



Connecting customers to opportunities for 150 years



HSBC Holdings plc
Interim Report 2015



Overview

Who we are / Our purpose

Overview

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The *Interim Report 2015* 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.

Certain defined terms

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

Interim financial statements and notes

HSBC's interim consolidated Financial Statements and Notes thereon, as set out on pages 101 to 139, have been prepared in accordance with the Disclosure Rules and Transparency Rules of the Financial Conduct Authority and International Accounting Standard ('IAS') 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU'). EU-endorsed International Financial Reporting Standards ('IFRSs') may differ from IFRSs issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU.

At 31 December 2014 there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB. The consolidated financial statements of HSBC at 31 December 2014 were therefore prepared in accordance with IFRSs as issued by the IASB and as endorsed by the EU. At 30 June 2015, there were no unendorsed standards effective for the period ended 30 June 2015 affecting these interim consolidated financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC.

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

Reference to 'adjusted' in tables and commentaries indicates that reported results have been adjusted for the period-on-period effects of foreign currency translation differences and significant items which distort period-on-period comparisons as described on page 16. The adjusted return on risk-weighted assets is defined and reconciled on page 31.

We have enhanced the *Interim Report 2015* to concentrate on events and transactions that are significant to an understanding of the changes in our financial position and performance since the *Annual Report and Accounts 2014* and to provide information we consider most relevant to decision-making by users of the document. As a result, our business performance commentary has been streamlined to remove duplication and selected Risk sections and Notes on the Financial Statements have been refined or removed to focus on information that is material in the context of interim reporting.

Who we are

HSBC is one of the largest banking and financial services organisations in the world.

Customers:

48m

Served by:

268,543

employees (259,788 FTE)

Through four global businesses:

- Retail Banking and Wealth Management
- Commercial Banking
- Global Banking and Markets
- Global Private Banking

Located in:

72

countries and territories

Across five geographical regions:

- Europe
- Asia
- Middle East and North Africa
- North America
- Latin America

Offices:

Around 6,100

Global headquarters:

- London

Market capitalisation:

\$175bn

Listed on stock exchanges in:

- London
- Hong Kong
- New York
- Paris
- Bermuda

Shareholders:

213,000 in 131

countries and territories

Our purpose

Our purpose is to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

Our strategy

We aim to be the world's leading and most respected international bank. We will achieve this by focusing on the needs of our customers and the societies we serve, thereby delivering long-term sustainable value to all our stakeholders.

Our two-part strategy reflects our purpose and competitive advantages:

- A network of businesses connecting the world: HSBC is well positioned to capture the growing international trade and capital flows. Our global reach and range of services place us in a strong position to serve clients as they grow from small enterprises into large multinationals.
- Wealth management and retail with local scale: we aim to capture opportunities arising from social mobility and wealth creation in our priority growth markets, through our Premier proposition and Global Private Banking business. We will invest in full-scale retail businesses only in markets where we can achieve profitable scale.

How we measure performance

We track our progress in implementing our strategy with a range of financial and non-financial measures or key performance indicators. From 2015, we have revised our targets to better reflect the changing regulatory and operating environment.

Highlights of the first half of 2015 are shown on page 2. For further information on our new targets see page 13.

Rewarding performance

The remuneration of all staff within the Group, including executive Directors, is based on the achievement of financial and non-financial objectives. These objectives, which are aligned with the Group's strategy, are detailed in individuals' annual scorecards. To be considered for a variable pay award, an individual must have fully complied with HSBC Values. Our Values are described on page 10 of the *Annual Report and Accounts 2014*.

Highlights

Financial (in respect of 1H15)

Profit before tax

- Reported profit before tax of \$13,628m, up \$1,288m or 10% compared with 1H14
- Increase in adjusted profit before tax of \$280m or 2% on 1H14, driven by a strong performance in Asia

Revenue

- Increase in adjusted revenue of \$1,316m or 4% on 1H14
- Growth in adjusted revenue driven by client-facing GB&M, Principal RBWM and CMB

Operating expenses

- Adjusted operating expenses increased by \$1,206m or 7% from higher staff costs

Capital

- Strong capital base with a common equity tier 1 ratio of 11.6% and two interim dividends declared amounting to \$0.20 per ordinary share in respect of the first half of 2015

Strategy execution

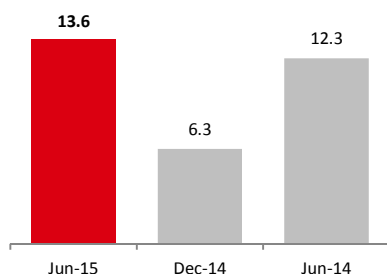
Clearly defined actions to capture value from our global network in a changed world

- Growth of 6% in global business revenue synergies, demonstrating the strength of our universal banking model
- Revenue from transaction banking products grew 8% highlighting the value and potential of our international network
- Progress on reducing Group RWAs with a \$50bn reduction relating mainly to GB&M
- Entered into an agreement to sell entire business in Brazil*
- Commenced initiatives to reduce costs

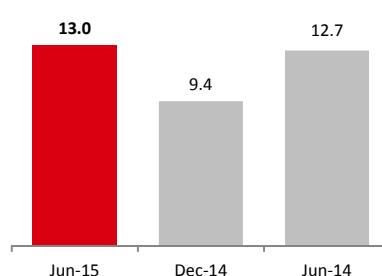
**We plan to maintain a corporate presence in Brazil to serve our international clients*

For the half-year to 30 June 2015

Profit before taxation (reported basis)
(\$bn)

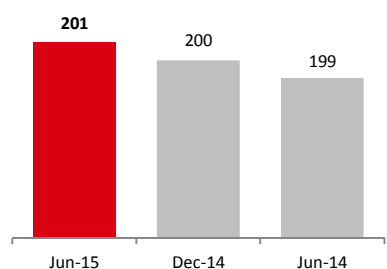


Adjusted profit (before taxation)
(\$bn)

