
Share of HSBC s loss before tax	(12.2)	61.9	151.5	6.1	14.9		222.1
Cost efficiency ratio	88.2	46.7	27.4	54.3	79.3		53.5
Balance sheet data[23]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	27,634	21,967	27,941	2,960	159		80,661
Total assets	36,310	29,030	147,714	12,440	5,528	(5,449)	225,573
Customer accounts	42,778	25,372	42,977	12,713	354		124,194

For footnotes, see page 94.

Middle East[17]

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

	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other US$m	Total US$m
Half-year to 30 June 2009						
Egypt	**10**	**27**	**49**		**34**	**120**
United Arab Emirates	**(14)**	**141**	**182**	**(1)**	**3**	**311**
Other	**19**	**35**	**20**		**(4)**	**70**
Middle East (excluding Saudi Arabia)	**15**	**203**	**251**	**(1)**	**33**	**501**
Saudi Arabia	**20**	**49**	**53**	**6**	**14**	**142**
	35	**252**	**304**	**5**	**47**	**643**
Half-year to 30 June 2008						
Egypt	11	37	45		22	115
United Arab Emirates	106	184	229	2	1	522
Other	44	69	65			178
Middle East (excluding Saudi Arabia)	161	290	339	2	23	815
Saudi Arabia	48	18	87		22	175
	209	308	426	2	45	990
Half-year to 31 December 2008						
Egypt	5	31	45		27	108
United Arab Emirates	27	146	159	2	5	339
Other	36	56	96		1	189
Middle East (excluding Saudi Arabia)	68	233	300	2	33	636
Saudi Arabia	12	17	90		1	120
	80	250	390	2	34	756

Loans and advances to customers (net) by country[17]

	At 30 June 2009 US$m	At 30 June 2008 US$m	At 31 December 2008 US$m
Egypt	**2,503**	2,265	2,473
United Arab Emirates	**15,906**	16,416	17,537
Other	**6,688**	6,323	7,285
	25,097	25,004	27,295

Customer accounts by country[17]

	At 30 June 2009 US$m	At 30 June 2008 US$m	At 31 December 2008 US$m
Egypt	**5,642**	5,359	5,363
United Arab Emirates	**19,284**	20,658	19,808
Other	**9,355**	10,239	9,994
	34,281	36,256	35,165

For footnote, see page 94.

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	Half-year to		
Middle East[17]	**30 June 2009 US$m**	30 June 2008 US$m	31 December 2008 US$m
Net interest income	**763**	714	842
Net fee income	**308**	334	357
Net trading income	**220**	239	163
Gains less losses from financial investments	**13**	9	(1)
Dividend income	**2**	1	1
Net earned insurance premiums			
Other operating income	**63**	9	
Total operating income	**1,369**	1,306	1,362
Net insurance claims incurred and movement in liabilities to policyholders			
Net operating income before loan impairment charges and other credit risk provisions	**1,369**	1,306	1,362
Loan impairment charges and other credit risk provisions	**(391)**	(41)	(238)
Net operating income	**978**	1,265	1,124
Total operating expenses	**(482)**	(460)	(499)
Operating profit	**496**	805	625
Share of profit in associates and joint ventures	**147**	185	131
Profit before tax	**643**	990	756
	%	%	%
Share of HSBC s profit before tax	**12.8**	9.7	80.4
Cost efficiency ratio	**35.2**	35.2	36.6

Period-end staff numbers (full-time equivalent)	**8,819**	8,166	8,453

Balance sheet data[23]

	US$m	US$m	US$m
Loans and advances to customers (net)	**25,097**	25,004	27,295
Loans and advances to banks (net)	**6,556**	11,044	7,476
Trading assets, financial instruments designated at fair value, and financial investments	**10,064**	8,198	8,056
Total assets	**48,601**	51,777	50,952
Deposits by banks	**991**	1,939	1,001
Customer accounts	**34,281**	36,256	35,165

For footnotes, see page 94.

The commentary on Middle East is on an underlying basis unless stated otherwise.

Economic briefing

After a period of very rapid expansion, the economies of the **Middle East** slowed sharply during the first half of 2009 as oil prices fell and access to regional and international funding was compromised. Government spending growth was maintained despite sharply reduced oil revenues, which offered some support to domestic demand. Private consumption and private investment
spending, however, moderated after several years of rapid growth. Previous inflationary pressures subsided, allowing policymakers to track the exceptionally low level of interest rates in the US without reigniting consumer or asset price growth. The large surpluses accumulated during recent years of high oil prices are likely to ensure that funding for fiscal or external account shortfalls remains accessible.

Review of business performance

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2009 (1H09) compared with half-year to 30 June 2008 (1H08)								
Middle East[17]	**1H08 as reported US$m**	**1H08 acquisitions and disposals[1] US$m**	**Currency translation[2] US$m**	**1H08 at 1H09 exchange rates[3] US$m**	**1H09 acquisitions and disposals[1] US$m**	**Under-lying change US$m**	**1H09 as reported US$m**	**Re-ported change[4] %**	**Under-lying change[4] %**
Net interest income	**714**		**(5)**	**709**		**54**	**763**	**7**	**8**
Net fee income	**334**		**(2)**	**332**		**(24)**	**308**	**(8)**	**(7)**
Other income[6]	**258**		**(1)**	**257**		**41**	**298**	**16**	**16**
Net operating income[7]	**1,306**		**(8)**	**1,298**		**71**	**1,369**	**5**	**5**
Loan impairment charges and other credit risk provisions	**(41)**		**(1)**	**(42)**		**(349)**	**(391)**	**(854)**	**(831)**
Net operating income	**1,265**		**(9)**	**1,256**		**(278)**	**978**	**(23)**	**(22)**
Operating expenses	**(460)**		**4**	**(456)**		**(26)**	**(482)**	**(5)**	**(6)**
Operating profit	**805**		**(5)**	**800**		**(304)**	**496**	**(38)**	**(38)**
Income from associates	**185**		**1**	**186**		**(39)**	**147**	**(21)**	**(21)**
Profit before tax	**990**		**(4)**	**986**		**(343)**	**643**	**(35)**	**(35)**

For footnotes, see page 94.

HSBC reported profit before tax in the Middle East of US$643 million, a decrease of 35 per cent compared with the first half of 2008 on both reported and underlying bases. This decrease was largely driven by the decline in economic activity, predominantly infrastructure development, following the dramatic fall in the price of oil, the adverse effect of lower regional and global equity markets on individual wealth and the depressed real estate sector. These factors contributed to a marked increase, albeit from a low base, in loan impairment charges in the United Arab Emirates (UAE). While new lending was constrained during the period, personal lending balances were higher than at 30 June 2008 and drove an increase in revenues of 6 per cent, partly offset by lower trading income as the first half of

2009 experienced lower levels of currency-related trading.

HSBC continued to expand its presence in the region, opening eight new branches in Egypt over the last 12 months. The priority given to building the Premier business across the region continued with the number of customers increasing by 14 per cent since 31 December 2008.

The Middle East is disclosed as a separate segment for the first time. Its underlying profit before tax declined by 35 per cent.

Net interest income increased by 8 per cent due to higher average interest earning balances compared with the first half of 2008 and asset repricing in Personal Financial Services.

Mortgage balances were higher than in the first half of 2008, reflecting mortgage approvals early in 2008 which were not drawn until later in the year; new approvals were significantly lower in the first half of 2009 as a result of the changed market circumstances. Credit card and trade balances also increased due to higher utilisation of facilities. Asset spreads widened, benefiting from repricing activity.

HSBC increasingly focused on liability products, and customer accounts in Personal Financial Services rose due to a combination of attractive rates offered in the last quarter of 2008 and ongoing marketing campaigns. The growth in Personal Financial Services balances was partly masked by a contraction in Global Banking and Markets balances following an outflow of funds in the second half of 2008 as currency trading abated. The revenue benefit from the limited growth in the balance sheet was partly offset by deposit spread compression in the low interest rate environment.

Net fee income fell by 7 per cent to US$308 million as reduced activity led to a fall in transaction fees on credit cards and a decrease in origination fees for personal loans. Additionally, custody fees decreased in line with declining asset values.

Net trading income fell by 8 per cent, to US$220 million. This was largely attributable to lower foreign exchange revenue as Middle Eastern currency markets attracted lower volumes and became less volatile than in 2008 as currency trading

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declined. Gains related to favourable credit spread movements were offset by the non-recurrence of private equity gains.

Other operating income included gains of US$55 million arising from the buy-back and extinguishing of HSBC s own debt issued locally.

Loan impairment charges rose sharply, increasing from US$41 million to US$391 million as credit quality across the region deteriorated as a consequence of weaker economic conditions.

Loan impairment charges within Personal Financial Services rose most significantly in the UAE as a result of increased default rates on Consumer Lending, notably credit cards and personal lending. Management actions, such as reducing credit lines and tightening lending criteria to the portfolio segments most at risk, served to limit the level of these charges. There was very little impairment recognised on mortgage lending which reflected HSBC s disciplined risk appetite, which targeted primary developments. The global economic slowdown, together with the decline in oil prices, placed intense pressure on the UAE s economy which suffered a significant fall in property and equity prices. Unemployment steadily increased, triggered mainly by the impact of the real estate downturn on new construction which precipitated the departure of growing numbers of expatriate workers, some of whom left debts unpaid.

For commercial and corporate banking customers, loan impairment charges rose with the deterioration in the economy, as some local businesses faced a sudden drop in operating activity. In addition, there were a few individually significant loan impairment charges recorded on exposures to large business groups in the region in financial difficulty.

Operating expenses increased by 5 per cent to US$482 million, mostly due to the full effect of business growth in 2008. Staff numbers reflected this growth, but further increases were restricted across most of the region in response to the current economic environment. Expansion of the retail network continued in Egypt, with the opening of eight branches since 30 June 2008.

Profit from associates and joint ventures in the region fell by 21 per cent, mainly from lower investment banking activity through IBSA. HSBC s share of IBSA s pre-tax profit fell by 77 per cent to US$7 million as advisory fees from debt capital markets declined. The Group s share of income from The Saudi British Bank was lower than in the comparable period in 2008 at US$136 million as higher loan impairment charges and marginally higher operating expenses were only partly offset by strong foreign exchange and trade-related income.

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2009 (1H09) compared with half-year to 31 December 2008 (2H08)								
Middle East[17]	2H08 as reported US$m	2H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	2H08 at 1H09 exchange rates[8] US$m	1H09 acquisitions and disposals[1] US$m	Underlying change US$m	1H09 as reported US$m	Reported change[4] %	Underlying change[4] %
Net interest income	842		(5)	837		(74)	763	(9)	(9)
Net fee income	357		(3)	354		(46)	308	(14)	(13)
Other income[6]	163		(4)	159		139	298	83	87
Net operating income[7]	1,362		(12)	1,350		19	1,369	1	1
Loan impairment charges and other	(238)		2	(236)		(155)	(391)	(64)	(66)

credit risk provisions							
Net operating income	1,124	(10)	1,114	(136)	978	(13)	(12)
Operating expenses	(499)	7	(492)	10	(482)	3	2
Operating profit	625	(3)	622	(126)	496	(21)	(20)
Income from associates	131		131	16	147	12	12
Profit before tax	756	(3)	753	(110)	643	(15)	(15)

For footnotes, see page 94.

Analysis by customer group and global business
Profit before tax

	Half-year to 30 June 2009						
Middle East[17]	**Personal Financial Services US$m**	**Commercial Banking US$m**	**Global Banking and Markets US$m**	**Private Banking US$m**	**Other US$m**	**Inter-segment elimination[29] US$m**	**Total US$m**
Net interest income	**343**	**243**	**149**	**1**	**27**		**763**
Net fee income	**99**	**109**	**98**	**1**	**1**		**308**
Trading income excluding net interest income	**26**	**37**	**146**		**1**		**210**
Net interest income on trading activities			**10**				**10**
Net trading income[24]	**26**	**37**	**156**		**1**		**220**
Gains less losses from financial investments	**11**	**(2)**	**(1)**		**5**		**13**
Dividend income			**2**				**2**
Other operating income	**24**	**33**	**25**	**2**	**19**	**(40)**	**63**
Total operating income	**503**	**420**	**429**	**4**	**53**	**(40)**	**1,369**
Net insurance claims[25]							
Net operating income[7]	**503**	**420**	**429**	**4**	**53**	**(40)**	**1,369**
Loan impairment charges and other credit risk provisions	**(244)**	**(83)**	**(64)**				**(391)**
Net operating income	**259**	**337**	**365**	**4**	**53**	**(40)**	**978**
	(245)	**(135)**	**(117)**	**(5)**	**(20)**	**40**	**(482)**

Total operating expenses							
Operating profit/(loss)	**14**	**202**	**248**	**(1)**	**33**		**496**
Share of profit in associates and joint ventures	**21**	**50**	**56**	**6**	**14**		**147**
Profit before tax	**35**	**252**	**304**	**5**	**47**		**643**
	%	%	%	%	%		%
Share of HSBC s profit before tax	**0.7**	**5.0**	**6.1**	**0.1**	**0.9**		**12.8**
Cost efficiency ratio	**48.7**	**32.1**	**27.3**	**125.0**	**37.7**		**35.2**
Balance sheet data[23]							
	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances to customers (net)	**6,645**	**11,567**	**6,799**	**31**	**55**		**25,097**
Total assets	**7,578**	**13,040**	**27,423**	**95**	**5,285**	**(4,820)**	**48,601**
Customer accounts	**14,967**	**9,844**	**7,312**	**1,645**	**513**		**34,281**

For footnotes, see page 94.

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)
Analysis by customer group and global business (continued)
Profit before tax

	Half-year to 30 June 2008						
Middle East[17]	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[29] US$m	Total US$m
Net interest income	302	234	159	2	20	(3)	714
Net fee income	114	114	104	2			334
Trading income excluding net interest income	21	32	155		19		227
Net interest income/(expense) on trading activities			23		(14)	3	12
Net trading income[24]	21	32	178		5	3	239
Gains less losses from financial investments	14		(5)				9
Dividend income			1				1
Other operating income	12	6	5		11	(25)	9
Total operating income	463	386	442	4	36	(25)	1,306
Net insurance claims[25]							
Net operating income[7]	463	386	442	4	36	(25)	1,306
Loan impairment (charges)/ recoveries and other credit risk provisions	(65)	23			1		(41)
Net operating income	398	409	442	4	37	(25)	1,265
Total operating expenses	(238)	(123)	(110)	(2)	(12)	25	(460)

Operating profit	160	286	332	2	25		805
Share of profit in associates and joint ventures	49	22	94		20		185
Profit before tax	209	308	426	2	45		990
	%	%	%	%	%		%
Share of HSBC s profit before tax	2.1	3.0	4.2		0.4		9.7
Cost efficiency ratio	51.4	31.9	24.9	50.0	33.3		35.2
Balance sheet data[23]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	6,459	12,099	6,392	53	1		25,004
Total assets	7,361	13,774	28,966	63	5,436	(3,823)	51,777
Customer accounts	13,073	11,428	9,537	1,764	454		36,256

For footnotes, see page 94.

	Half-year to 31 December 2008						
Middle East[17]	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[29] US$m	Total US$m
Net interest income	350	276	203	1	26	(14)	842
Net fee income	113	127	113	4			357
Trading income excluding net interest income	26	33	89		5		153
Net interest expense on trading activities			(3)		(1)	14	10
Net trading income[24]	26	33	86		4	14	163
Gains less losses from financial investments			(1)				(1)
Dividend income			1				1
Other operating income	9	2	6	3	15	(35)	
Total operating income	498	438	408	8	45	(35)	1,362
Net insurance claims[25]							
Net operating income[7]	498	438	408	8	45	(35)	1,362
Loan impairment charges and other credit risk provisions	(158)	(68)	(12)				(238)
Net operating income	340	370	396	8	45	(35)	1,124
Total operating expenses	(273)	(141)	(102)	(6)	(12)	35	(499)

Operating profit	67	229	294	2	33		625
Share of profit in associates and joint ventures	13	21	96		1		131
Profit before tax	80	250	390	2	34		756
	%	%	%	%	%		%
Share of HSBC s profit before tax	8.5	26.6	41.5	0.2	3.6		80.4
Cost efficiency ratio	54.8	32.2	25.0	75.0	26.7		36.6
Balance sheet data[23]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	7,226	13,221	6,649	29	170		27,295
Total assets	8,168	14,672	27,975	46	5,754	(5,663)	50,952
Customer accounts	13,753	10,978	7,628	1,762	1,044		35,165

For footnotes, see page 94.

HSBC HOLDINGS PLC
Interim Management Report: Operating and Financial Review (continued)
North America
Profit/(loss) before tax by country within customer groups and global businesses

Half-year to 30 June 2009	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other US$m	Total US$m
US	**(2,858)**	**52**	**384**	**23**	**(1,519)**	**(3,918)**
Canada	**(12)**	**151**	**75**		**(70)**	**144**
Bermuda	**30**	**19**	**19**	**2**	**3**	**73**
Other	**(3)**	**2**	**(1)**	**(2)**	**2**	**(2)**
	(2,843)	**224**	**477**	**23**	**(1,584)**	**(3,703)**
Half-year to 30 June 2008						
US	(2,194)	167	(1,779)	48	277	(3,481)
Canada	127	237	119	4	7	494
Bermuda	17	26	35	6	10	94
	(2,050)	430	(1,625)	58	294	(2,893)
Half-year to 31 December 2008						
US[31]	(15,170)	59	(1,120)	19	3,150	(13,062)
Canada	(21)	143	133	1	89	345
Bermuda	14	25	37	5	(1)	80
Other	(1)	1			2	2
	(15,178)	228	(950)	25	3,240	(12,635)

For footnote, see page 94.

Loans and advances to customers (net) by country

	At 30 June 2009 US$m	At 30 June 2008 US$m	At 31 December 2008 US$m
US	**177,641**	215,909	208,834
Canada	**45,761**	54,346	44,866
Bermuda	**2,856**	2,235	2,514

	226,258	272,490	256,214

Customer accounts by country

	At 30 June 2009 US$m	At 30 June 2008 US$m	At 31 December 2008 US$m
US	**96,059**	95,763	101,963
Canada	**36,514**	38,367	33,905
Bermuda	**7,768**	7,870	7,664
	140,341	142,000	143,532

Economic briefing

Economic conditions remained extremely difficult in the **US** during the early months of 2009. Second quarter GDP fell by 3.9 per cent on the comparable period in 2008, the sharpest year-on-year rate of contraction for over fifty years. Housing sales and residential construction activity remained at depressed levels, while the majority of indicators reported further declines in house prices during the first half of the year. Labour market conditions weakened throughout the period as the unemployment rate rose to 9.5 per cent in June 2009, contributing to concerns about the rising trend of delinquencies in both secured and unsecured debt within the household sector. The annual rate of consumer price inflation fell sharply during the period, turning negative from March onwards, although this trend was largely reflective of the earlier volatility in energy prices. Measures of consumer confidence improved, but remained

Loss before tax

	Half-year to		
North America	**30 June 2009 US$m**	30 June 2008 US$m	31 December 2008 US$m
Net interest income	**7,177**	7,873	7,345
Net fee income	**2,535**	2,822	2,405
Net trading income/(expense)	**394**	(1,816)	(1,319)
Changes in fair value of long-term debt issued and related derivatives	**(1,507)**	369	3,367
Net income/(expense) from other financial instruments designated at fair value	**(2)**	(1)	2
Net income/(expense) from financial instruments designated at fair value	**(1,509)**	368	3,369
Gains less losses from financial investments	**257**	106	(226)
Dividend income	**23**	40	37
Net earned insurance premiums	**164**	203	187
Other operating income/(expense)	**292**	115	(92)
Total operating income	**9,333**	9,711	11,706
Net insurance claims incurred and movement in liabilities to policyholders	**(143)**	(112)	(126)
Net operating income before loan impairment charges and other credit risk provisions	**9,190**	9,599	11,580
Loan impairment charges and other credit risk provisions	**(8,538)**	(7,166)	(9,629)
Net operating income	**652**	2,433	1,951
Operating expenses (excluding goodwill impairment)	**(4,362)**	(4,807)	(4,552)
Goodwill impairment		(527)	(10,037)
Operating loss	**(3,710)**	(2,901)	(12,638)
Share of profit in associates and joint ventures	**7**	8	3

Loss before tax	**(3,703)**	(2,893)	(12,635)
	%	%	%
Share of HSBC s profit before tax	(73.8)	(28.2)	(1,344.1)
Cost efficiency ratio	47.5	50.1	39.3
Period-end staff numbers (full-time equivalent)	37,021	48,069	44,725

Balance sheet data[23]

	US$m	US$m	US$m
Loans and advances to customers (net)	226,258	272,490	256,214
Loans and advances to banks (net)	10,048	19,794	11,458
Trading assets, financial instruments designated at fair value, and financial investments[28]	125,321	133,262	119,634
Total assets	494,778	568,114	596,302
Deposits by banks	12,389	11,764	18,181
Customer accounts	140,341	142,000	143,532

For footnotes, see page 94.

The commentary on North America is on an underlying basis unless stated otherwise.

consistent with a weak level of expenditure. The Standard & Poor s S&P 500 stock market index was volatile but recovered strongly during the second quarter to record an overall rise of 1.8 per cent in the first half of 2009. Having already lowered the Fed funds target rate to within a narrow range of between zero and 25 basis points, the Federal Reserve Board maintained its efforts to improve the availability of credit across the economy by purchasing a range of private and public sector financial instruments. A
substantial fiscal stimulus package was expected to begin providing additional support to economic activity from the middle of the year.

Canadian GDP fell by 2.8 per cent during the first five months of 2009 compared with the equivalent period in 2008, led by a sharp contraction in output within the manufacturing sector. Labour market conditions deteriorated sharply as unemployment rose from 6.6 per cent in December

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2008 to 8.6 per cent in June 2009. The headline rate of consumer price inflation fell from 1.2 per cent in December 2008 to just 0.1 per cent in May 2009, reflecting the trend of energy prices, and the core rate of inflation remained largely stable around the 2.0 per cent mark throughout the period. Responding to this deteriorating economic outlook, the Bank of Canada cut its overnight interest rate from 1.5 per cent in December 2008 to 0.25 per cent in April 2009, and committed to maintaining this level until the end of the second quarter of 2010.

Review of business performance

Reconciliation of reported and underlying loss before tax

Half-year to 30 June 2009 (1H09) compared with half-year to 30 June 2008 (1H08)

North America	1H08 as reported US$m	1H08 Acquisitions and disposals[1] US$m	Currency translation[2] US$m	1H08 at 1H09 exchange rates[3] US$m	1H09 Acquisitions and disposals[1] US$m	Underlying change US$m	1H09 as reported US$m	Reported change[4] %	Underlying change[4] %
Net interest income	7,873		(103)	7,770		(593)	7,177	(9)	(8)
Net fee income	2,822		(42)	2,780		(245)	2,535	(10)	(9)
Changes in fair value[5]	369		(3)	366		(1,873)	(1,507)	(508)	(512)
Other income/(expense)[6]	(1,465)		(9)	(1,474)		2,459	985	167	167
Net operating income[7]	**9,599**		**(157)**	**9,442**		**(252)**	**9,190**	**(4)**	**(3)**
Loan impairment charges and other credit risk provisions	(7,166)		12	(7,154)		(1,384)	(8,538)	(19)	(19)
Net operating income	**2,433**		**(145)**	**2,288**		**(1,636)**	**652**	**(73)**	**(72)**
Operating expenses (excluding goodwill impairment)	(4,807)		77	(4,730)		368	(4,362)	9	8
Goodwill impairment	(527)			(527)		527		100	100
Operating loss	**(2,901)**		**(68)**	**(2,969)**		**(741)**	**(3,710)**	**(28)**	**(25)**

Income from associates	**8**			**8**		**(1)**	**7**	**(13)**	**(13)**
Loss before tax	**(2,893)**		**(68)**	**(2,961)**		**(742)**	**(3,703)**	**(28)**	**(25)**

For footnotes, see page 94.

HSBC s operations in North America reported a pre-tax loss of US$3.7 billion for the first half of 2009 compared with pre-tax losses of US$2.9 billion and US$12.6 billion in the first and second halves of 2008, respectively. On an underlying basis and excluding fair value movements on HSBC s own debt, the loss before tax declined against both halves. Notable in the current period were a strong trading performance and lower write-downs in Global Banking and Markets, reduced operating costs and a significant rise in loan impairment charges compared with the first half of 2008, though these charges were lower than the trailing six months and were also lower than what might have been anticipated given the rise in unemployment during the period.

Net interest income in North America declined by 8 per cent, driven by lower asset balances as the legacy consumer finance portfolios ran off, higher levels of delinquent and modified loans, and the effect of deposit spread compression in both the US and Canada; these factors more than offset increased treasury revenues from Balance Sheet Management activities and lower funding costs in HSBC Finance.

Customer asset balances fell as HSBC Finance portfolios continued to decline following decisions taken in the past three years to cease originations and run-off the residual balances in Mortgage Services, Consumer Lending and vehicle finance. In addition, HSBC Bank USA sold US$4.0 billion of prime mortgages since 31 December 2008. Balances in Card and Retail Services declined following actions taken to reduce marketing expenditure, tighten underwriting criteria on new applications and existing accounts alike, close inactive accounts, reduce contingent liabilities, lower credit lines and cease originations in certain segments. Asset spreads widened across the real-estate secured portfolios as the benefit of lower funding costs outweighed the decline in yields which was driven by a rise in delinquent loans and increased volumes of loan modifications. Spreads in Card and Retail Services also widened, mainly due to lower funding costs, repricing initiatives and the benefit from interest rate floors in portions of the loan portfolio. In the Commercial Banking portfolios, a lower cost of funds and successful repricing offset the effect of lower balances.

Liability balances increased in Personal Financial Services and Commercial Banking, with increased personal deposits in the online savings and Premier Investor savings portfolios. However, this was mostly offset by a decline in Global Banking and Markets deposit volumes as customers opted for higher-yielding investments in the low interest rate environment, and the maturing of several large time deposits which were not renewed. Liability spread compression was experienced from a combination of lower base rates and competitive pricing pressures on savings and certificate of deposit products.

In Global Banking and Markets, net interest income increased due to treasury revenues from Balance Sheet Management activities, which were correctly positioned to take advantage of lower central bank interest rates, and wider spreads on lending to corporates.

Net fee income declined by 9 per cent, primarily in the US credit cards portfolio as a result of lower cash advance, late payment, over limit and interchange fees and lower enhancement services income. These were affected by reduced volumes as HSBC continued to limit portfolio balances and customers spent less. In Taxpayer Financial Services, a change in product mix towards lower revenue products and the discontinuance of all but one partner relationship led to lower fees.

Excluding fair value movements on own debt, HSBC s underlying loss before tax in North America was less than in both halves in 2008.

Net trading income of US$394 million compared with a loss of US$1.8 billion in the first half of 2008, driven by significantly reduced write-downs on legacy positions in Global Banking and Markets, notably in structured credit products, and improved performance in Rates.

Net expense of US$1.5 billion was incurred on *financial instruments designated at fair value*, as credit spreads tightened on HSBC s long-term debt in the first half of 2009 following their widening in 2008. This loss reflected the partial reversal of gains booked in previous years which will fully reverse over the life of the debt. HSBC does not regard this income or expense as part of managed performance.

Gains less losses from financial investments more than doubled to US$257 million, driven by gains on the sale of mortgage-backed securities in

the current period. This benefit more than offset the non-recurrence of gains arising on the sale of Visa shares during 2008.

Net earned insurance premiums decreased by 19 per cent to US$164 million, reflecting lower loan originations in HSBC Finance arising from the run-off of the Consumer Lending business which affects payment protection insurance sales.

Other operating income more than doubled to US$292 million, and included a gain resulting from the income recognition methodology used in respect of long-term insurance contracts in HSBC Finance and gains on the sale of prime residential mortgages. Losses on foreclosed properties declined due to a reduction in the stock of unsold properties as volumes of foreclosure cases continued to be constrained by government practice.

Net insurance claims incurred and movement in liabilities to policyholders increased by 28 per cent to US$143 million, mainly because of additional mortgage insurance loss reserves and for losses anticipated from the rise in unemployment in the first half of the year.

Loan impairment charges and other credit risk provisions rose sharply, increasing by 19 per cent to US$8.5 billion and reflecting substantially higher loan impairment charges in the HSBC Finance portfolio and, to a lesser extent, in the HSBC Bank USA residential mortgage portfolio, as credit quality deteriorated. These increases were driven by portfolio seasoning, rising unemployment rates, the continued weakness of the US economy and further declines in house prices which continued to restrict the ability of many customers to refinance. Partly offsetting the above was a reduction in overall lending as HSBC continued to manage down its exposure in the US.

In Consumer Lending, loan impairment charges rose by 53 per cent to US$3.2 billion. Deterioration in delinquency trends, including early stage delinquency, was most notable in portions of the first lien portfolio in the states most affected by house price depreciation and rising unemployment rates, as well as in the 2006 and 2007 vintages of both secured and unsecured lending. The 2008 vintages also proved weak, but originations were relatively small in line with HSBC s reduced risk appetite. In the HSBC Finance Mortgage Services portfolio, loan impairment charges declined by 43 per cent to US$1.1 billion as the portfolio seasoned and continued to run-off.

In Personal Financial Services in HSBC Bank USA, loan impairment charges rose by 52 per cent to

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US$0.4 billion, driven by a combination of rising delinquencies and increased loss severities in the prime first lien residential mortgage portfolio.

Loan impairment charges in Card and Retail Services rose as portfolio seasoning, higher levels of personal bankruptcy filings and continued weakness in the US economy, including rising unemployment levels, led to an accelerated deterioration in delinquency levels and roll rates. Lower recovery rates on defaulted loans also contributed to the increase. Partly offsetting this was an extended seasonal boost driven by consumers benefiting in cash from various government economic stimulus programmes, reduced consumption levels and lower energy costs.

Loan impairment charges in Commercial Banking rose from US$156 million in the first half of 2008 to US$271 million as the deterioration in parts of the US business banking and commercial real estate portfolios accelerated during the economic downturn. In Canada, higher loan impairment charges were driven by deterioration amongst firms in the manufacturing, commercial real estate and export sectors. Higher loan impairment charges and other credit risk provisions in Global Banking and Markets principally reflected impairment on available-for-sale debt and exposure to financial institutions and the automotive industry.

Information on two months or more delinquency trends in the US Personal Financial Services portfolios is provided in Areas of special interest personal lending on page 146.

Operating expenses declined by 17 per cent. Excluding the US$527 million goodwill impairment charge recognised in respect of North America Personal Financial Services in the first half of 2008, the decrease was 8 per cent. Restructuring costs associated with the closure of the Consumer Lending branch network were US$156 million in the first half of 2009 and were fully offset by cost savings achieved in the period. Staff costs declined, primarily in HSBC Finance as staff numbers fell following the decisions taken to run-off the Consumer Lending and vehicle finance portfolios and limit originations in the Card and Retail Services business. Staff costs decreased to a lesser extent in HSBC Bank USA and Canada and reflected lower staff numbers. Other administrative costs fell, with lower marketing costs in Card and Retail Services and lower costs in Consumer Lending following its restructuring. This was partly offset by an increase in deposit insurance costs of US$138 million following a Federal Deposit Insurance Corporation special assessment charge to all member banks in the first half of 2009.

