HSBC HOLDINGS PLC
Form 6-K
August 08, 2008

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

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

For the month of August, 2008

HSBC Holdings plc

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

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

Form 20-F Form 40-F

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

Yes No

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

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

HSBC HOLDINGS PLC

Interim Report 2008

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

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

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

Certain defined terms

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

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

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

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

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

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

Financial Highlights

For the half-year

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

Dividends and capital position

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

Cautionary statement regarding forward-looking statements

This *Interim Report 2008* contains certain forward-looking statements with respect to the financial condition, results of operations and business of HSBC. These forward-looking statements represent HSBC s expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. For example, certain of the market risk disclosures, some of which are only estimates and, therefore, could be materially different from actual results, are dependent on key model characteristics and assumptions and are subject to various limitations. Certain statements, such as those that include the words potential , value at risk , estimated , expects , anticipates , objective , intends , plans , believes , estim expressions or variations on such expressions may be considered forward-looking statements .

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

Forward-looking statements involve inherent risks and uncertainties. Readers should be cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they have been reviewed or updated in the light of new information or future events. Trends and factors that are expected to affect HSBC s results of operations are described in the Business Review , the Financial Review , and The Management of Risk . A more detailed cautionary statement is given on pages 4 and 5 of the *Annual Report and Accounts 2007*.

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Profitability and balance sheet data

	Half-year to		
	30 June 2008 US$m	30 June 2007 US$m	31 December 2007 US$m
For the period			
Total operating income	**42,912**	42,092	45,509
Profit before tax	**10,247**	14,159	10,053
Profit attributable to shareholders of the parent company	**7,722**	10,895	8,238
Dividends	**6,823**	6,192	4,049
At the period-end			
Total equity	**134,011**	126,491	135,416
Total shareholders equity	**126,785**	119,780	128,160
Capital resources[1,2]	**146,950**	137,042	152,640
Customer accounts	**1,161,923**	980,832	1,096,140
Total assets	**2,546,678**	2,150,441	2,354,266
Risk-weighted assets[2]	**1,231,481**	1,041,540	1,123,782
	US$	US$	US$
Per ordinary share			
Basic earnings	**0.65**	0.95	0.70
Diluted earnings	**0.65**	0.94	0.69
Dividends	**0.57**	0.53	0.34
Net asset value at period end	**10.27**	10.10	10.72

Capital and performance ratios (annualised)

	%	%	%
Capital ratios[2]			
Tier 1 capital	**8.8**	9.3	9.3
Total capital	**11.9**	13.2	13.6
Performance ratios			
Return on average invested capital[3]	**11.9**	18.4	12.4
Return on average total shareholders equity[4]	**12.1**	19.1	13.0
Post-tax return on average total assets	**0.68**	1.19	0.78
Post-tax return on average risk-weighted assets	**1.39**	2.30	1.63
Credit coverage ratios			
Loan impairment charges as a percentage of total operating income	**23.2**	15.0	23.8
Loan impairment charges as a percentage of average gross customer advances	**2.04**	1.53	2.48
Total impairment allowances outstanding as a percentage of impaired loans at period end	**108.1**	98.4	104.9
Efficiency and revenue mix ratios			
Cost efficiency ratio[5]	**51.0**	48.3	50.4
As a percentage of total operating income:			
net interest income	**49.4**	43.3	43.0
net fee income	**25.6**	24.9	25.3
net trading income	**8.9**	13.1	9.5
Financial ratio			
Average total shareholders equity to average total assets	**5.2**	5.9	5.5

1 *Capital resources are total regulatory capital, the calculation of which is set out on page 201.*
2 *The calculation of capital resources, capital ratios and risk-weighted assets for 30 June 2008 is on a Basel II basis. Comparatives are based on Basel I.*
3 *The definition of return on average invested capital and a reconciliation to the equivalent Generally Accepted Accounting Principles (GAAP) measures are set out on page 111.*
4 *The return on average total shareholders equity is defined as profit attributable to shareholders of the parent company divided by average total shareholders equity.*
5 *The cost efficiency ratio is defined as total operating expenses divided by net operating income before loan impairment charges and other credit risk provisions.*

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Financial Highlights (continued)

Share information

	At 30 June 2008	At 30 June 2007	At 31 December 2007
US$0.50 ordinary shares in issue (million)	**12,005**	11,713	11,829
Market capitalisation (billion)	**US$185**	US$215	US$198
Closing market price per ordinary share:			
London	**£7.76**	£9.15	£8.42
Hong Kong	**HK$120.90**	HK$142.50	HK$131.70
Closing market price per American Depositary Share (ADS[1])	**US$76.70**	US$91.77	US$83.71

	Over 1 year	Over 3 years	Over 5 years
HSBC total shareholder return to 30 June 2008[2]	**90.1**	**102.3**	**141.0**
Benchmarks:			
FTSE 100[3]	88.4	122.2	166.0
MSCI World[4]	89.8	131.1	180.6

1 *Each ADS represents five ordinary shares.*
2 *Total shareholder return is defined on page 12 of the* Annual Report and Accounts 2007.
3 *The Financial Times Stock Exchange 100 Index.*
4 *The Morgan Stanley Capital International World Index.*

Constant currency

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

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

- the balance sheets at 30 June 2007 and 31 December 2007 for non-US dollar branches, subsidiaries, joint ventures and associates at the rates of exchange ruling at 30 June 2008.

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

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

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Group Chairman s Statement

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

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

Resilient operating performance in the first half of 2008

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

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

Financial strength maintained

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

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

Strategic changes to HSBC s shape

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

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

Turbulent environment

The economic and financial environment deteriorated progressively through the first half of the year . In the major developed economies where we operate, economic growth slowed as asset prices, particularly of residential property, declined; this in turn affected consumer confidence and hence spending. In credit markets, illiquidity remained a major issue, with trading volumes low and no sign of resumption of normal activity levels in the securitisation markets. As a consequence, the banking system continued to deleverage, putting further pressure on asset prices and raising credit default risk.

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Group Chairman s Statement (continued)

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

Slowing global economy

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

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

Positioning HSBC for long-term growth

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

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

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

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

Stephen Green, *Group Chairman*
4 August 2008

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Group Chief Executive s Review

Resilient performance in a challenging environment

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

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

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

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

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

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

Expanding Commercial Banking

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

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

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

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

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

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

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

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

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Group Chief Executive s Review (continued)

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

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

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

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

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

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

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

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

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

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

Personal Financial Services US update

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

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

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

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

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

Emerging markets strength in Global Banking and Markets

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

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

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

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

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

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

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

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

Expanding Private Banking in emerging markets

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

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

Building our insurance proposition

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

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

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

Transforming our customers experience by Joining up the company

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

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

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Group Chief Executive s Review (continued)

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

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

Continued focus on financial strength

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

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

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

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

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

Michael Geoghegan, *Group Chief Executive*
4 August 2008

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

Interim Management Report: Business Review

Principal activities

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

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

Strategic direction

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

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

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

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

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

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

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

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

Reconciliation of reported and underlying profit before tax

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

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

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

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HSBC HOLDINGS PLC

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

- There were a number of acquisitions and disposals that affected both comparisons. The most significant were the acquisitions of

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

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

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

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

Disposals 2H07

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

For footnotes, see page 89.

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Customer groups and global businesses

Summary

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

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

Profit before tax

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

Total assets6

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

For footnotes, see page 89.

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 head office functions, to the extent that these can be

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

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

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Personal Financial Services

Profit before tax

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

Latin America	**468**	388	505
Profit before tax	**2,313**	4,729	1,171
	%	%	%
Share of HSBC s profit before tax	**22.6**	33.4	11.7
Cost efficiency ratio	**49.5**	50.0	50.6

Balance sheet data[6]

	US$m	US$m	US$m
Loans and advances to customers (net)	**458,302**	460,196	464,726
Total assets	**603,016**	577,402	588,473
Customer accounts	**474,263**	416,525	450,071

For footnotes, see page 89.

Business highlights

- Profit before tax in Personal Financial Services was US$2.4 billion lower than that reported in the first half of 2007 and was 53 per cent lower on an underlying basis, primarily because of higher loan impairment charges in the US consumer finance business. Excluding this business, pre-tax profits rose by 23 per cent, 18 per cent on an underlying basis. Compared with the second half of 2007, on an underlying basis, profit before tax in Personal Financial Services was 89 per cent higher as both loan impairment charges and operating expenses fell.

- Market turmoil in the first half of 2008 led retail customers to move their assets from investment products into bank deposits and concentrate their savings in the largest and best regarded financial institutions. HSBC benefited from both these trends with customer accounts growing by US$24.2 billion or 5 per cent in the period.

- HSBC Premier (Premier), the Group s global banking service which offers affluent customers a seamless international service, continued to build on the success of its relaunch in 2007. In the first half of 2008, the service was extended to a further four countries, with a fifth added in July, taking the total to forty. 208,000 net new customers joined Premier, of whom more than 80 per cent were new to the Group. At 30 June 2008, HSBC had 2.4 million Premier customers who, on average, each generated more than US$2,000 of annualised revenues.

- HSBC Direct, the Group s online banking product suite, continued to expand in the four markets in which the product has been launched to date. In aggregate, HSBC Direct balances reached US$16.1 billion and customer numbers 1.2 million, increases of 19 per cent and 15 per cent, respectively, from 31 December 2007.

- HSBC s focus on emerging markets was reflected in growth in cards in force of 5 per cent in these countries compared with 31 December 2007.

- In the UK, HSBC successfully launched a RateMatcher promotion to attract higher quality customers facing an interest rate reset in the near term. In the three months of the offer, HSBC attracted a strong flow of new business, both for the RateMatcher product and other mortgages. Overall, HSBC attracted US$11 billion of balances during the campaign.

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- Notwithstanding weaker equity markets in Asia, HSBC s Personal Financial Services businesses in both Hong Kong and Rest of Asia-Pacific maintained revenue momentum, with notable success in deposit generation, particularly from Premier customers.

- Consistent with HSBC s strategy to increase the sale of insurance products to existing customers, underlying net premium income and insurance fee income grew by 7 per cent and 18 per cent, respectively.

- In the US, declining house prices, together with a continuing reduction in the availability of mortgage finance, fuelled growing customer delinquencies as house price depreciation became more pronounced and the economy weakened. HSBC continued to take measures to help customers manage their mortgage repayments and avoid foreclosure. In the first half of 2008, HSBC Finance extended its mortgage loan modification programme, with longer term modifications. Some 90 per cent of US mortgage customers remained current, or only one payment overdue, across the consumer lending business. Normal repayments and continued write-offs lowered the mortgage services portfolio by US$4.8 billion to US$31.4 billion at 30 June 2008.