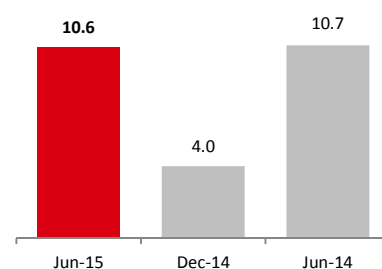


At 30 June 2015

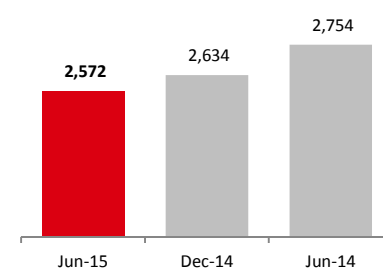
Total equity
(\$bn)



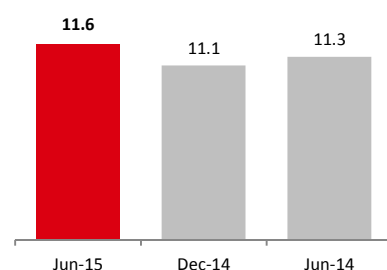
**Annualised return on average
ordinary shareholders' equity**
(%)



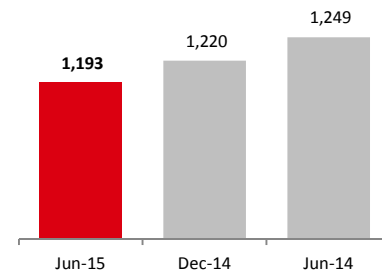
Total assets
(\$bn)



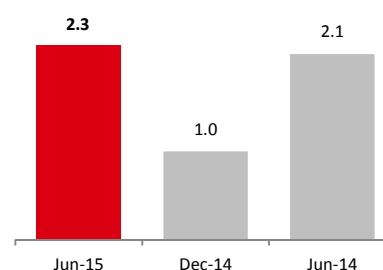
Common equity tier 1 ratio (end point)
(%)



Risk-weighted assets
(\$bn)



Pre-tax return on average RWAs
(%)



Share information at 30 June 2015

**\$0.50 ordinary shares
in issue**

19,516m

30 Jun 2014: 19,071m
31 Dec 2014: 19,218m

**Market
capitalisation**

\$175bn

30 Jun 2014: \$193bn
31 Dec 2014: \$182bn

Closing market price

London

£5.70

30 Jun 2014: £5.93
31 Dec 2014: £6.09

Hong Kong

HK\$70.15

30 Jun 2014: HK\$78.60
31 Dec 2014: HK\$74.00

American
Depository Share

\$44.81

30 Jun 2014: \$50.80
31 Dec 2014: \$47.23

Total shareholder return

Over 1 year

102

Over 3 years

119

Over 5 years

119

To 30 June 2015

Benchmark:

– Morgan Stanley Capital International Index Banks

99

152

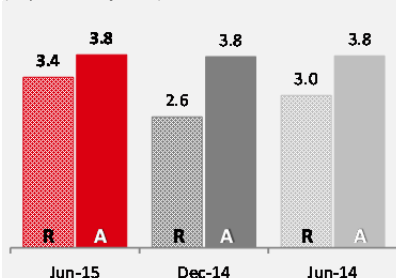
159

Global Business Snapshot

(Comments on adjusted basis)

Retail Banking and Wealth Management ('RBWM')

Profit before taxation (\$bn)
(Reported: Adjusted)

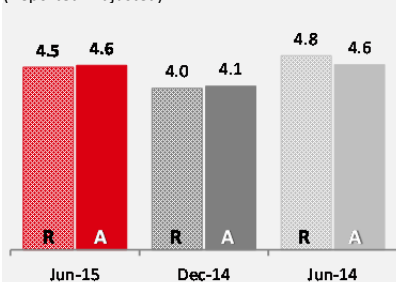


PBT in Principal RBWM up 2%

- Total RBWM PBT was broadly in line with 1H14 as PBT growth in Principal RBWM was largely offset by the continued reduction of the US run-off portfolio.
- The PBT growth in Principal RBWM of \$70m or 2% was driven by increased revenues (\$472m) and lower LICs (\$48m), partly offset by a rise in operating expenses (\$445m), notably from higher staff costs.
- Revenue growth was driven by increased Wealth Management income, notably in Asia.

Commercial Banking ('CMB')

Profit before taxation (\$bn)
(Reported: Adjusted)

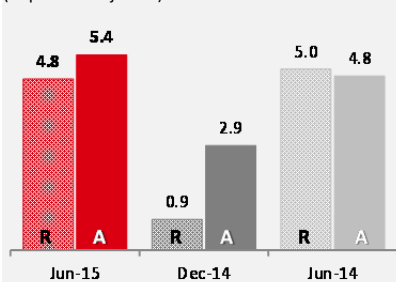


Revenue synergies between CMB & GB&M up 9%

- PBT was broadly in line with 1H14 as growth in revenues was broadly offset by a rise in LICs from a small number of specific impairments and higher operating expenses.
- Revenue growth of \$320m or 4% was driven by Credit and Lending and Payments and Cash Management balances, notably in Hong Kong and the UK.
- Revenue synergies arising from the cross-selling to CMB customers of GB&M products was up 9%.

Global Banking and Markets ('GB&M')

Profit before taxation (\$bn)
(Reported: Adjusted)

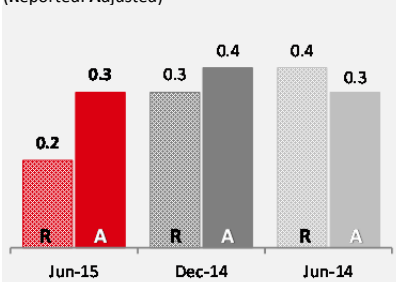


Double digit revenue growth

- PBT increased by \$589m or 12% on 1H14 from revenue growth, partly offset by higher costs.
- Revenue grew by \$932m or 10%, driven by client-facing GB&M, notably Equities and Foreign Exchange, and by Balance Sheet Management.
- RWAs reduced, in part from management actions, of which \$14bn related to mitigation in respect of legacy credit.