Reconciliation of reported and underlying loss before tax

	Half-year to 30 June 2009 (1H09) compared with half-year to 31 December 2008 (2H08)								
North America	2H08 as reported US$m	2H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	2H08 at 1H09 exchange rates[8] US$m	1H09 acquisitions and disposals[1] US$m	Underlying change US$m	1H09 as reported US$m	Reported change[4] %	Underlying change[4] %
Net interest income	7,345		(40)	7,305		(128)	7,177	(2)	(2)
Net fee income	2,405		(17)	2,388		147	2,535	5	6
Changes in fair value[5].	3,367			3,367		(4,874)	(1,507)	(145)	(145)
Other income[6]	(1,537)			(1,537)		2,522	985	164	164
Net operating income[7]	11,580		(57)	11,523		(2,333)	9,190	(21)	(20)
Loan impairment charges and other	(9,629)			(9,629)		1,091	(8,538)	11	11

credit risk provisions							
Net operating income	1,951	(57)	1,894	(1,242)	652	(67)	(66)
Operating expenses (excluding goodwill impairment)	(4,552)	31	(4,521)	159	(4,362)	4	4
Goodwill impairment	(10,037)		(10,037)	10,037		100	100
Operating loss	(12,638)	(26)	(12,664)	8,954	(3,710)	71	71
Income from associates	3		3	4	7	133	133
Loss before tax	(12,635)	(26)	(12,661)	8,958	(3,703)	71	71

For footnotes, see page 94.

Analysis by customer group and global business
Profit/(loss) before tax

	Half-year to 30 June 2009						
North America	**Personal Financial Services US$m**	**Commercial Banking US$m**	**Global Banking and Markets US$m**	**Private Banking US$m**	**Other US$m**	**Inter-segment elimination[29] US$m**	**Total US$m**
Net interest income/(expense)	**5,976**	**661**	**528**	**91**	**(51)**	**(28)**	**7,177**
Net fee income	**1,711**	**213**	**539**	**69**	**3**		**2,535**
Trading income/(expense) excluding net interest income	**204**		**(18)**	**4**	**13**		**203**
Net interest income on trading activities	**37**	**2**	**124**			**28**	**191**
Net trading income[24]	**241**	**2**	**106**	**4**	**13**	**28**	**394**
Changes in fair value of long-term debt issued and related derivatives					**(1,507)**		**(1,507)**
Net income/(expense) from other financial instruments designated at fair value			**(4)**		**2**		**(2)**
Net expense from financial instruments designated at fair value			**(4)**		**(1,505)**		**(1,509)**
Gains less losses from financial investments	**6**	**4**	**248**		**(1)**		**257**
Dividend income	**10**	**2**	**7**	**1**	**3**		**23**
Net earned insurance premiums	**164**						**164**
Other operating income/ (expense)	**(74)**	**78**	**223**	**6**	**975**	**(916)**	**292**
Total operating income/ (expense)	**8,034**	**960**	**1,647**	**171**	**(563)**	**(916)**	**9,333**

Net insurance claims[25].	**(143)**						**(143)**
Net operating income/ (expense)[7]	**7,891**	**960**	**1,647**	**171**	**(563)**	**(916)**	**9,190**
Loan impairment charges and other credit risk provisions	**(7,825)**	**(271)**	**(438)**	**(4)**			**(8,538)**
Net operating income/ (expense)	**66**	**689**	**1,209**	**167**	**(563)**	**(916)**	**652**
Total operating expenses	**(2,909)**	**(473)**	**(732)**	**(144)**	**(1,020)**	**916**	**(4,362)**
Operating profit/(loss)	**(2,843)**	**216**	**477**	**23**	**(1,583)**		**(3,710)**
Share of profit/(loss) in associates and joint ventures		**8**			**(1)**		**7**
Profit/(loss) before tax	**(2,843)**	**224**	**477**	**23**	**(1,584)**		**(3,703)**
	%	%	%	%	%		%
Share of HSBC s profit before tax	**(56.7)**	**4.5**	**9.5**	**0.5**	**(31.6)**		**(73.8)**
Cost efficiency ratio	**36.9**	**49.3**	**44.4**	**84.2**	**(181.2)**		**47.5**
Balance sheet data[23]							
	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances to customers (net)	**160,293**	**33,011**	**28,320**	**4,634**			**226,258**
Total assets	**185,347**	**39,657**	**269,492**	**6,523**	**4,453**	**(10,694)**	**494,778**
Customer accounts	**71,176**	**37,601**	**19,268**	**12,185**	**111**		**140,341**

For footnotes, see page 94.

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Analysis by customer group and global business (continued)
Profit/(loss) before tax

	Half-year to 30 June 2008						
North America	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[29] US$m	Total US$m
Net interest income	6,609	758	330	112	209	(145)	7,873
Net fee income/(expense)	2,145	192	426	98	(39)		2,822
Trading income/(expense) excluding net interest income	(51)	4	(2,001)	11	(154)		(2,191)
Net interest income/(expense) on trading activities	35		292		(97)	145	375
Net trading income/(expense)[24]	(16)	4	(1,709)	11	(251)	145	(1,816)
Changes in fair value of long-term debt issued and related derivatives					369		369
Net income/(expense) from other financial instruments designated at fair value	4	2	7	1	(15)		(1)
Net income from financial instruments designated at fair value	4	2	7	1	354		368
Gains less losses from financial investments	105	3	(4)		2		106
Dividend income	8		31		1		40
Net earned insurance premiums	203						203
Other operating income/(expense)	(100)	88	76	7	715	(671)	115
Total operating income/(expense)	8,958	1,047	(843)	229	991	(671)	9,711
Net insurance claims[25]	(112)						(112)

Net operating income/(expense)[7]	8,846	1,047	(843)	229	991	(671)	9,599
Loan impairment charges and other credit risk provisions	(6,952)	(156)	(57)	(1)			(7,166)
Net operating income/(expense)	1,894	891	(900)	228	991	(671)	2,433
Operating expenses (excluding goodwill impairment)	(3,417)	(468)	(725)	(170)	(698)	671	(4,807)
Goodwill impairment	(527)						(527)
Operating profit/(loss)	(2,050)	423	(1,625)	58	293		(2,901)
Share of profit in associates and joint ventures		7			1		8
Profit/(loss) before tax	(2,050)	430	(1,625)	58	294		(2,893)
	%	%	%	%	%		%
Share of HSBC s profit before tax	(20.0)	4.2	(15.9)	0.6	2.9		(28.2)
Cost efficiency ratio	44.6	44.7	(86.0)	74.2	70.4		55.6

Balance sheet data[23]

	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	201,941	37,756	27,137	5,656			272,490
Total assets	243,270	45,223	284,015	7,200	685	(12,279)	568,114
Customer accounts	66,281	36,881	23,709	15,020	109		142,000

For footnotes, see page 94.

	Half-year to 31 December 2008						
North America	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[29] US$m	Total US$m
Net interest income/(expense)	6,023	722	734	112	(187)	(59)	7,345
Net fee income/(expense)	1,751	199	392	83	(20)		2,405
Trading income/(expense) excluding net interest income	(199)	1	(1,515)	(1)	26		(1,688)
Net interest income/(expense) on trading activities	31		292		(13)	59	369
Net trading income/(expense)[24]	(168)	1	(1,223)	(1)	13	59	(1,319)
Changes in fair value of long-term debt issued and related derivatives					3,367		3,367
Net income/(expense) from other financial instruments designated at fair value	(6)	(2)	(8)	(1)	19		2
Net income/(expense) from financial instruments designated at fair value	(6)	(2)	(8)	(1)	3,386		3,369
Gains less losses from financial investments	(40)	2	(205)		17		(226)
Dividend income	28	11	(4)	3	(1)		37
Net earned insurance premiums	187						187
Other operating income/(expense)	(326)	52	164	13	704	(699)	(92)
Total operating income/(expense)	7,449	985	(150)	209	3,912	(699)	11,706
Net insurance claims[25]	(126)						(126)
Net operating income/(expense)[7]	7,323	985	(150)	209	3,912	(699)	11,580
Loan impairment charges and other credit risk provisions	(9,180)	(293)	(141)	(15)			(9,629)

Net operating income/(expense)	(1,857)	692	(291)	194	3,912	(699)	1,951
Operating expenses (excluding goodwill impairment)	(3,284)	(469)	(659)	(169)	(670)	699	(4,552)
Goodwill impairment	(10,037)						(10,037)
Operating profit/(loss)	(15,178)	223	(950)	25	3,242		(12,638)
Share of profit/(loss) in associates and joint ventures		5			(2)		3
Profit/(loss) before tax	(15,178)	228	(950)	25	3,240		(12,635)
	%	%	%	%	%		%
Share of HSBC s loss before tax	(1,614.7)	24.3	(101.1)	27	344.7		(1,344.1)
Cost efficiency ratio	181.9	47.6	(439.3)	80.9	17.1		126.0
Balance sheet data[23]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	179,663	35,725	35,583	5,243			256,214
Total assets	205,722	42,211	348,347	7,054	3,323	(10,355)	596,302
Customer accounts	65,830	39,105	23,844	14,657	96		143,532

For footnotes, see page 94.

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Latin America
Profit/(loss) before tax by country within customer groups and global businesses

	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other US$m	Total US$m
Half-year to 30 June 2009						
Argentina	**13**	**42**	**62**			**117**
Brazil	**(165)**	**107**	**267**	**2**	**3**	**214**
Mexico	**8**	**51**	**115**	**3**		**177**
Panama	**41**	**25**	**7**			**73**
Other	**(22)**	**(4)**	**29**	**(1)**	**(3)**	**(1)**
	(125)	**221**	**480**	**4**		**580**
Half-year to 30 June 2008						
Argentina	21	43	55			119
Brazil	262	200	193	6	(1)	660
Mexico	151	127	106	1		385
Panama	31	18	13	1		63
Other	3	23	16		(3)	39
	468	411	383	8	(4)	1,266
Half-year to 31 December 2008						
Argentina	(21)	68	58			105
Brazil	(12)	148	105	2	7	250
Mexico	209	30	84	6		329
Panama	20	19	20	(1)		58
Other	4	30	(9)	1	3	29
	200	295	258	8	10	771

Loans and advances to customers (net) by country

	At 30 June 2009 US$m	At 30 June 2008 US$m	At 31 December 2008 US$m

Argentina	**2,222**	2,704	2,356
Brazil	**20,038**	23,721	18,255
Mexico	**11,913**	18,557	12,211
Panama	**5,921**	4,294	4,538
Other	**4,596**	4,976	4,927
	44,690	54,252	42,287

Customer accounts by country

	At 30 June 2009 US$m	At 30 June 2008 US$m	At 31 December 2008 US$m
Argentina	**2,963**	3,300	2,988
Brazil	**33,508**	35,285	27,857
Mexico	**16,311**	22,562	17,652
Panama	**6,468**	5,338	5,185
Other	**5,631**	5,294	5,761
	64,881	71,779	59,443

Profit before tax

	Half-year to		
Latin America	**30 June 2009 US$m**	30 June 2008 US$m	31 December 2008 US$m
Net interest income	**2,620**	3,362	3,096
Net fee income	**823**	1,139	1,028
Net trading income	**599**	358	343
Changes in fair value from long-term debt issued and related derivatives			
Net income from other financial instruments designated at fair value	**188**	156	208
Net income from financial instruments designated at fair value	**188**	156	208
Gains less losses from financial investments	**132**	168	8
Dividend income	**4**	6	14
Net earned insurance premiums	**724**	900	817
Other operating income	**61**	130	170
Total operating income	**5,151**	6,219	5,684
Net insurance claims incurred and movement in liabilities to policyholders	**(699)**	(764)	(626)
Net operating income before loan impairment charges and other credit risk provisions	**4,452**	5,455	5,058
Loan impairment charges and other credit risk provisions	**(1,385)**	(1,170)	(1,322)
Net operating income	**3,067**	4,285	3,736
Total operating expenses	**(2,488)**	(3,023)	(2,967)
Operating profit	**579**	1,262	769
Share of profit in associates and joint ventures	**1**	4	2

Profit before tax	**580**	1,266	771
	%	%	%
Share of HSBC s profit before tax	**11.6**	12.3	82.0
Cost efficiency ratio	**55.9**	55.4	58.7
Period-end staff numbers (full-time equivalent)	**54,812**	63,851	58,559
Balance sheet data[23]			
	US$m	US$m	US$m
Loans and advances to customers (net)	**44,690**	54,252	42,287
Loans and advances to banks (net)	**17,696**	17,192	14,572
Trading assets, financial instruments designated at fair value, and financial investments	**24,606**	27,929	18,753
Total assets	**107,515**	122,009	102,946
Deposits by banks	**5,333**	4,705	5,598
Customer accounts	**64,881**	71,779	59,443

For footnote, see page 94.

The commentary on Latin America is on an underlying basis unless stated otherwise.

Economic briefing

A mixture of weak external demand and the disruption caused by the H1N1 flu virus contributed to a substantial deterioration in economic conditions within **Mexico** during the first half of 2009. First quarter GDP fell by 8.2 per cent compared with the equivalent period in 2008, while the annual rate of consumer price inflation eased from 6.5 per cent in December 2008 to 5.7 per cent in June 2009 as the economy slowed. In response to this, the Bank of Mexico cut its overnight interest rate by 350 basis points during the first half of 2009 to stand at 4.75 per cent by the end of the period.

The **Brazilian** economy experienced a mild contraction during the early months of 2009, with first quarter GDP falling by 1.8 per cent against the comparable period in 2008. However, the quarter-on-quarter rate of decline proved more moderate than in the final quarter of 2008, and rising household consumption provided evidence that economic conditions were stabilising. After having reached unusually low levels, the unemployment rate

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increased during the early months of 2009 compared with the equivalent period in 2008, while the annual rate of consumer price inflation fell from 5.9 per cent in December 2008 to 4.8 per cent in June, close to the central bank s targeted rate. Faced with this softening of economic conditions and diminishing inflationary pressures, the Central Bank of Brazil reduced its policy Selic target rate by a cumulative 450 basis points during the first half of 2009 to 9.25 per cent in June.

In **Argentina**, economic activity is being adversely affected by the decline in external demand. Industrial production is reported to have fallen by 1.9 per cent during the first five months of 2009 compared with the same period in 2008, although a reduction in consumer price inflation has provided some relief to the economy and has enabled interest rates to ease.

Review of business performance

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2009 (1H09) compared with half-year to 30 June 2008 (1H08)								
Latin America	**1H08 as reported US$m**	**1H08 acquisitions and disposals[1] US$m**	**Currency translation[2] US$m**	**1H08 at 1H09 exchange rates[3] US$m**	**1H09 acquisitions and disposals[1] US$m**	**Underlying change US$m**	**1H09 as reported US$m**	**Reported change[4] %**	**Underlying change[4] %**
Net interest income	**3,362**		**(699)**	**2,663**		**(43)**	**2,620**	**(22)**	**(2)**
Net fee income	**1,139**		**(242)**	**897**		**(74)**	**823**	**(28)**	**(8)**
Other income[6]	**954**		**(192)**	**762**		**247**	**1,009**	**6**	**32**
Net operating income[7]	**5,455**		**(1,133)**	**4,322**		**130**	**4,452**	**(18)**	**3**
Loan impairment charges and other credit risk provisions	**(1,170)**		**256**	**(914)**		**(471)**	**(1,385)**	**(18)**	**(52)**
Net operating income	**4,285**		**(877)**	**3,408**		**(341)**	**3,067**	**(28)**	**(10)**
Operating expenses	**(3,023)**		**621**	**(2,402)**		**(86)**	**(2,488)**	**18**	**(4)**
Operating profit	**1,262**		**(256)**	**1,006**		**(427)**	**579**	**(54)**	**(42)**
Income from associates	**4**		**(1)**	**3**		**(2)**	**1**	**(75)**	**(67)**

Profit before tax	**1,266**	**(257)**	**1,009**	**(429)**	**580**	**(54)**	**(43)**

For footnotes, see page 94.

HSBC s operations in Latin America reported pre-tax profits of US$0.6 billion, compared with US$1.3 billion in the first half of 2008. On an underlying basis, pre-tax profits decreased by 43 per cent.

Marginally higher operating income was driven by significantly stronger trading income in Global Banking and Markets and a resilient performance in Commercial Banking. This was more than offset by a continued rise in loan impairment charges, primarily as a result of credit deterioration in the personal and commercial lending portfolios. Operating expenditure increased slightly as cost saving initiatives were more than offset by the effect of one-off items.

Net interest income fell marginally by 2 per cent. Interest income on deposits reduced due to generally lower spreads and lower balances from personal customers. Also, net interest income fell due to the cost of funding larger trading positions in
Mexico. This was more than offset by increased trading income. Interest income rose on lending to commercial customers, particularly in Brazil.

Average customer lending volumes were higher, primarily due to growth in commercial working capital lending in Brazil. In Mexico, average lending volumes fell in personal lending including credit cards, personal loans and vehicle finance, and in commercial lending with the exception of real estate loans. Declining balances in a number of products resulted from actions taken to restrict new lending, and the managing down of the existing portfolio. Overall spreads on lending products improved in the region, particularly on overdrafts in Brazil and credit cards in Mexico. Spreads also improved in Argentina following the trend in the local interest rate market.

Deposit balances rose in the region, driven by commercial and Global Banking customers. Deposit volumes from personal customers fell in Mexico as a result of intense competition in the difficult

economic environment, the elimination of foreign currency cash transactions in branches and reduced branch operations. Spreads on deposits narrowed, due to falling interest rates, particularly in Mexico.
Underlying pre-tax profit fell by 43 per cent in Latin America, largely as a result of credit deterioration in personal and commercial lending.

In the first half of 2008, net interest income benefited from a favourable court decision resulting in the recovery of transactional taxes on insurance transactions in Brazil and interest accrued thereon.

Net fee income declined by 8 per cent, with lower income from Personal Financial Services. Lower deposit volumes and tighter credit origination criteria resulted in lower deposit and credit card fees in Mexico. Weak market performance in Brazil led to lower assets under management and related fee income. A decision in May 2008 by the Brazilian Central Bank, reducing or eliminating certain fees, also had a negative effect.

Net trading income rose significantly, due to a stronger performance in Global Banking and Markets, primarily in Brazil and Mexico, driven by increased foreign exchange and Rates trading income, which benefited from correct positioning with regard to market volatility and interest rate movements.

Net income from financial instruments designated at fair value rose by 48 per cent, primarily from higher insurance-related assets as a result of business growth and an increase in the fair value of fixed income assets held in support of the pension portfolio. This was offset by a similar increase in *net insurance claims incurred and movement in liabilities to policyholders*.

The effect of the Argentine government s nationalisation of the Pension business in the second half of 2008 on *net earned insurance premiums* and *net insurance claims incurred and movement in liabilities to policyholders* was partially offset by increases in general insurance products in Argentina and higher sales of pension and life products in Brazil.

Other operating income fell by 41 per cent. In Argentina, a gain was realised on the sale of the local head office building. This was offset by a gain made in the first half of 2008 on a refinement of the income recognition methodology used in respect of long-term insurance contracts in Brazil.

Loan impairment charges and other credit risk provisions rose by 52 per cent compared with the first half of 2008 as economic conditions deteriorated across the region. In Personal Financial Services, the combination of credit card portfolio seasoning, following a targeted expansion in market share in previous years, primarily in Mexico, and increased delinquencies resulted in an increase in loan impairment charges. Tighter credit control policies have been put in place to constrain new card issuance as the country endures a severe recession and a consequent rise in unemployment. Higher delinquencies and growth in previous years in other secured and unsecured personal lending products, such as vehicle finance and payroll loans in Brazil, and mortgages and personal loans in Mexico, also contributed to the rise in loan impairment charges in the first half of 2009. The commercial lending portfolios experienced deterioration in credit quality, primarily in the small, micro and mid-market business segments in Brazil. The reduction of tourism into Mexico since the H1N1 flu virus outbreak exacerbated economic problems and delinquency trends in both personal and commercial lending.

Operating expenses rose by 4 per cent. Staff costs declined marginally due to lower staff numbers, following programmes to improve operational efficiency and reduced performance-related compensation. This was partly offset by wage inflation and severance payments. The implementation of cost savings initiatives, including the cancellation of the credit card cashback promotional facility in Mexico, was offset by higher costs in Brazil, which were driven by higher transactional taxes, litigation costs and the non-recurrence of a recovery of transactional taxes in the insurance business in the first half of 2008. Excluding this recovery, operating expenses were stable.

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Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2009 (1H09) compared with half-year to 31 December 2008 (2H08)								
Latin America	2H08 as reported US$m	2H08 acquisitions and disposals[1] US$m	Currency translation[2] US$m	2H08 at 1H09 exchange rates[8] US$m	1H09 acquisitions and disposals[1] US$m	Under-lying change US$m	1H09 as reported US$m	Re-ported change[4] %	Under-lying change[4] %
Net interest income	3,096		(401)	2,695		(75)	2,620	(15)	(3)
Net fee income	1,028		(144)	884		(61)	823	(20)	(7)
Other income[6]	934	(71)	(116)	747		262	1,009	8	35
Net operating income[7]	5,058	(71)	(661)	4,326		126	4,452	(12)	3
Loan impairment charges and other credit risk provisions	(1,322)		174	(1,148)		(237)	(1,385)	(5)	(21)
Net operating income	3,736	(71)	(487)	3,178		(111)	3,067	(18)	(3)
Operating expenses	(2,967)		396	(2,571)		83	(2,488)	16	3
Operating profit	769	(71)	(91)	607		(28)	579	(25)	(5)
Income from associates	2			2		(1)	1	(50)	(50)
Profit before tax	771	(71)	(91)	609		(29)	580	(25)	(5)

For footnotes, see page 94.

Analysis by customer group and global business
Profit/(loss) before tax

	Half-year to 30 June 2009						
Latin America	**Personal Financial Services US$m**	**Commercial Banking US$m**	**Global Banking and Markets US$m**	**Private Banking US$m**	**Other US$m**	**Inter-segment elimination[29] US$m**	**Total US$m**
Net interest income/(expense)	**1,800**	**750**	**275**	**9**	**(12)**	**(202)**	**2,620**
Net fee income	**463**	**240**	**101**	**12**	**7**		**823**
Trading income/(expense) excluding net interest income	**33**	**30**	**452**	**1**	**(4)**		**512**
Net interest income/(expense) on trading activities	**2**	**2**	**(119)**			**202**	**87**
Net trading income/(expense)[24]	**35**	**32**	**333**	**1**	**(4)**	**202**	**599**
Changes in fair value of long-term debt issued and related derivatives							
Net income/(expense) from other financial instruments designated at fair value	**221**		**(50)**		**17**		**188**
Net income/(expense) from financial instruments designated at fair value	**221**		**(50)**		**17**		**188**
Gains less losses from financial investments	**87**	**1**	**44**				**132**
Dividend income	**3**		**1**				**4**
Net earned insurance premiums	**661**	**28**	**35**				**724**
Other operating income/ (expense)	**81**	**18**	**17**	**1**	**(14)**	**(42)**	**61**

Total operating income/ (expense)	**3,351**	**1,069**	**756**	**23**	**(6)**	**(42)**	**5,151**
Net insurance claims[25]	**(654)**	**(15)**	**(30)**				**(699)**
Net operating income/ (expense)[7]	**2,697**	**1,054**	**726**	**23**	**(6)**	**(42)**	**4,452**
Loan impairment (charges)/ recoveries and other credit risk provisions	**(1,125)**	**(261)**	**1**				**(1,385)**
Net operating income/ (expense)	**1,572**	**793**	**727**	**23**	**(6)**	**(42)**	**3,067**
Total operating expenses	**(1,697)**	**(573)**	**(247)**	**(19)**	**6**	**42**	**(2,488)**
Operating profit/(loss)	**(125)**	**220**	**480**	**4**			**579**
Share of profit in associates and joint ventures		**1**					**1**
Profit/(loss) before tax	**(125)**	**221**	**480**	**4**			**580**
	%	%	%	%	%		%
Share of HSBC s profit before tax	**(2.5)**	**4.4**	**9.6**	**0.1**			**11.6**
Cost efficiency ratio	**62.9**	**54.4**	**34.0**	**82.6**	**(100.0)**		**55.9**
Balance sheet data[23]							
	US$m	**US$m**	**US$m**	**US$m**	**US$m**		**US$m**
Loans and advances to customers (net)	**19,423**	**16,162**	**9,055**	**50**			**44,690**
Total assets	**33,262**	**20,615**	**53,897**	**313**	**249**	**(821)**	**107,515**
Customer accounts	**27,881**	**16,595**	**18,003**	**2,402**			**64,881**

For footnotes, see page 94.

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Interim Management Report: Operating and Financial Review (continued)
Analysis by customer group and global business (continued)
Profit/(loss) before tax

	Half-year to 30 June 2008						
Latin America	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[29] US$m	Total US$m
Net interest income/(expense)	2,376	800	337	13	(2)	(162)	3,362
Net fee income	712	271	131	19	6		1,139
Trading income excluding net interest income	16	34	130	1	1		182
Net interest income on trading activities	4	3	7			162	176
Net trading income[24]	20	37	137	1	1	162	358
Changes in fair value of long-term debt issued and related derivatives							
Net income/(expense) from other financial instruments designated at fair value	162		(6)				156
Net income/(expense) from financial instruments designated at fair value	162		(6)				156
Gains less losses from financial investments	111	11	45	2	(1)		168
Dividend income	4		2				6
Net earned insurance premiums	802	47	56		(5)		900
Other operating income	98	20	24	2	7	(21)	130

Total operating income	4,285	1,186	726	37	6	(21)	6,219
Net insurance claims[25]	(706)	(22)	(36)				(764)
Net operating income[7]	3,579	1,164	690	37	6	(21)	5,455
Loan impairment (charges)/ recoveries and other credit risk provisions	(1,060)	(110)	2		(2)		(1,170)
Net operating income	2,519	1,054	692	37	4	(21)	4,285
Total operating expenses	(2,055)	(643)	(309)	(29)	(8)	21	(3,023)
Operating profit/(loss)	464	411	383	8	(4)		1,262
Share of profit in associates and joint ventures	4						4
Profit/(loss) before tax	468	411	383	8	(4)		1,266
	%	%	%	%	%		%
Share of HSBC s profit before tax	4.6	4.0	3.7	0.1	(0.1)		12.3
Cost efficiency ratio	57.4	55.2	44.8	78.4	133.3		55.4

Balance sheet data[23]

	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	24,431	19,073	10,704	44			54,252
Total assets	40,318	24,815	57,181	314	282	(901)	122,009
Customer accounts	34,368	17,021	19,072	1,318			71,779

For footnotes, see page 94.

			Half-year to 31 December 2008				
Latin America	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[29] US$m	Total US$m
Net interest income/(expense)	2,206	837	242	9	(33)	(165)	3,096
Net fee income	627	265	117	16	3		1,028
Trading income/(expense) excluding net interest income	107	(7)	70	2	3		175
Net interest income/(expense) on trading activities	3	1	1		(2)	165	168
Net trading income/(expense)[24]	110	(6)	71	2	1	165	343
Changes in fair value of long-term debt issued and related derivatives							
Net income from other financial instruments designated at fair value	25		145		38		208
Net income from financial instruments designated at fair value	25		145		38		208
Gains less losses from financial investments	21	10	(24)		1		8
Dividend income	12	1	1				14
Net earned insurance premiums	745	35	32		5		817
Other operating income	146	37	15	1	1	(30)	170
Total operating income	3,892	1,179	599	28	16	(30)	5,684
Net insurance claims[25]	(575)	(20)	(32)		1		(626)

Net operating income[7]	3,317	1,159	567	28	17	(30)	5,058
Loan impairment charges and other credit risk provisions	(1,060)	(230)	(31)		(1)		(1,322)
Net operating income	2,257	929	536	28	16	(30)	3,736
Total operating expenses	(2,059)	(634)	(278)	(20)	(6)	30	(2,967)
Operating profit	198	295	258	8	10		769
Share of profit in associates and joint ventures	2						2
Profit before tax	200	295	258	8	10		771
	%	%	%	%	%		%
Share of HSBC s loss before tax	21.3	31.3	27.4	0.9	1.1		82.0
Cost efficiency ratio	62.1	54.7	49.0	71.4	35.3		58.7
Balance sheet data[23]							
	US$m	US$m	US$m	US$m	US$m		US$m
Loans and advances to customers (net)	18,523	15,460	8,273	31			42,287
Total assets	30,320	19,382	53,870	391	361	(1,378)	102,946
Customer accounts	27,564	14,367	15,384	2,128			59,443

For footnotes, see page 94.

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Interim Management Report: Operating and Financial Review (continued)

Footnotes to the Operating and Financial Review

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

1 *Columns headed Acquisitions and disposals comprise the net increments or decrements in profits in the current half-year (compared with the previous half-years) which are attributable to acquisitions or disposals of subsidiaries made in the relevant periods. Acquisitions and disposals are determined on the basis of the review and analysis of events in each period.*

2 *Currency translation 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.*

3 *Excluding acquisitions and disposals in the first half of 2008.*

4 *Positive numbers are favourable: negative numbers are unfavourable.*

5 *Changes in fair value of long-term debt issued and related derivatives.*

6 *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 investment in liabilities to policyholders.*

7 *Net operating income before loan impairment charges and other credit risk provisions.*

8 *Excluding acquisitions and disposals in the second half of 2008.*

Financial summary

9 *Net interest income includes the cost of funding trading assets, while the related external revenues are reported in trading income. In HSBC s customer group results, the cost of funding trading assets is included within Global Banking and Markets net trading income as an interest expense.*

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

11 *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.*

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

13 *The cost of internal funding of trading assets was US$821 million (first half of 2008: US$2,931 million; second half of 2008 US$2,616 million) 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 HSBC s customer group and global business reporting.*

14 *Net trading income includes an expense of US$127 million (first half of 2008: income of US$262 million; second half of 2008: income of US$267 million) associated with changes in the fair value of issued structured notes and other hybrid instrument liabilities derived from movements in HSBC issuance spreads.*

15

Includes gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with HSBC s long-term debt issued.

16 *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 notified 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.*

17 *The Middle East is disclosed as a separate geographical region with effect from 1 January 2009. Previously, it formed part of Rest of Asia-Pacific. Comparative data have been restated accordingly.*

18 *30 June 2008 has been restated to reflect the impact of goodwill impaired which was previously excluded from the calculation.*

19 *Expressed as a percentage of average invested capital.*

20 *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 (less goodwill previously amortised in respect of the French regional banks sold in 2008);

deducting the average balance of HSBC s revaluation surplus relating to property held for own use. This reserve was generated when determining the deemed cost of such properties on transition to IFRSs and will run down 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.