Reconciliation of reported and underlying profit before tax

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

Personal Financial Services	**1H07 as reported US$m**	**Disposals and dilution gains[1] US$m**	**Currency translation[2] US$m**	**1H07 at 1H08 exchange rates US$m**	**Acqui-sitions[1] US$m**	**Under-lying change US$m**	**1H08 as reported US$m**	**Re-ported change %**	**Under-lying change %**
Net interest income	**13,998**	**(7)**	**397**	**14,388**	**156**	**673**	**15,217**	**9**	**5**
Net fee income	**5,523**	**122**	**136**	**5,781**	**(45)**	**(110)**	**5,626**	**2**	**(2)**
Other income[3]	**1,375**	**(101)**	**48**	**1,322**	**(47)**	**304**	**1,579**	**15**	**23**
Net operating income[4]	**20,896**	**14**	**581**	**21,491**	**64**	**867**	**22,422**	**7**	**4**
Loan impairment charges and other credit risk provisions	**(5,928)**		**(104)**	**(6,032)**		**(3,352)**	**(9,384)**	**(58)**	**(56)**
Net operating income	**14,968**	**14**	**477**	**15,459**	**64**	**(2,485)**	**13,038**	**(13)**	**(16)**
Operating expenses	**(10,452)**	**5**	**(395)**	**(10,842)**	**(25)**	**(232)**	**(11,099)**	**(6)**	**(2)**
Operating profit	**4,516**	**19**	**82**	**4,617**	**39**	**(2,717)**	**1,939**	**(57)**	**(59)**
Income from associates	**213**		**18**	**231**		**143**	**374**	**76**	**62**
Profit before tax	**4,729**	**19**	**100**	**4,848**	**39**	**(2,574)**	**2,313**	**(51)**	**(53)**

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

Personal Financial Services	2H07 as reported US$m	Disposals and dilution gains[1] US$m	Currency translation [2] US$m	2H07 at 1H08 exchange rates US$m	Acqui-sitions[1] US$m	Under-lying change US$m	1H08 as reported US$m	Re-ported change %	Under-lying change %

Net interest income	15,071	(5)	133	15,199	6	12	15,217	1	
Net fee income	6,219		25	6,244	1	(619)	5,626	(10)	(10)
Other income[3]	1,053	19	16	1,088	2	489	1,579	50	45
Net operating income[4]	22,343	14	174	22,531	9	(118)	22,422		(1)
Loan impairment charges and other credit risk provisions	(10,244)		(25)	(10,269)		885	(9,384)	8	9
Net operating income	12,099	14	149	12,262	9	767	13,038	8	6
Operating expenses	(11,305)	2	(131)	(11,434)	(9)	344	(11,099)	2	3
Operating profit	794	16	18	828		1,111	1,939	144	134
Income from associates	377		19	396		(22)	374	(1)	(6)
Profit before tax	1,171	16	37	1,224		1,089	2,313	98	89

For footnotes, see page 89.

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Commercial Banking

Profit before tax

	Half-year to		
	30 June 2008 US$m	30 June 2007 US$m	31 December 2007 US$m
Net interest income	**4,747**	4,286	4,769
Net fee income	**2,165**	1,904	2,068
Trading income excluding net interest income	**197**	121	144
Net interest income on trading activities	**24**	13	18
Net trading income[7]	**221**	134	162
Net income/(expense) from financial instruments designated at fair value	**(59)**	(24)	46
Gains less losses from financial investments	**191**	25	65
Dividend income	**3**	4	4
Net earned insurance premiums	**360**	205	528
Other operating income	**718**	2	163
Total operating income	**8,346**	6,536	7,805
Net insurance claims[8]	**(190)**	44	(435)
Net operating income[4]	**8,156**	6,580	7,370
Loan impairment charges and other credit risk provisions	**(563)**	(431)	(576)
Net operating income	**7,593**	6,149	6,794
Total operating expenses	**(3,280)**	(2,907)	(3,345)
Operating profit	**4,313**	3,242	3,449
Share of profit in associates and joint ventures	**298**	180	274
Profit before tax	**4,611**	3,422	3,723
By geographical region			
Europe	**1,940**	1,236	1,280
Hong Kong	**869**	760	859
Rest of Asia-Pacific	**961**	597	753
North America	**430**	477	443

Latin America	**411**	352	388
Profit before tax	**4,611**	3,422	3,723
	%	%	%
Share of HSBC s profit before tax	**45.0**	24.2	37.0
Cost efficiency ratio	**40.2**	44.2	45.4

Balance sheet data[6]

	US$m	US$m	US$m
Loans and advances to customers (net)	**238,116**	185,923	220,068
Total assets	**286,533**	225,763	261,893
Customer accounts	**247,705**	205,002	237,987

For footnotes, see page 89.

Business highlights

- Pre-tax profits increased by 35 per cent to US$4.6 billion. This included a gain of US$425 million from selling the Group s merchant acquiring business in the UK to a new card processing joint venture with Global Payments Inc. Operating performance was driven by robust growth in economic activity in developing markets, where much of the Group s incremental credit appetite was directed. This led to strong revenue generation with costs rising at approximately half the rate of income as productivity improved. Loan impairment charges rose as economic conditions weakened during the first half of 2008.

- Pre-tax profits in Europe, including the gain from the new card processing joint venture, were 57 per cent higher. Growth in profit was strongest in the Middle East and Asia-Pacific, reflecting the Group s established position in these fast- growing economies. Growth was also strong in Brazil. Underlying income and profit fell in North America, largely as a result of increased loan impairment charges.

- Excluding the gain on the sale of the merchant acquiring business, the share of Commercial Banking s profit from developing markets rose from 52 per cent in 2007 to 54 per cent in the first half of 2008.

- Strong revenue growth of 29 per cent from trade and supply chain and 44 per cent from foreign exchange reflected Commercial Banking s leading international business strategy. HSBC has benefited from growth in intra-regional trade flows and from facilitating investment flows from developed to developing economies, in part utilising its network of International Business Centres. Cross-border referrals through the Global Links system in the first half of 2008 rose by over 126 per cent in number and by over 83 per cent in aggregate transaction value compared with the first half of 2007.

- The best bank for small business strategy also contributed strongly to income growth, with an increase in deposits gathered from small business customers. Total customer numbers grew by 8 per cent to 2.9 million, largely among small and micro-business customers. Dedicated small- business centres in Turkey and the success of BusinessDirect in the UK contributed to this growth.

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- Both physical and online distribution capabilities were expanded. In Turkey, the number of Small Business Centres was increased to over 100 and in the UK local business managers were redeployed to key branches. In Taiwan, the acquisition of the assets, liabilities and operations of The Chinese Bank extended HSBC s reach, the additional branches bringing the total number to 44. At 8,300, the total number of relationship managers was 20 per cent higher than at 30 June 2007, with particularly strong growth in India following implementation of a new small business strategy.
- The number of small and micro business customers using business internet banking increased by 22 per cent to nearly 900,000; the number of mid-market and corporate customers rose by 28 per cent to over 35,000.
- Referrals to other customer groups and global businesses increased, specifically mortgages and Premier referrals to Personal Financial Services, debt and advisory services, to Global Banking and Markets, and ongoing referrals to Private Banking.

Reconciliation of reported and underlying profit before tax

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

Commercial Banking	**1H07 as reported US$m**	**Disposals and dilution gains[1] US$m**	**Currency translation[2] US$m**	**1H07 at 1H08 exchange rates US$m**	**Acqui-sitions[1] US$m**	**Under-lying change US$m**	**1H08 as reported US$m**	**Re-ported change %**	**Under-lying change %**
Net interest income	**4,286**		**195**	**4,481**	**3**	**263**	**4,747**	**11**	**6**
Net fee income	**1,904**		**75**	**1,979**		**186**	**2,165**	**14**	**9**
Other income[3]	**390**		**14**	**404**	**2**	**838**	**1,244**	**219**	**207**
Net operating income[4]	**6,580**		**284**	**6,864**	**5**	**1,287**	**8,156**	**24**	**19**
Loan impairment charges and other credit risk provisions	**(431)**		**(17)**	**(448)**		**(115)**	**(563)**	**(31)**	**(26)**
Net operating income	**6,149**		**267**	**6,416**	**5**	**1,172**	**7,593**	**23**	**18**
Operating expenses	**(2,907)**		**(157)**	**(3,064)**	**(2)**	**(214)**	**(3,280)**	**(13)**	**(7)**
Operating profit	**3,242**		**110**	**3,352**	**3**	**958**	**4,313**	**33**	**29**
Income from associates	**180**		**11**	**191**		**107**	**298**	**66**	**56**
Profit before tax	**3,422**		**121**	**3,543**	**3**	**1,065**	**4,611**	**35**	**30**

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

Commercial Banking	2H07 as reported US$m	Disposals and dilution gains[1] US$m	Currency translation[2] US$m	2H07 at 1H08 exchange rates US$m	Acqui-sitions[1] US$m	Under-lying change US$m	1H08 as reported US$m	Re-ported change %	Under-lying change %
Net interest income	4,769		50	4,819	3	(75)	4,747		(2)

Net fee income	2,068		13	2,081		84	2,165	5	4
Other income[3]	533		(4)	529	2	713	1,244	133	135
Net operating income[4]	7,370		59	7,429	5	722	8,156	11	10
Loan impairment charges and other credit risk provisions	(576)		2	(574)		11	(563)	2	2
Net operating income	6,794		61	6,855	5	733	7,593	12	11
Operating expenses	(3,345)		(50)	(3,395)	(2)	117	(3,280)	2	3
Operating profit	3,449		11	3,460	3	850	4,313	25	25
Income from associates	274		9	283		15	298	9	5
Profit before tax	3,723		20	3,743	3	865	4,611	24	23

For footnotes, see page 89.

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Global Banking and Markets

Profit before tax

	Half-year to		
	30 June 2008 US$m	30 June 2007 US$m	31 December 2007 US$m
Net interest income	**3,737**	1,847	2,583
Net fee income	**2,354**	2,264	2,637
Trading income excluding net interest income	**360**	3,048	455
Net interest income/(expense) on trading activities	**273**	(151)	(85)
Net trading income[7]	**633**	2,897	370
Net income/(expense) from financial instruments designated at fair value	**(211)**	11	(175)
Gains less losses from financial investments	**244**	768	545
Dividend income	**49**	175	47
Net earned insurance premiums	**62**	46	47
Other operating income	**551**	529	689
Total operating income	**7,419**	8,537	6,743
Net insurance claims[8]	**(40)**	(38)	(32)
Net operating income[4]	**7,379**	8,499	6,711
Net loan impairment (charges)/recoveries and other credit risk provisions	**(115)**	24	(62)
Net operating income	**7,264**	8,523	6,649
Total operating expenses	**(4,827)**	(4,479)	(4,879)
Operating profit	**2,437**	4,044	1,770
Share of profit in associates and joint ventures	**253**	114	193
Profit before tax	**2,690**	4,158	1,963
By geographical region			
Europe	**1,190**	1,674	853
Hong Kong	**770**	697	881
Rest of Asia-Pacific	**1,972**	1,098	1,366
North America	**(1,625)**	436	(1,401)
Latin America	**383**	253	264

Profit before tax	**2,690**	4,158	1,963
	%	%	%
Share of HSBC s profit before tax	**26.2**	29.4	19.5
Cost efficiency ratio	**65.4**	52.7	72.7

For footnotes, see page 89.