Global Private Banking ('GPB')

Profit before taxation (\$bn)
(Reported: Adjusted)



Continued repositioning of the business

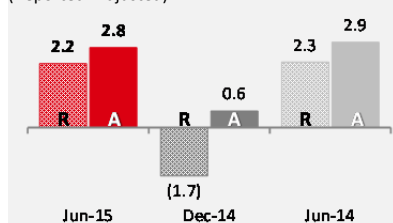
- PBT of \$321m was \$12m or 4% lower than in 1H14, driven by higher operating expenses of \$9m due to the non-recurrence of a provision release in 1H14.
- Revenue was broadly unchanged as lower revenue from the ongoing repositioning of the business was offset by a rise in client volumes and increased market volatility in Hong Kong, along with the effect of net new money in 2014.

Regional Snapshot

(Comments on adjusted basis)

Europe

Profit before taxation (\$bn)
(Reported: Adjusted)

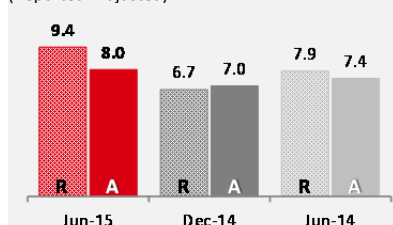


Continued investment in regulatory programmes and compliance

- PBT was \$182m or 6% lower than in 1H14 as revenue growth in GB&M was more than offset by increased operating expenses from regulatory programmes and compliance costs.
- Revenue increased by \$463m or 4%, driven by client-facing businesses and Balance Sheet Management in GB&M.

Asia

Profit before taxation (\$bn)
(Reported: Adjusted)

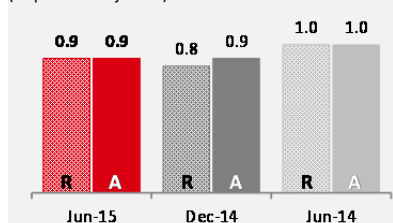


Revenue growth across all global businesses

- PBT of \$7,989m was \$553m or 7% higher than in 1H14 as revenue growth across all the global businesses was partly offset by increased staff costs.
- Revenue increased by \$1,127m or 10%, notably in Hong Kong from Wealth Management products in RBWM and client-facing GB&M.

Middle East and North Africa

Profit before taxation (\$bn)
(Reported: Adjusted)

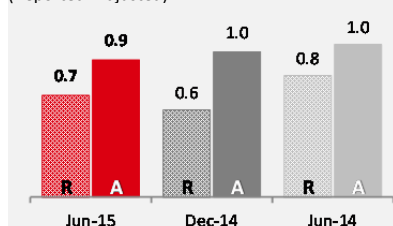


Loan impairment charges compared with a net release in 1H14

- PBT of \$899m was \$74m or 8% lower than in 1H14. This was primarily due to an adverse movement in LICs of \$82m, reflecting individually assessed impairment charges in 1H15 compared with a net release in 1H14, mainly on UAE-related exposures in CMB and GB&M.

North America

Profit before taxation (\$bn)
(Reported: Adjusted)

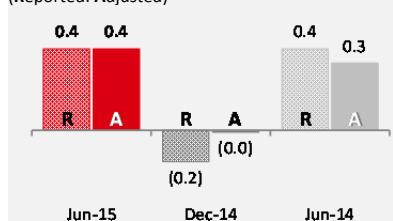


Continued run-off of the CML portfolio

- PBT of \$931m was \$106m or 10% lower than in 1H14, driven by lower revenue and higher costs reflecting investment in CMB and GB&M growth initiatives, partly offset by lower LICs.
- Revenue decreased by \$239m or 6%, reflecting the continued run-off and loan sales of the Consumer and Mortgage Lending ('CML') portfolio.
- LICs decreased by \$252m or 62%, primarily as a result of lower levels of delinquency and reduced lending balances in the CML portfolio.

Latin America

Profit before taxation (\$bn)
(Reported: Adjusted)



Revenue growth driven by CMB

- PBT was \$89m or 26% higher than in 1H14 due to higher revenues and lower LICs, partly offset by higher costs from inflationary pressures.
- Revenue increased by \$83m or 2%, primarily in CMB.
- LICs reduced by \$73m or 9% mainly in RBWM, in Mexico due to lower delinquency rates, and in Brazil mainly due to the non-recurrence of charges related to model changes in 1H14.

Group Chairman's Statement



We have had an encouraging start to 2015 with the interim results once again demonstrating the resilience and balance inherent within HSBC's geographically diversified universal banking model. Particularly encouraging was the revenue growth from areas we have been investing in to offset the understandable decline in revenues from our run-off portfolios and divestments.

We are continuing to invest to capture the opportunities which are arising from changing trade and investment flows and from the clear momentum in greater customer adoption of mobile and digital banking. In the continuing low interest rate environment, it is essential we build these incremental revenues and use technology and process improvement to generate further cost savings to offset the growing expenditure needed to embed regulatory changes and provide greater assurance over financial crime risks. These factors provided much of the context to our Investor Update in June, when Stuart Gulliver and his senior management team laid out very clearly the priorities and objectives being set to build sustainable value for you, our shareholders.

Pre-tax profits in the first six months of 2015 on a reported basis of \$13.6bn were 10% higher than those delivered in the first half of 2014. On the adjusted basis, which is one of the key metrics used by the Board to assess current management performance, pre-tax profits were 2% better at \$13.0bn, with the difference explained by the reconciliations on pages 50 to 55. Earnings per share were \$0.48, providing more than twice cover for

the first two interim dividends per ordinary share in respect of 2015 amounting to \$0.20 in aggregate (2014: \$0.50 and \$0.20, respectively).

The Group's capital position remains strong, benefiting from a higher than normal scrip dividend take-up in the period and from actions taken to manage down risk-weighted assets. At 30 June 2015, our end point common equity tier 1 ratio stood at 11.6% compared with 11.1% at the beginning of the year and 11.3% a year ago.

In the following pages, Stuart Gulliver, in his 'Group Chief Executive's Review' reflects on the key drivers of first half performance and summarises the actions presented in the Investor Update which underpin the Group's target to deliver a return on equity in excess of 10% by the end of 2017.

Board oversight of management is now tightly focused on the delivery of the actions set out in this plan and management performance scorecards have been adjusted to reflect this. Initial progress is encouraging with the highlight clearly being the agreement reached for the sale of our Brazilian operations. I want to underscore three points which are crucial to achieving what is a challenging set of objectives.

An ever more connected world needs international banking and within this, a diversified universal banking model promotes revenue synergies and resilience.