21 *Return on average invested capital is based on the profit attributable to ordinary shareholders of the parent company less goodwill previously amortised in respect of the French regional banks sold in 2008.*

Analyses by customer group and global business and by geographical region

22 *The main items reported under Other are certain property activities, unallocated investment activities, centrally held investment companies, gains arising from the dilution of interests in associates, movements in the fair value of own debt designated at fair value (the remainder of the Group s gain on own debt is included in Global Banking and Markets), and HSBC s holding company and financing operations. The results also include net interest earned on free capital held centrally, operating costs incurred by the Group Management Office operations in providing stewardship and central management services to HSBC, and costs incurred by the Group Service Centres and Shared Service Organisations and associated recoveries.*

23 *Assets by geographical region and customer group include intra-HSBC items. These items are eliminated, where appropriate, under the heading Intra-HSBC items .*

24 *In the analysis of customer groups and global businesses, net trading income 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.*

25 *Net insurance claims incurred and movement in liabilities to policyholders.*

26 *In the first half of 2009, Global Markets included an expense of US$127 million from movements in credit spreads on structured liabilities (first half of 2008: income of US$262 million; second half of 2008: income of US$267 million).*

27 *Other in Global Banking and Markets includes net interest earned on free capital held in the global business not assigned to products.*

28 *Trading assets, financial instruments designated at fair value and financial investments held in Europe, and by Global Banking and Markets in North America, include financial assets which may be repledged or resold by counterparties.*

29 *Inter-segment elimination comprises (i) the costs of shared services and Group Service Centres included within Other which are recovered from customer groups, and (ii) the intra-segment funding costs of trading activities undertaken within Global Banking and Markets. HSBC s balance sheet management business reported within Global Banking and Markets, provides funding to the trading businesses. To report Global Banking and Markets net trading income on a fully funded basis, net interest income 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.*

30 *France primarily comprises the domestic operations of HSBC France and the Paris branch of HSBC Bank plc.*

31 *US included the impairment of goodwill in respect of Personal Financial Services North America in the second half of 2008.*

HSBC HOLDINGS PLC
Interim Management Report: Impact of Market Turmoil
Background and disclosure policy

As a consequence of the widespread deterioration in the markets for securitised and structured financial assets, and consequent disruption to the global financial system since mid-2007, it remains difficult to observe prices for structured credit risk, including prime tranches of such risk, as the markets for these assets remain illiquid. The resulting constraint on the ability of financial institutions to access wholesale markets to fund such assets added additional downward pressure on asset prices. As a consequence, many financial institutions recorded considerable reductions in the fair values of their asset-backed securities (ABS s) and leveraged structured transactions, most significantly for US sub-prime and Alt-A mortgage-backed securities and collateralised debt obligations referencing these securities, but in other asset classes too.

In light of continued illiquidity and the risk to capital from further write-downs, in the first half of 2009 many financial institutions continued to reduce leveraged exposures, build liquidity and raise additional capital. Volatility in financial markets remained in the first half of 2009, resulting in wider transaction spreads, and markets for securitised and structured financial assets continued to be constrained.

The pace of deterioration in the fair value of assets supported by sub-prime and Alt-A mortgages experienced in 2008 reduced in the first half of 2009. Spreads widened only modestly on Alt-A assets and sub-prime assets. The primary market for all but US government-sponsored issues remained weak.

A further constraint on liquidity within the market for securitised assets emerged as rating agencies changed their rating methodologies precipitating widespread downgrades and fear of further downgrades across all tranches of securitised paper. This accentuated illiquidity as the Basel II framework ties capital requirements to ratings without reference to expected loss.

This section contains disclosures about the effect of the ongoing market turmoil on HSBC s securitisation activities and other structured products. HSBC s principal exposures to the US and the UK mortgage markets take the form of credit risk from direct loans and advances to customers which were originated to be held to maturity or refinancing, details of which are provided on page 146.

Financial instruments which were most affected by the market turmoil include exposures to direct lending held at fair value through profit or loss and ABSs, including mortgage-backed securities (MBS s) and collateralised debt obligations (CDO s), and exposures to and contingent claims on monoline insurers (monolines) in respect of structured credit activities and leveraged finance transactions which were originated to be distributed.

In accordance with HSBC s policy to provide meaningful disclosures that help investors and other stakeholders understand the Group s performance, financial position and changes thereto, the information provided in this section goes beyond the minimum levels required by accounting standards, statutory and regulatory requirements and listing rules.

In the specific context of facilitating an understanding of the ongoing market turmoil in markets for securitised and structured assets, HSBC has considered the recommendations relating to disclosure contained within the reports issued by the Financial Stability Forum on Enhancing market and institutional resilience , the Committee of European Banking Supervisors on Banks transparency on activities and products affected by the recent market turmoil and the International Accounting Standards Board Expert Advisory Panel on Measuring and disclosing the fair value of financial instruments in markets that are no longer active . In addition, HSBC has considered feedback from investors, regulators and other stakeholders on the disclosures that investors would find most useful.

The specific topics covered in respect of HSBC s securitisation activities and exposure to structured products are as follows:

- overview of exposure;
- business model;
- risk management;
- accounting policies;

nature and extent of HSBC s exposures;

fair values of financial instruments; and

special purpose entities.

Overview of exposure

At 30 June 2009, the aggregate carrying amount of HSBC s exposure to ABSs, trading loans held for securitisation and exposure to leveraged finance transactions was US$78 billion (31 December 2008: US$91 billion), summarised as follows:

Overall exposure

	At 30 June 2009		At 31 December 2008	
	Carrying amount US$bn	**Including sub-prime and Alt-A US$bn**	Carrying amount US$bn	Including sub-prime and Alt-A US$bn
ABSs	**69**	**11**	81	12
fair value through profit or loss	**11**	**1**	14	1
available for sale[1]	**47**	**8**	56	9
held to maturity[1]	**3**		3	
loans and receivables	**8**	**2**	8	2
Loans at fair value through profit or loss	**3**	**2**	4	3
Leveraged finance loans				
loans and receivables	**6**		6	
	78	**13**	91	15

1 *Total includes holdings of ABSs issued by Freddie Mac and Fannie Mae.*

Reconciliation of movement in carrying amount of ABSs

	Half-year to 30 June 2009 US$bn
Balance at 1 January 2009	**81.0**
Net ABS sales (principally of US Government agency and sponsored enterprises)	**(6.0)**
Principal amortisation of available-for-sale ABSs, repayment at par	**(3.5)**
Net movement on fair values of available-for-sale ABSs	**0.4**
Net sales (principal amortisation and write-downs of ABSs classified as trading)	**(2.8)**
Exchange differences and other movements	**(0.1)**
Balance at 30 June 2009	**69.0**

The majority of these exposures arise in the Global Banking and Markets business segment.

Of the total carrying amount of ABSs, US$12.9 billion (31 December 2008: US$14.6 billion) are held through vehicles discussed on page 100, where significant first loss protection is provided by external investors on a fully collateralised basis. This includes US$3.3 billion (31 December 2008: US$3.5 billion) in respect of sub-prime and Alt-A residential mortgage exposure.

HSBC s holdings of available-for-sale ABSs fell by US$9.2 billion to US$47.1 billion. The associated AFS reserve deficit improved by US$1.2 billion to US$17.5 billion.

Reclassification of financial assets

In October 2008, the IASB issued amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures which permitted an entity to reclassify

non-derivative financial assets out of the held-for-trading category as described in the accounting policies on page 346 of the *Annual Report and Accounts 2008*.

During the second half of 2008, HSBC reclassified financial assets from the held-for-trading category to the loans and receivables and available-for-sale classifications. The amount reclassified reflected the fair value of the financial assets at the date of reclassification. Further details of the reclassifications and the transition rules are included on pages 145 to 146 of the *Annual Report and Accounts 2008*.

The amendment to IAS 39 was restricted to situations where the transferring entity had the intention and ability to hold the transferred position for the foreseeable future, in the case of transfers to the loans and receivable category. Transfers to the available-for-sale category were undertaken when the transferring entity no longer intended to sell the transferred position in the near term.

The Group did not undertake any reclassifications during the first half of 2009.

HSBC HOLDINGS PLC
Interim Management Report: Impact of Market Turmoil (continued)
Reclassifications of financial assets

	At 30 June 2009		At 31 December 2008	
	Carrying amount US$m	**Fair value US$m**	Carrying amount US$m	Fair value US$m
Reclassification to loans and receivables				
ABSs	**7,827**	**5,266**	7,991	6,139
Trading loans commercial mortgage loans	**605**	**551**	587	557
Leveraged finance and syndicated loans	**5,720**	**4,758**	5,670	4,239
	14,152	**10,575**	14,248	10,935
Reclassification to available for sale				
Corporate debt and other securities	**2,156**	**2,156**	2,401	2,401
	16,308	**12,731**	16,649	13,336

If these reclassifications had not been made, the Group s profit before tax in the first half of 2009 would have been reduced by US$0.3 billion from US$5.0 billion to US$4.7 billion (second half of 2008: a reduction of US$3.5 billion from US$9.3 billion to US$5.8 billion). The reduction in profit before tax is attributable to an increase in the North American segment of US$0.2 billion and a
reduction of US$0.5 billion in the European segment (second half of 2008: reductions of US$0.9 billion and US$2.6 billion, respectively).

The following table shows the fair value gains and losses, income and expense recognised in the income statement both before and after the date of reclassification:

Fair value gains and losses, income and expense

	Effect on income statement for half-year to 30 June 2009			Effect on income statement for half-year to 31 December 2008		
	Income and expense recorded in the income statement[1] US$m	**Assuming no reclass-ification[2] US$m**	**Net effect of reclass-ification US$m**	Income and expense recorded in the income statement[1] US$m	Assuming no reclass-ification[2] US$m	Net effect of reclass-ification US$m
Financial assets reclassified to loans and receivables						
ABSs	**243**	**(466)**	**709**	303	(1,549)	1,852

Trading loans commercial mortgage loans	**15**	**(8)**	**23**	17	(13)	30
Leveraged finance and syndicated loans	**210**	**679**	**(469)**	192	(1,239)	1,431
	468	**205**	**263**	512	(2,801)	3,313
Financial assets reclassified to available for sale						
Corporate debt and other securities	**36**	**38**	**(2)**	22	(202)	224
	504	**243**	**261**	534	(3,003)	3,537

1 *Income and expense recorded in the income statement represents the accrual of the effective interest rate and, for the first half of 2009, also includes US$160 million in respect of impairment (second half of 2008: US$26 million).*

2 *Effect on the income statement during the period had the reclassification not occurred.*

Financial effect of market turmoil

As described in Background and disclosure policy on page 96, the dislocation of financial markets which developed in the second half of 2007 continued throughout 2008 and into 2009. For the last three half-year periods, the write-downs incurred by the Group on ABSs, trading loans held for securitisation, leveraged finance transactions and the movement in fair values on available-for-sale ABSs taken to equity, plus impairment losses on specific exposures to banks, are summarised in the following table:

The Group s write-downs as a consequence of market turmoil were US$1.3 billion for the half-year to 30 June 2009, down from US$4.0 billion for the half-year to 30 June 2008.

Financial effect of market turmoil

	Half-year to		
	30 June 2009 US$bn	30 June 2008 US$bn	31 December 2008 US$bn
Write-downs taken to income statement	**(1.3)**	(4.0)	(2.3)
Net movement on available-for-sale reserve on ABSs in the period	**1.2**	(6.1)	(10.4)
Closing balance of available-for-sale reserve relating to ABSs	**(17.5)**	(8.3)	(18.7)

Virtually all of these effects were recorded in Global Banking and Markets. No further impairment losses were recognised on the collapse of financial institutions during the half-year to 30 June 2009 (second half of 2008: US$209 million, of which the collapse of Icelandic banks accounted for US$126 million).

Further analyses of the write-downs taken to the income statement by Global Banking and Markets and the net carrying amounts of the positions that generated these write-downs, are shown in the following table:

Global Banking and Markets write-downs taken to the income statement and carrying amounts

	Write-downs during half-year to			Carrying amount at		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m	**30 June 2009 US$m**	30 June 2008 US$m	31 December 2008 US$m
Sub-prime mortgage-related assets						
loan securitisation	**156**	301	292	**943**	1,565	1,213
credit trading	**83**	665	150	**303**	1,377	428
Other ABSs	**103**	1,327	486	**1,376**	8,923	2,201
Impairments on reclassified assets[1]	**160**		26	**16,308**		16,649
Derivative transactions with monolines						
investment grade counterparts	**25**	598	130	**1,593**	1,206	2,089
non-investment grade counterparts	**241**	608	370	**510**	78	352
Leveraged finance loans[2]	**(11)**	278		**285**	7,375	271
Other credit related items	**5**	99	95	**116**	321	186
Available-for-sale impairments and other non-trading related items	**564**	55	655			
	1,326	3,931	2,204			

1

Included in the write-downs during the half-year to 31 December 2008 is US$26 million relating to reclassified leveraged finance exposures, which had previously been presented under leveraged finance loans.

2 *The carrying amount includes funded loans plus the net exposure to unfunded leveraged finance commitments, held within fair value through the profit or loss.*

Global Banking and Markets asset-backed securities classified as available for sale

HSBC s principal holdings of ABSs classified as available for sale are held within the Global Banking and Markets business through SPEs which have the benefit of external investor first loss protection, and through positions held directly and by Solitaire Funding Limited (Solitaire) where HSBC has first loss risk.

The table below summarises these Global Banking and Markets exposures to ABSs which are held on an available-for-sale basis.

Global Banking and Markets available-for-sale ABSs exposure

	At 30 June 2009			At 31 December 2008		
	Directly held[1]	**SPEs**	**Total**	Directly held[1]	SPEs	Total
	US$m	**US$m**	**US$m**	US$m	US$m	US$m
Total carrying amount of net principal exposure	**30,631**	**12,898**	**43,529**	35,736	14,610	50,346
which includes sub-prime/Alt-A exposure	**4,585**	**3,280**	**7,865**	5,155	3,516	8,671
	(10,824)	**(6,587)**	**(17,411)**	(11,498)	(7,204)	(18,702)

Total available-for-sale reserves relating to sub-prime/Alt-A exposure	**(5,001)**	**(3,515)**	**(8,516)**	(5,920)	(3,573)	(9,493)

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Interim Management Report: Impact of Market Turmoil (continued)

	Half-year to 30 June 2009			Half-year to 30 June 2008			Half-year to 31 December 2008		
	Directly held[1] US$m	**SPEs US$m**	**Total US$m**	Directly held[1] US$m	SPEs US$m	Total US$m	Directly held[1] US$m	SPEs US$m	Total US$m
Impairment charge:									
borne by HSBC	**539**		**539**	55		55	224		224
allocated to capital note holders		**646**	**646**		134	134		159	159
Total impairment charge	**539**	**646**	**1,185**	55	134	189	224	159	383

1 *Directly held includes both assets held by Solitaire where HSBC provides first loss protection and those assets held directly by the Group.*

Securities investment conduits (special purpose entities)

In the table above, the total carrying amount of ABSs in respect of SPEs represent holdings in which significant first loss protection is provided through capital notes issued by the securities investment conduits (SIC s), excluding Solitaire.

At each reporting date, an assessment is made of whether there is any objective evidence of impairment in the value of available-for-sale ABSs. Impairment charges incurred on assets held by these SPEs are offset by a credit to the impairment line for the amount of the loss allocated to capital note holders.

The economic first loss protection remaining at 30 June 2009 amounted to US$2.2 billion (30 June 2008: US$2.4 billion; 31 December 2008: US$2.2 billion).

On an IFRSs accounting basis, the carrying value of the liability for the capital notes at 30 June 2009 amounted to US$0.6 billion (30 June 2008: US$1.2 billion; 31 December 2008: US$0.9 billion). The impairment charge recognised during the first half of 2009 amounted to US$646 million (first half of 2008: US$134 million; second half of 2008: US$159 million).

At 30 June 2009, the available-for-sale reserve in respect of securities held by the SICs was a deficit of US$7.7 billion (30 June 2008: US$3.3 billion; 31 December 2008: US$7.9 billion). Of this, US$6.6 billion related to ABSs (30 June 2008: US$3.1 billion; 31 December 2008: US$7.2 billion).

Impairments recognised during the first half of 2009 from assets held directly or within Solitaire, in recognition of the first loss protection of US$1.2 billion provided by HSBC through credit enhancement, were US$539 million (first half of 2008: US$55 million; second half of 2008: US$224 million), based on a notional principal value of securities which were impaired of US$721 million (first half of 2008: US$88 million; second half of 2008: US$482 million). The level of impairment recognised in comparison with the deficit in the available-for-sale reserve is a reflection of the credit quality and seniority of the assets held.

Sub-prime and Alt-A residential mortgage-backed securities

Management s current assessment of the holdings of available-for-sale ABSs with the most sensitivity to possible future impairment is focused on sub-prime and Alt-A residential mortgage-backed securities (MBS s).

Excluding holdings in the SPEs discussed above, available-for-sale holdings in these categories within Global Banking and Markets amounted to US$4.6 billion at 30 June 2009 (30 June 2008: US$9.4 billion; 31 December 2008: US$5.2 billion). During the period ended 30 June 2009, the movement in fair values of these securities taken to equity was an increase of US$0.9 billion (first half of 2008: reduction of US$2.5 billion; second half of 2008: reduction of US$2.3 billion). The deficit in the available-for-sale fair value reserve at 30 June 2009 in relation to these securities was US$5.0 billion (30 June 2008: US$3.6 billion; 31 December 2008: US$5.9 billion).

During the first half of 2009, the credit ratings on a proportion of ABSs held directly by HSBC, Solitaire and the SICs were downgraded. In particular, Moody s Investor Services downgraded the ratings on substantially all the Group s holdings of US Alt-A residential MBSs issued during 2006 and 2007.

As discussed on page 212, when assessing available-for-sale ABSs for objective evidence of impairment at the reporting date, HSBC considers all available evidence including the performance of the underlying collateral. A downgrade of a security s credit rating is not, of itself, evidence of impairment. Consequently, Moody s action has no direct impact on the measurement of impairment losses. The impairment losses recognised on these securities at 30 June 2009 are set out on page 99.

Stress analysis

HSBC s regular impairment assessment uses an industry standard model with inputs which are corroborated using observable market data where available. At 31 December 2008, management performed a stress test on the available-for-sale ABS positions, based on the fair value of the positions at that date. The outcome of the stress test was particularly sensitive to expected loss and prepayment rates for Alt-A securities and the loss of credit protection from certain monolines on US Home Equity Lines of Credit (HELoC s). The results of the stress test showed that, by applying different inputs to those currently observed, a further potential impairment charge to the income statement could arise over the next three years of US$2 billion to US$2.5 billion. However, management believed that the loss which would be realised in cash terms would be considerably lower than the impairment charge above and potentially cost US$0.6 billion to US$0.8 billion over the next four years. At 30 June 2009, management reperformed the stress test on the available-for-sale ABS position and the outcome of this test, taking into account the impairment charges in 2009, was consistent with the exercise at 31 December 2008.

Business model

Asset-backed securities and leveraged finance

HSBC is or has been involved in the following activities in these areas:

- purchasing US mortgage loans with the intention of structuring and placing securitisations into the market;
- trading in ABSs, including MBSs, in secondary markets;
- holding MBSs and other ABSs in balance sheet management activities, with the intention of earning net interest income over the life of the securities;
- holding MBSs and other ABSs as part of investment portfolios, including the structured investment vehicles (SIV s), SICs and money market funds described under Special purpose entities below, with the intention of earning net interest income and management fees;
- MBSs or other ABSs held in the trading portfolio hedged through credit derivative protection, typically purchased from monolines, with the intention of earning the spread differential over the life of the instruments; and
- leveraged finance: originating loans for the purposes of syndicating or selling them down in order to generate a trading profit and holding them in order to earn interest margin over their lives.

Historically, these activities have not been a significant part of Global Banking and Markets business, and Global Banking and Markets is not reliant on them for any material aspect of its business operations or profitability.

The purchase and securitisation of US mortgage loans and the secondary trading of US MBSs was conducted in HSBC s US MBSs business. This business was discontinued in 2007.

Special purpose entities

HSBC enters into certain transactions with customers in the ordinary course of business which involve the establishment of SPEs to facilitate customer transactions. SPEs are used in HSBC s business in order to provide structured investment opportunities for customers, facilitate the raising of funding for customers business activities, or diversify HSBC s sources of funding and/or improve capital efficiency.

The use of SPEs is not a significant part of HSBC s activities and HSBC is not reliant on the use of SPEs for any material part of its business operations or profitability. Detailed disclosures of HSBC s sponsored SPEs are provided on page 124.

Risk management

The effect of the ongoing market turmoil on HSBC s risk exposures, the way in which HSBC has managed risk exposures in this context and any changes made in HSBC s risk management policies and procedures in response to the market conditions are described in the following sections:

- Liquidity risk The impact of market turmoil on the Group s liquidity risk position (see page 172).

Market risk	The impact of market turmoil on market risk (see page 174).
Credit Risk	Credit exposure (see page 138).

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Accounting policies

HSBC s accounting policies regarding the classification and valuation of financial instruments are described in the accounting policies on pages 344 to 359 of the *Annual Report and Accounts 2008*, and the use of assumptions and estimation in respect of the valuation of financial instruments is described on page 63 of the *Annual Report and Accounts 2008*.

Nature and extent of HSBC s exposures

This section contains information on HSBC s exposures to the following:

- direct lending held at fair value through profit or loss;
- ABSs including MBSs and CDOs;
- monolines;
- credit derivative product companies (CDPC s); and
- leveraged finance transactions.

MBSs are securities that represent interests in a group of mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal). Where an MBS references mortgages with different risk profiles, the MBS is classified according to the highest risk class. Consequently, an MBS with both sub-prime and Alt-A exposures is classified as sub-prime.

CDOs are securities in which ABSs and/or certain other related assets have been purchased and securitised by a third-party, or securities which pay a return which is referenced to those assets. CDOs may feature exposure to sub-prime mortgage assets through the underlying assets. As there is often uncertainty surrounding the nature of the underlying collateral supporting CDOs, all CDOs supported by residential mortgage-related assets, irrespective of the level of sub-prime assets, are classified as sub-prime.

HSBC s holdings of ABSs and CDOs, and its direct lending positions, include the following categories of collateral and lending activity:

- **sub-prime**: loans to customers who have limited credit histories, modest incomes, high debt-to-income ratios or have experienced credit problems caused by occasional delinquencies, prior charge-offs, bankruptcy or other credit-related actions. For US mortgages, US credit scores are primarily used to determine whether a loan is sub-prime. US home equity lines of credit are classified as sub-prime. For non-US mortgages, management judgement is used to identify loans of similar risk characteristics to sub-prime, for example, UK non-conforming mortgages (see below);
- **US Home Equity Lines of Credit**: a form of revolving credit facility provided to customers, which is supported by a first or second lien charge over residential property. Global Banking and Markets holdings of HELoCs are classified as US sub-prime residential mortgage assets;
- **US Alt-A**: loans classified as Alt-A are regarded as lower risk than sub-prime, but they share higher risk characteristics than lending under normal criteria. US credit scores, as well as the level of mortgage documentation held (such as proof of income), are considered when determining whether an Alt-A classification is appropriate. Non-agency mortgages in the US are classified as Alt-A if they do not meet the criteria for classification as sub-prime. These are mortgages not eligible to be sold to the major US Government agency, Ginnie Mae (Government National Mortgage Association), and government sponsored enterprises in the mortgage market, Fannie Mae (the Federal National Mortgage Association) and Freddie Mac (the Federal Home Loan Mortgage Corporation);

US Government agency and US Government sponsored enterprises mortgage-related assets: securities that are guaranteed by US Government agencies, such as Ginnie Mae, or are guaranteed by US Government sponsored entities, including Fannie Mae and Freddie Mac;

UK non-conforming mortgage-related assets: UK mortgages that do not meet normal lending criteria. This includes instances where the normal level of documentation has not been provided (for example, in the case of self-certification of income), or where increased risk factors, such as poor credit history, result in lending at a rate that is higher than the normal lending rate. UK non-conforming mortgages are treated as sub-prime exposures; and

other mortgage-related assets: residential mortgage-related assets that do not meet any of the classifications described above. Prime residential mortgage-related assets are included in this category.

HSBC s exposure to non-residential mortgage-related ABSs and direct lending includes:

commercial property mortgage-related assets: MBSs with collateral other than residential mortgage-related assets;

leveraged finance-related assets: securities with collateral relating to leveraged finance loans;

student loan-related assets: securities with collateral relating to student loans; and

other assets: securities with other receivable-related collateral.

Included in the tables below are ABSs which are held through SPEs that are consolidated by HSBC. Although HSBC consolidates these assets in full, the risks arising from the assets are mitigated to the extent of third-party investment in notes issued by those SPEs. For a description of HSBC s holdings of and arrangements with SPEs, see page 124.

The exposure detailed below includes long positions where risk is mitigated by specific credit derivatives with monolines and other financial institutions. These positions comprise:

residential MBSs with a carrying amount of US$0.9 billion (31 December 2008: US$0.9 billion);

residential MBS CDOs with a carrying amount of US$16 million (31 December 2008: US$39 million); and

ABSs other than residential MBSs and MBS CDOs with a carrying amount of US$8.3 billion (31 December 2008: US$9.8 billion).

In the tables on pages 105 to 110, carrying amounts and gains and losses are given for securities except those where risk is mitigated through specific credit derivatives with monolines. The counterparty credit risk arising from the derivative transactions undertaken with monolines is covered in the monoline exposure analysis on page 111.

HSBC HOLDINGS PLC
Interim Management Report: Impact of Market Turmoil (continued)
Carrying amount of HSBC s consolidated holdings of ABSs, and direct lending held at fair value through profit or loss

	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 SPEs US$m
At 30 June 2009							
Sub-prime residential mortgage-related assets	**2,498**	**2,876**			**732**	**6,106**	**3,156**
Direct lending	**1,923**					**1,923**	**864**
MBSs and MBS CDOs[1]	**575**	**2,876**			**732**	**4,183**	**2,292**
US Alt-A residential mortgage-related assets	**371**	**5,057**	**190**		**953**	**6,571**	**3,356**
Direct lending	**207**					**207**	
MBSs[1]	**164**	**5,057**	**190**		**953**	**6,364**	**3,356**
US Government agency and sponsored enterprises mortgage-related assets MBSs[1]	**102**	**14,074**	**2,388**			**16,564**	
Other residential mortgage- related assets	**1,274**	**4,175**		**25**	**1,262**	**6,736**	**2,801**
Direct lending	**498**					**498**	
MBSs[1]	**776**	**4,175**		**25**	**1,262**	**6,238**	**2,801**
Commercial property mortgage-related assets							
MBSs and MBS CDOs[1]	**390**	**6,575**		**227**	**2,126**	**9,318**	**4,815**
Leveraged finance-related assets	**252**	**4,690**			**563**	**5,505**	**3,825**

ABSs and ABS CDOs[1]							
Student loan-related assets							
ABSs and ABS CDOs[1]	**203**	**5,136**			**141**	**5,480**	**4,334**
Other assets							
ABSs and ABS CDOs[1]	**2,409**	**4,468**		**6,346**	**2,092**	**15,315**	**2,726**
	7,499	**47,051**	**2,578**	**6,598**	**7,869**	**71,595**	**25,013**
At 31 December 2008							
Sub-prime residential mortgage-related assets	3,372	3,741		1	453	7,567	4,230
Direct lending	2,789					2,789	1,300
MBSs and MBS CDOs[1]	583	3,741		1	453	4,778	2,930
US Alt-A residential mortgage-related assets	618	5,829	185		1,056	7,688	3,831
Direct lending	246					246	
MBSs[1]	372	5,829	185		1,056	7,442	3,831
US Government agency and sponsored enterprises mortgage-related assets MBSs[1]	1,127	20,312	2,412	51		23,902	441
Other residential mortgage- related assets[15]	1,633	4,272		31	1,413	7,349	2,822
Direct lending	677					677	
MBSs[1]	956	4,272		31	1,413	6,672	2,822
Commercial property mortgage-related assets[15]							
MBSs and MBS CDOs[1]	589	6,802		86	2,124	9,601	4,985

Leveraged finance-related assets							
ABSs and ABS CDOs[1]	784	4,489			204	5,477	3,667
Student loan-related assets							
ABSs and ABS CDOs[1]	214	4,809		3	81	5,107	4,028
Other assets							
ABSs and ABS CDOs[1]	3,068	5,957		6,371	2,660	18,056	3,941
	11,405	56,211	2,597	6,543	7,991	84,747	27,945

For footnotes, see page 113.

The above table excludes leveraged finance transactions, which are shown separately on page 112.