Business highlights

- In the most difficult financial market conditions seen for many decades, Global Banking and Markets delivered pre-tax profits of US$2.7 billion, an improvement of US$727 million or 37 per cent on the six months ended 31 December 2007 but some US$1.5 billion lower than in the first half of 2007.

- The result reflected a total of US$3.9 billion of write-downs on credit trading, leveraged and acquisition financing positions and monoline credit exposures resulting from the continued deterioration in the credit markets. This compared with US$2.1 billion for the second half of 2007 and nil for the first half of 2007. Partly offsetting this was a US$262 million fair value gain on the widening of credit spreads on structured liabilities.

- Notwithstanding the challenging market conditions in credit trading and Principal Investments, where the opportunities to realise assets diminished in 2008, other businesses performed very well. The emerging markets-led and financing-focused strategy continued to ensure that HSBC was well positioned to support clients as they undertook cross-border transactions into and out of emerging markets.

- In Global Markets, the foreign exchange business reported record revenues. This reflected greater market volatility and higher customer volumes.

- Strong results were seen in Rates, where increased customer activity and growth in deal volumes resulted in income rising by 120 per cent. In equities, excluding the effect of the gain on sale of HSBC s investment in Euronext N.V and the Montreal Exchange in 2007, revenues rose by 37 per cent.

- The securities services business continued to grow despite the backdrop of lower interest rates and lower equity markets, as stronger transaction volumes and new mandates resulted in higher revenues. This was particularly evident in Asia, as clients continued to rebalance their investment portfolios.

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Management view of total operating income

	Half-year to		
	30 June 2008 US$m	30 June 2007 US$m	31 December 2007 US$m
Global Markets	**1,688**	3,825	1,895
Credit	**(3,124)**	658	(1,977)
Rates	**1,303**	592	699
Foreign exchange	**1,546**	909	1,269
Equities[10]	**746**	652	525
Securities services	**1,112**	855	1,071
Asset and structured finance	**105**	159	308
Global Banking	**2,432**	1,974	2,216
Financing and equity capital markets	**1,371**	1,042	1,144
Payments and cash management	**839**	751	881
Other transaction services	**222**	181	191
Balance Sheet Management	**1,630**	521	705
Global Asset Management	**669**	636	700
Principal Investments	**167**	755	498
Other[11]	**833**	826	729
Total operating income	**7,419**	8,537	6,743

Balance sheet data[6]

Trading assets (including derivatives)	**721,366**	567,340	625,132
Trading liabilities (including derivatives)	**577,048**	443,634	483,881
Financial investments	**211,486**	174,095	224,057
Financial assets designated at fair value	**7,469**	5,269	7,936
Loans and advances to:			
customers (net)	**303,826**	241,602	250,464
banks (net)	**214,693**	183,708	199,506
Total assets	**1,509,390**	1,220,316	1,375,240
Customer accounts	**328,952**	265,739	299,879
Deposits by banks	**144,043**	121,744	126,395

Comparative information has been restated to reflect the current management view.

In the first half of 2008, Global Markets included a US$262 million fair value gain on the widening of credit spreads on structured liabilities.

For footnotes, see page 89.

- Balance Sheet Management recorded significantly higher income from positions taken in expectation of interest rate reductions by a number of central banks. As a result of these positions there was an associated increase in the total value at risk.

- In Global Banking, the write-downs on leveraged and acquisition finance positions were more than offset by gains on credit default swap transactions in other parts of the portfolio. Increased transaction volumes drove robust growth in fees, particularly in emerging markets. Total operating income in payments and cash management was 12 per cent higher, led by a strong rise in deposit balances.

- HSBC s extensive distribution network enabled the delivery of products to emerging markets as recognised by a number of industry awards including Best Investment Bank and Best Risk Management in the Middle East, and Best Debt House in Asia and in Western Europe by *Euromoney*.

- The strength of the Group s corporate and institutional franchise was again illustrated by the number and variety of transactions in which Global Banking acted on behalf of clients. In the first half of 2008, HSBC acted for over 700 clients in 29 sectors and some 60 countries. The total notional transaction value was more than US$1,000 billion.

- Global Asset Management benefited from a significant increase in liquidity fund inflows with total funds under management growing to US$389 billion, as clients sought certainty in a volatile market. The Group maintained its position as one of the leading emerging markets asset managers, with assets increasing to US$86 billion, a rise of 18 per cent on the first half of 2007. The business continued to leverage the Group s distribution capabilities with new funds including HSBC s New Frontiers Fund, launched in February for the Group s Private Banking clients, which raised US$300 million within three months.

- Within the Group s available-for-sale portfolio, continuing illiquidity in asset-backed securities markets led to further write-downs of securities. However, as a consequence of the underlying credit quality and seniority of the tranches held by HSBC, the first half of 2008 included a relatively modest impairment charge through the income statement of US$55 million; a further US$134 million was absorbed by income note holders who take the first loss on positions within the securities investment conduits (SICs) now consolidated in HSBC s accounts. Further details on these SICs are provided on pages 137 to 141.

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Interim Management Report: Business Review (continued)

Reconciliation of reported and underlying profit before tax

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

Global Banking and Markets	1H07 as reported US$m	Disposals and dilution gains[1] US$m	Currency translation[2] US$m	1H07 at 1H08 exchange rates US$m	Acquisitions[1] US$m	Underlying change US$m	1H08 as reported US$m	Reported change %	Underlying change %
Net interest income	1,847		72	1,919		1,818	3,737	102	95
Net fee income	2,264		104	2,368		(14)	2,354	4	(1)
Other income[3]	4,388		183	4,571		(3,283)	1,288	(71)	(72)
Net operating income[4]	**8,499**		**359**	**8,858**		**(1,479)**	**7,379**	**(13)**	**(17)**
Loan impairment (charges)/recoveries and other credit risk provisions	24		(2)	22		(137)	(115)	(579)	(623)
Net operating income	**8,523**		**357**	**8,880**		**(1,616)**	**7,264**	**(15)**	**(18)**
Operating expenses	(4,479)		(151)	(4,630)		(197)	(4,827)	(8)	(4)
Operating profit	**4,044**		**206**	**4,250**		**(1,813)**	**2,437**	**(40)**	**(43)**
Income from associates	114		5	119		134	253	122	113
Profit before tax	**4,158**		**211**	**4,369**		**(1,679)**	**2,690**	**(35)**	**(38)**

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

Global Banking and Markets	2H07 as reported US$m	Disposals and dilution gains[1] US$m	Currency translation[2] US$m	2H07 at 1H08 exchange rates US$m	Acquisitions[1] US$m	Underlying change US$m	1H08 as reported US$m	Reported change %	Underlying change %
Net interest income	2,583		37	2,620		1,117	3,737	45	43
Net fee income	2,637		32	2,669		(315)	2,354	(11)	(12)

Other income[3]	1,491		12	1,503		(215)	1,288	(14)	(14)
Net operating income[4]	6,711		81	6,792		587	7,379	10	9
Loan impairment charges and other credit risk provisions	(62)		2	(60)		(55)	(115)	(85)	(92)
Net operating income	6,649		83	6,732		532	7,264	9	8
Operating expenses	(4,879)		(32)	(4,911)		84	(4,827)	1	2
Operating profit	1,770		51	1,821		616	2,437	38	34
Income from associates	193		8	201		52	253	31	26
Profit before tax	1,963		59	2,022		668	2,690	37	33

For footnotes, see page 89.

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Private Banking

Profit before tax

	Half-year to		
	30 June 2008 US$m	30 June 2007 US$m	31 December 2007 US$m
Net interest income	**783**	567	649
Net fee income	**814**	811	804
Trading income excluding net interest income	**211**	255	270
Net interest income on trading activities	**7**	4	5
Net trading income[7]	**218**	259	275
Net income/(expense) from financial instruments designated at fair value	**1**		(1)
Gains less losses from financial investments	**80**	45	74
Dividend income	**4**	5	2
Other operating income	**16**	31	27
Total operating income	**1,916**	1,718	1,830
Net insurance claims[8]			
Net operating income[4]	**1,916**	1,718	1,830
Loan impairment (charges)/recoveries and other credit risk provisions	**4**	(9)	(5)
Net operating income	**1,920**	1,709	1,825
Total operating expenses	**(1,098)**	(929)	(1,096)
Operating profit	**822**	780	729
Share of profit in associates and joint ventures			2
Profit before tax	**822**	780	731
By geographical region			
Europe	**579**	493	422
Hong Kong	**123**	161	144
Rest of Asia-Pacific	**54**	56	36
North America	**58**	60	114
Latin America	**8**	10	15
Profit before tax	**822**	780	731
	%	%	%
Share of HSBC s profit before tax	**8.0**	5.5	7.3
Cost efficiency ratio	**57.3**	54.1	59.9

Balance sheet data[6]

	US$m	US$m	US$m
Loans and advances to customers (net)	**45,895**	37,863	43,612
Total assets	**98,039**	81,916	88,510
Customer accounts	**109,776**	91,228	106,197

For footnotes, see page 89.

Business highlights

- Pre-tax profits increased by 5 per cent or 4 per cent on an underlying basis to US$822 million, primarily due to strong performances in Switzerland and Monaco, offsetting lower revenues in Asia due to reduced client trading.

- Inward referrals from other customer groups in HSBC in the first half of 2008 resulted in US$3.4 billion of net new money, compared with US$2.0 billion in the first half of 2007.

- Despite a decline in market values, client assets at US$421.3 billion remained well ahead of 30 June 2007 and unchanged from 31 December 2007, assisted by net new money of US$14.5 billion in the first half of 2008. This was achieved with an improvement in net interest income in an environment of competitors offering above-market deposit rates to attract and retain clients. Within client assets, funds and mandates generating annuity income rose by 4 per cent to US$70.3 billion.

Client Assets

	Half-year to		
	30 June 2008 US$bn	30 June 2007 US$bn	31 December 2007 US$bn
At beginning of period	**421**	333	370
Net new money	**15**	17	19
Value change	**(20)**	12	7
Exchange/other	**5**	8	25
At end of period	**421**	370	421

- Total client assets, a measure equivalent to many industry definitions of assets under management, which includes some non-financial assets held in client trusts, amounted to US$499.3 billion at 30 June 2008, an increase of US$5.2 billion on 31 December 2007, including US$18.6 billion of net new money.