What drives HSBC's rating as one of the two most systemically important banks in the world is the extent to which we do business outside the country from which we are regulated on a consolidated basis; we see this as a strength in a globalised world. As many banks shrink to domestic or regional bases, our international network and product capabilities are demonstrating significant competitive advantages as we pick up cross-border business. This was the key message from our Investor Update and, as Stuart illustrates in his review, the depth and breadth of the network are creating value in terms of revenue growth. In the first half of this year, transaction banking, which captures trade and investment flows, grew revenues by 8%. Further collaboration between our global businesses drove revenue synergies by 6%.

Nothing illustrates the importance of trade corridors better than the focus of China on its 'One Belt, One Road' initiative. This, together with the creation of the Asian Infrastructure Investment Bank, led by China but now with 57 founding member states, is planned to create opportunities for infrastructure investment coupled with green technology on a massive global scale. HSBC's presence along the trade corridor, as well as at both ends, places it in a strong position to partner with participating firms. As investment grows, this will also accelerate the use of the renminbi as a global currency, an area where HSBC is the leading international bank.

The current period also illustrates convincingly the benefits of our international universal banking model and the revenue synergies noted above. A few examples will illustrate the point.

While eurozone anxieties over Greece dampened trade flows and falls in commodity prices led to a lower value of commodity related trade finance, the resultant volatility in foreign exchange led to a greater volume of activity through our dealing rooms. Although

equity flows into emerging markets retreated, equity volumes in Hong Kong and mainland China expanded markedly with the Shanghai-Hong Kong stock connect system surpassing all expectations in terms of flows in both directions. As a result, HSBC's Wealth Management revenues in Hong Kong from equities, mutual funds and asset management increased significantly.

Finally and importantly, the significant progress made in resolution planning, both by international and national regulatory bodies and by firms themselves, means that the contingent risk to home country taxpayers from international business activities has markedly reduced. This should allow international firms like HSBC to grow faster than the economies that host them without undue concerns being raised.

Technology is changing the shape of banking at a rapid pace

There is no doubt that banking is in a period of fundamental change as a consequence of technological developments that, firstly, allow storage and analysis of an almost unlimited amount of data and, secondly, allow customers to directly access third party providers when transacting or investing.

The opportunities are exciting; the risks are not insignificant.

The benefits to customers and society are potentially substantial. Better use of data will allow more accurate knowledge about the customer to be built, leading to improved customer segmentation and therefore less risk of mis-selling in the future. The same data, together with transaction monitoring, will enhance our ability to identify bad actors within the system, so reducing financial crime. A lower cost of delivery will flow through to lower intermediation costs for customers and allow banking services to reach communities currently under-served.

The nature, scale and pace of change do, however, pose a number of public policy questions still under review as well as highlighting new risks to financial stability that need to be addressed. The sheer scale of data to be collected and stored demands clarity over responsibility for data

security and transparency over who has access to that data and for what purpose. Customers need to understand the value of their data so that they can assess the bargain that is being offered by non-traditional providers in return for their financial footprint. Customers also need to know in a disaggregated service model to whom they should complain if a transaction goes awry. Finally, ever larger digital databases of financial credentials and transaction data will need best-in-class protection from cyber crime. This will require even greater co-operation between the industry and public sector law enforcement and intelligence services than exists today.

Restoring trust is essential

One of the most encouraging observations in the first half of 2015 was the growing emphasis in public policy and regulatory consultations and proposals on looking forwards not back. Much of the focus was on setting clarity over the behaviours expected of individuals within our industry and of those charged with supervising or providing governance over their activities.

We welcomed the 'Fair and Effective Markets Review' conducted jointly by the Bank of England, HM Treasury and the Financial Conduct Authority to reinforce confidence in wholesale markets in light of the serious misconduct evidenced in recent years. The consequential creation of an FICC Markets Standards Board to sit alongside the Banking Standards Board which came into being in April is a further contribution to creating a framework capable of reassuring market participants of the integrity of financial markets.

The focus of both these bodies, together with the Senior Managers Regime which comes into force next year, is to stress personal accountability for conduct within markets and in relation to consumers of financial products. Recent instances of misconduct have highlighted the inadequacy of legal and regulatory frameworks to attach appropriate sanctions in a timely way to responsible individuals, leaving shareholders to bear the burden of penalties imposed on the employing institutions, in many

cases long after the events in question occurred and where the evidence is either insufficient or too dated to pursue the individuals concerned. This is not a sustainable or a desirable model.

We absolutely concur, therefore, with this emphasis on personal responsibility and accountability. It is essential that regulatory governance in this area is seen to be transparent, fair and proportionate. However, the potential benefits are significant and we believe that if the clarity intended from the greater focus being given through these initiatives to expected behaviours is achieved, then this, together with the discipline derived from the greater incidence of deferred remuneration, will greatly enhance the prospects for the restoration of trust.

That restoration of trust will of course only be earned over time by the actions of firms being increasingly recognised by market participants and consumers as appropriate to the circumstances, balancing the interests of the firm with those of the customer.

Again actions speak louder than words. By way of example, in the first half of 2015, measures taken to assist customers in the UK to manage their financial affairs better delivered improved outcomes for customers and reduced a source of recurring frustration. These actions formed part of a comprehensive review of value exchange within RBWM conducted over the past year. As a consequence overdraft fees in the UK fell by some \$88m, reflecting lower pricing and fewer instances of unauthorised overdrawn accounts, which was prompted by a new policy of text messaging when customers approached their agreed limits.

Three other areas are worthy of comment.

Progress on Global Standards and regulatory change

We are now firmly in the second phase of the Global Standards initiative, moving from design to implementation and assurance. Virtually all of the recommendations in the Monitor's initial report have now been actioned with those remaining not due until later this year. Further recommendations for improvement, as they arise from the

Monitor's update reviews, regular regulatory examinations and the work of our own internal audit function, will continue to be incorporated as they arise. Similarly, in the area of regulatory change the focus is now firmly on embedding the changes now finalised.

The global functions and our operations and technology teams continued to add resources to meet the demands of the Global Standards programme and of continuing regulatory change. In the first half of 2015, the Group's headcount increased by some 2,200. Reflecting the prioritisation being given to the above programmes, more than this number were in fact recruited into Compliance, principally in Financial Crime Compliance and to address the regulatory change programmes. As systems are upgraded we should realise planned productivity improvements to release resources currently allocated to manual processes and parallel working.