HSBC s consolidated holdings of US ABSs, and direct lending held at fair value through profit or loss

	Half-year to 30 June 2009				At 30 June 2009			
	Unrealised gains and (losses)[3] US$m	**Realised gains and (losses)[4] US$m**	**Fair value movements through equity[5] US$m**	**Impair-ment[6] US$m**	**Gross principal[7] US$m**	**CDS gross protection[8] US$m**	**Net principal exposure[9] US$m**	**Carrying amount[10] US$m**
US sub-prime residential mortgage-related assets								
Direct lending	**(154)**	**11**			**2,253**		**2,253**	**1,923**
MBSs[1]	**(142)**	**(7)**	**499**	**(459)**	**6,315**	**436**	**5,879**	**2,388**
- high grade[2]	**(18)**	**(2)**	**262**		**1,710**	**392**	**1,318**	**861**
- rated C to A	**(124)**	**(5)**	**237**	**(459)**	**4,557**	**44**	**4,513**	**1,524**
- not publicly rated					**48**		**48**	**3**
MBS CDOs[1]			**(6)**	**(2)**	**369**	**35**	**334**	**9**
- high grade[2]					**18**	**17**	**1**	
- rated C to A			**(6)**	**(2)**	**351**	**18**	**333**	**9**
	(296)	**4**	**493**	**(461)**	**8,937**	**471**	**8,466**	**4,320**
US Alt-A residential mortgage-related assets Direct lending					**231**		**231**	**207**
MBSs[1]	**(41)**		**1,119**	**(631)**	**15,195**	**303**	**14,892**	**6,228**
- high grade[2]	**(9)**	**1**	**3,276**	**54**	**2,521**	**142**	**2,379**	**1,754**
- rated C to A	**(32)**	**(1)**	**(2,157)**	**(685)**	**12,663**	**161**	**12,502**	**4,463**
- not publicly rated					**11**		**11**	**11**
	(41)		**1,119**	**(631)**	**15,426**	**303**	**15,123**	**6,435**
US Government agency and sponsored enterprises								

mortgage-related assets								
MBSs[1]								
- high grade[2]	**8**	**236**	**(56)**		**16,460**		**16,460**	**16,564**
Other US residential mortgage-related assets								
Direct lending	**(41)**	**104**			**526**		**526**	**498**
MBSs[1]	**(42)**		**(35)**		**874**		**874**	**484**
- high grade[2]	**(27)**		**(35)**		**685**		**685**	**379**
- rated C to A	**(15)**				**189**		**189**	**105**
	(83)	**104**	**(35)**		**1,400**		**1,400**	**982**
Commercial property mortgage-related assets								
MBS and MBS CDOs[1]	**(18)**	**7**	**209**		**6,295**	**359**	**5,936**	**3,888**
- high grade[2]	**(18)**	**7**	**269**		**6,069**	**359**	**5,710**	**3,787**
- rated C to A			**(60)**		**226**		**226**	**101**
- not publicly rated								
Leveraged finance-related assets								
ABSs and ABS CDOs[1]	**(7)**		**165**		**5,377**	**758**	**4,619**	**3,592**
- high grade[2]	**(7)**		**163**		**4,873**	**271**	**4,602**	**3,577**
- rated C to A			**2**		**504**	**487**	**17**	**15**
Student loan-related assets								
ABSs and ABS CDOs[1]	**(3)**	**(1)**	**553**		**7,397**		**7,397**	**5,308**
- high grade[2]	**(1)**		**427**		**6,890**		**6,890**	**5,201**
- rated C to A	**(2)**	**(1)**	**126**		**507**		**507**	**107**
Other assets								
	(131)	**(1)**	**71**	**(33)**	**6,268**	**988**	**5,280**	**3,308**

ABS and ABS CDOs[1]								
- high grade[2]	**(30)**	**1**	**593**		**2,488**	**817**	**1,671**	**1,395**
- rated C to A	**(101)**	**(2)**	**(432)**	**(33)**	**3,199**	**171**	**3,028**	**1,337**
- not publicly rated			**(90)**		**581**		**581**	**576**
Total	**(571)**	**349**	**2,519**	**(1,125)**	**67,560**	**2,879**	**64,681**	**44,397**

HSBC HOLDINGS PLC
Interim Management Report: Impact of Market Turmoil (continued)
HSBC s consolidated holdings of US ABSs, and direct lending held at fair value through profit or loss (continued)

	Half-year to 30 June 2008				At 30 June 2008			
	Unrealised gains and (losses)[3] US$m	Realised gains and (losses)[4] US$m	Fair value movements through equity[5] US$m	Impairment[6] US$m	Gross principal[7] US$m	CDS gross protection[8] US$m	Net principal exposure[9] US$m	Carrying amount[10] US$m
US sub-prime residential mortgage-related assets								
Direct lending	(234)	(8)			4,199		4,199	3,534
MBSs[1]	(621)	6	(903)	(29)	8,239	601	7,638	5,283
- high grade[2]	(228)	7	(518)	(29)	5,930	571	5,359	4,142
- rated C to A	(333)		(385)		2,292	30	2,262	1,118
- not publicly rated	(60)	(1)			17		17	23
MBS CDOs[1]	(123)		(32)	(21)	1,200	569	631	152
- high grade[2]	(8)		(32)		230	50	180	97
- rated C to A	(115)			(21)	970	519	451	55
	(978)	(2)	(935)	(50)	13,638	1,170	12,468	8,969
US Alt-A residential mortgage-related assets								
Direct lending					329		329	325
MBSs[1]	(368)	(59)	(3,243)	(5)	17,548	204	17,344	11,349
- high grade[2]	(340)	(49)	(3,115)	(5)	16,898	204	16,694	10,969
- rated C to A	(29)	(9)	(100)		533		533	299
- not publicly rated	1	(1)	(28)		117		117	81
	(368)	(59)	(3,243)	(5)	17,877	204	17,673	11,674
US Government agency and sponsored enterprises mortgage-related								

assets							
MBSs[1]							
- high grade[2]	(52)	40	(145)	25,301		25,301	24,989
Other US residential mortgage-related assets							
Direct lending	(26)	34		312		312	298
MBSs[1]	(107)	(123)	(4)	889	195	694	555
- high grade[2]	(105)	(123)	(4)	864	187	677	546
- rated C to A	(2)			25	8	17	9
	(133)	(89)	(4)	1,201	195	1,006	853
Commercial property mortgage-related assets							
MBS and MBS CDOs[1]	(69)		(295)	5,838	415	5,423	4,943
- high grade[2]	(55)		(290)	5,554	415	5,139	4,682
- rated C to A			(5)	64		64	55
- not publicly rated	(14)			220		220	206
Leveraged finance-related assets							
ABSs and ABS CDOs[1]							
- high grade[2]	(4)		(227)	5,153	577	4,576	4,168
Student loan-related assets							
ABSs and ABS CDOs[1]	(64)		(507)	7,412		7,412	6,437
- high grade[2]	(44)		(437)	7,202		7,202	6,343
- rated C to A	(20)		(70)	210		210	94
Other assets							
ABS and ABS CDOs[1]	(186)	(3)	(27)	9,057	2,941	6,116	4,956
- high grade[2]	(111)	(2)	6	6,345	2,433	3,912	3,086
- rated C to A	(62)	(1)	(56)	1,874	508	1,366	1,076
- not publicly rated	(13)		23	838		838	794

Total	(1,854)	(113)	(5,383)	(55)	85,477	5,502	79,975	66,989

	Half-year to 31 December 2008				At 31 December 2008			
	Unrealised gains and (losses)[3] US$m	Realised gains and (losses)[4] US$m	Fair value movements through equity[5] US$m	Impair-ment[6] US$m	Gross principal[7] US$m	CDS gross protection[8] US$m	Net principal exposure[9] US$m	Carrying amount[10] US$m
US sub-prime residential mortgage-related assets								
Direct lending	(260)	15			3,653		3,653	2,789
MBSs[1]	(163)	(5)	(675)	29	6,845	794	6,051	3,044
- high grade[2]	(15)	(1)	228	29	2,903	507	2,396	1,634
- rated C to A	(111)	(4)	(903)		3,913	287	3,626	1,399
- not publicly rated	(37)				29		29	11
MBS CDOs[1]	13		(23)	(29)	1,042	234	808	61
- high grade[2]	8		(46)		172	27	145	45
- rated C to A	5		23	(29)	870	207	663	16
	(410)	10	(698)		11,540	1,028	10,512	5,894
US Alt-A residential mortgage-related assets								
Direct lending	(11)				264		264	246
MBSs[1]	(369)	68	(3,173)	(505)	16,860	436	16,424	7,174
- high grade[2]	(106)	66	103	(77)	9,804	317	9,487	4,869
- rated C to A	(263)	2	(3,304)	(428)	7,041	119	6,922	2,293
- not publicly rated			28		15		15	12
	(380)	68	(3,173)	(505)	17,124	436	16,688	7,420
US Government agency and sponsored enterprises								

mortgage-related assets								
MBSs[1]								
- high grade[2]	1		537		23,470		23,470	23,902
Other US residential mortgage-related assets								
Direct lending	49	(43)			691		691	677
MBSs[1,15]	42	86	37		739	284	455	357
- high grade[2]	42	86	37		659	262	397	317
- rated C to A					80	22	58	40
	91	43	37		1,430	284	1,146	1,034
Commercial property mortgage-related assets								
MBS and MBS CDOs[1,15]	12	(19)	(1,414)		6,097	553	5,544	3,439
- high grade[2]	(2)	(18)	(1,406)		5,958	553	5,405	3,316
- rated C to A		(1)	(8)		108		108	94
- not publicly rated	14				31		31	29
Leveraged finance-related assets								
ABSs and ABS CDOs[1]	(11)		(773)		5,212	551	4,661	3,390
- high grade[2]	(11)		(769)		5,193	551	4,642	3,375
- rated C to A			(4)		19		19	15
Student loan-related assets								
ABSs and ABS CDOs[1]	1	(4)	(1,452)		7,610	279	7,331	4,908
- high grade[2]	(3)	(4)	(1,212)		6,888	279	6,609	4,523
- rated C to A	4		(240)		722		722	385
Other assets								
ABS and ABS CDOs[1]	(61)	(87)	(780)	(33)	7,885	1,539	6,346	4,277

- high grade[2]	(42)	(69)	(595)		5,216	1,370	3,846	2,725
- rated C to A	(32)	(18)	(162)	(13)	1,916	169	1,747	805
- not publicly rated	13		(23)	(20)	753		753	747
Total	(757)	11	(7,716)	(538)	80,368	4,670	75,698	54,264

For footnotes, see page 113.

HSBC HOLDINGS PLC
Interim Management Report: Impact of Market Turmoil (continued)
HSBC s consolidated holdings of ABSs, and direct lending held at fair value through profit or loss, other than those supported by US-originated assets

	Half-year to 30 June 2009				At 30 June 2009			
	Unrealised gains and (losses)[3] US$m	**Realised gains and (losses)[4] US$m**	**Fair value movements through equity[5] US$m**	**Impair-ment[6] US$m**	**Gross principal[7] US$m**	**CDS gross protection[8] US$m**	**Net principal exposure[9] US$m**	**Carrying amount[10] US$m**
UK non-conforming residential mortgage-related assets								
MBSs[1]	**(1)**		**(92)**	**(60)**	**1,602**		**1,602**	**1,074**
- high grade[2]			**(100)**		**1,386**		**1,386**	**971**
- rated C to A	**(1)**		**8**	**(60)**	**216**		**216**	**103**
Other UK residential mortgage-related assets								
MBSs[1]	**(7)**	**(5)**	**100**		**5,217**		**5,217**	**4,031**
- high grade[2]	**(7)**	**(6)**	**123**		**4,873**		**4,873**	**3,822**
- rated C to A		**1**	**(23)**		**339**		**339**	**207**
- not publicly rated					**5**		**5**	**2**
Non-US and non-UK sub-prime residential mortgage-related assets								
MBSs[1]	**1**				**84**		**84**	**72**
- high grade[2]	**2**				**46**		**46**	**42**
- rated C to A	**(1)**				**38**		**38**	**30**
MBS CDOs[1]			**(4)**		**25**		**25**	**17**
- high grade[2]			**(4)**		**23**		**23**	**15**
- not publicly rated					**2**		**2**	**2**

	1		**(4)**		**109**		**109**	**89**
Other non-US and non-UK residential mortgage-related assets								
MBSs[1]	**6**	**1**	**(18)**	**(5)**	**1,878**		**1,878**	**1,597**
- high grade[2]	**17**	**1**	**(13)**		**1,751**		**1,751**	**1,507**
- rated C to A	**(1)**				**52**		**52**	**46**
- not publicly rated	**(10)**		**(5)**	**(5)**	**75**		**75**	**44**
Commercial property mortgage-related assets								
MBS and MBS CDOs[1]	**(74)**	**6**	**(744)**		**7,560**		**7,560**	**5,223**
- high grade[2]	**(46)**	**5**	**(599)**		**6,649**		**6,649**	**4,650**
- rated C to A	**(28)**	**2**	**(148)**		**893**		**893**	**568**
- not publicly rated		**(1)**	**3**		**18**		**18**	**5**
Leveraged finance-related assets								
ABSs and ABS CDOs[1]	**6**		**(25)**		**1,995**		**1,995**	**1,483**
- high grade[2]	**6**		**(10)**		**1,882**		**1,882**	**1,386**
- rated C to A			**(15)**		**113**		**113**	**97**
Other assets								
ABS and ABS CDOs[1]	**(22)**	**(3)**	**41**		**13,940**	**8,629**	**5,311**	**4,485**
- high grade[2]	**20**	**(3)**	**(6)**		**5,601**	**2,362**	**3,239**	**2,855**
- rated C to A	**(30)**		**47**		**2,069**	**124**	**1,945**	**1,565**
- not publicly rated	**(12)**				**6,270**	**6,143**	**127**	**65**
Total	**(91)**	**(1)**	**(742)**	**(65)**	**32,301**	**8,629**	**23,672**	**17,982**

	Half-year to 30 June 2008				At 30 June 2008			
	Unrealised gains and (losses)[3] US$m	Realised gains and (losses)[4] US$m	Fair value movements through equity[5] US$m	Impairment[6] US$m	Gross principal[7] US$m	CDS gross protection[8] US$m	Net principal exposure[9] US$m	Carrying amount[10] US$m
UK non-conforming residential mortgage-related assets								
MBSs[1]	(20)	10	(92)		2,851		2,851	2,625
- high grade[2]	(12)	10	(88)		2,793		2,793	2,585
- rated C to A	(8)		(4)		52		52	36
- not publicly rated					6		6	4
Other UK residential mortgage-related assets								
MBSs[1]	(39)		(99)		5,494		5,494	5,128
- high grade[2]	(23)		(98)		5,126		5,126	4,803
- rated C to A	(16)		(1)		359		359	316
- not publicly rated					9		9	9
Non-US and non-UK sub-prime residential mortgage-related assets								
MBSs[1]	(15)	6	(2)		885		885	587
- high grade[2]	(7)	6	(2)		820		820	534
- not publicly rated	(8)				65		65	53
MBS CDOs[1]	(3)		(3)		35		35	32
- high grade[2]	(3)		(3)		32		32	29
- not publicly rated					3		3	3
	(18)	6	(5)		920		920	619

Other non-US and non-UK residential mortgage-related assets							
MBSs[1]	(72)	(7)	(13)	3,076	54	3,022	2,844
- high grade[2]	(57)	(7)	(13)	2,635	10	2,625	2,491
- rated C to A	(12)			339	44	295	256
- not publicly rated	(3)			102		102	97
Commercial property mortgage-related assets							
MBS and MBS CDOs[1]	(104)		(293)	9,183	74	9,109	8,393
- high grade[2]	(36)		(285)	7,828	70	7,758	7,200
- rated C to A	(23)		(2)	402	4	398	323
- not publicly rated	(45)		(6)	953		953	870
Leveraged finance-related assets							
ABSs and ABS CDOs[1]	(5)		(59)	2,766	949	1,817	1,704
- high grade[2]	(1)		(59)	2,355	617	1,738	1,632
- not publicly rated	(4)			411	332	79	72
Student loan-related assets							
ABSs and ABS CDOs[1]							
- high grade[2]				4		4	4
Other assets							
ABS and ABS CDOs[1]	(148)	(2)	(131)	17,024	9,368	7,656	6,846
- high grade[2]	(99)	(1)	(206)	7,345	1,709	5,636	4,927
- rated C to A	(29)		(73)	1,920	802	1,118	1,050
- not publicly rated	(20)	(1)	148	7,759	6,857	902	869
Total	(406)	7	(692)	41,318	10,445	30,873	28,163

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HSBC s consolidated holdings of ABSs, and direct lending held at fair value through profit or loss, other than those supported by US-originated assets (continued)

	Half-year to 31 December 2008				At 31 December 2008			
	Unrealised gains and (losses)[3] US$m	Realised gains and (losses)[4] US$m	Fair value movements through equity[5] US$m	Impair-ment[6] US$m	Gross principal[7] US$m	CDS gross protection[8] US$m	Net principal exposure[9] US$m	Carrying amount[10] US$m
UK non-conforming residential mortgage-related assets								
MBSs[1]	17	(10)	(202)		1,425		1,425	1,100
- high grade[2]	11	(10)	(180)		1,349		1,349	1,051
- rated C to A	6		(22)		76		76	49
Other UK residential mortgage-related assets								
MBSs[1]	(8)	(8)	(610)		5,781		5,781	4,568
- high grade[2]	(4)	(10)	(596)		5,289		5,289	4,185
- rated C to A	(4)	2	(14)		488		488	382
- not publicly rated					4		4	1
Non-US and non-UK sub-prime residential mortgage-related assets								
MBSs[1]	15	(6)	2	(8)	47		47	39
- high grade[2]	7	(6)	2	(8)	46		46	38
- rated C to A					1		1	1
- not publicly rated	8							
MBS CDOs[1]	(12)				53		53	26
- high grade[2]	(11)				40		40	23
- rated C to A	(1)				11		11	1
- not publicly rated					2		2	2

	3	(6)	2	(8)	100		100	65
Other non-US and non-UK residential mortgage-related assets								
MBSs[1,15]	6	(20)	(49)		1,871		1,871	1,586
- high grade[2]	(2)	(21)	(49)		1,644		1,644	1,413
- rated C to A	6				149		149	127
- not publicly rated	2	1			78		78	46
Commercial property mortgage-related assets								
MBS and MBS CDOs[1,15]	(131)	(8)	(741)		7,427		7,427	5,793
- high grade[2]	(138)	(20)	(728)		7,133		7,133	5,609
- rated C to A	(38)	12	(16)		268		268	170
- not publicly rated	45		3		26		26	14
Leveraged finance-related assets								
ABSs and ABS CDOs[1]	1	1	(247)		2,180	385	1,795	1,391
- high grade[2]	(3)	1	(247)		2,180	385	1,795	1,391
- not publicly rated	4							
Student loan-related assets								
ABSs and ABS CDOs[1]								
- high grade[2]					98		98	55
Other assets								
ABS and ABS CDOs[1]	(71)	(15)	(523)	(51)	13,227	6,955	6,272	5,185
- high grade[2]	(77)	(9)	62		6,130	1,679	4,451	3,806
- rated C to A	(14)	(7)	(437)		1,676	174	1,502	1,097
- not publicly rated	20	1	(148)	(51)	5,421	5,102	319	282

Total	(183)	(66)	(2,370)	(59)	32,109	7,340	24,769	19,743

For footnotes, see page 113.

The following table shows the vintages of the collateral assets supporting HSBC s holdings of US sub-prime and Alt-A MBSs. Market prices for these instruments generally incorporate higher discounts for later vintages. The majority of HSBC s holdings of US sub-prime MBSs are originated pre-2007; holdings of US Alt-A MBSs are more evenly distributed between pre-2007 and 2007 vintages.

Vintages of US sub-prime and Alt-A mortgage-backed securities

	Gross principal[7] of US sub-prime MBSs at:		Gross principal[7] of US Alt-A MBSs at:	
	30 June 2009 US$m	31 December 2008 US$m	**30 June 2009 US$m**	31 December 2008 US$m
Mortgage vintage				
Pre-2006	**1,571**	2,012	**2,237**	2,695
2006	**3,262**	4,287	**7,076**	7,712
2007	**1,851**	1,588	**5,882**	6,453
	6,684	7,887	**15,195**	16,860

For footnote, see page 113.

Transactions with monoline insurers

HSBC s exposure to derivative transactions entered into directly with monoline insurers

HSBC s principal exposure to monolines is through a number of over-the-counter (OTC) derivative transactions, mainly credit default swaps (CDS s). HSBC entered into these CDSs primarily to purchase credit protection against securities held within the trading portfolio.

During the first half of 2009, the notional value of contracts with monolines and HSBC s overall credit exposure to monolines decreased as certain transactions were commuted and others matured. The table below sets out the fair value, essentially the replacement cost, of the derivative transactions at 30 June 2009, 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. In order to illustrate that risk, the value of protection purchased is shown subdivided between those monolines that were rated by Standard & Poor s (S&P) at BBB or above at 30 June 2009, and those that were below BBB (BBB is the S&P cut-off for an investment grade classification). As a result of the downgrade of a significant monoline during the first half of 2009, exposure to monolines rated below BBB at 30 June 2009 increased from the position as at 31 December 2008. The Credit risk adjustment column indicates the valuation adjustment (the provision) taken against the net exposures, and reflects the assessed 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.

HSBC s exposure to derivative transactions entered into directly with monoline insurers

	Notional	Net exposure before credit	Credit risk	Net exposure after credit

		amount US$m	risk adjustment[11] US$m	adjustment[12] US$m	risk adjustment US$m
At 30 June 2009					
Derivative transactions with monoline counterparties					
Monoline	BBB or above	**7,259**	**2,308**	**(715)**	**1,593**
Monoline	below BBB	**3,683**	**1,357**	**(847)**	**510**
		10,942	**3,665**	**(1,562)**	**2,103**
At 31 December 2008					
Derivative transactions with monoline counterparties					
Monoline	BBB or above	9,627	2,829	(740)	2,089
Monoline	below BBB	2,731	1,104	(752)	352
		12,358	3,933	(1,492)	2,441

For footnotes, see page 113.

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The above table can be analysed as follows. HSBC has derivative transactions referenced to underlying securities with a nominal value of US$10.9 billion (31 December 2008: US$12.4 billion), whose value at 30 June 2009 indicated a potential claim against the protection purchased from the monolines of some US$3.7 billion (31 December 2008: US$3.9 billion). On the basis of a credit assessment of the standing of the monolines, a provision of US$1.6 billion has been taken (31 December 2008: US$1.5 billion), leaving US$2.1 billion exposed (31 December 2008: US$2.4 billion), of which US$1.6 billion is recoverable from monolines rated investment grade at 30 June 2009 (31 December 2008: US$2.1 billion). The provisions taken imply in aggregate that 69 cents in the dollar will be recoverable from investment grade monolines and 38 cents in the dollar from non-investment grade monolines (31 December 2008: 74 cents and 32 cents, respectively).

HSBC s exposure to direct lending and irrevocable commitments to lend to monoline insurers

HSBC has outstanding liquidity facilities totalling US$2 million to monolines, of which US$2 million was drawn at 30 June 2009 (31 December 2008: US$47 million, US$2 million drawn).

HSBC s exposure to debt securities which benefit from guarantees provided by monoline insurers

Within both the trading and available-for-sale portfolios, HSBC holds 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 2009. For wrapped bonds held in the 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. No wrapped bonds were included in the reclassification of financial assets described on page 97.

HSBC s exposure to Credit Derivative Product Companies

CDPCs are independent companies that specialise in selling credit default protection on corporate exposures. The focus on the credit worthiness of CDPCs continued during the first half of 2009, despite a reduction in the credit spread of corporates. At 30 June 2009, HSBC had purchased from CDPCs credit protection with a notional value of US$6.2 billion (31 December 2008: US$6.4 billion) which had a fair value (essentially, replacement cost) of US$0.7 billion (31 December 2008: US$1.2 billion), against which a credit risk adjustment (a provision) of US$0.2 billion was held (31 December 2008: US$0.2 billion). At 30 June 2009, 80 per cent of exposure was to CDPCs with investment grade ratings (31 December 2008: 100 per cent).

Leveraged finance transactions

Leveraged finance transactions include sub-investment grade acquisition or event-driven financing.

The following tables show HSBC s exposure to leveraged finance transactions arising from primary transactions and the movement in that leveraged finance exposure in the year. HSBC s additional exposure to leveraged finance loans through holdings of ABSs from its trading and investment activities is shown in the table on page 104.

HSBC s exposure to leveraged finance transactions

	Funded exposures[13] US$m	Unfunded exposures[14] US$m	Total exposures US$m
At 30 June 2009			
Europe	**3,747**	**455**	**4,202**
Rest of Asia-Pacific	**13**	**73**	**86**
North America	**1,833**	**173**	**2,006**

	5,593	**701**	**6,294**
Held within:			
- loans and receivables	**5,589**	**420**	**6,009**
- fair value through the profit or loss	**4**	**281**	**285**

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	Funded exposures[13] US$m	Unfunded exposures[14] US$m	Total exposures US$m
At 31 December 2008			
Europe	3,554	480	4,034
Rest of Asia-Pacific	25	12	37
North America	1,825	258	2,083
	5,404	750	6,154
Held within:			
- loans and receivables	5,401	482	5,883
- fair value through the profit or loss	3	268	271

For footnotes, see below.

Movement in leveraged finance exposures

	Funded exposures[13] US$m	**Unfunded exposures[14] US$m**	**Total exposures US$m**
At 1 January 2009	**5,404**	**750**	**6,154**
Additions		**50**	**50**
Fundings	**11**	**(11)**	
Sales, repayments and other movements	**144**	**(103)**	**41**
Write-ups	**34**	**15**	**49**
At 30 June 2009	**5,593**	**701**	**6,294**

For footnotes, see below.

The movement in leveraged finance exposures during the first half of 2009 primarily relates to the appreciation of sterling against the US dollar. Leveraged finance commitments held by HSBC were US$6.7 billion at 30 June 2009 (31 December 2008: US$6.6 billion), of which US$6.0 billion (31 December 2008: US$5.8 billion) was funded.

As a result of the reclassification of certain leveraged finance loans from held-for-trading to loans and receivables, net gains of US$0.6 billion (second half of 2008: net losses of US$1.3 billion) were not taken to the income statement for the half-year to 30 June 2009.

At 30 June 2009, HSBC s principal exposures were to companies in two sectors: US$3.7 billion to data processing (31 December 2008: US$3.6 billion) and US$1.9 billion to communications and infrastructure (31 December 2008: US$1.7 billion). During the period, 98 per cent of the total write-up was against exposures in these two sectors (31 December 2008: 99 per cent).

Footnotes to Nature and extent of HSBC s exposures

1 *Mortgage-backed securities*

(MBS s), asset-backed securities (ABS s) and collateralised debt obligations (CDO s).

2 *High grade assets rated AA or AAA.*

3 *Unrealised gains and losses on the net principal exposure (footnote 9) recognised in the income statement as a result of changes in the fair value of the asset, adjusted for the cumulative amount of transfers to realised gains and losses as a result of the disposal of assets.*

4 *Realised gains and losses on the net principal exposure (footnote 9) recognised in the income statement as a result of the disposal of assets.*

5 *Fair value gains and losses on the net principal exposure (footnote 9) recognised in equity as a result of the changes in the fair value of available-for-sale assets, adjusted for transfers from the*

available-for-sale reserve to the income statement as a result of impairment, adjusted for transfers to realised gains and losses following the disposal of assets and adjusted for transfer between ratings categories.

6 *Impairment losses recognised in the income statement in respect of the net principal exposure (footnote 9) of available-for-sale and held-to-maturity assets.*

7 *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.*

8 *A CDS is a credit default swap. CDS gross protection is the gross principal of the underlying instrument that is protected by CDSs.*

9 *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.*

10 *Carrying amount of the net principal exposure.*

11 *Net exposure after legal netting and any other relevant credit mitigation prior to deduction of the credit risk adjustment.*

12 *Cumulative fair value adjustment recorded against OTC derivative exposures to counterparties to reflect their creditworthiness.*

13 *Funded exposure represents the loan amount advanced to the customer, net of fair value movements and fees held on deposit.*

14 *Unfunded exposures represent the contractually*

committed loan facility amount not yet drawn down by the customer, net of fair value movements and fees held on deposit.

15 *During 2009, for disclosure purposes, certain other residential MBSs were reclassified to commercial property mortgage-related assets. Comparatives have been restated accordingly.*

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Fair values of financial instruments

This section on fair values of financial instruments forms part of the interim consolidated financial statements.

The accounting policies which determine the classification of financial instruments and the use of assumptions and estimation in valuing them are described on pages 344 to 359 and 63 to 64, respectively, of the *Annual Report and Accounts 2008*. The following is a description of HSBC s methods of determining fair value and its related control framework, and a quantification of its exposure to financial instruments measured at fair value.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm s length transaction.

Financial instruments measured at fair value on an ongoing basis include trading assets and liabilities, instruments designated at fair value, derivatives and financial investments classified as available for sale (including treasury and other eligible bills, debt securities and equity securities).

Fair values of financial instruments carried at fair value

Control framework

Fair values are subject to a control framework designed to ensure that they are either determined or validated by a function independent of the risk-taker. To this end, ultimate responsibility for the determination of fair values lies with Finance, which reports functionally to the Group Finance Director. Finance establishes the accounting policies and procedures governing valuation, and is responsible for ensuring that they comply with all relevant accounting standards.

Further details of the control framework, including details on fair values determined using a valuation model, are included on pages 162 and 163 of the *Annual Report and Accounts 2008*.

Determination of fair value

Fair values are determined according to the following hierarchy:

Level 1 quoted market price: financial instruments with quoted prices for identical instruments in active markets.

Level 2 valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Level 3 valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used.

The judgement as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices that are necessary to measure the fair value of the instrument requires additional work during the valuation process.

The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable and, for them, the derivation of fair value is more judgemental. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument s carrying amount and/or inception profit (day 1 gain or loss) is driven by unobservable inputs. Unobservable in this context means that there is little or no current market data available from which to determine the price at which an arm s length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used). Furthermore, in some cases the majority of the fair value derived from a valuation technique with significant unobservable inputs may be attributable to observable inputs.

Consequently, the effect of uncertainty in determining unobservable inputs will generally be restricted to uncertainty about the overall fair value of the financial instrument being measured. To help in understanding the extent and the range of this uncertainty, additional information is provided in the section headed Effect of changes in significant unobservable assumptions to reasonably possible alternatives below.

In certain circumstances, primarily where debt is hedged with interest rate derivatives or structured notes issued, HSBC records its own debt in issue at fair value, based on quoted prices in an active market for the specific instrument concerned, if available. When quoted market prices are unavailable, the own debt in issue is valued using valuation techniques, the inputs for which are either based upon quoted prices in an inactive market for the instrument, or are estimated by comparison with quoted prices in an active market for similar instruments. In both cases, the fair value includes the effect of applying the credit spread which is appropriate to HSBC s liabilities. For all issued debt securities, discounted cash flow modelling is used to separate the change in fair value that may be attributed to HSBC s credit spread movements from movements in other market factors such as benchmark interest rates or foreign exchange rates. Specifically, the change in fair value of issued debt securities attributable to the Group s own credit spread is computed as follows: for each security at each reporting date, an externally verifiable price is obtained or a price is derived using credit spreads for similar securities for the same issuer. Then, using discounted cash flow, each security is valued using a risk-free discount curve. The difference in the valuations is attributable to the Group s own credit spread. This methodology is applied consistently across all securities.

Structured notes issued and certain other hybrid instrument liabilities are included within trading liabilities and are measured at fair value. The credit spread applied to these instruments is derived from the spreads at which HSBC issues structured notes. These market spreads are significantly smaller than credit spreads observed for plain vanilla debt or in the credit default swap markets.

Gains and losses arising from changes in the credit spread of liabilities issued by HSBC reverse over the contractual life of the debt, provided that the debt is not repaid early.

All net positions in non-derivative financial instruments, and all derivative portfolios, are valued at bid or offer prices as appropriate. Long positions are marked at bid prices; short positions are marked at offer prices.

The fair value of a portfolio of financial instruments quoted in an active market is calculated as the product of the number of units and its quoted price and no block discounts are made.

The valuation techniques used when quoted market prices are not available incorporate certain assumptions that HSBC believes would be made by a market participant to establish fair value. When HSBC considers that there are additional considerations not included within the valuation model, appropriate adjustments may be made. Examples of such adjustments are:

Credit risk adjustment: an adjustment to reflect the creditworthiness of OTC derivative counterparties.

Market data/model uncertainty: an adjustment to reflect uncertainties in fair values based on unobservable market data inputs (for example, as a result of illiquidity), or in areas where the choice of valuation model is particularly subjective.

Inception profit (day 1 gain or loss): for financial instruments valued at inception on the basis of one or more significant unobservable inputs, the difference between transaction price and model value, as adjusted, at inception (the day 1 gain or loss) is not recognised in the consolidated income statement, but is deferred. An analysis of the movement in the deferred day 1 gain or loss is provided on page 218.

Transaction costs are not included in the fair value calculation, nor are the future costs of administering the OTC derivative portfolio. These, along with trade origination costs such as brokerage fees and post-trade costs, are included either in fee expense or in operating expenses.

A detailed description of the valuation techniques applied to instruments of particular interest follows:

Private equity

HSBC s private equity positions are generally classified as available for sale and are not traded in active markets. In the absence of an active market, an investment s fair value is estimated on the basis of an analysis of the investee s financial position and results, risk profile, prospects and other factors, as well as by reference to market valuations for similar entities quoted in an active market, or the price at which similar companies have changed ownership. The exercise of judgement is required because of uncertainties inherent in estimating fair value for private equity investments.

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Debt securities, treasury and other eligible bills, and equities

The fair value of these instruments is based on quoted market prices from an exchange, dealer, broker, industry group or pricing service, when available. When they are unavailable, the fair value is determined by reference to quoted market prices for similar instruments, adjusted as appropriate for the specific circumstances of the instruments.

Illiquidity and a lack of transparency in the market for asset-backed securities has resulted in less observable data being available. While quoted market prices are generally used to determine the fair value of these securities, valuation models are used to substantiate the reliability of the limited market data available and to identify whether any adjustments to quoted market prices are required.

In the absence of quoted market prices, fair value is determined using valuation techniques based on the calculation of the present value of expected future cash flows of the assets. The inputs to these valuation techniques are derived from observable market data and, where relevant, assumptions in respect of unobservable inputs. In respect of ABSs and mortgages, the assumptions may include prepayment speeds, default rates and loss severity based on collateral type, and performance as appropriate. The output from the valuation techniques is benchmarked for consistency against observable data.

Derivatives

OTC (i.e. non-exchange traded) derivatives are valued using valuation models. Valuation models calculate the present value of expected future cash flows, based upon no-arbitrage principles. For many vanilla derivative products, such as interest rate swaps and European options, the modelling approaches used are standard across the industry. For more complex derivative products, there may be some differences in market practice. Inputs to valuation models are determined from observable market data wherever possible, including prices available from exchanges, dealers, brokers or providers of consensus pricing. Certain inputs may not be observable in the market directly, but can be determined from observable prices via model calibration procedures. Finally, some inputs are not observable, but can generally be estimated from historical data or other sources. Examples of inputs that are generally observable include foreign exchange spot and forward rates, benchmark interest rate curves and volatility surfaces for commonly traded option products. Examples of inputs that may be unobservable include volatility surfaces, in whole or in part, for less commonly traded option products, and correlations between market factors.