- Private Banking clients continued to be attracted to alternative products, with total hedge funds under custody for clients growing to US$57.9 billion, and new product offerings in emerging markets. The HSBC New Frontiers Fund, which concentrates on the next generation emerging markets, and the HSBC Asia Private Equity fund, were notably successful in the first half of 2008.

- Offices in Guangzhou, Shanghai and Beijing were formally opened in early 2008 as part of the launch of Private Banking in mainland China.

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Interim Management Report: Business Review (continued)

Reconciliation of reported and underlying profit before tax

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

Private Banking	1H07 as reported US$m	Disposals and dilution gains[1] US$m	Currency translation[2] US$m	1H07 at 1H08 exchange rates US$m	Acquisitions[1] US$m	Underlying change US$m	1H08 as reported US$m	Reported change %	Underlying change %
Net interest income	567		9	576		207	783	38	36
Net fee income	811	(52)	30	789		25	814		3
Other income[3]	340		5	345		(26)	319	(6)	(8)
Net operating income[4]	1,718	(52)	44	1,710		206	1,916	12	12
Loan impairment (charges)/recoveries and other credit risk provisions	(9)			(9)		13	4	144	144
Net operating income	1,709	(52)	44	1,701		219	1,920	12	13
Operating expenses	(929)	50	(33)	(912)		(186)	(1,098)	(18)	(20)
Operating profit	780	(2)	11	789		33	822	5	4
Income from associates									
Profit before tax	780	(2)	11	789		33	822	5	4

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

Private Banking	2H07 as reported US$m	Disposals and dilution gains[1] US$m	Currency translation[2] US$m	2H07 at 1H08 exchange rates US$m	Acquisitions[1] US$m	Underlying change US$m	1H08 as reported US$m	Reported change %	Underlying change %
Net interest income	649		2	651		132	783	21	20
Net fee income	804	(52)	18	770		44	814	1	6
Other income[3]	377	(18)	6	365		(46)	319	(15)	(13)
Net operating income[4]	1,830	(70)	26	1,786		130	1,916	5	7
Loan impairment (charges)/recoveries and other credit risk provisions	(5)		(1)	(6)		10	4	180	167

Net operating income	1,825	(70)	25	1,780		140	1,920	5	8
Operating expenses	(1,096)	48	(14)	(1,062)		(36)	(1,098)		(3)
Operating profit	729	(22)	11	718		104	822	13	14
Income from associates	2		(1)	1		(1)		(100)	(100)
Profit before tax	731	(22)	10	719		103	822	12	14

For footnotes, see page 89.

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Other

Profit/(loss) before tax

	Half-year to		
	30 June 2008 US$m	30 June 2007 US$m	31 December 2007 US$m
Net interest expense	**(375)**	(291)	(251)
Net fee income/(expense)	**32**	(7)	(221)
Trading income/(expense) excluding net interest income	**(271)**	(74)	201
Net interest income/(expense) on trading activities	**(82)**	25	(26)
Net trading income/(expense)[7]	**(353)**	(49)	175
Net income from financial instruments designated at fair value	**820**	91	2,802
Gains less losses from financial investments	**(283)**	101	(18)
Gains arising from dilution of interests in associates		1,076	16
Dividend income	**17**	27	5
Net earned insurance premiums	**(15)**	(9)	(12)
Other operating income	**1,943**	1,667	1,856
Total operating income	**1,786**	2,606	4,352
Net insurance claims[8]	**(1)**		
Net operating income[4]	**1,785**	2,606	4,352
Loan impairment charges and other credit risk provisions		(2)	(9)
Net operating income	**1,785**	2,604	4,343
Total operating expenses	**(2,019)**	(1,650)	(1,912)
Operating profit/(loss)	**(234)**	954	2,431
Share of profit in associates and joint ventures	**45**	116	34
Profit/(loss) before tax	**(189)**	1,070	2,465
By geographical region			
Europe	**144**	43	1,013
Hong Kong	**(725)**	(186)	(189)
Rest of Asia-Pacific	**102**	1,242	101
North America	**294**	(26)	1,534
Latin America	**(4)**	(3)	6
Profit/(loss) before tax	**(189)**	1,070	2,465
	%	%	%
Share of HSBC s profit before tax	**(1.8)**	7.5	24.5
Cost efficiency ratio	**113.1**	63.3	43.9

Balance sheet data[6]

	US$m	US$m	US$m
Loans and advances to customers (net)	**3,061**	2,517	2,678
Total assets	**49,700**	45,044	40,150
Customer accounts	**1,227**	2,338	2,006

For footnotes, see page 89.

Notes

- The loss before tax recorded in Other, US$189 million, was US$1,259 million less than the profit of US$1,070 million in the first half of 2007. For a description of the main items reported under Other , please see footnote 5 on page 89.

- Net income from financial instruments designated at fair value of US$820 million was recorded in the first half of 2008. This represented nearly a nine-fold increase on the first half of 2007 and arose principally from mark-to-market gains driven by wider credit spreads from fair valuing own debt issued by HSBC Holdings and its European and North American subsidiaries. These fair value gains will reverse through the income statement over the remaining life of the debt.

- Activities undertaken within the Group Service Centres (GSCs) continued to grow in the first half of 2008. Employee numbers increased by 14 per cent, bringing the total number of people employed by GSCs to over 32,000. In North America, IT Service Centres reported a 3 per cent decrease in costs. Substantially all costs of both GSCs and IT Service Centres are recharged to HSBC s customer groups and global businesses with revenue reported under Other operating income .

- Gains less losses from financial investments included impairment charges of US$296 million recognised on non-trading equity positions classified as available for sale. These investments were made as part of the strategic positioning of HSBC s businesses in Asia, and the write-downs were required as a consequence of significant falls in equity market prices. In the opinion of HSBC management, these stakes continue to deliver the market access envisaged when they were acquired.

- Dilution gains of US$1.1 billion recorded in the first half of 2007 did not recur. These gains were recognised following share offerings made by HSBC s associates: Ping An Insurance, Bank of Communications and Industrial Bank.

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Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2008 (1H08) compared with half-year to 30 June 2007 (1H07)								
Other	**1H07 as reported US$m**	**Disposals and dilution gains[1] US$m**	**Currency translation[2] US$m**	**1 H07 at 1 H08 exchange rates US$m**	**Acqui- sitions[1] US$m**	**Under lying change US$m**	**1 H08 as reported US$m**	**Re- ported change %**	**Under- lying change %**
Net interest expense	(291)		(20)	(311)	(1)	(63)	(375)	(29)	(20)
Net fee income/(expense)	(7)		6	(1)		33	32	557	3,300
Other income[3]	2,904	(1,076)	104	1,932		196	2,128	(27)	10
Net operating income[4]	2,606	(1,076)	90	1,620	(1)	166	1,785	(32)	10
Loan impairment charges and other credit risk provisions	(2)		(1)	(3)		3		100	100
Net operating income	2,604	(1,076)	89	1,617	(1)	169	1,785	(31)	10
Operating expenses	(1,650)		(29)	(1,679)	(1)	(339)	(2,019)	(22)	(20)
Operating profit/(loss)	954	(1,076)	60	(62)	(2)	(170)	(234)	(125)	(274)
Income from associates	116		14	130	(12)	(73)	45	(61)	(56)
Profit/(loss) before tax	1,070	(1,076)	74	68	(14)	(243)	(189)	(118)	(357)

	Half-year to 30 June 2008 (1H08) compared with half-year to 31 December 2007 (2H07)								
Other	2 H07 as reported US$m	Disposals and dilution gains[1] US$m	Currency translation[2] US$m	2 H07 at 1 H08 exchange rates US$m	Acqui- sitions [1] US$m	Under- lying change US$m	1 H08 as reported US$m	Re- ported change %	Under- lying change %
Net interest expense	(251)		(14)	(265)	(1)	(109)	(375)	(49)	(41)
Net fee income/(expense)	(221)		10	(211)		243	32	114	115
Other income[3]	4,824	(16)	2	4,810		(2,682)	2,128	(56)	(56)

Net operating income[4]	4,352	(16)	(2)	4,334	(1)	(2,548)	1,785	(59)	(59)
Loan impairment charges and other credit risk provisions	(9)			(9)		9		100	100
Net operating income	4,343	(16)	(2)	4,325	(1)	(2,539)	1,785	(59)	(59)
Operating expenses	(1,912)		(11)	(1,923)		(96)	(2,019)	(6)	(5)
Operating profit/(loss)	2,431	(16)	(13)	2,402	(1)	(2,635)	(234)	(110)	(110)
Income from associates	34		2	36		9	45	32	25
Profit/(loss) before tax	2,465	(16)	(11)	2,438	(1)	(2,626)	(189)	(108)	(108)

For footnotes, see page 89.

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Analysis by customer group and global business

Profit/(loss) before tax

	Half-year to 30 June 2008						
Total	**Personal Financial Services US$m**	**Commercial Banking US$m**	**Global Banking and Markets US$m**	**Private Banking US$m**	**Other[5] US$m**	**Inter-segment elimination[9] US$m**	**Total 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)[7]	184	221	633	218	(353)	2,931	3,834
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[8]	(3,206)	(190)	(40)		(1)		(3,437)
Net operating income[4]	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
Total operating expenses	(11,099)	(3,280)	(4,827)	(1,098)	(2,019)	2,183	(20,140)
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 profibefore 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[6]

	U$Sm	US$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	**603,016**	**286,533**	**1,509,390**	**98,039**	**49,700**		**2,546,678**
Customer accounts	**474,263**	**247,705**	**328,952**	**109,776**	**1,227**		**1,161,923**
Loans and advances to banks (net)[12]			**214,693**				
Trading assets[12,13]			**721,366**				
Financial assets designated at fair value[12]			**7,469**				
Financial investments[12]			**211,486**				
Deposits by banks[12]			**144,043**				
Trading liabilities[12,13]			**577,048**				

For footnotes, see page 89.