The above comments illustrate how the cost dynamics of our business model are clearly changing, and we are challenging afresh the sustainability of some of our smaller operations in light of the cost burdens they are now facing. This analysis, as was highlighted in the Investor Update, will inform some further streamlining of our geographical footprint over the next few years.

UK ring-fencing

During the period, the business design of the ring-fenced bank was settled and Birmingham was chosen as its headquarters location. A new HQ building is being constructed which will be available in 2018. Both the ring-fenced bank and the remaining activities outside the ring fence will be served by a new service company which will host shared infrastructure and employees. 22,000 UK employees of our UK bank will migrate to this new employer by the end of this year.

Review of headquarters location

Following the announcement at the Annual General Meeting that we would embark upon a review of the optimal location for our global headquarters, detailed work has commenced in line with the criteria laid out in the June Investor Update. It remains the Board's

intention to conclude the review by the end of this year.

Board changes

Since the AGM we have announced two new members of the Board.

Irene Lee brings to the Board considerable banking experience and knowledge of Asia and joined the Board on 1 July, having served as a non-executive Director of The Hongkong and Shanghai Banking Corporation Limited and of Hang Seng Bank Limited since 2013 and 2014, respectively.

Irene is currently Executive Chairman of Hysan Development Company Limited and a non-executive director of Cathay Pacific Airways Limited, China Light & Power Holdings Limited and Noble Group Limited. She has over 30 years of finance industry experience, having held senior positions in investment banking and fund management in the UK, USA and Australia with the Commonwealth Bank of Australia, SealCorp Holdings Limited and Citibank.

Pauline van der Meer Mohr brings to the Board considerable legal and human resources experience and will join the Board on 1 September. Pauline is currently president of the Executive Board of Erasmus University Rotterdam, a role which she has held since 2010. Pauline began her career in the legal profession and held several legal and management positions with the Royal Dutch Shell Group from 1989 to 2004, rising to become HR Director, Information Technology. In 2004, she was appointed group human resources director at TNT NV before moving to become senior executive vice president and head of group human resources at ABN AMRO Bank NV in 2006. Pauline also served as a member of the Dutch Banking Code Monitoring Commission, which was aimed at restoring trust in the Dutch banking sector.

Looking forward

The environment for banking remains challenging. As Stuart points out in his review, economic conditions remain uncertain in many parts of the world, in particular in the eurozone and in China. On top of this, geopolitical risks are heightened. Regulatory workloads have never been higher as we embed structural change, build systems to

respond to demands for greater transparency, and augment stress testing models and reinforce business continuity design as part of recovery and resolution planning. Technology is empowering disruptive business models and facilitating new entrants whilst also offering good opportunities to improve efficiency and build better customer propositions. Responsibilities to protect the financial system from bad actors and from cyber threats are expanding at the same time as concerns are raised over risks of consequential financial exclusion.

Yet there are also observable mega-trends supportive of financial system growth. Growing urbanisation across Asia, infrastructure development in both emerging and developed markets, investment in new technology to address environmental efficiency and the development of capital market solutions to add fresh financing capabilities and contribute to the financial needs of an ageing population all have positive implications for the role and profitability of the financial system. Additionally, central banks remain determined to maintain a policy environment that facilitates the resumption of sustainable economic growth.

As set out by Stuart in the June Investor Update, our positioning across the major trade and investment corridors of the world is a privileged position from which to plan our future. We have the financial strength and the right people at all levels of the firm to make the most of the opportunities open to us. We look forward to reporting on progress.



D J Flint
Group Chairman

3 August 2015

Group Chief Executive's Review



Our performance in the first half of 2015 demonstrated the underlying strength of our business. Our diversified, universal model enabled the Group to deliver increased profitability in spite of slow global growth. In particular, a strong revenue performance across our Asia businesses helped drive increased profits and Global Banking and Markets had a good six months.

In June we announced a series of strategic actions to capture the value of our international network in a much changed world. These actions are designed to maximise revenue, significantly reduce our operating expenses and meet our obligations regarding the structure of the Group.

We are executing these plans and have significant momentum moving into the second half of the year.

First half of 2015

Reported profit before tax was \$13.6bn, 10% higher than for the equivalent period in 2014.

Adjusted pre-tax profit, which excludes the period-on-period effects of currency translation differences and significant items, was \$13.0bn, 2% higher than in the first half of 2014. This reflected growth in revenue and lower loan impairment charges, partially offset by increased costs.

Global Banking and Markets maintained its good start to the year, especially in our client-facing Markets businesses. Equities and Foreign Exchange were the main drivers of revenue growth.

Commercial Banking revenue continued to grow, particularly in Hong Kong and the UK.

Principal Retail Banking & Wealth Management generated increased revenue following a strong performance in our Wealth Management business in Asia.

There was a 6% increase in revenue arising from cross-selling between our global businesses, demonstrating the strength of our universal banking model.

Loan impairment charges continued to fall, driven particularly by reductions in North America and Latin America.

Operating expenses increased, although they were broadly flat relative to the second half of 2014, excluding the effect of the UK bank levy.

The common equity tier 1 ratio on a CRD IV end point basis was 11.6%.

Annualised return on equity was 10.6%, exceeding our target of 10%.

Maximising value from our international network

We continue to invest in the strategic product areas that benefit most from our international network. The positive impact of this investment was again apparent in the first half of the year.

Foreign Exchange revenue grew by 21% compared with the first half of 2014

and Payments and Cash Management revenue increased by 4%.

Global Trade & Receivables Finance continued to grow, and HSBC was named 'Best Trade Bank in the World', 'Best Trade Bank in Asia Pacific' and 'Best Trade Bank in the Middle East' in the *Trade and Forfeiting Review* Excellence Awards 2015.

We maintained our leadership position in international renminbi services, growing revenue by 9% compared with the first half of 2014. HSBC also received the *Asiamoney* 'Best Overall Offshore RMB Products and Services' award for the fourth year in a row.