Loans including leveraged loans and loans held for securitisation

Loans held at fair value are valued from broker quotes and/or market data consensus providers when available. In the absence of an observable market, the fair value is determined using valuation techniques including discounted cash flow models, which incorporate assumptions regarding an appropriate credit spread for the loan derived from other market instruments issued by the same or comparable entities.

Structured notes

The fair value of structured notes valued using a valuation technique is derived from the fair value of the underlying debt security as described above, and the fair value of the embedded derivative is determined as described in the paragraph above on derivatives.

Fair value valuation bases

The table below provides an analysis of the various bases described above which have been deployed for valuing financial assets and financial liabilities measured at fair value in the consolidated financial statements.

The main drivers of the movement in the balances of assets and liabilities measured at fair value with significant unobservable inputs were attributable to a decrease in the fair value of derivative assets, loans held for securitisation and the disposal of securities in other portfolios. At 30 June 2009, financial instruments measured at fair value using a valuation technique with significant unobservable inputs represented 2 per cent of total assets and liabilities measured at fair value (31 December 2008: 2 per cent).

Bases of valuing financial assets and liabilities measured at fair value

	Valuation techniques			
	Quoted market price Level 1 US$m	**Using observable inputs Level 2 US$m**	**With significant unobservable inputs Level 3 US$m**	**Total US$m**
At 30 June 2009				
Assets				
Trading assets	**272,812**	**134,897**	**6,649**	**414,358**
Financial assets designated at fair value	**20,550**	**12,218**	**593**	**33,361**
Derivatives	**7,304**	**296,242**	**7,250**	**310,796**
Financial investments: available for sale	**145,558**	**182,075**	**9,521**	**337,154**
Liabilities				
Trading liabilities	**134,641**	**122,941**	**6,980**	**264,562**
Financial liabilities designated at fair value	**26,848**	**50,465**		**77,314**
Derivatives	**9,288**	**285,726**	**3,862**	**298,876**
At 31 December 2008				
Assets				
Trading assets	234,399	185,369	7,561	427,329
Financial assets designated at fair value	14,590	13,483	460	28,533
Derivatives	8,495	476,498	9,883	494,876
Financial investments: available for sale	103,949	173,157	9,116	286,222
Liabilities				
Trading liabilities	105,584	135,559	6,509	247,652
Financial liabilities designated at fair value	23,311	51,276		74,587
Derivatives	9,896	473,359	3,805	487,060

Financial instruments measured at fair value using a valuation technique with significant unobservable inputs Level 3

	Assets				Liabilities		
	Available for sale US$m	**Held for trading US$m**	**Designated at fair value through profit or loss US$m**	**Derivatives US$m**	**Held for trading US$m**	**Designated at fair value through profit or loss US$m**	**Derivatives US$m**
At 30 June 2009							
Private equity investments	**2,566**	**31**	**235**				
Asset-backed securities	**3,977**	**1,257**					
Leveraged finance		**143**					**40**

Loans held for securitisation		**1,539**				
Structured notes		**138**			**4,650**	
Derivatives with monolines				**2,102**		
Other derivatives				**5,148**		**3,822**
Other portfolios	**2,978**	**3,541**	**358**		**2,330**	
	9,521	**6,649**	**593**	**7,250**	**6,980**	**3,862**
At 31 December 2008						
Private equity investments	2,689	54	225			
Asset-backed securities	4,264	882		95		565
Leveraged finance		266				33
Loans held for securitisation		2,133				
Structured notes		87			5,294	
Derivatives with monolines				2,441		
Other derivatives				7,347		3,207
Other portfolios	2,163	4,139	235		1,215	
	9,116	7,561	460	9,883	6,509	3,805

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At 30 June 2009, available-for-sale assets valued using a valuation technique with significant unobservable inputs principally comprised various ABSs, private equity investments and other portfolios, similar to the position at 31 December 2008.

Trading assets valued using a valuation technique with significant unobservable inputs principally comprised asset-backed securities, loans held for securitisation and other portfolios. Other portfolios included holdings in various bonds, preference shares and corporate and mortgage loans. The decrease during the period was due to a reduction in the fair value of loans held for securitisation and disposals of positions within other portfolios.

Derivative products valued using valuation techniques with significant unobservable inputs included certain types of correlation products, such as foreign exchange basket options, foreign exchange/interest rate hybrid transactions and long-dated option transactions. Examples of the latter are equity options, interest rate and foreign exchange options and certain credit derivatives. Credit derivatives included tranched CDS transactions. The decrease in derivative assets during the first half of 2009 was mainly due to a decrease in the fair value of structured credit transactions.

Trading liabilities valued using a valuation technique with significant unobservable inputs principally comprised equity-linked structured notes, which are issued by HSBC, and provide the counterparty with a return that is linked to the performance of certain equity securities, and other portfolios. The movement in trading liabilities during the first half of 2009 was primarily due to the issue of new equity derivative linked structures and transfers into level 3 which themselves were attributable to fund and foreign exchange related derivatives.

The increase in derivative liabilities valued using a valuation technique with significant unobservable inputs at 30 June 2009 was attributable to an increase in structured interest rate option transactions.

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

The following table provides a reconciliation of the movement between opening and closing balances of Level 3 financial instruments, measured at fair value using a valuation technique with significant unobservable inputs:

	Assets				Liabilities		
	Available for sale	Held for trading	Designated at fair value through profit or loss	Derivatives	Held for trading	Designated at fair value through profit or loss	Derivatives
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
At 1 January 2009	**9,116**	**7,561**	**460**	**9,883**	**6,509**		**3,805**
Total gains or losses recognised in profit or loss	**(350)**	**(714)**	**1**	**(2,358)**	**(283)**		**(100)**
Total gains or losses recognised in other comprehensive income	**196**	**110**		**211**	**171**		**197**
Purchases	**841**	**550**	**138**		**312**		
Issues					**1,001**		
Sales	**(551)**	**(1,120)**	**(7)**				
Settlements	**(574)**	**(199)**		**(113)**	**(484)**		**(171)**
Transfers out	**(890)**	**(481)**		**(715)**	**(1,196)**		**(475)**

Transfers in	**1,733**	**942**	**1**	**342**	**950**	**606**
At 30 June 2009	**9,521**	**6,649**	**593**	**7,250**	**6,980**	**3,862**
Total gains or losses recognised in profit or loss relating to those assets and liabilities held at the end of the reporting period	**(349)**	**(560)**	**1**	**(1,836)**	**(271)**	**485**

For available-for-sale securities and assets held for trading, the unobservability of valuations of asset-backed and other fixed income securities resulted in assets in these categories being transferred into level 3 during the first half of 2009. Transfers out of level 3 also occurred in respect of asset-backed and other fixed income securities. The transfers out of level 3 were due to valuations in these asset categories becoming observable during the first half of 2009.

For derivative assets and liabilities, an increase in the observability of equity volatilities and correlations during the first half of 2009, resulted in transfers out of level 3. In addition, the unobservability of specific asset prices underlying derivative structures resulted in derivative liabilities being transferred into level 3.

For held-for-trading liabilities, transfers into level 3 were primarily due to a reduction in the observability of volatilities and gap risk parameters. Transfers out of level 3 resulted from an increase in the observability of equity correlation.

During the first half of 2009, there were no significant transfers between levels 1 and 2.

For assets and liabilities classified as held for trading, realised and unrealised gains and losses are presented in the income statement under Trading income excluding net interest income .

Fair value changes on long term debt designated at fair value and related derivatives are presented in the income statement under Changes in fair value of long-term debt issued and related derivatives . The income statement line item Net income/(expense) from other financial instruments designated at fair value captures fair value movements on all other financial instruments designated at fair value and related derivatives.

Realised gains and losses from available-for-sale securities are presented under Gains less losses of financial investments in the income statement while unrealised gains and losses are presented in Fair value gains/(losses) taken to equity within Available-for-sale investments in other comprehensive income.

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

As discussed above, the fair value of financial instruments are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of these fair values to reasonably possible alternative assumptions:

	Reflected in profit or loss		**Reflected in equity**	
	Favourable changes US$m	**Unfavourable changes US$m**	**Favourable changes US$m**	**Unfavourable changes US$m**
At 30 June 2009				
Derivatives, trading assets and trading liabilities[1]	**1,428**	**(1,126)**		
Financial assets and liabilities designated at fair value	**39**	**(39)**		
Financial investments: available for sale			**1,263**	**(1,288)**
At 31 December 2008				
Derivatives, trading assets and trading liabilities[1].	1,266	(703)		
Financial assets and liabilities designated at fair value	30	(30)		
Financial investments: available for sale			984	(1,005)

1 *Derivatives, trading assets and trading*

liabilities are presented as one category to reflect the manner in which these financial instruments are risk-managed.

The small increase in the effect of changes in significant unobservable inputs in relation to derivatives, trading assets and trading liabilities during the first half of 2009 primarily reflected increased sensitivity of instruments to unobservable parameters in ABSs and loans held for securitisation, offset by sensitivity to derivatives with monolines.

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Principal assumptions used in the valuation of financial instruments with significant unobservable inputs

	Reflected in profit or loss		Reflected in equity	
	Favourable changes US$m	Unfavourable changes US$m	Favourable changes US$m	Unfavourable changes US$m
At 30 June 2009				
Private equity investments	**26**	**(26)**	**267**	**(292)**
Asset-backed securities	**124**	**(103)**	**709**	**(708)**
Leveraged finance	**2**	**(2)**		
Loans held for securitisation	**19**	**(19)**		
Structured notes	**21**	**(21)**		
Derivatives with monolines	**211**	**(444)**		
Other derivatives	**895**	**(397)**		
Other portfolios	**169**	**(153)**	**287**	**(288)**
At 31 December 2008				
Private equity investments	28	(28)	234	(261)
Asset-backed securities	90	(91)	667	(660)
Leveraged finance	2	(2)		
Loans held for securitisation	41	(41)		
Structured notes	8	(8)		
Derivatives with monolines	341	(250)		
Other derivatives	652	(224)		
Other portfolios	134	(89)	83	(84)

Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable parameter using statistical techniques. When parameters are not amenable to statistical analysis, quantification of uncertainty is judgemental.

When the fair value of a financial instrument is affected by more than one unobservable assumption, the above table reflects the most favourable or most unfavourable change from varying the assumptions individually.

In respect of private equity investments, the valuations are assessed on an asset by asset basis using a valuation methodology appropriate to the specific investment, in line with industry guidelines. In many of the methodologies, the principal assumption is the valuation multiple to be applied to the main financial indicators including, for example, multiples for comparable listed companies and discounts for marketability.

For ABSs whose prices are unobservable, models are used to generate the expected value of the asset, incorporating benchmark information on factors such as prepayment speeds, default rates, loss severities and the historical performance of the underlying assets. The models used are calibrated by using securities for which external market information is available.

For leveraged finance, loans held for securitisation and derivatives with monolines the principal assumption concerns the appropriate value to be attributed to the counterparty credit risk. This requires exposure at default, probability of default and recovery in the event of default to be estimated. For loan transactions, assessment of exposure at default is straight-forward. For derivative transactions, a future exposure profile is generated based on current market data. Probabilities of default and recovery levels are estimated using market evidence, which may include financial information, historical experience, CDS spreads and consensus recovery levels.

In the absence of such evidence, management s best estimate is used.

For structured notes and other derivatives, principal assumptions concern the future volatility of asset values and the future correlation between asset values. These principle assumptions include credit volatilities and correlations used in the valuation of structured credit derivatives (including leveraged credit derivatives). For such unobservable assumptions, estimates are based on available market data, which may include the use of a proxy method to derive a volatility or correlation from comparable assets for which market data is more readily available, and/or an examination of historical levels.

Changes in fair value recorded in the income statement

The following table quantifies the changes in fair values recognised in profit or loss in respect of assets and liabilities held at the end of the reporting period whose fair values are estimated using valuation techniques that incorporate significant assumptions that are not evidenced by prices from observable current market transactions in the same instrument, and are not based on observable market data.

	Half-year to		
	30 June 2009 US$m	30 June 2008 US$m	31 December 2008 US$m
Recorded profit/(loss) on:			
Derivatives, trading assets and trading liabilities	**(2,182)**	(1,415)	2,194
Financial assets and liabilities designated at fair value	**1**	13	96

The loss during the first six months in 2009 included changes in the fair value of structured monoline CDPC-related credit derivatives which use a valuation technique with significant unobservable inputs. Additionally, there was a decline in the fair value of other structured credit derivatives attributable to the tightening of credit spreads during the period.

In general, many level 3 instruments are risk managed using derivatives which employ a valuation technique with observable inputs. However, the associated gains on these derivatives in the period are not reflected in the table above. The table details the total change in fair value of these instruments, it does not isolate the component attributable to unobservable inputs.

Assessing available-for-sale assets for impairment

HSBC s policy on impairment of available-for-sale assets is described on page 350 of the *Annual Report and Accounts 2008*. The following is a description of HSBC s application of that policy.

A systematic impairment review is carried out periodically of all available-for-sale assets, and all available indicators are considered to determine whether there is any objective evidence that an impairment may have occurred, whether as the result of a single loss event or as the combined effect of several events.

Debt securities

When assessing available-for-sale debt securities for objective evidence of impairment at the reporting date, HSBC considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial reorganisation, or the disappearance of an active market for the debt security because of financial difficulties relating to the issuer.

These types of specific event and other factors such as information about the issuers liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment of a debt security.

In addition, when assessing available-for-sale ABSs for objective evidence of impairment, HSBC considers the performance of underlying collateral, the extent and depth of market price declines and changes in credit ratings. The primary indicators of potential impairment are considered to be adverse fair value movements, and the disappearance of an active market for the securities.

At 30 June 2009, the population of available-for-sale ABSs identified as being most at risk of impairment included residential MBSs backed by sub-prime and Alt-A mortgages originated in the US, and CDOs with significant exposure to this sector. The estimated future cash flows of these securities are assessed to determine whether any of their cash flows are unlikely to be recovered as a result of events occurring on or before the reporting date.

In particular, for residential MBSs the estimated future cash flows are assessed by determining the future projected cash flows arising on the underlying collateral taking into consideration the delinquency status of underlying loans, the probability of delinquent loans progressing to default and the proportion of the advances subsequently recoverable. HSBC uses a modelling approach which incorporates historically observed progression rates to default to determine if the decline in aggregate projected cash flows from the underlying collateral will lead to a shortfall in contractual cash flows. In such cases the security is considered to be impaired.

In respect of CDOs, in order to determine whether impairment has occurred, the expected future cash flows of the CDOs are compared with the total of the underlying collateral on the non-defaulted assets and the recovery value of the defaulted assets. In the event of a shortfall, the CDO is considered to be impaired.

When a security benefits from a contract provided by a monoline insurer that insures payments of principal and interest, the expected recovery on the

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contract is assessed in determining the total expected credit support available to the ABS.

Equity securities

Objective evidence of impairment for available-for-sale equity securities may include specific information about the issuer as detailed above, but may also include information about significant changes in technology, markets, economics or the law that provides evidence that the cost of the equity securities may not be recovered.

A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.

For impairment losses on available-for-sale debt and equity securities, see pages 21 and 19, respectively. Any impairment losses recognised in the income statement relating to ABSs are recorded in the Loan impairment charges and other credit risk provisions line. Impairment losses incurred on assets held by consolidated securities investment conduits (excluding Solitaire) are offset by a credit to the impairment line for the amount of the loss borne by capital note holders.

Fair values of financial instruments not carried at fair value

Financial instruments that are not carried at fair value include loans and advances to banks and customers, deposits by banks, customer accounts, debt securities in issue and subordinated liabilities. Their fair values are, however, provided for information by way of note disclosure and are calculated as described below.

The calculation of fair value incorporates HSBC s estimate of the amount at which financial assets could be exchanged, or financial liabilities settled, between knowledgeable willing parties in an arm s length transaction. It does not reflect the economic benefits and costs that HSBC expects to flow from the instruments cash flows over their expected future lives. Other reporting entities may use different valuation methodologies and assumptions in determining fair values for which no observable market prices are available, so comparisons of fair values between entities may not be meaningful and users are advised to exercise caution when using this data.

As a consequence of the market turmoil, there has been a significant reduction in the secondary market demand for US Consumer Lending assets. Uncertainty over the extent and timing of future credit losses, together with a near absence of liquidity for non-prime ABSs and loans, continued to be reflected in a lack of bid prices at 30 June 2009. It is not possible from the indicative market prices that are available to distinguish between the relative discount to nominal value within the fair value measurement that reflects cash flow impairment due to expected losses to maturity, and the discount that the market is demanding for holding an illiquid and out of favour asset. Under impairment accounting for loans and advances, there is no need nor requirement to adjust carrying amounts to reflect illiquidity as HSBC s intention is to fund assets until the earlier of prepayment, charge-off or repayment on maturity. Market fair values, by contrast, reflect both incurred loss and loss expected through the life of the asset, a discount for illiquidity and a credit spread which reflects the market s current risk preferences. This usually differs from the credit spread applicable in the market at the time the loan was underwritten and funded.

The estimated fair values at 30 June 2009 and 31 December 2008 of loans and advances to customers in North America reflect the combined effect of these conditions. As a result, the fair values are substantially lower than the carrying amount of customer loans and lower than would otherwise be reported under more normal market conditions. Accordingly, the fair values reported do not reflect HSBC s estimate of the underlying long-term value of the assets.

Fair values of the assets and liabilities set out below are estimated for the purpose of disclosure as follows:

Loans and advances to banks and customers

The fair value of loans and advances is based on observable market transactions, where available. In the absence of observable market transactions, fair value is estimated using discounted cash flow models. Performing loans are grouped, as far as possible, into homogeneous pools segregated by maturity and coupon rates. In general, contractual cash flows are discounted using HSBC s estimate of the discount rate that a market participant would use in valuing instruments with similar maturity, repricing and credit risk characteristics.

The fair value of a loan portfolio reflects both loan impairments at the reporting date and estimates of market participants expectations of credit losses over the life of the loans.

For impaired loans, fair value is estimated by discounting the future cash flows over the time period they are expected to be recovered.

Financial investments

The fair values of listed financial investments are determined using bid market prices. The fair values of unlisted financial investments are determined using valuation techniques that take into consideration the prices and future earnings streams of equivalent quoted securities.

Deposits by banks and customer accounts

For the purpose of estimating fair value, deposits by banks and customer accounts are grouped by residual maturity. Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the reporting date.

Debt securities in issue and subordinated liabilities

Fair values are determined using quoted market prices at the reporting date where available, or by reference to quoted market prices for similar instruments.

The fair values in this note are stated at a specific date and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of the instruments. In many cases, it would not be possible to realise immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent the value of these financial instruments to HSBC as a going concern.

For all classes of financial instruments, fair value represents the product of the value of a single instrument, multiplied by the number of instruments held. No block discount or premium adjustments are made. The fair values of intangible assets related to the businesses which originate and hold the financial instruments subject to fair value measurement, such as values placed on portfolios of core deposits, credit card and customer relationships, are not included in the above because they are not classified as financial instruments. Accordingly, an aggregation of fair value measurements does not approximate to the value of the organisation as a going concern.

The following table lists financial instruments whose carrying amount is a reasonable approximation of fair value because, for example, they are short-term in nature or reprice to current market rates frequently:

Assets
Cash and balances at central banks
Items in the course of collection from other banks
Hong Kong Government certificates of indebtedness
Endorsements and acceptances
Short-term receivables within Other assets
Accrued income

Liabilities
Hong Kong currency notes in circulation
Items in the course of transmission to other banks
Investment contracts with discretionary participation features within Liabilities under insurance contracts
Endorsements and acceptances
Short-term payables within Other liabilities

Accruals

Fair values of financial instruments which are not carried at fair value

	At 30 June 2009		At 30 June 2008		At 31 December 2008	
	Carrying amount US$m	**Fair value US$m**	Carrying amount US$m	Fair value US$m	Carrying amount US$m	Fair value US$m
Assets						
Loans and advances to banks	**182,266**	**181,507**	256,981	256,944	153,766	153,363
Loans and advances to customers	**924,683**	**871,973**	1,049,200	1,013,869	932,868	876,239
Financial investments: debt securities	**16,290**	**16,571**	11,023	11,159	14,013	15,057
Liabilities						
Deposits by banks	**129,151**	**129,076**	154,152	154,284	130,084	130,129
Customer accounts	**1,163,343**	**1,164,256**	1,161,923	1,161,845	1,115,327	1,115,291
Debt securities in issue	**156,199**	**151,295**	230,267	226,199	179,693	170,599
Subordinated liabilities	**30,134**	**28,299**	31,517	29,942	29,433	28,381

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Fair values of financial investments classified as held for sale which are not carried at fair value

	At 30 June 2009		At 30 June 2008		At 31 December 2008	
	Carrying amount US$m	**Fair value US$m**	Carrying amount US$m	Fair value US$m	Carrying amount US$m	Fair value US$m
Assets classified as held for sale						
Loans and advances to banks and customers	**846**	**774**	1,852	1,526	11	11

Analysis of loans and advances to customers by geographical segment

	At 30 June 2009		At 30 June 2008		At 31 December 2008	
	Carrying amount US$m	**Fair value US$m**	Carrying amount US$m	Fair value US$m	Carrying amount US$m	Fair value US$m
Loans and advances to customers						
Europe	**457,090**	445,335	508,960	507,280	426,191	417,256
Hong Kong	**97,486**	97,052	99,741	99,368	100,220	100,490
Rest of Asia-Pacific[1]	**74,062**	74,082	88,753	88,735	80,661	77,391
Middle East[1]	**25,097**	24,798	25,004	25,134	27,295	27,296
North America[2]	**226,258**	185,826	272,490	239,208	256,214	211,346
Latin America	**44,690**	44,880	54,252	54,144	42,287	42,460
	924,683	871,973	1,049,200	1,013,869	932,868	876,239

1 *The Middle East is disclosed as a separate geographical region with effect from 1 January 2009. Previously, it formed part of Rest of Asia-Pacific. Comparative data have been adjusted accordingly.*

2 *The reasons for the significant*

difference between carrying amount and fair value of loans and advances to customers in North America are discussed on page 122.

Special purpose entities

This section contains disclosures about HSBC-sponsored SPEs that are included in HSBC s consolidated balance sheet, with a particular focus on SPEs containing exposures affected by recent turmoil in credit markets, and those that are not consolidated by HSBC under IFRSs. In addition to the disclosures about SPEs, information on other off-balance sheet arrangements has been included in this section.

HSBC enters into certain transactions with customers in the ordinary course of business which involve the establishment of SPEs to facilitate or secure customer transactions.

HSBC structures that utilise SPEs are authorised centrally when they are established to ensure appropriate purpose and governance. The activities of SPEs administered by HSBC are closely monitored by senior management. HSBC s involvement with SPE transactions is described below.

HSBC-sponsored SPEs

HSBC sponsors the formation of entities which are designed to accomplish certain narrow and well-defined objectives, such as securitising financial assets or affecting a lease, and this requires a form of legal structure that restricts the assets and liabilities within the structure to the single purpose for which it was established. HSBC consolidates these SPEs when the substance of the relationship indicates that HSBC controls them. In assessing control, all relevant factors are considered, including qualitative and quantitative aspects as described on pages 173 and 174 of the *Annual Report and Accounts 2008.*

HSBC reassesses the required consolidation accounting tests whenever there is a change in the substance of the relationship between HSBC and an SPE, for example, when the nature of HSBC s involvement or the governing rules, contractual arrangements or capital structure of the SPE change. The most significant categories of SPEs are discussed in more detail below.

Structured investment vehicles and conduits

Structured investment vehicles

SIVs are SPEs which invest in diversified portfolios of interest-earning assets, generally funded through issues of commercial paper (CP), medium-term notes (MTN s) and other senior debt to take advantage of the spread differentials between the assets in the SIV and the funding cost. Prior to the implementation of Basel II, it was capital efficient to invest in highly-rated investment securities in this way. HSBC sponsored two SIVs, Cullinan Finance Limited (Cullinan) and Asscher Finance Limited (Asscher) which are now in the process of voluntary liquidation following completion of the transfer of their portfolios of investment securities and derivatives to the new SICs during the first half of 2009.

At 30 June 2009, all the capital notes in Cullinan and Asscher had been redeemed and replaced by capital notes in the new SICs (31 December 2008: 8.7 per cent of Asscher s capital notes remained outstanding).

Conduits

HSBC sponsors and manages two types of conduits which issue CP: multi-seller conduits and SICs. HSBC consolidates these conduits because it is exposed to the majority of risks and rewards of ownership.

Securities investment conduits

Solitaire, HSBC s principal securities investment conduit, purchases highly rated ABSs to facilitate tailored investment opportunities. HSBC s other SICs, Mazarin, Barion and Malachite, evolved from the restructuring of HSBC s sponsored SIVs as stated above and discussed in more detail on pages 173 and 174 of the *Annual Report and Accounts 2008*.

Multi-seller conduits

These vehicles were established for the purpose of providing access to flexible market-based sources of finance for HSBC s clients, for example, to finance discrete pools of third-party originated trade and vehicle finance loan receivables. HSBC s principal multi-seller conduits are Regency Assets Limited (Regency), Bryant Park Funding Limited LLC (Bryant Park), Abington Square Funding LLC (Abington Square , inactive since March 2008) and Performance Trust.

The multi-seller conduits purchase or fund interests in diversified pools of third-party assets financed by issuing CP or drawing advances from HSBC. The cash flows received by the conduits from the third-party assets are used to service the funding and provide a commercial rate of return for HSBC for structuring, for various other administrative services, and for the liquidity and credit support it gives to the conduits. The asset pools acquired by the conduits are structured so that the credit enhancement the conduits receive, which equates to senior investment grade ratings, and the benefit of liquidity facilities typically provided by HSBC mean that the CP issued by the multi-seller conduits is itself highly rated.

An analysis of the assets held by HSBC s SIVs and conduits is set out below:

Ratings analysis of assets

	Solitaire US$bn	**Other SICs US$bn**	**Total SICs US$bn**	**Total multi-seller conduits US$bn**	**Total SIVs US$bn**
S&P ratings at 30 June 2009					
AAA	**7.0**	**8.7**	**15.7**	**5.8**	
AA	**1.2**	**2.1**	**3.3**	**0.2**	
A	**0.7**	**5.1**	**5.8**	**3.4**	
BBB	**1.2**	**1.1**	**2.3**	**1.0**	
BB	**0.3**	**0.5**	**0.8**	**0.8**	
B	**0.4**	**0.5**	**0.9**		
CCC	**0.2**	**0.3**	**0.5**		
CC	**0.1**	**0.1**	**0.2**		
Total investments	**11.1**	**18.4**	**29.5**	**11.2**	
Cash and other investments	**0.5**	**0.2**	**0.7**	**0.4**	
	11.6	**18.6**	**30.2**	**11.6**	

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	Solitaire US$bn	Other SICs US$bn	Total SICs US$bn	Total multi-seller conduits US$bn	Total SIVs US$bn
S&P ratings at 31 December 2008					
AAA	8.1	12.0	20.1	6.1	0.3
AA	0.7	1.4	2.1	1.8	
A	1.0	4.7	5.7	1.6	
BBB	0.8	1.0	1.8	1.2	
BB	0.3	0.4	0.7	0.2	
B	0.1	0.2	0.3	0.5	
CCC	0.2	0.2	0.4	1.8	
D				0.3	
Total investments	11.2	19.9	31.1	13.5	0.3
Cash and other investments	0.9	0.3	1.2	0.4	0.1
	12.1	20.2	32.3	13.9	0.4

The migration to lower ratings during the first half of 2009 is a result of the performance of the underlying assets being outside the parameters of the original securitisations, and changes to the ratings methodology of the principal ratings agencies.

At 30 June 2009, 11.9 per cent of the SICs exposures to sub-prime and US Alt-A mortgages, which in aggregate amounted to US$0.7 billion, remained AAA rated (31 December 2008: 62.7 per cent, US$4.2 billion), while 58.7 per cent, which in aggregate amounted to US$3.3 billion, remained investment grade (31 December 2008: 94 per cent, US$6.3 billion).

It should be noted that securities purchased by SICs typically benefit from substantial transaction-specific credit enhancements such as subordinated tranches and/or excess spread, which absorb any credit losses before they fall on the tranche held by the SPE.

At 30 June 2009, the SIVs did not hold any CP issued by SICs set up by HSBC (31 December 2008: US$0.3 billion). As described on page 174 of the *Annual Report and Accounts 2008*, by 31 December 2008 all the original assets held by the SIVs were transferred to the new SICs.