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Interim Management Report: Business Review (continued)

Analysis by customer group and global business *(continued)*

Profit before tax

	Half-year to 30 June 2007						
Total	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Others[5] US$m	Inter-segment elimination [9] US$m	Total US$m
Net interest income/(expense)	13,998	4,286	1,847	567	(291)	(2,177)	18,230
Net fee income/(expense)	5,523	1,904	2,264	811	(7)		10,495
Trading income/(expense) excluding net interest income	1	121	3,048	255	(74)		3,351
Net interest income/(expense) on trading activities	92	13	(151)	4	25	2,177	2,160
Net trading income/(expense)[7]	93	134	2,897	259	(49)	2,177	5,511
Net income/(expense) from financial instruments designated at fair value	796	(24)	11		91		874
Gains less losses from financial investments	60	25	768	45	101		999
Gains arising from dilution of interests in associates					1,076		1,076
Dividend income	41	4	175	5	27		252
Net earned insurance premiums	3,735	205	46		(9)		3,977
Other operating income	255	2	529	31	1,667	(1,806)	678
Total operating income	24,501	6,536	8,537	1,718	2,606	(1,806)	42,092
Net insurance claims[8]	(3,605)	44	(38)				(3,599)
Net operating income[4]	20,896	6,580	8,499	1,718	2,606	(1,806)	38,493
Loan impairment (charges)/recoveries and other credit risk provisions	(5,928)	(431)	24	(9)	(2)		(6,346)
Net operating income	14,968	6,149	8,523	1,709	2,604	(1,806)	32,147
Total operating expenses	(10,452)	(2,907)	(4,479)	(929)	(1,650)	1,806	(18,611)
Operating profit	4,516	3,242	4,044	780	954		13,536
Share of profit in associates and joint ventures	213	180	114		116		623
Profit before tax	4,729	3,422	4,158	780	1,070		14,159

	%	%	%	%	%	%
Share of HSBC s profitbefore tax	33.4	24.2	29.4	5.5	7.5	100.0
Cost efficiency ratio	50.0	44.2	52.7	54.1	63.3	48.3

Balance sheet data[6]

	U$Sm	US$m	US$m	US$m	US$m	US$m
Loans and advances to customers (net)	460,196	185,923	241,602	37,863	2,517	928,101
Total assets	577,402	225,763	1,220,316	81,916	45,044	2,150,441
Customer accounts	416,525	205,002	265,739	91,228	2,338	980,832
Loans and advances to banks (net)[12]			183,708			
Trading assets[12,13]			567,340			
Financial assets designated at fair value[12]			5,269			
Financial investments[12]			174,095			
Deposits by banks[12]			121,744			
Trading liabilities[12,13]			443,634			

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Profit before tax

	Half-year to 31 December 2007						
Total	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other[5] US$m	Inter-segment elimination[9] US$m	Total US$m
Net interest income/(expense)	15,071	4,769	2,583	649	(251)	(3,256)	19,565
Net fee income/(expense)	6,219	2,068	2,637	804	(221)		11,507
Trading income excluding net interest income	37	144	455	270	201		1,107
Net interest income/(expense) on trading activities	48	18	(85)	5	(26)	3,256	3,216
Net trading income[7]	85	162	370	275	175	3,256	4,323
Net income/(expense) from financial instruments designated at fair value	537	46	(175)	(1)	2,802		3,209
Gains less losses from financial investments	291	65	545	74	(18)		957
Gains arising from dilution of interests in associates					16		16
Dividend income	14	4	47	2	5		72
Net earned insurance premiums	4,536	528	47		(12)		5,099
Other operating income	132	163	689	27	1,856	(2,106)	761
Total operating income	26,885	7,805	6,743	1,830	4,352	(2,106)	45,509
Net insurance claims[8]	(4,542)	(435)	(32)				(5,009)
Net operating income[4]	22,343	7,370	6,711	1,830	4,352	(2,106)	40,500
Loan impairment charges and other credit risk provisions	(10,244)	(576)	(62)	(5)	(9)		(10,896)
Net operating income	12,099	6,794	6,649	1,825	4,343	(2,106)	29,604
Total operating expenses	(11,305)	(3,345)	(4,879)	(1,096)	(1,912)	2,106	(20,431)
Operating profit	794	3,449	1,770	729	2,431		9,173
Share of profit in associates and joint ventures	377	274	193	2	34		880
Profit before tax	1,171	3,723	1,963	731	2,465		10,053
	%	%	%	%	%		%
Share of HSBC s profibefore tax	11.7	37.0	19.5	7.3	24.5		100.0
Cost efficiency ratio	50.6	45.3	72.7	59.9	43.9		50.4

Balance sheet data[6]

	U$Sm	US$m	US$m	US$m	US$m	US$m
Loans and advances to customers (net)	464,726	220,068	250,464	43,612	2,678	981,548
Total assets	588,473	261,893	1,375,240	88,510	40,150	2,354,266
Customer accounts	450,071	237,987	299,879	106,197	2,006	1,096,140
Loans and advances to banks (net)[12]			199,506			
Trading assets[12,13]			625,132			
Financial assets designated at fair value[12]			7,936			
Financial investments[12]			224,057			
Deposits by banks[12]			126,395			
Trading liabilities[12,13]			483,881			

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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$1,169 million (first half of 2007: US$852 million; second half of 2007: US$1,133 million).

Profit/(loss) before tax

	Half-year to					
	30 June 2008		30 June 2007		31 December 2007	
	US$m	**%**	US$m	%	US$m	%
Europe	**5,177**	**50.5**	4,050	28.6	4,545	45.2
Hong Kong	**3,073**	**30.0**	3,330	23.5	4,009	39.9
Rest of Asia-Pacific	**3,624**	**35.4**	3,344	23.6	2,665	26.5
North America	**(2,893)**	**(28.2)**	2,435	17.2	(2,344)	(23.3)
Latin America	**1,266**	**12.3**	1,000	7.1	1,178	11.7
	10,247	**100.0**	14,159	100.0	10,053	100.0

Total assets6

	At 30 June 2008		At 30 June 2007		At 31 December 2007	
	US$m	**%**	US$m	%	US$m	%
Europe	**1,313,319**	**51.5**	1,040,019	48.3	1,184,315	50.3
Hong Kong	**325,692**	**12.8**	300,681	14.0	332,691	14.1
Rest of Asia-Pacific	**259,041**	**10.2**	201,123	9.4	228,112	9.7
North America	**531,607**	**20.9**	519,693	24.2	510,092	21.7
Latin America	**117,019**	**4.6**	88,925	4.1	99,056	4.2
	2,546,678	**100.0**	2,150,441	100.0	2,354,266	100.0

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[14] US$m	Private Banking US$m	Other US$m	Total US$m
Half-year to 30 June 2008						
UK	**1,164**	**1,656**	**329**	**162**	**168**	**3,479**
France[15]	**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**
Half-year to 30 June 2007						
UK	384	1,001	902	198	(79)	2,406
France[15]	97	119	461	9	26	712
Germany		19	125	25		169
Malta	26	35	18			79
Switzerland				260		260
Turkey	71	34	56			161
Other	26	28	112	1	96	263
	604	1,236	1,674	493	43	4,050

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	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets[14] US$m	Private Banking US$m	Other US$m	Total US$m
Half-year to 31 December 2007						
UK	837	1,063	312	119	1,055	3,386
France[15]	76	73	231	16	(75)	321
Germany		17	70	20	19	126
Malta	19	32	27			78
Switzerland				215		215
Turkey	73	41	62	(1)		175
Other	(28)	54	151	53	14	244
	977	1,280	853	422	1,013	4,545

Loans and advances to customers (net) by country

	At 30 June 2008 US$m	At 30 June 2007 US$m	At 31 December 2007 US$m
UK	**380,051**	325,199	326,927
France[15]	**78,376**	67,670	81,473
Germany	**7,638**	5,763	6,411
Malta	**4,684**	3,700	4,157
Switzerland	**14,829**	11,164	13,789
Turkey	**8,127**	6,148	7,974
Other	**15,255**	8,464	11,544
	508,960	428,108	452,275

Customer accounts by country

	At 30 June 2008 US$m	At 30 June 2007 US$m	At 31 December 2007 US$m
UK	**413,593**	346,547	367,363
France[15]	**60,281**	48,961	64,905
Germany	**11,054**	9,671	10,282
Malta	**6,292**	4,779	5,947
Switzerland	**42,125**	35,266	41,015
Turkey	**7,090**	5,074	6,473
Other	**9,205**	8,210	8,969

	549,640	458,508	504,954

For footnotes, see page 89.

Economic briefing

The **UK** economy slowed in the first half of 2008. Gross Domestic Product (GDP) increased by 2.0 per cent during the first half of the year against the comparable period of 2007, below the average of the past decade. The housing market deteriorated markedly as the number of mortgage approvals for house purchases fell sharply and nominal house prices recorded small but persistent monthly declines. Employment growth was subdued, with some measures of unemployment increasing slightly during the second quarter of 2008. The Bank of England cut interest rates by 50 basis points during the first half of 2008, although a sharp rise in

inflation to an annual rate of 3.8 per cent in June complicated the outlook for monetary policy during the second half of the year.

Having expanded by 2.6 per cent in 2007, GDP in the **eurozone** rose by 2.1 per cent year-on-year in the first quarter of 2008 driven, in part, by a strong increase in business investment and a further rise in exports. Labour markets remained relatively robust, with the unemployment rate for the region remaining at about 7 per cent. However, consumer spending growth was subdued and most indicators of activity deteriorated as the second quarter progressed. Inflation continued to pick up during the first half of

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Profit before tax

	Half-year to		
Europe	**30 June 2008 US$m**	30 June 2007 US$m	31 December 2007 US$m
Net interest income	**4,475**	3,920	3,826
Net fee income	**4,223**	4,144	4,287
Net trading income	**3,649**	3,338	3,605
Net income/(expense) from financial instruments designated at fair value	**(659)**	348	878
Gains less losses from financial investments	**608**	790	536
Dividend income	**20**	161	10
Net earned insurance premiums	**2,286**	1,480	2,530
Other operating income	**1,427**	262	931
Total operating income	**16,029**	14,443	16,603
Net insurance claims incurred and movement in liabilities to policyholders	**(1,388)**	(1,146)	(2,333)
Net operating income before loan impairment charges and other credit risk provisions	**14,641**	13,297	14,270
Loan impairment charges and other credit risk provisions	**(1,272)**	(1,363)	(1,179)
Net operating income	**13,369**	11,934	13,091
Total operating expenses	**(8,193)**	(7,972)	(8,553)
Operating profit	**5,176**	3,962	4,538
Share of profit in associates and joint ventures	**1**	88	7
Profit before tax	**5,177**	4,050	4,545
	%	%	%
Share of HSBC s profit before tax	**50.5**	28.6	45.2
Cost efficiency ratio	**56.0**	60.0	59.9
Period-end staff numbers (full-time equivalent)	**84,457**	80,912	82,166

Balance sheet data[6]

	US$m	US$m	US$m
Loans and advances to customers (net)	**508,960**	428,108	452,275
Loans and advances to banks (net)	**94,795**	79,817	104,527
Trading assets, financial instruments designated at fair value and financial investments[16]	**481,015**	370,193	445,258
Total assets	**1,313,319**	1,040,019	1,184,315
Deposits by banks	**112,081**	86,912	87,491
Customer accounts	**549,640**	458,508	504,954

For footnotes, see page 89.

the year, rising from an annual rate of 3.1 per cent in December 2007 to 4.0 per cent by June 2008. The European Central Bank responded by raising interest rates by 25 basis points in July, taking the repo rate to 4.25 per cent.