In *FinanceAsia's* International Banking Awards 2015, HSBC was the winner of the 'Best Foreign Bank' awards for China, Indonesia, Malaysia, Vietnam, Korea, Sri Lanka and Bangladesh. HSBC was also named Best Bank in Hong Kong for the 12th consecutive year.

Investor Update

Our *Annual Report and Accounts 2014* outlined some of the considerable changes to our operating environment that have occurred since 2011. In response to these changes the Board set a new Group target of a return on equity of more than 10% by the end of 2017.

At our Investor Update in June, we set out the actions that will enable us to meet this goal.

We intend to:

- reduce risk-weighted assets across the Group by at least 25%, re-deploy some of these risk-weighted assets towards higher performing businesses and return Global Banking and Markets to Group target profitability;
- sell underperforming operations in Turkey and Brazil, and keep our network under review using our six-filter process;
- exploit the strategic opportunity in the region covered by the North American Free Trade Agreement to rebuild profitability in Mexico and deliver satisfactory returns in the US;
- set up a UK ring-fenced bank by 2018;
- realise \$4.5-5.0bn in cost savings and return operating expenses to 2014 levels by the end of 2017;

- deliver revenue growth greater than GDP growth from our international network;
- capture growth opportunities in Asia, including in China's Pearl River Delta and the Association of Southeast Asian Nations, and in our Asset Management and Insurance businesses;
- generate \$2.0-2.5bn revenue from our global leadership position in business arising from the internationalisation of the Chinese currency, the renminbi; and
- complete the implementation of Global Standards, our globally consistent and rigorous financial crime controls.

Delivering these actions will create value for our customers and shareholders, and enable us to meet global standards while driving business success. It will also help us to continue to adapt to the structural changes that are asked of us by regulators and legislators.

Meeting our targets

We will update shareholders on progress in executing these actions every quarter, beginning with our third quarter results in November. Delivery is our number one priority.

Work is proceeding on all of our actions, in particular those aimed at reducing risk-weighted assets ('RWAs'), cutting costs and turning around or disposing of underperforming parts of the business.

Reducing RWAs will be a gradual process, but we have made a good start in the first half of the year. We reduced RWAs by \$50bn, largely through asset sales in the Global Banking and Markets legacy book, the sale of part of our shareholding in Industrial Bank, and more detailed mapping within RWA calculations and improved recognition of collateral. We have redeployed \$30bn RWAs into higher returning areas. I am confident that we will continue to make significant progress on this in the remainder of 2015.

Over the next two years we will continue to build our capital base and redeploy some of the RWAs that we take out of the business in line with the priorities we outlined in June.

Although we are aiming to 'pivot' our business towards profitable growth opportunities in Asia, Asia is not the exclusive focus of reinvestment. In order to maintain broad-based growth and a diversified risk profile, we expect around half of incremental RWAs to be redeployed to Asia, with the rest spread across Europe, the Middle East and North Africa, North America and Mexico. If we cannot find strategic opportunities to deploy capital with a return on equity above 10% we will return the capital to shareholders, subject to regulatory approval.

We have commenced our work to reduce costs and expect to be able to demonstrate tangible progress in the coming quarters. Fulfilling these actions will also entail a number of one-off transformation costs, some of which will be incurred during the second half

of 2015. We expect the largest portion of these costs to fall in 2016.

On 31 July we agreed to sell our Brazil business to Banco Bradesco S.A. for \$5.2bn. As we said at our Investor Update, we plan to maintain a modest corporate banking presence in Brazil to serve our international clients in the country. This transaction delivers excellent value for shareholders and represents significant delivery against the actions we outlined in June.

Summary and outlook

We are hopeful for a modest improvement in the world economy in the second half of the year. More accommodating monetary conditions should help the mainland Chinese economy to stabilise after first half challenges. US economic growth is also likely to accelerate. Thanks to lower oil prices, real incomes are rising across much of the eurozone and in the UK. Key uncertainties include the pace of recovery in capital spending, the timing of any US monetary tightening and ongoing challenges in the eurozone.

Our performance in July was satisfactory. Our focus is on making significant progress in executing our strategic actions during the remainder of the year.



ST Gulliver
Group Chief Executive

3 August 2015

Strategy update

Distinctive advantages

Throughout our 150-year history, HSBC has been where the growth is, connecting customers to opportunities.

Our strategy is to maintain an international network to connect faster-growing and developed markets. We seek to develop our Wealth business and invest in Retail Banking only in markets where we can achieve profitable scale.

HSBC has three distinctive advantages that bring value to our customers, shareholders and other stakeholders:

- an unrivalled global presence;
- a diversified universal banking model; and
- strong capital generation.

Unrivalled global presence

Our network covers more than 85% of global trade and capital flows, and we provide clients and investors with access to the most attractive global growth opportunities.

We expect global trade to continue to grow faster than global gross domestic product ('GDP'). We are a leading provider of transaction banking products which support global economic flows, including Payments and Cash Management, Global Trade and Receivables Finance, Foreign Exchange and Securities Services. We estimate that approximately 40% of our client revenues are linked to our international network.

Our strong presence in key trade corridors includes the largest and fastest-growing. Trade between mainland China and the US, for example, is expected to grow at an average of about 10% a year to 2020.

We have banking operations in the fastest-growing locations, particularly in Asia. In the first half of 2015 ('1H15') revenues from Asia and the Middle East and North Africa contributed about 45% of adjusted Group revenues. The breadth and scale of our coverage permits deeper client relationships and generates higher revenue per client served across multiple geographical regions.

Diversified universal banking model

We generate revenues through four global businesses – Retail Banking and Wealth Management ('RBWM'); Commercial Banking ('CMB'); Global Banking and Markets ('GB&M') and Global Private Banking ('GPB') – with the first three each contributing 25% to 40% of total revenues.

Diversification keeps the Group's earnings volatility at low levels and, through diverse business activities, we maintain a lower risk profile than our global and regional competitors (see footnote 1 on page 56). For example, the percentage of loan impairment charges to loans and advances to customers on an adjusted basis fell to 30bps in 1H15, down from 33bps in the first half of 2014 ('1H14'). Our large deposit base provides stable and inexpensive funding for our lending activities.