Weighted average life of portfolios

	Solitaire	**Other SICs**	**Total SICs**	**Total multi-seller conduits**	**Total SIVs**
Weighted average life (years)					
At 30 June 2009	**5.5**	**3.8**	**4.4**	**3.2**	
At 31 December 2008	5.8	3.9	4.6	1.6	

Composition of asset portfolio

	Solitaire US$bn	Other SICs US$bn	Total SICs US$bn	Total multi-seller conduits[1] US$bn	Total SIVs US$bn
Asset class at 30 June 2009					
Structured finance					
Vehicle loans and equipment leases				**3.2**	
Consumer receivables				**0.7**	
Credit card receivables	**0.2**		**0.2**	**1.4**	
Residential MBSs	**3.6**	**4.8**	**8.4**	**0.4**	
Commercial MBSs	**2.1**	**2.7**	**4.8**		
Auto floor plan				**1.2**	
Trade receivables				**2.6**	
Student loan securities	**2.4**	**1.9**	**4.3**		
Vehicle finance loan securities	**0.1**	**0.2**	**0.3**		
Leverage loan securities	**1.8**	**2.1**	**3.9**		
Other ABSs	**0.8**	**1.2**	**2.0**	**1.5**	
	11.0	**12.9**	**23.9**	**11.0**	
Finance					
Commercial bank securities and deposits	**0.1**	**4.6**	**4.7**	**0.4**	
Investment bank debt securities		**0.7**	**0.7**		
Finance company debt securities		**0.2**	**0.2**	**0.2**	
Other assets	**0.5**	**0.2**	**0.7**		
	0.6	**5.7**	**6.3**	**0.6**	
	11.6	**18.6**	**30.2**	**11.6**	
Sub-prime mortgages	**0.7**	**1.6**	**2.3**		
US Alt-A	**1.7**	**1.7**	**3.4**		
	2.4	**3.3**	**5.7**		
Asset class at 31 December 2008					
Structured finance					
Vehicle loans and equipment leases				3.9	
Consumer receivables				0.7	
Credit card receivables	0.2		0.2	1.4	

Residential MBSs	4.4	5.7	10.1	0.6	
Commercial MBSs	2.1	3.1	5.2	0.2	
Auto floor plan				2.2	
Trade receivables				2.7	
Student loan securities	2.2	2.0	4.2		
Vehicle finance loan securities		0.3	0.3		
Leverage loan securities	1.5	2.2	3.7		
Other ABSs	0.8	1.3	2.1	1.7	
	11.2	14.6	25.8	13.4	
Finance					
Commercial bank securities and deposits		4.4	4.4	0.4	
Investment bank debt securities		0.5	0.5		
Finance company debt securities		0.4	0.4		0.3
Other assets	0.9	0.3	1.2	0.1	0.1
	0.9	5.6	6.5	0.5	0.4
	12.1	20.2	32.3	13.9	0.4
Sub-prime mortgages	0.9	1.3	2.2		
US Alt-A	2.3	2.2	4.5		
	3.2	3.5	6.7		

1 *Assets within multi-seller conduits are classified as collateralised loans. Under IFRSs, the conduits cannot recognise the underlying assets.*

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Asset analysis by geographical origination for multi-seller conduits[1]

	At 30 June 2009 US$bn	At 31 December 2008 US$bn
Europe	**5.8**	7.5
Rest of Asia-Pacific	**0.6**	0.9
North America	**5.2**	5.5
	11.6	13.9

1 *For details on the geographical origin of the mortgage loans held at fair value and ABSs, including those represented by MBSs and CDOs held in consolidated SIVs and securities investment conduits, see Nature and extent of HSBC s exposures on page 102.*

Total assets by balance sheet classification

	Solitaire US$bn	Other SICs US$bn	Total SICs US$bn	Total multi-seller conduits US$bn	Total SIVs US$bn
At 30 June 2009					
Financial instruments designated at fair value	**0.1**		**0.1**		
Loans and advances to banks	**0.1**	**0.1**	**0.2**		
Loans and advances to customers				**11.2**	

Financial investments	**11.0**	**18.4**	**29.4**		
Other assets	**0.4**	**0.1**	**0.5**	**0.4**	
	11.6	**18.6**	**30.2**	**11.6**	
At 31 December 2008					
Financial instruments designated at fair value	0.1		0.1		
Derivative assets		0.2	0.2	0.1	
Loans and advances to banks		0.1	0.1		0.1
Loans and advances to customers				13.4	
Financial investments	11.1	19.9	31.0		0.3
Other assets	0.9		0.9	0.4	
	12.1	20.2	32.3	13.9	0.4

Funding structure

	Solitaire		**Other SICs**		**Total SICs**		**Total multi-seller conduits**		**Total SIVs**	
	Total US$bn	**Provided by HSBC US$bn**	**Total US$bn**	**Provided by HSBC US$bn**	**Total US$bn**	**Provided by HSBC US$bn**	**Total US$bn**	**Provided by HSBC US$bn**	**Total US$bn**	**Provided by HSBC US$bn**
At 30 June 2009										
Capital notes			**0.6**		**0.6**					
Drawn liquidity facility	**8.6**	**8.6**			**8.6**	**8.6**				
Commercial paper	**10.6**	**2.1**	**10.4**	**10.4**	**21.0**	**12.5**	**10.7**	**0.1**		
Medium-term notes			**3.9**	**3.9**	**3.9**	**3.9**				
Term repos executed			**11.3**	**11.3**	**11.3**	**11.3**				
	19.2	**10.7**	**26.2**	**25.6**	**45.4**	**36.3**	**10.7**	**0.1**		
At 31 December 2008										
Capital notes			0.9		0.9					
Drawn liquidity facility	2.4	2.4			2.4	2.4				
Commercial paper	17.2	8.3	10.5	10.4	27.7	18.7	12.9	2.1		
Medium-term notes			3.4	3.4	3.4	3.4			0.1	
Term repos executed	0.8	0.8	13.3	13.3	14.1	14.1				

20.4	11.5	28.1	27.1	48.5	38.6	12.9	2.1	0.1

Weighted average life of the funding liabilities

	Solitaire Years	Other SICs Years	Total SICs Years	Total multi-seller conduits Years	Total SIVs Years
At 30 June 2009					
CP funding	**0.2**	**0.1**	**0.2**	**0.1**	
MTN funding	**n/a**	**10.7**	**10.7**	**n/a**	
At 31 December 2008					
CP funding	0.1	0.2	0.1	0.1	n/a
MTN funding	n/a	7.3	7.3	n/a	0.1

The majority CP and MTN funding issued by the SIVs was repaid in full during 2008 using the proceeds from the asset sales to the new SICs. The CP and MTNs matured in early 2009.

HSBC s maximum exposure

Conduits

Mazarin

HSBC is exposed to the par value of Mazarin s assets through the provision of a liquidity facility equal to the lesser of the amortised cost of issued senior debt and the amortised cost of non-defaulted assets. At 30 June 2009, HSBC s exposure amounted to US$14.4 billion (31 December 2008: US$15.5 billion). First loss protection is provided through the capital notes issued by Mazarin, which are substantially all held by third parties.

In addition, at 30 June 2009, HSBC held 1.3 per cent (31 December 2008: 1.3 per cent) of Mazarin s capital notes, which had a par value of US$17 million (31 December 2008: US$17 million), and a carrying amount of US$0.4 million (31 December 2008: US$0.6 million).

Barion and Malachite

These SICs are term funded by HSBC, consequently HSBC s primary exposure to them is represented by the amortised cost of the debt required to support the non-cash assets of the vehicles. At 30 June 2009 this amounted to US$11.1 billion (31 December 2008: US$11.7 billion).

First loss protection is provided through the capital notes issued by these vehicles, which are substantially all held by third parties.

In addition, at 30 June 2009, HSBC held 3.81 per cent (31 December 2008: 3.53 per cent) of the capital notes issued by these vehicles which have a par value of US$37 million (31 December 2008: US$35 million), and a carrying amount of US$2.0 million (31 December 2008: US$1.3 million).

Solitaire

CP issued by Solitaire benefits from a 100 per cent liquidity facility provided by HSBC. First loss credit protection against CP-funded securities, after any transaction-specific credit enhancement (as described on page 100) and retained reserves, is provided by HSBC in the form of letters of credit with a combined notional value of US$1.2 billion at 30 June 2009 (31 December 2008: US$1.2 billion).

At 30 June 2009, US$8.6 billion of Solitaire s assets were funded by the draw-down of the liquidity facility (31 December 2008: US$2.4 billion). HSBC is exposed to credit losses on the drawn amounts.

HSBC s maximum exposure to Solitaire is limited to the amortised cost of non-cash equivalent assets, which represents the risk that HSBC may be required to fund the vehicle in the event the debt is redeemed without reinvestment from third parties.

HSBC s maximum exposure at 30 June 2009 amounted to US$19.1 billion (31 December 2008: US$20.4 billion).

Multi-seller conduits

HSBC provides transaction-specific liquidity facilities to each of its multi-seller conduits, designed to be drawn in order to ensure the repayment of the CP issued. At 30 June 2009, the committed liquidity facilities amounted to US$16.0 billion (31 December 2008: US$17.1 billion).

First loss protection is provided through transaction-specific credit enhancements, for example, over-collateralisation and excess spread. These credit enhancements are provided

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by the originator of the assets and not by HSBC. In addition, a layer of secondary loss protection is provided by HSBC in the form of programme-wide enhancement facilities, and at 30 June 2009 this amounted to US$0.7 billion (31 December 2008: US$0.6 billion). HSBC s maximum exposure is equal to the transaction-specific liquidity facilities offered to the multi-seller conduits, as described above.

The liquidity facilities are set to support total commitments and therefore exceed the funded assets at both 30 June 2009 and 31 December 2008.

In consideration of the significant first loss protection afforded by the structure, the credit enhancements and a range of indemnities provided by the various obligors, HSBC carries only a minimal risk of loss from the programme.

Structured investment vehicles

Cullinan and Asscher s only assets are cash equivalents with liabilities to the extent of the liquidation costs and cash balances due to Mazarin, Barion and Malachite.

At 30 June 2009, HSBC retains no market exposure to the SIVs (31 December 2008: Cullinan held Mazarin CP amounting to US$0.3 billion. At that date, HSBC retained no marginal exposure through Cullinan to Mazarin s activities over the maximum exposure value stated for Mazarin).

Money market funds

HSBC has established and manages a number of money market funds which provide customers with tailored investment opportunities with a set of narrow and well-defined objectives. In most cases, they are not consolidated in HSBC because the Group s holdings in them are not of sufficient size to represent the majority of the risks and rewards of ownership.

Investors in money market funds generally have no recourse other than to the assets in the funds, so asset holdings are designed to meet expected fund liabilities. Usually, money market funds are constrained in their operations should the value of their assets and their ratings fall below predetermined thresholds. The risks to HSBC are, therefore, contingent, arising from the reputational damage which could occur if an HSBC-sponsored money market fund was thought to be unable to meet withdrawal requests on a timely basis or in full.

In aggregate, HSBC has established money market funds with total assets of US$99.8 billion at 30 June 2009 (31 December 2008: US$102.7 billion).

The main sub-categories of money market funds are:

US$72.4 billion (31 December 2008: US$72.0 billion) in Constant Net Asset Value (CNAV) funds, which invest in shorter-dated and highly-rated money market securities with the objective of providing investors with a highly liquid and secure investment;

US$1.5 billion (31 December 2008: US$2.7 billion) in French domiciled *dynamique* (dynamic) funds and Irish enhanced funds, together Enhanced Variable Net Asset Value (Enhanced VNAV) funds, which invest in longer-dated money market securities to provide investors with a higher return than traditional money market funds; and

US$25.9 billion (31 December 2008: US$28.0 billion) in various other money market Variable Net Asset Value (VNAV) funds, including funds predominantly domiciled in Brazil, France, India and Mexico.

These money market funds invest in diverse portfolios of highly-rated debt instruments, including limited holdings in instruments issued by SIVs. At 30 June 2009, the exposure of these funds to SIVs was US$0.3 billion (31 December 2008: US$0.5 billion).

Constant Net Asset Value funds

CNAV funds price their assets on an amortised cost basis, subject to the amortised book value of the portfolio remaining within 50 basis points of its market value. This feature enables CNAV funds to create and liquidate shares in the funds at a constant price. If the amortised value of an asset portfolio were to vary by more than 50 basis points from its market value, the CNAV fund would be required to price its assets at market value, and consequently would no longer be able to create or liquidate shares at a constant price. This is commonly known as breaking the buck .

During 2008, HSBC consolidated certain CNAV funds as a result of actions taken by HSBC to support the CNAV funds to maintain their AAA rating and mitigate the forced sale of liquid assets to meet potential redemptions. As a consequence, HSBC incurred losses totalling US$114 million at 31 December 2008. Further information is provided

on pages 180 and 181 of the *Annual Report and Accounts 2008.*
Composition of CNAV asset portfolio

	At 30 June 2009 US$bn	At 31 December 2008 US$bn
ABSs	**0.2**	0.8
Certificates of deposit	**10.5**	13.0
CP	**17.7**	18.1
Floating rate notes	**1.4**	5.2
Government agency bonds	**8.5**	1.9
Other assets	**5.1**	4.8
Total	**43.4**	43.8

The associated liabilities included on HSBC s balance sheet at 30 June 2009 amounted to US$42.7 billion (31 December 2008: US$43.1 billion).
HSBC s maximum exposure
HSBC s maximum exposure to consolidated and unconsolidated CNAV funds is represented by HSBC s investment in the units of each CNAV fund, and by the maximum limit of the letters of limited indemnity provided to the CNAV funds. HSBC s exposure at 30 June 2009 amounted to US$0.8 billion (31 December 2008: US$0.7 billion) and nil (31 December 2008: US$58 million) for investment in units within the CNAV funds and letters of limited indemnity, respectively.
Enhanced Variable Net Asset Value funds
Enhanced VNAV funds price their assets on a fair value basis and, consequently, prices may change from one day to the next. These funds pursue an enhanced investment strategy, as part of which investors accept greater credit and duration risk in the expectation of higher returns.

During 2008, HSBC consolidated two of its French dynamic money market funds as a result of continued redemptions by unitholders. HSBC s aggregate holdings in these funds at 30 June 2009 amounted to 0.4 billion (US$0.6 billion) (31 December 2008: 0.5 billion (US$0.6 billion)).
HSBC s maximum exposure
HSBC s maximum exposure to consolidated and unconsolidated Enhanced VNAV and consolidated and unconsolidated VNAV funds is represented by HSBC s investment in the units of each fund. HSBC s maximum exposure at 30 June 2009 amounted to US$0.6 billion (31 December 2008: US$0.6 billion) and US$0.9 billion (31 December 2008: US$1.6 billion), for Enhanced VNAV and VNAV funds, respectively.
Total assets of HSBC s money market funds which are on-balance sheet by balance sheet classification

	At 30 June 2009 US$bn	At 31 December 2008 US$bn
Cash	**0.1**	0.3
Trading assets	**44.6**	43.3
Other assets	**0.1**	2.3

44.8	45.9

Non-money market investment funds

HSBC, through its fund management business, has established a large number of non-money market funds to enable customers to invest in a range of assets, typically equities and debt securities. At the launch of a fund HSBC, as fund manager, usually provides a limited amount of initial capital known as seed capital to enable the fund to start purchasing assets. These holdings are normally redeemed over time. The majority of these funds are off-balance sheet for HSBC because the Group s limited economic interest means it does not have the majority of the risks and rewards of ownership. As the non-money market funds explicitly provide investors with tailored risk, the risk to HSBC is restricted to HSBC s own investments in the funds.

In aggregate, HSBC has established non-money market funds with total assets of US$214.9 billion at 30 June 2009 (31 December 2008: US$200.3 billion).

The main sub-categories of non-money market funds are:

- US$95.8 billion (31 December 2008: US$83.1 billion) in specialist funds, which comprise fundamental active specialists and active quantitative specialists;

- US$102.7 billion (31 December 2008: US$96.2 billion) in local investment management funds, which invest in domestic products, primarily for retail and private clients; and

- US$16.4 billion (31 December 2008: US$21.0 billion) in multi-manager funds, which offer fund of funds and manager of manager products across a diversified portfolio of assets.

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Total assets of HSBC s non-money market funds which are on-balance sheet by balance sheet classification

	At 30 June 2009 US$bn	At 31 December 2008 US$bn
Cash	**0.4**	0.4
Trading assets	**0.2**	0.2
Financial instruments designated at fair value	**3.3**	2.3
Financial investments	**0.7**	0.8
	4.6	3.7

HSBC s maximum exposure
HSBC s maximum exposure to consolidated and unconsolidated non-money market funds is represented by HSBC s investment in the units of each respective fund. HSBC s exposure at 30 June 2009 amounted to US$5.4 billion (31 December 2008: US$4.4 billion).

Securitisations

HSBC uses SPEs to securitise customer loans and advances that it has originated, mainly in order to diversify its sources of funding for asset origination and for capital efficiency purposes. In such cases, the loans and advances are transferred by HSBC to the SPEs for cash, and the SPEs issue debt securities to investors to fund the cash purchases. Credit enhancements to the underlying assets may be used to obtain investment grade ratings on the senior debt issued by the SPEs. HSBC has also established securitisation programmes in the US and Germany where loans originated by third parties are securitised. Most of these vehicles are not consolidated by HSBC as it is not exposed to the majority of risks and rewards of ownership in the SPEs. In the first half of 2009, demand for the securitised products remained low.

In addition, HSBC uses SPEs to mitigate the capital absorbed by some of the customer loans and advances it has originated. Credit derivatives are used to transfer the credit risk associated with such customer loans and advances to an SPE, using securitisations commonly known as synthetic securitisations. These SPEs are consolidated when HSBC is exposed to the majority of risks and rewards of ownership.

Total assets of HSBC s securitisations which are on-balance sheet, by balance sheet classification

	At 30 June 2009 US$bn	At 31 December 2008 US$bn
Trading assets	**0.9**	1.3
Loans and advances to customers	**44.0**	50.8
Other assets	**2.4**	1.1
Derivatives	**1.2**	1.4
	48.5	54.6

These assets include US$0.9 billion (31 December 2008: US$1.3 billion) of exposure to US sub-prime mortgages.

Total assets of HSBC s securitisations which are off-balance sheet

	At 30 June 2009 US$bn	At 31 December 2008 US$bn
HSBC originated assets	**0.7**	0.6
Non-HSBC originated assets term securitisation programmes	**12.1**	13.5
	12.8	14.1

HSBC s financial investments in off-balance sheet securitisations at 30 June 2009 amounted to US$0.1 billion (31 December 2008: US$0.2 billion). These assets include assets which are classified as available-for-sale securities and measured at fair value, and have been securitised by HSBC under arrangements by which HSBC retains a continuing involvement in them.

HSBC s maximum exposure

The maximum exposure is the aggregate of any holdings of notes issued by these vehicles and the reserve account positions intended to provide credit support under certain pre-defined circumstances to senior note holders. HSBC is not obligated to provide further funding. At 30 June 2009, HSBC s maximum exposure to consolidated and unconsolidated securitisations amounted to US$5.3 billion (31 December 2008: US$8.0 billion).

Other

HSBC also establishes SPEs in the normal course of business for a number of purposes, for example, structured credit transactions for customers to provide finance to public and private sector infrastructure projects, and for asset and structured finance (ASF) transactions.

Structured credit transactions

HSBC provides structured credit transactions to third-party professional and institutional investors who wish to obtain exposure, sometimes on a leveraged basis, to a reference portfolio of debt instruments. In such structures, the investor receives returns referenced to the underlying portfolio by purchasing notes issued by the SPEs. HSBC enters into contracts with the SPEs, generally in the form of derivatives, in order to pass the required risks and rewards of the reference portfolios to the SPEs. HSBC s risk in relation to the derivative contracts with the SPEs is managed within HSBC s trading market risk framework (see Market risk on page 173).

In certain transactions HSBC is exposed to risk often referred to as gap risk. Gap risk typically arises in transactions where the aggregate potential claims against the SPE by HSBC pursuant to one or more derivatives could be greater than the value of the collateral held by the SPE and securing such derivatives. HSBC often mitigates such gap risk by incorporating in the SPE transaction features which allow for deleveraging, a managed liquidation of the portfolio, or other mechanisms. Following the inclusion of such risk reduction mechanisms, HSBC has, in certain circumstances, retained all or a portion of the underlying exposure in the transaction. When this retained exposure represents ABSs, it has been included in Nature and extent of HSBC s exposures on page 102.

Often transactions are facilitated through SPEs to enable the notes issued to the investors to be rated. The SPEs are not consolidated by HSBC when the investors bear substantially all the risks and rewards of ownership through the notes.

The total fair value of liabilities (notes issued and derivatives) in structured credit transaction SPEs was US$21.7 billion at 30 June 2009 (31 December 2008: US$21.2 billion). These amounts included US$0.2 billion (31 December 2008: US$0.3 billion) in SPEs that were consolidated by HSBC.

Other uses of SPEs

HSBC participates in Public-Private Partnerships to provide financial support for infrastructure projects initiated by government authorities. The funding structure is commonly achieved through the use of SPEs. HSBC consolidates these SPEs when it is exposed to the majority of risks and rewards of the vehicles.

HSBC s ASF business specialises in leasing and arranging finance for aircraft and other physical assets, which it is customary to ring-fence through the use of SPEs, and in structured loans and deposits, where SPEs introduce cost efficiencies. HSBC consolidates these SPEs when the substance of the relationship indicates that HSBC controls the SPE.

HSBC s risks and rewards of ownership in these SPEs are in respect of its on-balance sheet assets and liabilities.

HSBC s maximum exposures to SPEs

The following tables show the total assets of the various types of SPEs, and the amount and types of funding provided by HSBC to these SPEs. The tables also show HSBC s maximum exposure to the SPEs and, within that exposure, the types of liquidity and credit enhancements provided by HSBC. The maximum exposures to SPEs represent HSBC s maximum possible risk exposure that could occur as a result of the Group s arrangements and commitments to SPEs. The maximum amounts are contingent in nature, and may arise as a result of drawdowns under liquidity facilities, where these have been provided, and any other funding commitments, or as a result of any loss protection provided by HSBC to the SPEs. The conditions under which such exposure might arise differ depending on the nature of each SPE and HSBC s involvement with it. The aggregation of such maximum exposures across the different forms of SPEs results in a theoretical total maximum exposure number. The elements of the maximum exposure to an SPE are not necessarily additive and a detailed explanation of how maximum exposures are determined is provided under each category of SPE.

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HSBC s maximum exposure to consolidated SPEs affected by the recent market turmoil

				Enhanced		Non-money market funds					
	SIVs	Securities investment conduits[1]	Multi-seller conduits	CNAV funds	VNAV funds	VNAV funds	Specialist funds	Local funds[2]	Securi-tisations[3]	Other	Total
	US$bn	US$bn	US$bn	US$bn	US$bn	US$bn	US$bn	US$bn	US$bn	US$bn	US$bn
At 30 June 2009											
Total assets		**30.2**	**11.6**	**43.4**	**0.6**	**0.8**	**0.3**	**4.3**	**48.5**	**0.2**	**139.9**
Direct lending[4]									**0.9**		**0.9**
ABSs[4]		**23.9**		**0.2**							**24.1**
Other		**6.3**	**11.6**	**43.2**	**0.6**	**0.8**	**0.3**	**4.3**	**47.6**	**0.2**	**114.9**
Funding provided by HSBC		**36.3**	**0.1**	**0.7**	**0.6**	**0.7**	**0.1**	**4.2**	**1.9**		**44.6**
CP		**12.5**	**0.1**								**12.6**
MTNs		**3.9**							**1.7**		**5.6**
Junior notes									**0.2**		**0.2**
Term repos executed		**11.3**									**11.3**
Investments in funds				**0.7**	**0.6**	**0.7**	**0.1**	**4.2**			**6.3**
Drawn liquidity facility		**8.6**									**8.6**
Capital notes[5]											
Total maximum exposure to consolidated SPEs[6]		**44.6**	**16.0**	**0.7**	**0.6**	**0.7**	**0.1**	**4.2**	**5.2**	**0.1**	**72.2**
Liquidity and credit enhancements											
Deal-specific liquidity facilities			**16.0**								**16.0**
Indemnities[7]											
Programme-wide liquidity facilities		**30.9**									**30.9**
		1.2	**0.7**								**1.9**

Programme-wide limited credit enhancements		
Other liquidity and credit enhancements	**0.1**	**0.1**

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	SIVs US$bn	Securities investment conduits[1] US$bn	Multi-seller conduits US$bn	CNAV funds US$bn	Enhanced VNAV funds US$bn	VNAV funds US$bn	Non-money market funds Specialist funds US$bn	Local funds[2] US$bn	Securi-tisations[3] US$bn	Other US$bn	Total US$bn
At 31 December 2008											
Total assets	0.4	32.3	13.9	43.8	0.7	1.4	0.6	3.1	54.6	0.3	151.1
Direct lending[4]									1.3		1.3
ABSs[4]		25.8		0.8							26.6
Other	0.4	6.5	13.9	43.0	0.7	1.4	0.6	3.1	53.3	0.3	123.2
Funding provided by HSBC		38.6	2.1	0.7	0.6	1.3	0.2	3.2	0.7	0.2	47.6
CP		18.7	2.1								20.8
MTNs		3.4							0.4	0.2	4.0
Junior notes									0.3		0.3
Term repos executed		14.1									14.1
Investments in funds				0.7	0.6	1.3	0.2	3.2			6.0
Drawn liquidity facility		2.4									2.4
Capital notes[5]											
Total maximum exposure to consolidated SPEs[6]		47.6	17.1	0.8	0.6	1.3	0.2	3.2	7.8	0.2	78.8
Liquidity and credit enhancements											
Deal-specific liquidity facilities			17.1								17.1
Indemnities[7]				0.1							0.1
Programme-wide liquidity facilities		34.8									34.8
Programme-wide limited credit enhancements		1.2	0.6								1.8

Other liquidity and credit enhancements	0.1	0.1

1 *The securities investment conduits include Mazarin, Barion, Malachite and Solitaire.*

2 *Local investment management funds.*

3 *Also includes consolidated SPEs that hold mortgage loans held at fair value.*

4 *These assets only include those measured at fair value. For details on the geographical origin of the mortgage loans held at fair value and ABSs, including those represented by MBSs and CDOs held in consolidated SIVs and securities investment conduits, see Nature and extent of HSBC s exposures on page 102. The geographical origin of the loans and receivables held by the multi-seller conduits is disclosed on page 128.*

5 *The carrying amount of HSBC s holding of capital notes in the securities investment conduits amounted to US$2.4 million (31 December 2008: US$1.9 million) with a par value of US$54 million (31 December 2008: US$52 million).*

6 *Total maximum exposure to consolidated SPEs as at 31 December 2008 has been restated to reflect more accurately the Group s exposure to certain securitisation vehicles in which a proportion of the maximum exposure to risk of loss is borne by third-party noteholders.*

7 *Two limited letters of indemnity which were in place in respect of CNAV funds at 31 December 2008 expired in April 2009.*

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HSBC s maximum exposure to unconsolidated SPEs

	Securitisations[1]		Money market funds[1]			Non-money market funds[1]				
	HSBC originated assets US$bn	Non-HSBC originated assets[2] US$bn	CNAV funds US$bn	Enhanced VNAV funds US$bn	VNAV funds US$bn	Specialist funds US$bn	Local funds[3] US$bn	Multi-manager funds US$bn	Other US$bn	Total US$bn
At 30 June 2009										
Total assets	**0.7**	**12.1**	**29.0**	**0.9**	**25.1**	**95.5**	**98.4**	**16.4**	**21.5**	**299.6**
Funding provided by HSBC		**0.1**	**0.1**		**0.2**		**1.0**	**0.1**	**7.9**	**9.4**
MTNs		**0.1**							**7.9**	**8.0**
Investments in funds			**0.1**		**0.2**		**1.0**	**0.1**		**1.4**
Total maximum exposure to unconsolidated SPEs		**0.1**	**0.1**		**0.2**		**1.0**	**0.1**	**2.4**	**3.9**
At 31 December 2008										
Total assets	0.6	13.5	28.2	2.0	26.6	82.5	93.1	21.0	20.9	288.4
Funding provided by HSBC		0.2			0.3		1.0		8.3	9.8
MTNs		0.2							8.3	8.5
Investments in funds					0.3		1.0			1.3
Total maximum exposure to unconsolidated SPEs		0.2			0.3		1.0		4.1	5.6

1 *HSBC s financial investments in off-balance sheet money market funds and non-money market funds have been classified as available-for-sale securities, and measured at fair value. HSBC s financial investments in off-balance sheet securitisations have been classified as trading assets and available-for-sale securities, and measured at fair value.*

2 *In the US, HSBC has established securitisation programmes where term-funded SPEs are used to securitise third-party originated mortgages, mainly sub-prime and Alt-A residential mortgages. The majority of these SPEs are not consolidated by HSBC as it is not exposed to the majority of the risks and rewards of ownership in the SPEs. No liquidity facility has been provided by HSBC.*

3 *Local investment management funds.*

Third-party sponsored SPEs

Through standby liquidity facility commitments, HSBC has exposure to third-party sponsored SIVs, conduits and securitisations under normal banking arrangements on standard market terms. These exposures are quantified below.

HSBC s commitments under liquidity facilities to third-party SIVs, conduits and securitisations

	Commit-ments US$bn	Drawn US$bn
At 30 June 2009		
Third-party conduits	**1.2**	**0.3**
Third-party securitisations	**0.6**	
	1.8	**0.3**
At 31 December 2008		
Third-party conduits	1.1	0.1
Third-party securitisations	0.6	0.1
	1.7	0.2

Other off-balance sheet arrangements and commitments

Financial guarantees, letters of credit and similar undertakings

Note 16 on the Financial Statements describes various types of guarantees and discloses the maximum potential future payments under such arrangements. Credit risk associated with all forms of guarantees is assessed in the same manner as for on-balance sheet credit advances and, where necessary, provisions for assessed impairment are included in Other provisions .

Commitments to lend

Undrawn credit lines are disclosed in Note 16 on the Financial Statements. The majority by value of undrawn credit lines arise from open to buy lines on personal credit cards, advised overdraft limits and other pre-approved loan products, and mortgage offers awaiting customer acceptance. HSBC generally has the right to change or terminate any conditions of a personal customer s overdraft, credit card or other credit line upon notification to the customer. In respect of corporate commitments to lend, in most cases HSBC s position will be protected through restrictions on access to funding in the event of material adverse change.

Leveraged finance transactions

Loan commitments in respect of leveraged finance transactions are accounted for as derivatives where it is HSBC s intention to sell the loan after origination. Further information is provided on page 112.

HSBC HOLDINGS PLC
Interim Management Report: Risk
Risk management
All HSBC s activities involve, to varying degrees, the analysis, evaluation, acceptance and management of risks or combinations of risks. The most important risk categories that the Group is exposed to are credit risk (including cross-border country risk), market risk, operational risk in various forms, liquidity risk, insurance risk, pension risk, residual value risk, reputational risk and sustainability (environmental and social) risk. Market risk includes foreign exchange, interest rate and equity price risks.

Insurance risk is managed by the Group s insurance businesses together with their own credit, liquidity and market risk functions, distinct from those covering the rest of HSBC due to the different nature of their activities, but under risk oversight at Group level.

HSBC s risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date administrative and information systems. HSBC regularly reviews its risk management policies and systems to reflect changes in law, regulation, markets, products and emerging best practice. Personal accountability, reinforced by the Group s governance structure and instilled by training and experience, helps to foster a disciplined and constructive culture of risk management and control.

An overview of the Group s risk governance structure, including the responsibilities of the senior executive Risk Management Meeting and the Global Risk function, and of the risk appetite framework operated by the Group, is set out on page 191 of the *Annual Report and Accounts 2008*. The management of all HSBC s significant risks is also discussed there in detail. There have been no changes to the Group s risk management methodology since 31 December 2008 which are material to understanding the current reporting period.

Credit risk
Credit risk is the risk of financial loss if a customer or counterparty fails to meet a payment obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from off-balance sheet products such as guarantees and credit derivatives, and from the Group s holdings of debt securities. Among the risks in which the Group engages, credit risk generates the largest regulatory capital requirement.

The objectives of credit risk management, underpinning sustainably profitable business, are principally to maintain a strong culture of responsible lending, supported by a robust risk policy and control framework; to both partner and challenge the business line in defining and implementing risk appetite, with its continuous re-evaluation under actual and scenario conditions; and to ensure independent, expert scrutiny of credit risks, their costs and their mitigation.

The most significant factor affecting HSBC s exposure to credit risk was the continuing deterioration in credit conditions in the global economy, particularly in the US.

HSBC s Credit Risk function is part of Global Risk, reporting to the Group Chief Risk Officer. Its risk management and internal control procedures are designed for all stages of economic and financial cycles, including the current environment, and there were no material changes during the first half of 2009. Progress has continued to be made in refining exposure measurement and monitoring, in the context of the Group s Advanced internal ratings-based (IRB) approach to Basel II (see Capital Management on page 187) and in enhancing central risk oversight and independent review activities through Group Management Office working closely with regional risk offices under HSBC s target operating model for Global Risk.

Full details of the role and responsibilities of the Credit Risk management function are set out on page 192 of the *Annual Report and Accounts 2008.*

Credit exposure
HSBC s exposure to credit risk is spread across many asset classes, including derivatives, trading assets, loans and advances to customers, loans and advances to banks and financial investments. The balance of the Group s credit exposures has changed since 31 December 2008 as a significant decline in market volatility has led to a lower exposure to the risk of default in derivative contracts.

The most significant factor affecting HSBC s exposure to credit risk during the first half of 2009 was the continuing deterioration in credit conditions in the global economy, particularly in the US. Loss experience remained concentrated in the personal lending portfolios, primarily in the US with 77 per cent of loan impairment charges and other credit risk provisions arising in Personal Financial Services in the first half of 2009 compared with 93 per cent in the comparable period in 2008. HSBC also experienced deterioration in credit quality in the commercial real estate sector. In the first half of 2009, 11 per cent of loan impairment charges and other credit risk provisions arose in Commercial

Banking, compared with 6 per cent in the first half of 2008. In Global Banking and Markets, loan impairment charges on the corporate portfolio totalled US$1.2 billion in the first half of 2009, while other credit risk provisions primarily due to monoline insurer downgrades totalled US$0.6 billion, 8 per cent and 4 per cent respectively of total loan impairment charges and other credit risk provisions.

The following table presents the 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 credit enhancements meet offsetting requirements). For financial assets recognised on the balance sheet, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that HSBC 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, the maximum exposure to credit risk is the full amount of the committed facilities.