In **Turkey**, economic activity accelerated slightly during the early months of 2008, with first quarter GDP growth rising by 6.6 per cent on the comparable period in 2007. Growth is, however, expected to moderate during the remainder of 2008 in response to weakening business and consumer confidence, political uncertainty and rising interest rates. Headline inflation remained under pressure from increases in energy and food prices, rising from 8.4 per cent in December 2007 to 10.6 per cent in June 2008. The Central Bank of the Republic of Turkey revised its medium-term inflation forecasts and, after initially reducing interest rates, tightened policy, raising rates by 50 basis points in both May and June 2008. The current account deficit widened to above 6 per cent of GDP, although HSBC expects continued capital inflows and the high level of interest rates to provide support to the domestic currency.

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Reconciliation of reported and underlying profit before tax

Europe	Half-year to 30 June 2008 (1H08) compared with half-year to 30 June 2007 (1H07)								
	1H07 as reported US$m	Disposals and dilution gains[1] US$m	Currency translation[2] US$m	1H07 at 1H08 exchange rates US$m	Acqui-sitions[1] US$m	Under-lying change US$m	1H08 as reported US$m	Re-ported change %	Under-lying change %
Net interest income	3,920	(7)	129	4,042	150	283	4,475	14	7
Net fee income	4,144	122	169	4,435	(46)	(166)	4,223	2	(4)
Other income[3]	5,233	(101)	213	5,345	(49)	647	5,943	14	12
Net operating income[4]	13,297	14	511	13,822	55	764	14,641	10	6
Loan impairment charges and other credit risk provisions	(1,363)		(11)	(1,374)		102	(1,272)	7	7
Net operating income	11,934	14	500	12,448	55	866	13,369	12	7
Operating expenses	(7,972)	5	(299)	(8,266)	(17)	90	(8,193)	(3)	1
Operating profit	3,962	19	201	4,182	38	956	5,176	31	23
Income from associates	88		16	104	(12)	(91)	1	(99)	(88)
Profit before tax	4,050	19	217	4,286	26	865	5,177	28	20

For footnotes, see page 89.

Review of business performance

European operations reported a pre-tax profit of US$5.2 billion compared with US$4.1 billion in the first half of 2007, an increase of 28 per cent. On an underlying basis, pre-tax profits increased by 20 per cent. In March 2007, HSBC acquired the remaining 50 per cent interest in HSBC Assurances in France. In October 2007, HSBC disposed of the Hamilton Insurance Company Limited and Hamilton Life Assurance Company Limited in the UK. Underlying net operating income grew by 6 per cent, in contrast with operating expenses, which fell by 1 per cent.

Personal Financial Services delivered the strongest increase in pre-tax profits due to a solid performance in the UK and continued expansion in Turkey. In the UK, growth was driven by lower operating expenses, in part reflecting the absence of the overdraft fee refund charges recognised in the first half of 2007, lower credit impairment charges and a one-off gain on the disposal of MasterCard Inc. (MasterCard) shares. Commercial Banking was strongly ahead of the first half of 2007, as the strength of established businesses in the UK and France was complemented by strong growth in Turkey and other emerging markets. Commercial Banking also benefited from one-off gains on the disposal of the UK merchant acquiring business to a joint venture with Global Payments Inc., together with its share of the disposal gain on the sale of MasterCard shares. Private Banking performed well, as a result of significant inflows of client assets combined with increased foreign exchange trading profits due to volatile markets. Pre-tax profits

declined in Global Banking and Markets, driven by write-downs in credit-related trading exposures, which outweighed improvements in Balance Sheet Management and Rates.

In France, HSBC s disposal of seven regional banks was completed on 2 July 2008 and a profit on disposal of US$2.1 billion will be recognised in the second half of 2008.

The following commentary is on an underlying basis.

Personal Financial Services reported a pre-tax profit of US$1.3 billion, an increase of 97 per cent compared with the first half of 2007. In the UK, pre-tax profit growth was driven by a reduction in loan impairment charges, following the enhanced credit controls introduced since 2006, together with lower operating expenses and a one-off gain on the disposal of MasterCard shares. In France, a US$38 million gain on the disposal of four mutual funds was offset by a fall in net interest income, as a contraction of spreads counteracted the benefit of higher balances. In Turkey, revenue growth, driven by increasing volumes on credit cards, deposit accounts and personal loans, outweighed the significant increase in costs incurred to support business growth and higher loan impairment charges as loan balances grew and seasoned.

In the UK, marketing campaigns primarily focused on higher value customers. The highly successful RateMatcher campaign, launched in April 2008, delivered a significant increase in new mortgage business, with balances transferred

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amounting to US$1.3 billion. Additional non-Rate Matcher mortgage business was also written as a result of the campaign. On current accounts, the acquisition of customers to fee-based packaged accounts continued with the One Great Rate campaign launched in February 2008. The Group also continued its focus on Premier, which was re-launched during 2007 in order to provide seamless cross-border banking for affluent customers.

In France, HSBC s disposal of seven regional banks was completed on 2 July 2008. These subsidiaries had been classified as held for sale and, accordingly, their net profits since February 2008 were reported within other operating income rather than in the individual income statement lines. In its core business in France, HSBC increased market share, building on its growing brand awareness. HSBC s Personal Financial Services business in France, going forward, is focused on its core strategic segment of customers with a strong international connectivity. Premier was relaunched in France in the first half of 2008, supported by an extensive media campaign along with customer acquisition initiatives based on direct marketing. As a result, new Premier account openings have increased by more than 70 per cent since the first half of 2007.

In Turkey, HSBC s organic growth strategy concentrated on delivery through branch expansion and new customer acquisition, predominantly led by credit card products. Investment in network expansion continued throughout the first half of 2008, with the opening of 78 new branches, supported by the addition of more than 1,500 staff since June 2007.

Net interest income was in line with the first half of 2007. In the UK, growth in savings balances and increased spreads on current accounts and credit cards were offset by the effect of a planned reduction in personal lending and credit card balances and a reduction in spreads on savings accounts.

HSBC s increased focus on attracting and retaining deposit customers drove a 19 per cent increase in UK savings account balances for both new and existing customers. A number of new savings products launched in the past year, including a cash e-ISA and Online Bonus Saver, contributed to this growth. The resulting increase in net interest income from volume growth was partly offset by tightening spreads, due to competitive pricing and consecutive base rate cuts.

Average current account balances declined by 5 per cent, due to a reduction in the size of individual customer account balances, driven by recent

increases in food and utility costs. Despite this, the focus on high value customer account acquisition continued, with new Premier account openings 18 per cent above the first half of 2007. Current account spreads increased, driven by funding benefits, resulting in a 1 per cent growth in net interest income on current accounts.

Average unsecured lending balances in the UK declined by 10 per cent, reflecting a shift in risk preference and a greater focus on attracting deposit customers. HSBC maintained a cautious approach to unsecured lending, tightening its credit criteria and employing segmentation and risk-based pricing strategies in order to improve the profitability of new business. Spreads increased on unsecured loans as price rises implemented in the second half of 2007 flowed through the portfolio, while the cost of funds was largely fixed.

Credit card balances were 9 per cent lower than in the first half of 2007, falling to US$14.2 billion. This was predominantly due to the sale of certain non-core credit card portfolios between October 2007 and May 2008 and the more conservative approach to lending noted above. The resulting reduction in net interest income was partly offset by the benefit of a re-pricing exercise undertaken during 2007, which resulted in improved yields.

Average mortgage balances were 2 per cent lower than in the first half of 2007, driven by an industry-wide decline in mortgage volumes. Buy-to-let mortgages continue to represent less than 3 per cent of the UK mortgage portfolio, the result of a decision not to write brokered or self-certified mortgages. Despite turbulence in the UK mortgage industry, the market for remortgages remained relatively healthy and, with many lenders unable to compete, HSBC was able to expand its business, launching its mortgage RateMatcher campaign in April 2008. The campaign proved to be a success, generating significant press coverage and inbound call activity and a 38 per cent increase in mortgage applications compared with the first half of 2007. The RateMatcher campaign boosted HSBC s market share of new mortgage business by value from 3 per cent in the first half of 2007 to 6 per cent in the first half of 2008, with a high of 12 per cent achieved in the month of May. The income benefits of the new business generated by the RateMatcher campaign will be seen in the second half of 2008 due to the time lag between loan approval and draw down.

Excluding the regional banks, net interest income in France fell. Growth in deposit and lending volumes from new customers attracted by direct marketing campaigns was more than offset by

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narrower spreads, higher liquidity costs and a lower benefit from net free funds.

In Turkey, net interest income rose by 22 per cent, largely from increased card balances, where HSBC s customer acquisition strategy led to a 37 per cent increase in credit cards in circulation, supported by a larger branch network and several new products, including co-branded and partnership cards. This volume-related growth was partially offset by a narrowing in spreads due to a sharp reduction in the interest rate cap set by the Central Bank of the Republic of Turkey. Competitive pricing designed to gain market share also led to an increase in volumes on deposit accounts and overdrafts, which more than compensated for the resulting decline in margins.

Net fee income was 5 per cent lower as an increase in Turkey offset a decline in France and a fall in the UK, partly due to a reduction in credit card fee income as a result of the partial disposal of the non-core credit card portfolios referred to above. In Turkey, credit card fees increased, driven by a 37 per cent increase in the number of cards in force, as a result of cards being deployed as the principal product to deliver customer acquisition. Excluding the regional banks, fee income in France was lower than in the first half of 2007. Increased sales of fee-based packaged accounts partly compensated for lower stock exchange and mutual fund fees, as poor market conditions deterred private investors.

Net trading income declined by 27 per cent. The movement in trading income largely reflected the fair value measurement of embedded options linked to government regulated home savings products in France.

Net income from financial instruments designated at fair value fell significantly to a loss of US$761 million. This was driven by falling investment markets affecting assets held within the life insurance businesses in France, the UK and Malta. A corresponding movement within net insurance claims and movement in liabilities to policyholders partially offset this decline.

Gains less losses from financial investments increased significantly to US$182 million, driven by a US$38 million gain on the disposal of four mutual funds in France during January 2008 and a US$160 million gain on disposal of MasterCard shares in the UK in June 2008.

Net earned insurance premiums increased by 4 per cent to US$2.1 billion, mainly in the UK due to continued sales of the new Guaranteed Income Bond which was launched in July 2007 and due to

the reclassification of certain pension contracts as insurance rather than investment products following the addition of enhanced life insurance features. In France, net insurance premiums reduced following the ceding of premiums under a significant reinsurance transaction in the first half of 2008. Excluding this, premium income was higher due to the success of promotional offers. The additional premiums led to additional policyholder liabilities being established and therefore to an increase in net insurance claims.

Other operating income increased to US$252 million, compared with an expense of US$110 million in the first half of 2007. This was mainly due to the non-recurrence of the Financial Services Authority (FSA) rule changes implemented in May 2007, which affected the present value of in-force insurance (PVIF) policies in the UK. In France, the reclassification of the regional banks as held for sale resulted in their net profits of US$15.3 million since February 2008 being reported in other operating income.