Our universal banking model provides benefits from shared resources and product capabilities. Synergies across global businesses generated \$6.1bn of revenue for the Group (18% of the total) in 1H15. We realised particular growth in revenues from GB&M products provided to CMB clients, which increased by 9% compared with 1H14.

Strong capital generation

From 2011 to 2014, HSBC generated an average of \$9.1bn of capital each year. Strong capital generation enables us to meet increasing regulatory requirements while continuing a long-term trend of progressive dividend payments to shareholders. We are among the top five dividend payers of major stock exchanges worldwide.

Our common equity tier 1 ('CET1') ratio (end point) at 30 June 2015 was 11.6% compared with 11.3% at 30 June 2014. We declared first and second interim dividends totalling \$3.9bn in 1H15, compared with \$3.8bn in 1H14.

Strategic actions

The environment in which HSBC operates is dynamic, with macroeconomic, technology and regulatory changes reshaping the competitive landscape.

At our Investor Update in June 2015 ('Investor Update'), we announced a series of strategic actions to capture the value of our global network and adapt to structural changes in the operating environment. We also announced a review of the Group headquarters location to be completed by the end of 2015. These strategic actions are shown in the table below. For further information and full Investor Update materials see www.hsbc.com/investor-relations.

Strategic actions to be completed by 2017 unless otherwise stated

| | Targeted outcomes |
|--|--|
| 1. Reduce RWAs across the Group by 25% or more ² and reinvest the capital in higher-performing businesses. Reducing RWAs will help GB&M reach profitability targets | <ul style="list-style-type: none"> • \$290bn reduction in Group RWAs • GB&M return to Group target profitability; <1/3 of Group RWAs |
| 2. Continue to optimise our global network and reduce complexity through the ongoing application of the six-filter process that guides our decisions on where we do business | <ul style="list-style-type: none"> • Reduced footprint |
| 3. Leverage our international network and strategic opportunity in the area covered by the North American Free Trade Agreement to rebuild profitability in Mexico and deliver satisfactory returns in the US | <ul style="list-style-type: none"> • Profit before tax: <ul style="list-style-type: none"> – US: about \$2bn – Mexico: about \$0.6bn |
| 4. Set up a UK ring-fenced bank | <ul style="list-style-type: none"> • Completion by 2018 |
| 5. Deliver \$4.5-5.0bn in cost savings | <ul style="list-style-type: none"> • 2017 exit rate equal to 2014 operating expenses |
| 6. Deliver revenue growth above GDP growth from our international network | <ul style="list-style-type: none"> • Revenue growth of international network above GDP growth |
| 7. Capture growth opportunities in Asia including in China's Pearl River Delta, in the Association of Southeast Asian Nations, and in our Asset Management and Insurance businesses | <ul style="list-style-type: none"> • Market share gains • About 10% growth per annum in assets under management in Asia |
| 8. Grow business from our global leadership position in the internationalisation of the Chinese currency, the renminbi | <ul style="list-style-type: none"> • \$2.0-2.5bn revenue |
| 9. Implement Global Standards, our globally consistent and rigorous financial crime controls | <ul style="list-style-type: none"> • Completion by end of 2017 |
| 10. Review the location of the Group's headquarters | <ul style="list-style-type: none"> • Completion by end of 2015 |

For footnote, see page 56.

Global footprint and six filters review

At 30 June 2015, we were present in 72 markets, of which 18 are priority markets.

Priority markets represent about 85% of Group revenues but cover only 55-60% of world GDP, trade and capital flows. Our other markets cover an additional 25-30% of global economic flows. Our presence in these network markets allows us to serve clients as a provider of global trade and payments services across a truly international network.

We conduct a periodic review of our markets using six filters to guide our decisions about when and where to invest. At the Investor Update, we announced our intention to sell our operations in Turkey and Brazil, though we plan to maintain a presence in Brazil to serve large corporate clients' international needs.

Structural reform and resolution planning

We continue to work with our primary regulators to develop and agree a resolution strategy for HSBC. It is our view that a strategy by which the Group breaks up at a subsidiary bank level at the point of resolution (referred to as a Multiple Point of Entry strategy) is the optimal approach as it is aligned to our existing legal and business structure. We are engaging with our regulators to address inter-dependencies between different subsidiary banking entities in order to enhance resolution.

In the first half of 2015, we continued to progress our plans to establish a separately incorporated group of service companies ('ServCo group') in order to remove operational dependencies where one subsidiary bank provides critical services to another. In the UK, we have commenced the transfer of critical services, including associated employees

and assets, from each of HSBC Bank plc and HSBC Holdings to the ServCo group. Similar transfers are planned to begin in Hong Kong soon.

The Group presented an updated ring-fencing project plan to regulators in May 2015. The plan provides for the transfer into a separate subsidiary of the HSBC Group, the qualifying components of HSBC Bank plc's UK RBWM, CMB and GPB businesses. The plan remains subject to further planning and approvals internally and is ultimately subject to the approval of the Prudential Regulation Authority ('PRA'), the Financial Conduct Authority ('FCA') and other applicable regulators. The Group announced in March 2015 that the headquarters of the new UK ring-fenced bank will be located in Birmingham.

Global Standards implementation

We are at the midpoint of our five-year programme to implement the highest or most effective standards to combat financial crime and transform the way that we manage financial crime risk.

On 31 March 2015, we put in place enhanced procedures everywhere we do business to help us detect, deter and protect against financial crime. These procedures cover how we meet the requirements of our global anti-money laundering ('AML') and sanctions policies – our Global Standards.

Through the adoption of these Global Standards, we aim to deliver a consistent, comprehensive approach to managing financial crime risk in all our markets. In many instances, the policies extend beyond what we are required to do under local laws and regulations, reflecting the fact that HSBC has no appetite for business with illicit actors.

We continue to deliver infrastructure changes and systems enhancements that support the effective and sustainable operation of our financial crime controls.

In this respect, we have made significant progress since the beginning of 2015, including:

- deploying enhanced customer due diligence by GBP in their 18 markets;
- specific deployments of enhanced customer due diligence by other lines of business in the United Arab Emirates ('UAE'), the US, Lebanon, Hong Kong, Singapore, Russia and Germany;
- completing targeted training for those identified as being in the highest risk roles;
- moving Financial Intelligence Units from the Global Standards programme to business as usual management. This establishes a new strategic capability to identify and analyse significant financial crime cases, trends and strategic issues and share information across HSBC; and
- commencing the roll-out of strategic technology that supports our customer selection decisions, including how we exit business relationships that exceed our risk appetite.