Maximum exposure to credit risk

	At 30 June 2009			At 30 June 2008			At 31 December 2008		
	Maximum exposure US$m	**Offset US$m**	**Exposure to credit risk (net) US$m**	Maximum exposure US$m	Offset US$m	Exposure to credit risk (net) US$m	Maximum exposure US$m	Offset US$m	Exposure to credit risk (net) US$m
Cash and balances at central banks	**56,368**		**56,368**	13,473		13,473	52,396		52,396
Items in the course of collection from other banks	**16,613**		**16,613**	16,719		16,719	6,003		6,003
Hong Kong Government certificates of indebtedness	**16,156**		**16,156**	14,378		14,378	15,358		15,358
Trading assets	**388,874**	**(15,829)**	**373,045**	430,929	(21,015)	409,914	405,451	(13,227)	392,224
Treasury and other eligible bills	**22,990**		**22,990**	7,417		7,417	32,458		32,458
Debt securities	**190,870**		**190,870**	191,482		191,482	199,619		199,619
Loans and advances:									
to banks	**73,636**	**(1)**	**73,635**	95,359	(542)	94,817	73,055		73,055
to customers	**101,378**	**(15,828)**	**85,550**	136,671	(20,473)	116,198	100,319	(13,227)	87,092
Financial assets designated at fair value	**21,301**		**21,301**	24,018		24,018	17,540		17,540

Treasury and other eligible bills	**495**		**495**	240		240	235		235
Debt securities	**19,825**		**19,825**	23,356		23,356	16,349		16,349
Loans and advances:									
to banks	**204**		**204**	421		421	230		230
to customers	**777**		**777**	1		1	726		726
Derivatives	**310,796**	**(237,552)**	**73,244**	260,664	(164,749)	95,915	494,876	(383,308)	111,568
Loans and advances held at amortised cost:	**1,106,949**	**(94,576)**	**1,012,373**	1,306,181	(105,321)	1,200,860	1,086,634	(83,398)	1,003,236
to banks	**182,266**	**(124)**	**182,142**	256,981	(277)	256,704	153,766	(126)	153,640
to customers	**924,683**	**(94,452)**	**830,231**	1,049,200	(105,044)	944,156	932,868	(83,272)	849,596
Financial investments	**344,644**		**344,644**	265,269		265,269	292,984		292,984
Treasury and other similar bills	**54,262**		**54,262**	27,928		27,928	41,027		41,027
Debt securities	**290,382**		**290,382**	237,341		237,341	251,957		251,957
Other assets	**35,191**	**(4)**	**35,187**	26,468	(273)	26,195	40,859	(5)	40,854
Endorsements and acceptances	**9,481**	**(4)**	**9,477**	13,289	(273)	13,016	10,482	(5)	10,477
Other	**25,710**		**25,710**	13,179		13,179	30,377		30,377
Financial guarantees	**49,486**		**49,486**	59,742		59,742	52,318		52,318
Loan and other credit- related commitments[1]	**569,012**		**569,012**	758,926		758,926	604,022		604,022
	2,915,390	**(347,961)**	**2,567,429**	3,176,767	(291,358)	2,885,409	3,068,441	(479,938)	2,588,503

For footnote, see page 168.

HSBC HOLDINGS PLC

Interim Management Report: Risk (continued)

Collateral and other credit enhancements

Collateral held against financial instruments presented in the Maximum exposure to credit risk table above is described in more detail below.

Items in the course of collection from other banks

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt of cash, securities or equities. Daily settlement limits are established for counterparties to cover the aggregate of HSBC s transactions with each one on any single day. Settlement risk on many transactions, particularly those involving securities and equities, is substantially mitigated by settling through assured payment systems or on a delivery-versus-payment basis.

Treasury, other eligible bills and debt securities

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, except for ABSs and similar instruments, which are secured by pools of financial assets.

Derivatives

The ISDA Master Agreement is HSBC s preferred agreement for documenting derivatives activity. It provides the contractual framework within which dealing activity across a full range of over-the-counter products is conducted, and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or other pre-agreed termination events occur. It is common, and HSBC s preferred practice, for the parties to execute a Credit Support Annex (CSA) in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between the parties to mitigate the market-contingent counterparty risk inherent in the outstanding positions.

Loans and advances

It is HSBC s policy, when lending, to do so on the basis of the customer s capacity to repay, rather than rely primarily on the value of security offered. Depending on the customer s standing and the type of product, facilities may be provided unsecured. Whenever available, collateral can be an important mitigant of credit risk.

The guidelines applied by operating companies in respect of the acceptability of specific classes of collateral or credit risk mitigation, and the determination of valuation parameters are subject to regular review to ensure that they are supported by empirical evidence and continue to fulfil their intended purpose. The principal collateral types employed by HSBC are as follows:

- in the personal sector, mortgages over residential properties;
- in the commercial and industrial sector, charges over business assets such as premises, stock and debtors;
- in the commercial real estate sector, charges over the properties being financed; and
- in the financial sector, charges over financial instruments such as cash, debt securities and equities in support of trading facilities.

In addition, credit derivatives, including credit default swaps and structured credit notes, and securitisation structures are used to manage credit risk in the Group s loan portfolio.

HSBC does not disclose the fair value of collateral held as security or other credit enhancements on loans and advances past due but not impaired, or on individually assessed impaired loans and advances, as it is not practicable to do so.

Concentration of exposure

Concentrations of credit risk exist when a number of counterparties or exposures have comparable economic characteristics, or such counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions.

Securities held for trading

Total securities held for trading within trading assets were US$239 billion at 30 June 2009 (31 December 2008: US$254 billion). The largest concentration of these assets was to government and government agency securities, which amounted to US$134 billion, or 56 per cent of overall trading securities (31 December 2008: US$143 billion, 56 per cent). This included US$23 billion (31 December 2008: US$32 billion) of treasury and other eligible bills. Corporate debt and other securities were US$75 billion or 31 per cent of overall trading securities, in line with the level at 31 December 2008 of US$83 billion, or 33 per cent. Included within total securities held for trading were US$42 billion (31 December 2008: US$50 billion) of debt securities issued by banks and other financial institutions.

Debt securities, treasury and other eligible bills

At US$345 billion, total financial investments excluding equity securities were 18 per cent higher at 30 June 2009 than at 31 December 2008. Debt securities, at US$290 billion, represented the largest concentration of financial investments at 84 per cent of the total, compared with US$252 billion (86 per cent) at 31 December 2008. HSBC s holdings of corporate debt, ABSs and other securities were spread across a wide range of issuers and geographical regions, with 49 per cent invested in securities issued by banks and other financial institutions. In total, holdings in ABSs decreased by US$9 billion due to a combination of asset sales, amortisations and write-downs.

Investments in governments and government agencies of US$144 billion were 41 per cent of overall financial investments, 3 percentage points higher than at 31 December 2008. US$54 billion of these investments comprised treasury and other eligible bills.

More detailed analyses of securities held for trading and financial investments are set out in Notes 7 and 10 on the Financial Statements. For an analysis by credit quality, see page 156.

At 30 June 2009, the insurance businesses held diversified portfolios of debt and equity securities designated at fair value of US$22 billion (31 December 2008: US$20 billion). A more detailed analysis of securities held by the insurance businesses is set out on page 185.

Derivatives

Derivatives exposures at 30 June 2009 were US$311 billion, a decline of 37 per cent from 31 December 2008, with reductions across all asset classes, notably foreign exchange, interest rate and credit derivatives. Lower volatility within the financial markets, steepening yield curves in major currencies and narrowing credit spreads led to a fall in the fair value of outstanding derivative contracts. Derivatives exposure is shown gross under IFRSs. Derivative liabilities fell for the same reasons.

Loans and advances

Loans and advances were well diversified across industry sectors and jurisdictions. At constant exchange rates, corporate and commercial lending increased, partly offset by a decline in personal lending reflecting the run down of the US consumer finance portfolios. On the same basis, gross loans and advances to customers at 30 June 2009 decreased by US$55 billion or 5 per cent from 31 December 2008.

Personal lending remained the largest single lending category at US$438 billion, 46 per cent of total customer lending. Residential mortgages of US$256 billion represented 27 per cent of total advances to customers, the Group s largest concentration in a single exposure type. During the period, Europe surpassed North America as HSBC s largest mortgage portfolio as the HSBC Finance real estate secured portfolio ran off and mortgage lending expanded in the UK.

Corporate, commercial and financial lending amounted to 53 per cent of gross lending to customers at 30 June 2009. The largest industry concentrations were in non-bank financial institutions and commercial real estate lending at 11 per cent and 7 per cent, respectively, of total gross lending to customers.

Commercial, industrial and international trade lending fell modestly in the period reflecting the decline in economic activity and global trade. Within this category, the largest concentration of lending was to the service sector, which accounted for 6 per cent of total gross lending to customers.

Lending to non-bank financial institutions principally comprised secured lending on trading accounts, primarily repo facilities.

Loans and advances to banks primarily represent amounts owing on trading account and HSBC s placing of its own liquidity on short-term deposit. Such lending was widely distributed across major institutions.

Further discussion of significant movements in credit quality of the personal lending and wholesale lending portfolios is set out in Areas of Special Interest on pages 145 to 155.

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 Limited, HSBC Bank plc, HSBC Bank Middle East Limited and HSBC Bank USA N.A., by the location of the lending branch.

HSBC HOLDINGS PLC
Interim Management Report: Risk (continued)
Gross loans and advances by industry sector

	At 31 December 2008 US$m	**Constant currency effect US$m**	**Movement on a constant currency basis US$m**	**At 30 June 2009 US$m**
Gross loans and advances to customers				
Personal	440,227	**18,662**	**(21,041)**	**437,848**
Residential mortgages[2]	243,337	**12,271**	**(90)**	**255,518**
Other personal[3]	196,890	**6,391**	**(20,951)**	**182,330**
Corporate and commercial	407,474	**27,249**	**(35,823)**	**398,900**
Commercial, industrial and international trade	209,840	**14,805**	**(29,535)**	**195,110**
Commercial real estate	70,969	**3,803**	**(3,499)**	**71,273**
Other property-related	30,739	**1,185**	**(991)**	**30,933**
Government	6,544	**153**	**(540)**	**6,157**
Other commercial[4]	89,382	**7,303**	**(1,258)**	**95,427**
Financial	101,085	**4,958**	**1,766**	**107,809**
Non-bank financial institutions	99,536	**4,812**	**725**	**105,073**
Settlement accounts	1,549	**146**	**1,041**	**2,736**
Asset-backed securities reclassified	7,991		**(164)**	**7,827**
Total gross loans and advances to customers	956,777	**50,869**	**(55,262)**	**952,384**
Gross loans and advances to banks	153,829	**4,355**	**24,160**	**182,344**
Total gross loans and advances	1,110,606	**55,224**	**(31,102)**	**1,134,728**

For footnotes, see page 168.

Loans and advances to customers by industry sector and by geographical region

	Gross	**Gross loans**

	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific[8] US$m	Middle East[8] US$m	North America US$m	Latin America US$m	loans and advances to customers US$m	by industry sector as a % of total gross loans %
At 30 June 2009								
Personal	**157,383**	**46,700**	**29,825**	**6,951**	**176,464**	**20,525**	**437,848**	**46.0**
Residential mortgages[5]	**104,529**	**33,808**	**19,483**	**1,950**	**90,903**	**4,845**	**255,518**	**26.8**
Other personal	**52,854**	**12,892**	**10,342**	**5,001**	**85,561**	**15,680**	**182,330**	**19.2**
Corporate and commercial	**219,059**	**47,408**	**42,823**	**17,368**	**47,536**	**24,706**	**398,900**	**41.9**
Commercial, industrial and international trade	**113,758**	**17,217**	**25,662**	**9,686**	**13,831**	**14,956**	**195,110**	**20.5**
Commercial real estate	**34,221**	**13,108**	**6,344**	**1,586**	**13,455**	**2,559**	**71,273**	**7.5**
Other property-related	**7,504**	**9,412**	**3,592**	**1,292**	**8,645**	**488**	**30,933**	**3.3**
Government	**1,577**	**861**	**514**	**1,299**	**257**	**1,649**	**6,157**	**0.6**
Other commercial[4]	**61,999**	**6,810**	**6,711**	**3,505**	**11,348**	**5,054**	**95,427**	**10.0**
Financial	**79,972**	**4,225**	**2,408**	**1,427**	**17,821**	**1,956**	**107,809**	**11.3**
Non-bank financial institutions	**78,650**	**3,683**	**2,033**	**1,376**	**17,424**	**1,907**	**105,073**	**11.0**
Settlement accounts	**1,322**	**542**	**375**	**51**	**397**	**49**	**2,736**	**0.3**
Asset-backed securities reclassified	**6,253**				**1,574**		**7,827**	**0.8**
Total gross loans and advances to customers (TGLAC[6])	**462,667**	**98,333**	**75,056**	**25,746**	**243,395**	**47,187**	**952,384**	**100.0**

Percentage of TGLAC by geographical region	**48.6%**	**10.3%**	**7.9%**	**2.7%**	**25.6%**	**4.9%**	**100.0%**
Impaired loans	**10,592**	**994**	**1,331**	**901**	**15,003**	**3,005**	**31,826**
as a percentage of TGLAC	**2.3%**	**1.0%**	**1.8%**	**3.5%**	**6.2%**	**6.4%**	**3.3%**
Total impairment allowances	**5,577**	**847**	**994**	**649**	**17,137**	**2,497**	**27,701**
as a percentage of TGLAC	**1.2%**	**0.9%**	**1.3%**	**2.5%**	**7.0%**	**5.3%**	**2.9%**

	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific[8] US$m	Middle East[8] US$m	North America US$m	Latin America US$m	Gross loans and advances to customers US$m	Gross loans by industry sector as a % of total gross loans %
At 30 June 2008								
Personal	171,711	46,077	33,727	6,744	214,427	25,379	498,065	46.6
Residential mortgages[5]	101,620	31,774	20,295	1,491	110,373	5,068	270,621	25.3
Other personal	70,091	14,303	13,432	5,253	104,054	20,311	227,444	21.3
Corporate and commercial	259,547	50,472	51,349	17,334	50,210	28,542	457,454	42.7
Commercial, industrial and international trade	147,452	21,427	31,956	9,260	14,540	16,543	241,178	22.5
Commercial real estate	40,779	13,793	7,126	1,516	15,018	2,486	80,718	7.5
Other property-related	9,542	8,673	4,129	1,630	8,349	425	32,748	3.1
Government	1,797	244	730	1,426	264	3,054	7,515	0.7
Other commercial[4]	59,977	6,335	7,408	3,502	12,039	6,034	95,295	8.9
Financial	81,441	3,565	4,371	1,197	21,040	2,647	114,261	10.7
Non-bank financial institutions	79,336	2,949	4,207	1,193	20,302	2,486	110,473	10.3
Settlement accounts	2,105	616	164	4	738	161	3,788	0.4
Total gross loans and advances to customers (TGLAC[6])	512,699	100,114	89,447	25,275	285,677	56,568	1,069,780	100.0

Percentage of TGLAC by geographical region	47.9%	9.4%	8.3%	2.4%	26.7%	5.3%	100.0%	%
Impaired loans[7]	5,889	438	845	272	10,585	2,673	20,702	
as a percentage of TGLAC	1.1%	0.4%	0.9%	1.1%	3.7%	4.7%	1.9%	%
Total impairment allowances	3,739	373	694	271	13,187	2,316	20,580	
as a percentage of TGLAC	0.7%	0.4%	0.8%	1.1%	4.6%	4.1%	1.9%	%
At 31 December 2008								
Personal	141,532	46,087	29,887	7,524	195,534	19,663	440,227	46.0
Residential mortgages[5]	87,267	33,014	18,244	1,941	98,383	4,488	243,337	25.4
Other personal	54,265	13,073	11,643	5,583	97,151	15,175	196,890	20.6
Corporate and commercial	219,640	52,186	47,394	18,732	47,291	22,231	407,474	42.5
Commercial, industrial and international trade	121,047	20,186	29,294	10,853	15,178	13,282	209,840	21.9
Commercial real estate	32,704	14,233	6,713	1,431	13,504	2,384	70,969	7.4
Other property-related	7,666	10,296	3,541	1,587	7,234	415	30,739	3.2
Government	1,864	951	579	1,181	352	1,617	6,544	0.7
Other commercial[4]	56,359	6,520	7,267	3,680	11,023	4,533	89,382	9.3
Financial	62,620	2,680	4,193	1,453	27,746	2,393	101,085	10.6
Non-bank financial institutions	61,823	2,402	3,940	1,447	27,560	2,364	99,536	10.4
Settlement accounts	797	278	253	6	186	29	1,549	0.2
Asset-backed securities reclassified	6,258				1,733		7,991	0.9

Total gross loans and advances to customers (TGLAC[6])	430,050	100,953	81,474	27,709	272,304	44,287	956,777	100.0
Percentage of TGLAC by geographical region	44.9%	10.6%	8.5%	2.9%	28.5%	4.6%	100.0%	%
Impaired loans	6,774	852	835	279	14,285	2,327	25,352	
as a percentage of TGLAC	1.6%	0.8%	1.0%	1.0%	5.2%	5.3%	2.6%	%
Total impairment allowances	3,859	733	813	414	16,090	2,000	23,909	
as a percentage of TGLAC	0.9%	0.7%	1.0%	1.5%	5.9%	4.5%	2.5%	%

For footnotes, see page 168.

HSBC HOLDINGS PLC
Interim Management Report: Risk (continued)
Loans and advances to banks by geographical region

	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific[8] US$m	Middle East[8] US$m	North America US$m	Latin America US$m	Gross loans and advances to banks US$m	Impairment allowances US$m
At 30 June 2009	**72,563**	**41,197**	**34,278**	**6,562**	**10,048**	**17,696**	**182,344**	**(78)**
At 30 June 2008	94,802	73,461	40,695	11,044	19,794	17,192	256,988	(7)
At 31 December 2008	62,012	29,646	28,665	7,476	11,458	14,572	153,829	(63)

For footnote, see page 168.
Gross loans and advances to customers by country within Rest of Asia-Pacific, Middle East and Latin America

	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 2009					
Rest of Asia-Pacific[8]					
Australia	**4,618**	**883**	**1,719**	**3,433**	**10,653**
India	**977**	**1,168**	**478**	**2,902**	**5,525**
Indonesia	**47**	**557**	**98**	**1,934**	**2,636**
Japan	**80**	**146**	**762**	**1,501**	**2,489**
Mainland China	**1,313**	**22**	**2,594**	**6,931**	**10,860**
Malaysia	**2,752**	**1,588**	**940**	**3,736**	**9,016**
Singapore	**4,587**	**2,975**	**2,341**	**3,087**	**12,990**
South Korea	**1,928**	**497**	**30**	**2,004**	**4,459**
Taiwan	**2,111**	**577**	**3**	**1,524**	**4,215**
Other	**1,070**	**1,929**	**971**	**8,243**	**12,213**
	19,483	**10,342**	**9,936**	**35,295**	**75,056**
Middle East[8] (excluding Saudi Arabia)					
Egypt	**2**	**292**	**136**	**2,105**	**2,535**
United Arab Emirates	**1,720**	**3,321**	**1,755**	**9,464**	**16,260**
Other Middle East	**228**	**1,388**	**987**	**4,348**	**6,951**
	1,950	**5,001**	**2,878**	**15,917**	**25,746**

Latin America					
Argentina	**34**	**608**	**50**	**1,628**	**2,320**
Brazil	**541**	**9,721**	**961**	**10,206**	**21,429**
Mexico	**2,251**	**3,265**	**1,030**	**6,132**	**12,678**
Panama	**1,156**	**1,000**	**553**	**3,292**	**6,001**
Other	**863**	**1,086**	**453**	**2,357**	**4,759**
	4,845	**15,680**	**3,047**	**23,615**	**47,187**
At 30 June 2008					
Rest of Asia-Pacific[8]					
Australia	4,872	1,101	2,294	4,432	12,699
India	1,338	1,765	433	4,184	7,720
Indonesia	29	569	18	1,372	1,988
Japan	33	181	665	3,835	4,714
Mainland China	1,243	6	2,883	8,571	12,703
Malaysia	2,740	1,574	918	4,173	9,405
Singapore	3,971	3,789	2,607	3,386	13,753
South Korea	2,342	883	74	3,304	6,603
Taiwan	2,599	979	87	1,777	5,442
Other	1,128	2,585	1,276	9,431	14,420
	20,295	13,432	11,255	44,465	89,447

	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 2008					
Middle East[8] (excluding Saudi Arabia)					
Egypt		243	156	1,902	2,301
United Arab Emirates	1,298	3,550	2,278	9,405	16,531
Other Middle East	193	1,460	712	4,078	6,443
	1,491	5,253	3,146	15,385	25,275
Latin America					
Argentina	47	792	84	1,878	2,801
Brazil	437	12,295	781	11,362	24,875
Mexico	2,736	5,027	982	10,671	19,416
Panama	1,099	1,039	577	1,665	4,380
Other	749	1,158	487	2,702	5,096
	5,068	20,311	2,911	28,278	56,568
At 31 December 2008					
Rest of Asia-Pacific[8]					
Australia	3,598	783	1,621	3,350	9,352
India	1,112	1,482	493	3,332	6,419
Indonesia	27	527	26	1,410	1,990
Japan	57	160	808	4,818	5,843
Mainland China	1,303	12	2,784	7,423	11,522
Malaysia	2,699	1,624	941	4,263	9,527
Singapore	4,209	3,301	2,448	3,521	13,479
South Korea	2,153	682	34	2,497	5,366
Taiwan	2,217	705	14	1,497	4,433
Other	869	2,367	1,085	9,222	13,543
	18,244	11,643	10,254	41,333	81,474
Middle East[8] (excluding Saudi Arabia)					
Egypt		275	125	2,106	2,506
United Arab Emirates	1,693	3,748	2,118	10,214	17,773
Other Middle East	248	1,560	775	4,847	7,430

	1,941	5,583	3,018	17,167	27,709
Latin America					
Argentina	41	707	60	1,648	2,456
Brazil	376	8,585	694	9,578	19,233
Mexico	2,150	3,665	1,024	6,094	12,933
Panama	1,105	1,076	569	1,877	4,627
Other	816	1,142	452	2,628	5,038
	4,488	15,175	2,799	21,825	44,287

For footnote, see page 168.

Areas of special interest credit risk

Wholesale lending

Wholesale lending covers the range of credit facilities granted to sovereign borrowers, banks, non-bank financial institutions and corporate entities. The Group s wholesale portfolios are well diversified across geographical and industry sectors, with exposure subject to portfolio controls. Overall credit quality showed some signs of deterioration during the first half of 2009, as portfolios were affected by the global economic downturn.

The widespread intervention by many governments to stabilise, and in some cases to re-capitalise, banks and other financial intermediaries

had a positive effect in minimising the risk and perception of a systemic threat to financial markets. Nonetheless, credit risk levels remained high, with customers and counterparties facing the challenges of a significant reduction in available credit and liquidity and much reduced demand for their products and services. These effects were first seen in the wholesale portfolios in North America and Europe. In the first half of 2009, similar trends became evident within the portfolios in Latin America, the Middle East and Asia-Pacific, but to a lesser degree.

HSBC has sought to identify problem areas early, if possible before they arise, and thereby minimise the likelihood of adverse situations

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developing and their effect. During the first half of 2009, the Group has taken steps to improve the structure of exposures, including tenor and collateral, in response to the heightened risks. HSBC also, where possible, played a positive role in maintaining credit supply.

Insurance sector

The insurance sector continued to experience a number of challenges due to lower global asset valuations, heightened price volatility, low interest rates and strains on capital, liquidity and reserves. In the first half of 2009, HSBC continued to reduce exposure to levels consistent with the Group s overall risk appetite for this sector, concentrating that exposure on the most substantial companies.

Commercial real estate

Commercial real estate lending at 30 June 2009 represented 7 per cent of total loans and advances to customers. The sector experienced deterioration in credit quality, particularly in the UK and North America, due to a decline in valuations, increased rent shortfalls due to vacant properties or non-payment, a decline in demand for new housing, a prospective decline in rental cash flows and significantly reduced refinancing options. Impairment occurred in a limited number of cases. HSBC s exposure to the decline in credit quality was mitigated by long-standing policies on asset origination which focus on relationships with long-term customers and limited initial leverage, as well as guidelines and controls preventing higher risk concentrations. While individual regions differ in their approach, typically, origination loan to value ratios would be less than 65 per cent across the group.

Automotive sector

HSBC did not have significant direct exposure to the major US automotive manufacturers which entered Chapter 11 bankruptcy.

The automotive industry globally has seen a significant deterioration in credit quality over a prolonged period. Reduced sales volumes across most markets in the current economic downturn have increased the incidence of financial stress on for original equipment manufacturers, suppliers and dealers. HSBC has adopted a cautious approach towards this industry for a number of years, prioritising commitments to stronger global manufacturers and actively limiting exposures towards those firms most likely to be affected by an industry downturn. As a consequence of this, at 30 June 2009, HSBC did not have any significant

direct exposure to the major US automotive manufacturers, which entered Chapter 11 bankruptcy restructuring in the first half of the year. HSBC had some exposure to North American automotive dealers and suppliers but this was minimal in the context of the Group. Exposure to the industry is controlled by a portfolio cap that is reviewed regularly at the Risk Management Meeting.

Sovereign counterparties

The overall quality of the Group s sovereign portfolio remained strong during the period with the large majority of both in-country and cross-border limits extended to countries with strong internal credit risk ratings. There was no significant downward shift in the quality composition of the portfolio, though, in certain regions, notably Eastern Europe, credit spreads and external ratings were subject to downgrade and volatility. The Group regularly updates its assessment of higher risk countries and adjusts its risk appetite to reflect such changes.

Leveraged financing

A feature of the expansion of liquidity and credit in recent years was the increased volume of leveraged financing undertaken by market participants, often using structures that transferred more risk to senior lenders.

The Group has operated a controlled approach towards leveraged finance origination with caps imposed on underwriting and final hold levels operating across the cycle. As a result, in the first half of 2009, while credit quality deteriorated, exposure to leveraged financing remained restricted and the effect of lower credit quality on impairment provisioning at a Group level was minor.

Personal lending

Rising unemployment has been the major factor in the deterioration in credit quality of personal lending portfolios in 2009. Further weakening in consumer confidence and capacity to service financial commitments may result in deteriorating payment patterns and increased delinquencies, default rates, loan impairment allowances and write-offs. HSBC monitors the effect of these factors on its personal lending portfolios and keeps under review a range of measures designed to limit the Group s exposure to loss and mitigate the effect on customers.

The commentary that follows is on a constant currency basis.

At 30 June 2009, total personal lending was US$438 billion, a decline of 5 per cent from the balance at 31 December 2008. Within personal lending, total loan impairment charges of US$10.7 billion were concentrated in North America (US$7.8 billion), Latin America (US$1.1 billion) and the UK (US$0.8 billion).

Total US personal lending at 30 June 2009 declined by 12 per cent to US$150 billion from the end of 2008, as a result of HSBC s strategy to run off most of its existing consumer finance portfolios and improve credit quality on remaining originations.

Other personal lending in the US fell by 13 per cent to US$78 billion, reflecting the decision to cease originations in the unsecured Consumer Lending portfolio. Card balances declined by 12 per cent to US$41 billion as HSBC tightened underwriting criteria, closed inactive accounts, decreased credit lines, tightened cash access, curtailed marketing expenditure and ceased originations for those segments most severely affected by the deterioration in the economy. Together, these steps lowered originations in line with HSBC s reduced appetite for risk in this segment. Card balances in part declined as a result of the decision to cease some private label partner relationships.

Vehicle Finance loans in the US fell by US$3.1 billion, including US$0.8 billion classified as held for sale, to US$8 billion at 30 June 2009, reflecting the decision in the second half of 2008 to cease originations and run off the existing portfolio in HSBC Finance.

In the UK, gross loans and advances to personal customers rose by 4 per cent to US$127 billion, due to growth in residential mortgage lending at HSBC Bank and First Direct as HSBC expanded its presence in the marketplace. UK mortgage lending is discussed in greater detail below. Other personal lending declined by 6 per cent to US$31 billion, driven by further tightening of underwriting criteria, which arose from a continued focus on more capital-efficient lending. Credit quality in the unsecured portfolios of M&S Money and HFC UK showed deterioration in the first half of 2009 due to the weakening economy and higher levels of unemployment. In the Partnership cards and HSBC Bank unsecured portfolios credit quality remained stable despite the deterioration in economic factors. Total personal lending declined by 5 per cent in the first half of 2009.

In Latin America, gross loans and advances to personal customers declined by 5 per cent to US$21 billion. Residential mortgage lending rose by 4 per cent from the end of 2008, while other personal lending declined by 8 per cent. In Brazil, other personal lending balances at 30 June 2009 were US$10 billion, a decline of 6 per cent from 31 December 2008 driven by a tightening of credit criteria on originations. In Mexico, other personal lending balances at 30 June 2009 were US$3 billion, 15 per cent lower than at 31 December 2008 as management restricted originations in the credit cards portfolio and the current delinquent portfolio was reduced.

For an analysis of loan impairment allowances and impaired loans, see page 159.

Total personal lending

	UK US$m	Rest of Europe US$m	US[9] US$m	Rest of North America US$m	Other regions[10] US$m	Total US$m
At 30 June 2009						
Residential mortgages	**95,569**	**8,960**	**72,559**	**18,344**	**60,086**	**255,518**
Other personal lending	**31,138**	**21,716**	**77,664**	**7,897**	**43,915**	**182,330**
motor vehicle finance		**65**	**7,804**	**112**	**6,334**	**14,315**
credit cards	**12,349**	**1,785**	**41,116**	**1,375**	**13,136**	**69,761**
second lien mortgages	**1,199**	**2**	**13,602**	**775**	**470**	**16,048**
other	**17,590**	**19,864**	**15,142**	**5,635**	**23,975**	**82,206**

Total personal lending	**126,707**	**30,676**	**150,223**	**26,241**	**104,001**	**437,848**

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Total personal lending (continued)

	UK US$m	Rest of Europe US$m	US[9] US$m	Rest of North America US$m	Other regions[10] US$m	Total US$m
At 30 June 2008						
Residential mortgages	91,522	10,098	90,096	20,277	58,628	270,621
Other personal lending	40,898	29,193	94,115	9,939	53,299	227,444
motor vehicle finance	59	131	12,777	2,324	8,609	23,900
credit cards	15,137	1,802	46,718	1,682	14,923	80,262
second lien mortgages	1,754		16,136	1,266	519	19,675
other	23,948	27,260	18,484	4,667	29,248	103,607
Total personal lending	132,420	39,291	184,211	30,216	111,927	498,065
At 31 December 2008						
Residential mortgages	78,346	8,921	80,946	17,437	57,687	243,337
Other personal lending	29,274	24,991	89,562	7,589	45,474	196,890
motor vehicle finance		99	10,864	137	6,201	17,301
credit cards	11,215	1,695	46,972	1,469	13,426	74,777
second lien mortgages	1,160	2	14,614	803	503	17,082
other	16,899	23,195	17,112	5,180	25,344	87,730
Total personal lending	107,620	33,912	170,508	25,026	103,161	440,227

For footnotes, see page 168.

US mortgage lending

US mortgage lending, comprising residential mortgage and second lien lending, made up 20 per cent of the Group s gross loans and advances to personal customers at 30 June 2009.