Loan impairment charges fell by 15 per cent; in the UK, they were 22 per cent below the same period in 2007 due to stable delinquency levels in the core unsecured portfolios and the disposal of selected non-core credit card portfolios referred to above. Mortgage impairment charges in the UK have gradually increased from their historically low levels in line with HSBC s expectations and market conditions. In France, loan impairment charges increased slightly, mainly as a result of a reduction in limits applied to unauthorised overdrafts at the end of 2007 in accordance with new guidelines issued by the Commission Bancaire. Overall, credit quality in France remained good. In Turkey, loan impairment charges rose by 287 per cent, due to increased volumes of credit cards and personal loans, combined with rising delinquency rates. In recognition of this, HSBC tightened its new account underwriting criteria at the start of 2008, with increased cut-off scores, lower credit lines and revised account management policies.

Operating expenses improved by 9 per cent, mainly driven by the non-recurrence of overdraft fee refunds in the UK. There was a reduction in defined benefit pension costs, as a result of an actuarial assessment, and this partly offset an increase in rental charges following the sale and leaseback of UK branch properties. Excluding the regional banks, costs in France decreased, mainly due to a reduction in staff pension and post-retirement healthcare costs following the transfer of certain obligations to a third party. There was an increase in Premier marketing costs as the product was relaunched. Organic

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business expansion in Turkey was supported by a 34 per cent increase in operating expenses as 78 new branches were opened and staff numbers increased by more than 1,500 since June 2007.

Commercial Banking reported pre-tax profits of US$1.9 billion, an increase of 53 per cent compared with the first half of 2007. Revenues were boosted by gains of US$425 million and US$103 million on the sale of the UK merchant acquiring business to a joint venture with Global Payments Inc., as well as a share of the profits on the sale of MasterCard shares, respectively. Excluding these items, profit before tax rose by 11 per cent and revenues by 6 per cent, driven by the continued strength of established businesses in the UK and France augmented by new and growing operations in the developing markets in Turkey and in central and eastern Europe.

Following the roll-out of International Banking Centres and other infrastructure investment in previous years, the volume of cross-border business increased significantly. Successful outward referrals through the Group s Global Links system increased by 122 per cent, including a 138 per cent rise in outward referrals from the UK. The attraction of HSBC s international franchise was illustrated by the Group s capture of a leading share of UK start-ups and business banking customers with an international focus.

In the UK, HSBC continued to focus on enhancing customer experience through the recruitment of sales staff and investment in direct channels in support of a strategic ambition to be recognised as the best bank for small business . In the first half of 2008, more than 100 branch-based business tills were opened and HSBC re-deployed 83 local business managers into key branch sites to provide additional local specialist support for customers located outside major conurbations.

HSBC continued to concentrate investment in the developing markets of central and eastern Europe and in Turkey. New receivables finance businesses were launched in Poland and the Czech Republic and, in Turkey, a further 18 branches were opened providing services to micro, small and mid-market customers. Across central and Eastern Europe, HSBC increased income by 49 per cent.

In France, following HSBC s disposal of seven regional banks which was completed on 2 July 2008, HSBC remains well positioned to benefit from the Group s international presence and is supporting this opportunity by investing in a new development programme, including 10 new Corporate Banking Centres and an expanded product range.

Net interest income rose by 2 per cent, to US$1.7 billion, largely driven by an increase of 43 per cent in Turkey and a more modest rise in the UK.

In the UK, average lending balances increased by 13 per cent. This was broadly based as strong volumes of new business were generated from HSBC s client base, particularly in the mid-market segment. The income benefit from lending volume growth was partly offset by lower spreads as yields fell in the competitive market. However, new lending spreads in the corporate, mid and small business segments increased by 14 basis points and 21 basis points compared with the first and the second halves of 2007, respectively, as market liquidity for new credit reduced, driving prices higher. Net interest income on sterling overdrafts declined as the benefit of a modest increase in average balances was more than offset by tighter spreads. As part of its market positioning to its preferred customer base, HSBC reduced the rate charged to customers for unauthorised overdrafts, further constraining net interest income.

Average current account balances and spreads were broadly in line with the first half of 2007. Average foreign currency denominated current accounts grew, driven by customer acquisition, although the benefit of volume growth was more than offset by lower spreads in the declining US dollar interest rate environment.

HSBC s strong capital position during a period of industry uncertainty helped to attract customer deposits and average deposits increased as a result. The benefit was offset by lower spreads as a reduction in interest rates paid to customers lagged base rate cuts in the first half of 2008.

In Turkey, higher net interest income was driven by growth in both loans and deposits as HSBC expanded across the country. Average loan and trade services balances increased by 15 per cent, following very strong customer acquisition. Micro, small and mid-sized customer numbers rose by 21 per cent in the period driven by branch expansion. The number of branches servicing Commercial Banking customers rose from 89 at 31 December 2007 to 107 at 30 June 2008. Customer acquisition was also boosted by the success of bundled products, including overdrafts, commercial car loans and small and micro business product bundles. The opening of three new Corporate Banking Centres in Istanbul also contributed. The benefits from loan growth were augmented by wider spreads as the proportion of higher yielding small and mid-market lending increased. Average deposit balances also rose, due to

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customer acquisition and competitive pricing, offset by slightly lower spreads from a shift in product mix to higher yielding deposits.

Excluding HSBC s French regional banks, net interest income in France was broadly in line with the first half of 2007 as growth in deposit and lending volumes were offset by narrower spreads, higher liquidity costs and a lower benefit from net free funds. Both average current account balances and deposits increased, driven by customer acquisition and initiatives taken to increase market share in small business banking. Average loan balances rose by 15 per cent as HSBC gained market share. This was partly offset by tighter spreads.

Net fee income increased by 3 per cent to US$1.1 billion. This was largely driven by higher fees in Turkey and the UK, where the rise in volumes in the mid-market segment, noted above, had a corresponding effect on related fee income. Payments and cash management, factoring, trade and insurance products also contributed to the growth in fees in Turkey.

Net fee income in the UK rose by 5 per cent. Higher card issuing fees were driven by an increase in transaction volumes, primarily due to the success of the revolving commercial credit card following its launch in 2006. Currency volatility in the first half of 2008 helped to drive higher transaction volumes and commissions from foreign exchange activity. A decline in lending fees offset these following a reduction in early repayment fees.

In France, excluding the regional banks, net fee income was 8 per cent higher than in the first half of 2007. Volumes rose as a consequence of the client acquisition noted above and increased marketing to existing customers, triggering a strong increase in banking transaction fees. This was offset by lower brokerage and mutual fund fees, as uncertain market conditions subdued investment sentiment and led customers to switch from investment fund products to deposit accounts.

A *net loss from financial instruments designated at fair value* of US$75 million compared with income of US$9 million in the first half of 2007. This fall was largely a result of a decline in value of equity investments held to support liabilities under insurance contracts, mainly offset by the change in net insurance claims and movement in liabilities to policyholders.

The sale of certain mutual funds in France and MasterCard shares in the UK led to an increase in *gains less losses from financial investments*.

As part of the Group s strategy to grow the insurance business, HSBC introduced a new guaranteed investment bond and enhanced the benefits of some existing customer policies, which resulted in higher *net insurance premiums* and a PVIF gain in *other operating income*, respectively. The increase in other operating income was also driven by the gain on sale of the UK merchant acquiring business. Increased net insurance premiums were partly offset by a rise in net insurance claims.

Loan impairment charges of US$285 million were 10 per cent higher than in the first half of 2007, largely due to higher charges in France and Turkey following balance sheet growth. Loan impairment charges in the UK were broadly flat, notwithstanding a 13 per cent growth in lending and a weakening economic environment.

Operating expenses were unchanged from the first half of 2007. In the UK, a focus on efficient delivery of customer service through direct channels allowed investment in additional customer-facing staff in the commercial centres and the commercial wealth business. Additional investment in relationship managers and local business managers helped to improve customer retention and broaden the range of services delivered.

Increased utilisation of direct channels was evidenced by a 28 per cent rise in the number of active business internet banking customers. HSBC continued to develop its straight-through processing capability to enable more customers to buy products online. Business Direct, HSBC s commercial direct banking service, attracted over 33,000 new accounts, of which approximately 75 per cent were opened by new HSBC customers.

Excluding the regional banks, costs in France were moderately lower than in the first half of 2007. This was due to reductions in staff pension and post-retirement healthcare costs following the transfer of certain obligations to external parties, and the beneficial effect of efficiency initiatives, partly offset by the non-recurrence of a litigation provision release.

In Turkey, costs rose by 32 per cent, driven by investment in a larger branch network together with increased marketing costs to support business expansion in the small and micro segments through the enlarged branch network. Staff costs increased by 15 per cent and customer facing staff numbers by 39 per cent as HSBC focused on customer service and product delivery in the expanded network.

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Interim Management Report: Business Review (continued)

Global Banking and Markets profit before tax declined by 34 per cent to US$1.2 billion, primarily due to US$1.4 billion of write-downs in credit-related trading exposures and leveraged and acquisition finance loans, coupled with a reduction in Principal Investments revenues. These more than offset strong profit growth in Balance Sheet Management and Global Banking, and strong performances in the foreign exchange and Rates businesses.

Total operating income fell by 14 per cent to US$3.8 billion. The tighter credit and liquidity conditions in the UK which contributed to the write-downs referred to above were also reflected in a reduction in Principal Investments income after the excellent result in the first half of 2007. Higher revenues in other areas, most notably Rates in the UK and France and Balance Sheet Management in the UK, were driven by greater market volatility. Balance Sheet Management revenues increased by US$384 million in Europe. Global Banking revenues increased by 27 per cent as write-downs on leveraged and acquisition finance loans were more than offset by gains on credit default swap transactions in other parts of the portfolio.

Net interest income rose by 166 per cent, led by strong growth in Balance Sheet Management revenues in the UK due to increased margins driven by steepening sterling and US dollar yield curves. There was also growth in the UK from a focused enlargement of secured lending (repo) business. The UK also benefited from growth in payments and cash management activity, which was driven by a 33 per cent rise in deposits as customers responded to the volatile markets by increasing their cash holdings.

Net fee income declined in the UK and France in Global Markets. Higher cross-selling fees paid to Commercial Banking for generating foreign exchange business reduced net fee income but were more than compensated for by higher trading income on foreign exchange. A decline in equity markets also reduced funds under management in Global Asset Management, further contributing to lower fees.

Trading income fell by 29 per cent, chiefly from the write-downs noted above. As the market turmoil continued, the fair value of asset-backed securities and structured credit instruments further deteriorated as the credit and liquidity disruption that began in the US sub-prime market spread into other mortgage and mortgage-related products. HSBC had mitigated its risk from such events by purchasing protection from monoline insurers against losses from defaults,

primarily on asset-backed credit products. The market turmoil initially caused the fair value of this protection to increase significantly, reflecting the market view that it was more likely that defaults would occur on the underlying asset-backed paper. This sudden increase in the potential liabilities of the monoline insurers resulted in their credit ratings being downgraded as the scale of the liabilities incurred cast significant doubt on the ability of many monoline insurers to pay. Accordingly, a credit risk write-down was taken against the fair value of the exposure to monoline insurers. The market turmoil also caused the market value of some leveraged and acquisition finance loans to fall due to general credit and liquidity disruption. More information on these write-downs and the underlying assets is provided on page 113.

Partially offsetting these trading losses, Rates trading grew by 115 per cent due to high customer demand for inflation protection products in the UK and France. Foreign exchange trading revenues also rose, by 38 per cent, as market volatility continued, and equities grew by 79 per cent, excluding the effect of the gain on the sale of HSBC s investment in Euronext N.V. in 2007. Further income arose from the fair value gains in Global Banking.

A loss of US$218 million was recognised in *net income from financial instruments designated at fair value*. This was due to a loss on euro-denominated debt which is offset in trading income.

Gains less losses from financial investments and *dividend income* both declined in comparison with the very strong performance in the first half of 2007 from the Principal Investments business. In 2008, the number of investments realised fell and the exit multiples achieved were reduced.

The *loan impairment charge* was small and represented only one basis point of customer loans and advances. This compared with a release in the first half of 2007. The UK credit environment for large corporate lending undoubtedly weakened in the first half of 2008, as evidenced by weak retail sales, falling commercial property prices and the restructuring of much of the UK house building sector.

Operating expenses fell by 2 per cent, reflecting lower bonus costs in the UK which were in line with financial performance. This was partly offset by higher administrative expenses in both the UK and France, where IT costs rose due to growth in headcount to support the increased volume and scope of business in Global Markets, including cross-sales and product control.

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Private Banking reported a pre-tax profit of US$579 million, an increase of 15 per cent, compared with the first half of 2007. Good performances were recorded in both Switzerland and Monaco as a result of strong deposit growth, gains on the disposal of the Hermitage Fund and an increase in client foreign exchange trading. However, the cost efficiency ratio worsened by 1.8 percentage points to 54.9 per cent due to higher staff costs caused primarily by the non-recurrence of a pension saving in 2007. Despite this, the cost efficiency ratio remained one of the lowest in the industry.

Net interest income grew by 38 per cent to US$515 million, primarily due to strong deposit growth augmented by widening interest rate spreads in the first half of 2008. In Switzerland and the UK, average customer deposits grew by 35 per cent and 12 per cent to US$42.1 billion and US$15.0 billion, respectively. The growth in deposits was driven by net new money and customers switching from investment securities to cash deposits during the recent market turbulence.

Net fee income increased by 2 per cent to US$559 million, with a 3 per cent increase in funds under management in Switzerland and higher performance fees on UK hedge fund products. This was partially offset by a decline in UK real estate fee income, as expectations of falling house prices drove lower transaction volumes and the non-recurrence of a large tax advisory fee in the first half of 2007. Management fees decreased in France as the private bank exited some business with institutional clients following a decision not to market to this segment and, in Germany, as the market value of funds declined.

Market volatility led to increased foreign exchange trading by clients in Switzerland, contributing to a 28 per cent rise in trading income.

Gains less losses from financial investments were 81 per cent higher at US$78 million. The increase related to the disposal of HSBC s residual holding in the Hermitage Fund, following earlier disposals in 2006 and 2007.

Client assets, which include deposits and funds under management, increased by 2 per cent to US$262.7 billion compared with 31 December 2007. The growth in client assets was driven by US$10.0 billion of net new money, mainly due to client acquisition in Switzerland and Monaco and foreign exchange gains. However, this was partly offset by a decline in the market value of investment securities, particularly equities. The growth in cross-referrals continued, with inward referrals from other customer groups contributing US$1.9 billion to total client assets, an increase of 68 per cent, compared with the first half of 2007.

Operating expenses rose by 23 per cent to US$699 million due to a US$65 million non-recurring pension benefit which occurred in the first half of 2007 and hiring for business growth, which increased property and compensation costs.

Within **Other**, profit before tax rose by 126 per cent to US$144 million, largely due to fair value movements on HSBC s own debt and related derivatives. Widening credit spreads resulted in gains of US$395 million in the first half of 2008 compared to gains of US$6 million in the first half of 2007 and a gain of US$1,254 million in the second half of 2007. These movements will reverse over the remaining life of the debt.

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Interim Management Report: Business Review (continued)

Reconciliation of reported and underlying profit before tax

	Half-year to 30 June 2008 (1H08) compared with half-year to 31 December 2007 (2H07)								
Europe	2H07 as reported US$m	Disposals and dilution gains[1] US$m	Currency translation[2] US$m	2H07 at 1H08 exchange rates US$m	Acquisitions[1] US$m	Underlying change US$m	1H08 as reported US$m	Reported change %	Underlying change %
Net interest income	3,826	(5)	(11)	3,810		665	4,475	17	17
Net fee income	4,287		6	4,293		(70)	4,223	(1)	(2)
Other income[3]	6,157	19	(34)	6,142		(199)	5,943	(3)	(3)
Net operating income[4]	14,270	14	(39)	14,245		396	14,641	3	3
Loan impairment charges and other credit risk provisions	(1,179)		26	(1,153)		(119)	(1,272)	(8)	(10)
Net operating income	13,091	14	(13)	13,092		277	13,369	2	2
Operating expenses	(8,553)	2	(12)	(8,563)		370	(8,193)	4	4
Operating profit	4,538	16	(25)	4,529		647	5,176	14	14
Income from associates	7		1	8		(7)	1	(86)	(88)
Profit before tax	4,545	16	(24)	4,537		640	5,177	14	14

For footnotes, see page 89.

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Analysis by customer group and global business

Profit before tax

	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$m**	**Inter-segment elimination[9] US$m**	**Total US$m**
Net interest income/(expense)	3,373	1,739	1,351	515	(156)	(2,347)	4,475
Net fee income	1,479	1,134	999	559	52		4,223
Trading income excluding net interest income	34	18	1,362	106	33		1,553
Net interest income/(expense) on trading activities	(1)	20	(285)	7	8	2,347	2,096
Net trading income[7]	33	38	1,077	113	41	2,347	3,649
Net income/(expense) from financial instruments designated at fair value	(761)	(75)	(218)		395		(659)
Gains less losses from financial investments	182	140	190	78	18		608
Dividend income	1	2	11	4	2		20
Net earned insurance premiums	2,084	213			(11)		2,286
Other operating income	252	581	362	4	251	(23)	1,427
Total operating income	6,643	3,772	3,772	1,273	592	(23)	16,029
Net insurance claims[8]	(1,290)	(98)					(1,388)
Net operating income[4]	5,353	3,674	3,772	1,273	592	(23)	14,641
Loan impairment (charges)/recoveries and other credit risk provisions	(963)	(285)	(29)	5			(1,272)
Net operating income	4,390	3,389	3,743	1,278	592	(23)	13,369
Total operating expenses	(3,065)	(1,449)	(2,554)	(699)	(449)	23	(8,193)
Operating profit	1,325	1,940	1,189	579	143		5,176
Share of profit/(loss) in associates and joint ventures	(1)		1		1		1
Profit before tax	1,324	1,940	1,190	579	144		5,177
	%	%	%	%	%		%
Share of HSBC s profit before tax	12.9	18.9	11.6	5.7	1.4		50.5
Cost efficiency ratio	57.3	39.4	67.7	54.9	75.8		56.0
Balance sheet data[6]							
	US$m	US$m	US$m	US$m	US$m		US$m
	153,460	111,791	210,727	31,933	1,049		508,960

Loans and advances to customers (net)							
Total assets	**207,810**	**133,372**	**897,664**	**67,408**	**7,065**		**1,313,319**
Customer accounts	**183,608**	**105,135**	**196,432**	**64,242**	**223**		**549,640**
Loans and advances to banks (net)[12]			**78,488**				
Trading assets[12,13]			**482,034**				
Financial instruments designated at fair value[12]			**6,914**				
Financial investments[12]			**88,717**				
Deposits by banks[12]			**105,792**				
Trading liabilities[12,13]			**365,523**				

For footnotes, see page 89.

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

Interim Management Report: Business Review (continued)

Analysis by customer group and global business *(continued)*

Profit before tax

	Half-year to 30 June 2007						
Europe	Personal Financial Services US$m	Commercial Banking US$m	Global Banking and Markets US$m	Private Banking US$m	Other US$m	Inter-segment elimination[9] US$m	Total US$m
Net interest income	3,130	1,647	495	365	32	(1,749)	3,920
Net fee income	1,428	1,066	1,108	523	19		4,144
Trading income/(expense) excluding net interest income	45	11	1,705	83	(2)		1,842
Net interest income/(expense) on trading activities	(2)	12	(268)	4	1	1,749	1,496
Net trading income/(expense)[7]	43	23	1,437	87	(1)	1,749	3,338
Net income/(expense) from financial instruments designated at fair value	315	9	(2)		26		348
Gains less losses from financial investments	19	8	651	42	70		790
Dividend income	1	2	144	5	9		161
Net earned insurance premiums	1,380	109			(9)		1,480
Other operating income/(expense)	(110)	(89)	337	9	147	(32)	262
Total operating income	6,206	2,775	4,170	1,031	293	(32)	14,443
Net insurance claims[8]	(1,245)	99					(1,146)
Net operating income[4]	4,961	2,874	4,170	1,031	293	(32)	13,297
Loan impairment (charges)/recoveries and other credit risk provisions	(1,127)	(256)	17	3			(1,363)
Net operating income	3,834	2,618	4,187	1,034	293	(32)	11,934
Total operating expenses	(3,244)	(1,382)	(2,513)	(541)	(324)	32	(7,972)
Operating profit/(loss)	590	1,236	1,674	493	(31)		3,962
Share of profit in associates and joint ventures	14				74		88
Profit before tax	604	1,236	1,674	493	43		4,050
	%	%	%	%	%		%
Share of HSBC s profit before tax	4.3	8.7	11.8	3.5	0.3		28.6
Cost efficiency ratio	65.4	48.1	60.3	52.5	110.6		60.0

Balance sheet data[6]						
	US$m	US$m	US$m	US$m	US$m	US$m
Loans and advances to customers (net)	149,789	87,247	165,028	25,544	500	428,108
Total assets	198,518	104,420	677,459	56,090	3,532	1,040,019
Customer accounts	166,282	83,421	153,196	54,893	716	458,508
Loans and advances to banks (net)[12]			66,281			
Trading assets[12,13]			354,488			
Financial instruments designated at fair value[12]			3,400			
Financial investments[12]			53,774			
Deposits by banks[12]			85,104			
Trading liabilities[12,13]			265,059			

For footnotes, see page 89.

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Half-year to 31 December 2007		
Personal	Global	Inter-