Balances declined by 10 per cent from 31 December 2008, as the decision in the first quarter of 2009 to cease new originations and run off the portfolio in Consumer Lending was implemented together with the continuing run-off of the Mortgage Services portfolio and portfolio sales of prime mortgage loans by HSBC Bank USA. These reductions were partly offset by a continued slowdown in loan prepayments as there were fewer refinancing opportunities for customers, and the moratorium on foreclosure enacted by several US states.

US mortgage lending fell by 10 per cent in the first half of 2009 as the business was run off and restructured.

In aggregate, HSBC Finance s mortgage balances declined to US$69 billion at 30 June 2009 (31 December 2008: US$74 billion) as set out in the table on page 151. Within this, the portfolio of real estate secured business originated through the Consumer Lending branch network was US$44 billion at 30 June 2009, of which approximately 95 per cent were fixed rate loans and 88 per cent were first lien. At 30 June 2009, the Mortgage Services business had approximately US$25 billion in balances outstanding.

Approximately 60 per cent were fixed rate loans and 85 per cent were first lien.

Mortgage lending in HSBC Bank USA declined from US$21.6 billion at 31 December 2008 to US$17.3 billion at 30 June 2009, following a series of management actions to further reduce risk in the portfolio, including selling US$4.0 billion in loans during the first half of 2009 and continuing to sell the majority of newly originated residential mortgages to government-sponsored mortgage agencies and private investors. At 30 June 2009, approximately 33 per cent of the HSBC Bank USA mortgage portfolio were fixed rate loans and 75 per cent were first lien.

Further discussion of credit trends in the US mortgage lending portfolio and management actions taken to mitigate risk is provided in US personal lending credit quality on page 151.

UK mortgage lending

Total mortgage lending in the UK rose from US$79.5 billion at 31 December 2008 to US$96.8 billion at 30 June 2009 following HSBC s announcement in December 2008 that it would make available up to £15 billion (US$25 billion) of new residential mortgages during 2009. In addition, in order to support renewed activity in the first time buyer segment of the market, HSBC launched in April 2009 a market leading product for loans not exceeding a 90 per cent loan to value ratio. HSBC expanded its share of the market while staying within its targeted customer segments.

The credit quality of the UK mortgage portfolio remained resilient despite further deterioration in the housing and employment markets and a rise in loan impairment charges from a low base as HSBC s exposure to this market remained well secured. At HSBC Bank, 30 days or more delinquency rates rose from 1.8 per cent at 31 December 2008 to 1.9 per cent at 30 June 2009. HSBC Bank intentionally reduced its market share in 2006 and 2007 as house prices continued to rise. The average loan to value ratio for new business in the first half of 2009 amounted to 49.9 per cent, a decrease of 8.8 percentage points from 31 December 2008.

The maintenance of good credit quality in difficult market conditions is further attributable to the business model pursued by HSBC in the UK. HSBC Bank originates almost all new business through its own salesforce and does not permit customer self-certification of income, lending predominantly to existing customers holding a current or savings account relationship with the bank, and minimises lending to purchase property for rental for which the bank applies higher collateral requirements.

Interest-only mortgage balances rose from US$33.8 billion at 31 December 2008 to US$42.8 billion at 30 June 2009, driven by an increase in balances at First Direct. The majority of these mortgages are offset mortgages linked to a current account. Within this portfolio, 30 days or more delinquency rates increased, but because of the current account linkage, delinquency remained at very low levels.

HSBC made up to US$25 billion available for new residential mortgages in the UK as its market share grew.

Second lien balances, which were all held by HFC UK, declined moderately on a constant currency basis to US$1.2 billion at 30 June 2009. Two months or more delinquency rates rose from 6.2 per cent at 31 December 2008 to 7.0 per cent at 30 June 2009. In the period, HFC UK announced that it would cease to originate loans in the UK.

The following table shows the levels of mortgage lending products in the various portfolios across the HSBC Group.

Mortgage lending products

	UK US$m	Rest of Europe US$m	US[9] US$m	Rest of North America US$m	Other regions[10] US$m	Total US$m
At 30 June 2009						
Residential mortgages	**95,569**	**8,960**	**72,559**	**18,344**	**60,086**	**255,518**
Second lien mortgages	**1,199**	**2**	**13,602**	**775**	**470**	**16,048**
Total mortgage lending	**96,768**	**8,962**	**86,161**	**19,119**	**60,556**	**271,566**
Second lien as a percentage of total mortgage lending	**1.2%**		**15.8%**	**4.1%**	**0.8%**	**5.9%**
Interest-only (including endowment) mortgages	**42,778**	**31**		**1,190**	**1,091**	**45,090**
Affordability mortgages, including ARMs	**4,199**	**1,331**	**23,651**	**214**	**5,262**	**34,657**

Other	**161**				**138**	**299**
Total interest-only and affordability mortgages	**47,138**	**1,362**	**23,651**	**1,404**	**6,491**	**80,046**
as a percentage of total mortgage lending	**48.7%**	**15.2%**	**27.4%**	**7.3%**	**10.7%**	**29.5%**
Negative equity mortgages[11]	**359**		**6,780**	**190**	**627**	**7,956**
Other loan to value ratios greater than 90 per cent[12]	**6,264**	**44**	**32,124**	**1,781**	**1,585**	**41,798**
	6,623	**44**	**38,904**	**1,971**	**2,212**	**49,754**
as a percentage of total mortgage lending	**6.8%**	**0.5%**	**45.2%**	**10.3%**	**3.7%**	**18.3%**

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Mortgage lending products (continued)

	UK US$m	Rest of Europe US$m	US[9] US$m	Rest of North America US$m	Other regions[10] US$m	Total US$m
At 30 June 2008						
Residential mortgages	91,522	10,098	90,096	20,277	58,628	270,621
Second lien mortgages	1,754		16,136	1,266	519	19,675
Total mortgage lending	93,276	10,098	106,232	21,543	59,147	290,296
Second lien as a percentage of total mortgage lending	1.9%		15.2%	5.9%	0.9%	6.8%
Interest-only (including endowment) mortgages	37,270	532		1,408	1,115	40,325
Affordability mortgages, including ARMs	8,304	820	31,995		4,961	46,080
Other	392				287	679
Total interest-only and affordability mortgages	45,966	1,352	31,995	1,408	6,363	87,084
as a percentage of total mortgage lending	49.3%	13.4%	30.1%	6.5%	10.8%	30.0%
Negative equity mortgages[11]	913		9,673	46	127	10,759
Other loan to value ratios greater than 90 per cent[12]	10,242	151	39,098	1,726	666	51,883
	11,155	151	48,771	1,772	793	62,642
as a percentage of total mortgage lending	12.0%	1.5%	45.9%	8.2%	1.3%	21.6%
At 31 December 2008						
Residential mortgages	78,346	8,921	80,946	17,437	57,687	243,337
Second lien mortgages	1,160	2	14,614	803	503	17,082

Total mortgage lending	79,506	8,923	95,560	18,240	58,190	260,419
Second lien as a percentage of total mortgage lending	1.5%		15.3%	4.4%	0.9%	6.6%
Interest-only (including endowment) mortgages	33,782	553		1,427	993	36,755
Affordability mortgages, including ARMs	4,740	824	28,571	311	4,166	38,612
Other	153				82	235
Total interest-only and affordability mortgages	38,675	1,377	28,571	1,738	5,241	75,602
as a percentage of total mortgage lending	48.6%	15.4%	29.9%	9.5%	9.0%	29.0%
Negative equity mortgages[11]	367		7,655	86	1,635	9,743
Other loan to value ratios greater than 90 per cent[12]	6,178	107	35,296	1,737	2,122	45,440
	6,545	107	42,951	1,823	3,757	55,183
as a percentage of total mortgage lending	8.2%	1.2%	44.9%	10.0%	6.5%	21.2%

For footnotes, see page 168.

HSBC Finance held approximately US$69 billion of residential mortgage and second lien loans and advances to personal customers secured on real estate at 30 June 2009, 16 per cent of the Group s gross loans and advances to personal customers. For a breakdown of these balances by portfolio, see below.

HSBC Finance mortgage lending[13]

	At 30 June 2009			At 30 June 2008			At 31 December 2008		
	Mortgage Services US$m	**US Consumer Lending US$m**	**Other mortgage lending US$m**	Mortgage Services US$m	US Consumer Lending US$m	Other mortgage lending US$m	Mortgage Services US$m	US Consumer Lending US$m	Other mortgage lending US$m
Fixed rate	**15,060**	**41,561**	**107**	18,180	46,320	1,963	16,288	43,873	91
Other	**9,959**	**2,169**	**7**	13,265	2,714	130	11,339	2,324	35
Adjustable-rate	**8,603**	**2,169**	**7**	10,638	2,714	128	9,530	2,324	33
Interest only	**1,356**			2,627		2	1,809		2
	25,019	**43,730**	**114**	31,445	49,034	2,093	27,627	46,197	126
First lien	**21,256**	**38,325**	**84**	26,049	42,582	1,048	23,188	40,334	93
Second lien	**3,763**	**5,405**	**30**	5,396	6,452	1,045	4,439	5,863	33
	25,019	**43,730**	**114**	31,445	49,034	2,093	27,627	46,197	126
Stated income[14]	**4,875**			6,814			5,667		

For footnotes, see page 168.

US personal lending credit quality

Credit quality deterioration continued across the US personal lending portfolios during the first half of 2009 as accounts continued to season and run off. As the economy weakened further, levels of unemployment and personal bankruptcy filings rose and house price depreciation continued, restricting the ability of many customers to refinance and access any equity retained in their homes.

Residential mortgages

HSBC continued to manage down residential mortgage exposure in the US in line with its exit strategy for non-prime real estate secured exposure in the US, as house prices depreciated in the first half of 2009.

The two months and over contractual delinquency in the real estate secured portfolios of HSBC Finance and HSBC Bank USA increased both in dollar and percentage terms, excluding Mortgage Services, as credit quality continued to deteriorate and as fewer properties moved through to repossession. Delays in processing repossessions were caused by backlogs in legal proceedings as a result of government restrictions in some states which lengthened the repossession process. Delinquency rates in HSBC Finance remained high due to portfolio seasoning and the reduction in balances as the portfolio run-off continued.

The Consumer Lending business continued to experience rising delinquency levels, driven by deterioration in portions of the first lien portfolio (particularly the 2006 and 2007 vintages), due to the economic factors described above, the higher early stage delinquencies and the delays in repossessions.

Two months or more delinquencies rose from 12.1 per cent of loans and advances at 31 December 2008 to 14.9 per cent at 30 June 2009, as the decision in the first quarter of 2009 to cease originations and run off the existing balances in this portfolio took effect. Delinquent balances increased to US$6.5 billion from US$5.6 billion. To date, delinquency levels in the Consumer Lending portfolio, which may have been affected by branch closures, continue to perform within expectations.

HSBC continued to reduce exposure to residential mortgages in the US, particularly in non-prime real estate secured lending.

In Mortgage Services, delinquency rates stopped rising as the portfolio became more fully seasoned, remaining unchanged at 17.0 per cent. In line with the continued run off of the portfolio, in dollar terms, two months or more delinquency in Mortgage Services declined from US$4.7 billion at 31 December 2008 to US$4.3 billion at 30 June 2009.

At HSBC Bank USA, delinquencies rose throughout the first half of 2009 with credit quality deterioration seen in the first lien prime residential mortgage, Home Equity Line of Credit and Home Equity Loan portfolios. Deterioration was particularly acute in business previously sourced through brokers. HSBC Bank USA sold US$4.0 billion of mortgage portfolios to third parties during the first half of 2009 and continued to sell the majority of mortgage loan originations to government-sponsored enterprises and private investors. These loans were of a higher credit quality than the average within the existing portfolio which contributed to the deterioration in credit delinquency statistics described above. The decline in balances

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also contributed to an increase in delinquency rates. Two months or more delinquencies on HSBC Bank USA mortgage portfolios rose from 3.7 per cent at 31 December 2008 to 5.7 per cent at 30 June 2009 and from US$0.9 billion to US$1.1 billion, respectively.

Losses on foreclosed properties rose from 31 December 2008 as home values continued to decline (see page 155). The number of properties repossessed declined for two reasons; volumes of foreclosure cases continued to be constrained by regulatory and government action, and HSBC approached customers to provide financial assistance in restructuring their debts to avoid foreclosure. HSBC has taken various measures to assist customers facing difficulties with their payments, restructuring and modifying loans where it appeared likely that the loan could be serviced on revised terms. For further details, see HSBC Finance loan modifications and re-ageing on page 154.

Second lien loans have a risk profile characterised by higher loan to value ratios because, in many cases, the second lien loan was taken out to complete the refinancing or purchase of a property. For HSBC Finance Mortgage Services second lien mortgages, the proportion of customers two months or more behind on contractual payments declined from 17.7 per cent at 31 December 2008 to 16.4 per cent at 30 June 2009 as credit quality began to stabilise. In Consumer Lending, two months or more delinquency rates rose to 16.1 per cent from 14.5 per cent over the same period, primarily due to a decline in balances. In HSBC Bank USA, delinquency rates on second liens rose from 3.8 per cent to 4.8 per cent over the same period. Loss on default of second lien loans typically approaches 100 per cent of the amount owed, particularly during periods of house price depreciation when the value of the collateral in the property, which is applied initially to the first lien loan, is eroded leaving no surplus available to support the repayment of second liens.

HSBC Finance s exposure to stated-income mortgages, which represented a small part of the real-estate secured loan book, also continued to decline. These mortgages are of higher than average risk as they were underwritten on the basis of borrowers representations of annual income and were not verified by receipt of supporting documentation. These loan balances declined from US$5.7 billion at 31 December 2008 to US$4.9 billion at 30 June 2009. Two months or more delinquency rates on stated-income loans declined from 27.7 per cent at the end of 2008 to 26.2 per cent at 30 June 2009. Amounts of two months or more delinquency on stated-income loans declined from US$1.6 billion at 31 December 2008 to US$1.3 billion at 30 June 2009.

Affordability mortgages include all products where the customer s monthly payments are set at a low initial rate, either variable or fixed, before resetting to a higher rate once the introductory period is over. Affordability mortgage balances in HSBC Finance declined from US$14 billion at 31 December 2008 to US$12 billion at 30 June 2009 as no originations were made and the existing portfolio continued to run off. These mortgages continued to experience heightened levels of delinquency. The aggregate balances of loans which reached their first interest rate reset continued to decline in the first half of 2009.

HSBC Finance: geographical concentration of US lending[13,15]

	Mortgage lending as a percentage of:		Other personal lending as a percentage of:		
	total lending	total mortgage lending	total lending	total other personal lending	Percentage of total lending
	%	%	%	%	%
California	**6**	**11**	**6**	**12**	**11**
Florida	**4**	**7**	**3**	**6**	**7**
New York	**3**	**6**	**3**	**7**	**6**

Texas	**2**	**3**	**4**	**8**	**6**
Pennsylvania	**3**	**6**	**2**	**5**	**5**
Ohio	**3**	**5**	**2**	**5**	**5**

For footnotes, see page 168.

Credit cards

In the US credit card portfolio, two months or more delinquencies rose from 6.6 per cent at 31 December 2008 to 7.3 per cent at 30 June 2009, mainly because of reduced loan balances. The same
factor produced a decline in delinquent balances from US$2.0 billion to US$1.9 billion over the same period. Two months or more delinquencies in private label cards declined from 4.3 per cent at 31 December 2008 to 4.1 per cent at 30 June

2009 and delinquent balances declined from US$0.7 billion to US$0.6 billion over the same period. Delinquency balances were lower because of an extended seasonal benefit of increased cash available to customers as a result of various government economic stimulus programmes and lower energy costs, actions taken by HSBC in 2008 and 2009 to reflect lower risk appetite and slow growth in originations, lower consumer spending and higher levels of personal bankruptcy filings which accelerated the write-off of some accounts. The credit performance of the card portfolio was affected by the steady decline in employment and housing markets, particularly in those states which had previously experienced the greatest house price appreciation.

The credit quality of the non-prime portfolio deteriorated, but at a lower rate than prime cards. A substantial majority of non-prime customers are in rental property and have demonstrated a better payment history than customers who are homeowners. In addition, the rise in unemployment has resulted in less credit deterioration in the non-prime portfolios compared with prime portfolios.

Motor vehicle finance

Two months or more delinquencies in vehicle finance declined from 5.0 per cent at 31 December 2008 to 4.0 per cent at 30 June 2009, driven by portfolio seasoning, and the cash flow to consumers from government stimulus programmes.

Other personal lending

HSBC Finance s unsecured lending portfolio, in run-off since the first quarter of 2009, experienced broadly stable delinquency rates as an improvement in collection activity in the first half of 2009 was offset by the continued economic deterioration, which particularly affected the 2006 and 2007 vintages.

US personal lending loan delinquency

The table below sets out the trends in two months and over contractual delinquencies.

Two months and over contractual delinquency[16]

	Quarter ended							
	30 Jun 2009 US$m	**31 Mar 2009 US$m**	31 Dec 2008 US$m	30 Sep 2008 US$m	30 Jun 2008 US$m	31 Mar 2008 US$m	31 Dec 2007 US$m	30 Sep 2007 US$m
In Personal Financial Services in the US								
Residential mortgages	**10,070**	**9,892**	9,236	7,061	5,984	5,757	5,167	4,077
Second lien mortgage lending	**1,676**	**1,772**	1,790	1,616	1,585	1,638	1,602	1,249
Vehicle finance	**310**	**269**	541	512	445	370	488	451
Credit card	**1,864**	**1,992**	2,029	1,871	1,700	1,782	1,830	1,581
Private label	**636**	**659**	701	624	590	591	598	536
Personal non-credit card	**2,709**	**2,855**	2,998	2,745	2,606	2,650	2,634	2,238
Total	**17,265**	**17,439**	17,295	14,429	12,910	12,788	12,319	10,132
	%	**%**	%	%	%	%	%	%
Residential mortgages	**13.89**	**12.82**	11.42	8.23	6.65	5.96	5.23	4.04
	12.35	**12.59**	12.26	10.59	9.83	9.76	9.10	6.86

Second lien mortgage lending								
Vehicle finance	**3.97**	**2.79**	4.98	4.27	3.48	2.83	3.68	3.40
Credit card	**7.25**	**7.14**	6.64	6.07	5.57	5.81	5.68	5.09
Private label	**4.08**	**4.28**	4.26	3.97	3.65	3.66	3.43	3.28
Personal non-credit card	**18.02**	**18.30**	17.70	15.31	14.00	13.71	13.16	10.88
Total	**11.49**	**10.92**	10.16	8.13	7.01	6.64	6.18	5.05

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Two months and over contractual delinquency[16] (continued)

	Quarter ended							
	30 Jun 2009 US$m	**31 Mar 2009 US$m**	31 Dec 2008 US$m	30 Sep 2008 US$m	30 Jun 2008 US$m	31 Mar 2008 US$m	31 Dec 2007 US$m	30 Sep 2007 US$m
In Mortgage Services and Consumer Lending								
Mortgage Services	**4,257**	**4,535**	4,699	4,227	4,260	4,484	4,298	3,395
first lien	**3,642**	**3,824**	3,912	3,420	3,363	3,456	3,248	2,554
second lien	**615**	**711**	787	807	897	1,028	1,050	841
Consumer Lending	**6,514**	**6,203**	5,577	3,866	2,777	2,484	2,100	1,605
first lien	**5,640**	**5,322**	4,724	3,176	2,194	1,954	1,622	1,259
second lien	**874**	**881**	853	690	583	530	478	346
	%	*%*	*%*	*%*	*%*	*%*	*%*	*%*
Mortgage Services:								
first lien	**17.13**	**17.24**	16.87	14.16	12.91	12.41	11.02	8.13
second lien	**16.35**	**17.44**	17.72	16.62	16.63	16.99	15.57	11.28
total	**17.01**	**17.27**	17.01	14.57	13.55	13.22	11.87	8.73
Consumer Lending:								
first lien	**14.72**	**13.52**	11.71	7.72	5.15	4.52	3.74	2.92
second lien	**16.17**	**15.43**	14.54	11.27	9.04	7.96	6.97	5.03
total	**14.90**	**13.76**	12.07	8.18	5.66	4.98	4.18	3.21

For footnote, see page 168.

Renegotiated loans

Restructuring activity is designed to manage customer relationships, maximise collection opportunities and, if possible, avoid foreclosure or repossession. Such activities include extended payment arrangements, lower interest rates, approved external debt management plans, deferring foreclosure, modification, loan rewrites and/or deferral of payments pending a change in circumstances. Restructuring is most commonly applied to consumer finance portfolios.

Following restructuring, an overdue consumer account is normally reset from delinquent to current status. Restructuring policies and practices are based on indicators or criteria which, in the judgement of local management, indicate that repayment will probably continue. These policies are required to be kept under continual review and their application varies according to the nature of the market, the product, and the availability of empirical data. Criteria vary between products, but typically include receipt of two or more qualifying payments within a certain period, a minimum lapse of time from origination before restructuring may occur, and restrictions on the number and/or frequency of successive restructurings. When empirical evidence indicates an increased propensity to default on accounts which have been restructured, the use of roll rate methodology ensures that this factor is taken into account when calculating impairment allowances.

Renegotiated loans that would otherwise be past due or impaired totalled US$40.3 billion at 30 June 2009 (31 December 2008: US$34.9 billion). The largest concentration was in the US and amounted to US$34.7 billion (31 December 2008: US$31.0 billion) or 86 per cent (31 December 2008: 89 per cent) of the Group s total renegotiated loans. The increase was due to a significant deterioration in credit quality in the US, where most restructurings related to loans secured on real estate.

HSBC Finance loan modifications and re-ageing

HSBC Finance continued to refine its customer account management policies and practices, including account modification and re-age programmes. Through the Foreclosure Avoidance and Account Modification programmes, HSBC Finance modified over 69,000 loans in Consumer Lending and Mortgage Services during the six months ended 30 June 2009, with an aggregate balance of US$9.8 billion, including some which may also have been re-aged.

At 30 June 2009 the total balance outstanding on HSBC Finance real estate secured accounts which have been re-aged or modified was US$31.2 billion, compared with US$26.2 billion at the end of 2008. At 30 June 2009, 26 per cent of these balances were two or more months delinquent, broadly consistent with the end of 2008.

HSBC Finance also supports a variety of national and local efforts in home ownership preservation and foreclosure avoidance.

HSBC Finance foreclosed properties in the US

	Half year	Quarter ended			
	to 30 June 2009	**30 June 2009**	**31 March 2009**	31 December 2008	30 September 2008
Number of foreclosed properties at end of period	**7,286**	**7,286**	**8,866**	9,589	11,182
Number of properties added to foreclosed inventory in the half year/quarter	**7,803**	**3,550**	**4,253**	3,398	5,562
Average loss on sale of foreclosed properties[17]	**15%**	**13%**	**17%**	13%	10%
Average total loss on foreclosed properties[18]	**52%**	**52%**	**52%**	47%	42%
Average time to sell foreclosed properties (days)	**197**	**194**	**201**	180	174

For footnotes, see page 168.

Credit quality of financial instruments

The four credit quality classifications set out below and defined on page 217 of the *Annual Report and Accounts 2008* describe the credit quality of HSBC s lending, debt securities portfolios and derivatives. These classifications each encompass a range of more granular, internal credit rating grades assigned to wholesale and retail lending business, as well as the external ratings attributed by external agencies to debt securities.

There is no direct correlation between the internal and external ratings at granular level, except to the extent each falls within a single quality classification.

Credit quality of HSBC s lending, debt securities and other bills

	Wholesale lending and derivatives	Retail lending[19]	Debt securities /other
Quality classification			
Strong	CRR1 to CRR2	EL1 to EL2	A- and above
Medium	CRR3 to CRR5	EL3 to EL5	B+ to BBB+, and unrated
Sub-standard	CRR6 to CRR8	EL6 to EL8	B and below
Impaired	CRR9 to CRR10	EL9 to EL10	Impaired

For footnote, see page 168.

Additional credit quality information in respect of HSBC s consolidated holdings of ABSs and assets held in consolidated SIVs and conduits is provided on pages 104 to 110 and 125 to 126, respectively.

For the purpose of the following disclosure retail loans which are past due up to 89 days and are not otherwise classified as EL9 or EL10, are separately classified as past due but not impaired.

The following tables set out the Group s distribution of financial instruments by measures of credit quality:

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Distribution of financial instruments by credit quality

	Neither past due nor impaired						
	Strong US$m	Medium[24] US$m	Sub-standard US$m	Past due but not impaired US$m	Impaired US$m	Impairment allowances[20] US$m	Total US$m
At 30 June 2009							
Cash and balances at central banks	**53,720**	**2,385**	**263**				**56,368**
Items in the course of collection from other banks	**14,629**	**1,984**					**16,613**
Hong Kong Government certificates of indebtedness	**16,156**						**16,156**
Trading assets[21]	**292,227**	**93,055**	**3,592**				**388,874**
treasury and other eligible bills	**22,673**	**153**	**164**				**22,990**
debt securities	**169,211**	**20,354**	**1,305**				**190,870**
loans and advances to banks	**55,632**	**17,273**	**731**				**73,636**
loans and advances to customers	**44,711**	**55,275**	**1,392**				**101,378**
Financial assets designated at fair value[21]	**9,030**	**12,233**	**38**				**21,301**
treasury and other eligible bills	**195**	**300**					**495**
debt securities	**7,854**	**11,933**	**38**				**19,825**
loans and advances to banks	**204**						**204**
loans and advances to customers	**777**						**777**
Derivatives[21]	**239,506**	**67,794**	**3,496**				**310,796**
Loans and advances held at amortised cost	**603,762**	**404,686**	**48,522**	**45,692**	**32,066**	**(27,779)**	**1,106,949**
loans and advances to banks	**143,077**	**37,604**	**1,389**	**34**	**240**	**(78)**	**182,266**
loans and advances to customers[22]	**460,685**	**367,082**	**47,133**	**45,658**	**31,826**	**(27,701)**	**924,683**
Financial investments	**304,666**	**36,466**	**2,861**	**23**	**628**		**344,644**
treasury and other similar bills	**50,617**	**2,103**	**1,542**				**54,262**

debt securities	**254,049**	**34,363**	**1,319**	**23**	**628**		**290,382**
Other assets	**12,782**	**20,368**	**921**	**397**	**723**		**35,191**
endorsements and acceptances	**1,241**	**7,826**	**396**	**6**	**12**		**9,481**
accrued income and other	**11,541**	**12,542**	**525**	**391**	**711**		**25,710**
At 30 June 2008							
Cash and balances at central banks	11,266	2,136	71				13,473
Items in the course of collection from other banks	13,851	2,810	58				16,719
Hong Kong Government certificates of indebtedness	14,378						14,378
Trading assets[21]	297,058	113,721	20,150				430,929
treasury and other eligible bills	5,771	405	1,241				7,417
debt securities	158,827	24,053	8,602				191,482
loans and advances to banks	95,359						95,359
loans and advances to customers	37,101	89,263	10,307				136,671
Financial assets designated at fair value[21]	5,307	18,668	43				24,018
treasury and other eligible bills	194	46					240
debt securities	4,706	18,607	43				23,356
loans and advances to banks	407	14					421
loans and advances to customers		1					1
Derivatives[21]	200,040	57,246	3,378				260,664
Loans and advances held at amortised cost	703,377	516,441	36,259	49,973	20,718	(20,587)	1,306,181
loans and advances to banks	213,386	42,475	999	112	16	(7)	256,981
loans and advances to customers[22,23]	489,991	473,966	35,260	49,861	20,702	(20,580)	1,049,200
Financial investments	231,624	31,289	2,167		189		265,269
treasury and other similar bills	25,277	2,577	74				27,928
debt securities	206,347	28,712	2,093		189		237,341

Other assets	14,888	27,406	1,724	67	400		44,485
endorsements and acceptances	2,621	10,147	502	5	14		13,289
accrued income and other	12,267	17,259	1,222	62	386		31,196

	Neither past due nor impaired			Past due		Impair-	
	Strong	Medium[24]	Sub-standard	but not impaired	Impaired	ment allowances[20]	Total
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
At 31 December 2008							
Cash and balances at central banks	50,070	2,037	289				52,396
Items in the course of collection from other banks	4,541	1,396		66			6,003
Hong Kong Government certificates of indebtedness	15,358						15,358
Trading assets[21]	303,307	98,977	3,167				405,451
treasury and other eligible bills	32,314	92	52				32,458
debt securities	175,681	22,841	1,097				199,619
loans and advances to banks	60,400	12,514	141				73,055
loans and advances to customers	34,912	63,530	1,877				100,319
Financial assets designated at fair value[21]	5,288	11,434	818				17,540
treasury and other eligible bills	204	31					235
debt securities	4,129	11,402	818				16,349
loans and advances to banks	230						230
loans and advances to customers	725	1					726
Derivatives[21]	383,393	106,348	5,135				494,876
Loans and advances held at amortised cost	565,542	427,788	43,432	48,422	25,422	(23,972)	1,086,634
loans and advances to banks	118,684	33,766	1,268	41	70	(63)	153,766
loans and advances to customers[22]	446,858	394,022	42,164	48,381	25,352	(23,909)	932,868
Financial investments	257,435	32,889	1,382	32	1,246		292,984
treasury and other similar bills	37,932	2,927	168				41,027
debt securities	219,503	29,962	1,214	32	1,246		251,957

Other assets	11,959	26,517	1,747	219	417	40,859
endorsements and acceptances	1,851	7,793	805	30	3	10,482
accrued income and other	10,108	18,724	942	189	414	30,377

For footnotes, see page 168.

Past due but not impaired gross financial instruments

Examples of exposures past due but not impaired include overdue loans fully secured by cash collateral; mortgages that are individually assessed for impairment and that are in arrears more than 90 days, 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.

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[8] US$m	Middle East[8] US$m	North America[25] US$m	Latin America US$m	Gross loans and advances past due not impaired US$m
At 30 June 2009	**3,772**	**1,416**	**2,374**	**2,585**	**31,515**	**4,030**	**45,692**
At 30 June 2008	3,167	2,151	3,599	2,322	35,827	2,907	49,973
At 31 December 2008	3,800	1,805	1,863	2,457	35,247	3,250	48,422

For footnotes, see page 168.

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Past due but not impaired loans and advances to customers and banks by industry sector

	At 30 June 2009 US$m	At 30 June 2008 US$m	At 31 December 2008 US$m
Banks	**34**	112	41
Customers	**45,658**	49,861	48,381
Personal[25]	**36,955**	38,912	39,592
Corporate and commercial	**8,546**	10,713	8,603
Financial	**157**	236	186
	45,692	49,973	48,422

For footnote, see page 168.
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$m**	**90-180 days US$m**	**Over 180 days US$m**	**Total US$m**
At 30 June 2009						
Loans and advances held at amortised cost	**29,432**	**10,035**	**5,478**	**528**	**219**	**45,692**
loans and advances to banks	**33**	**1**				**34**
loans and advances to customers	**29,399**	**10,034**	**5,478**	**528**	**219**	**45,658**
Financial investments debt securities	**23**					**23**
Other assets	**325**	**47**	**12**	**4**	**9**	**397**
endorsements and acceptances	**2**	**1**	**3**			**6**
other	**323**	**46**	**9**	**4**	**9**	**391**
	29,780	**10,082**	**5,490**	**532**	**228**	**46,112**

At 30 June 2008						
Loans and advances held at amortised cost	35,646	9,496	3,934	734	163	49,973
loans and advances to banks	112					112
loans and advances to customers[25]	35,534	9,496	3,934	734	163	49,861
Other assets	26	32	6	2	1	67
endorsements and acceptances	4	1				5
other	22	31	6	2	1	62
	35,672	9,528	3,940	736	164	50,040