The Monitor

An independent compliance monitor ('the Monitor') was appointed in 2012 under the agreements entered into with the US Department of Justice, the UK FCA and the US Federal Reserve Board to produce regular assessments of the effectiveness of our financial crime compliance procedures and controls. The work of the Monitor is described on page 27 of the *Annual Report and Accounts 2014*. We are working to implement the agreed recommendations flowing from the Monitor's 2013 and 2014 reviews. We recognise we are only half-way through our five-year Deferred Prosecution Agreement ('US DPA') and look forward to maintaining a strong, collaborative relationship with the Monitor and his team.

Targets

The strategic actions announced in our Investor Update will help the Group achieve the targets set out in the *Annual Report and Accounts 2014*.

We aim to achieve a return on equity of more than 10% by 2017, with momentum for higher returns in the future. We aim to grow business revenues faster than operating expenses on an adjusted basis. We are also committed to delivering a progressive dividend consistent with the growth of the overall profitability of the Group and predicated on our ability to meet regulatory capital requirements in a timely manner.

Delivering these actions will create value for our customers and shareholders and contribute to the long-term sustainability of HSBC. In the process, we shall maintain a robust, resilient and environmentally sustainable business in which our customers can have confidence, our employees can take pride, and our communities can trust.

Risk

All our activities involve, to varying degrees, the measurement, evaluation, acceptance and management of risk or combinations of risks.

As a provider of banking and financial services, we actively manage risk as a core part of our day-to-day activities. Our risk management framework seeks to ensure we have a robust and consistent approach to risk management at all levels of the organisation and across all risk types. This is described on page 24 of the *Annual Report and Accounts 2014*.

The principal risks associated with our banking and insurance manufacturing operations are listed on page 114 of the *Annual Report and Accounts 2014*.

Identifying and monitoring current and forward-looking risks is integral to our approach to risk management. During the first half of 2015, senior management paid particular attention to the top and emerging risks that are described on page 57.

The chart below provides a high level guide to how our business activities are reflected in our risk measures and in the Group's balance sheet at 30 June 2015. The assets and liabilities indicate the contribution each business makes to the balance sheet, while RWAs illustrate the relative size of the risks incurred for each business.

Exposure to risks arising from the business activities of global businesses

| HSBC | | | | | | Other (including Holding Company) |
|----------------------------------|---|---|--|---|---|--------------------------------------|
| Global business | RBWM | CMB | GB&M | GPB | | |
| Business activities | <ul style="list-style-type: none"> – Deposits – Accounts services – Credit and lending – Asset management – Wealth solutions and financial planning – Broking – Insurance (distribution; life manufacturing) | <ul style="list-style-type: none"> – Deposits – Payments and cash management – Credit and lending – International trade and receivables finance – Commercial insurance and investments | <ul style="list-style-type: none"> – Deposits – Payments and cash management – Balance sheet management – Credit and lending – Asset and trade finance – Corporate finance – Markets – Securities services | <ul style="list-style-type: none"> – Deposits – Account services – Credit and lending – Investment management – Financial advisory – Broking – Corporate finance (via GB&M) – Alternative investments – Trusts and estate planning | <ul style="list-style-type: none"> – HSBC holding company and central operations | |
| Balance sheet³ | <ul style="list-style-type: none"> – Assets \$bn 497 – Customer accounts 590 | <ul style="list-style-type: none"> – Assets \$bn 379 – Customer accounts 362 | <ul style="list-style-type: none"> – Assets \$bn 1,790 – Customer accounts 299 | <ul style="list-style-type: none"> – Assets \$bn 86 – Customer accounts 83 | <ul style="list-style-type: none"> – Assets \$bn 168 – Customer accounts 2 | |
| RWAs | <ul style="list-style-type: none"> – Credit risk \$bn 167 – Operational risk 38 | <ul style="list-style-type: none"> – Credit risk \$bn 408 – Operational risk 32 | <ul style="list-style-type: none"> – Credit risk \$bn 307 – Counterparty credit risk 84 – Operational risk 44 – Market risk 57 | <ul style="list-style-type: none"> – Credit risk \$bn 17 – Operational risk 4 | <ul style="list-style-type: none"> – Credit risk \$bn 37 – Operational risk – | |
| Risk profile | Liquidity and funding risk, pension risk, operational risk (including fiduciary risk, regulatory compliance risk, and financial crime compliance risk), reputational risk, sustainability risk and insurance risk, the latter predominantly in RBWM and CMB. | | | | | |

For footnote, see page 56.

Risk appetite

We define risk appetite as the type and quantum of risks that we are willing to accept in achieving our medium- and long-term strategic goals. It is a key component of our management of risk, is set on a time horizon consistent with the strategic planning period and is reviewed on an ongoing basis, with a formal review every six months. Our approach to risk appetite is described on page 25 of the *Annual Report and Accounts 2014*.

Changes to key metrics of the Group Risk Appetite Statement for 2015 include:

- the risk appetite threshold for returns has been updated to reflect the Group’s revised financial targets as

announced in the *Annual Report and Accounts 2014* and re-affirmed at the Investor Update;

- positive adjusted jaws will be used as a single measure to assess cost efficiency; and
- cost of risk has been replaced with two new measures to monitor loan impairment charges as a percentage of gross retail and wholesale advances. This better aligns with existing risk management practices and reflects the increased focus on credit risk due to slowing global growth and the low interest rate environment.

Key metrics that were measured, monitored and presented monthly to the Risk Management Meeting of the Group Management Board during 1H15 are tabulated below:

Key risk appetite metrics

| Component | Measure | Risk Appetite | 30 June 2015 |
|-------------------------|--|---------------|--------------|
| Returns | Return on average ordinary shareholders’ equity | ≥10% | 10.6% |
| Cost efficiency | Adjusted jaws ⁴ | Positive | (2.9)% |
| Capital | Common equity tier 1 ratio – CRD IV basis | ≥10% | 11.6% |
| Liquidity | HSBC consolidated balance sheet advances-to-deposits ratio | ≤90% | 71.4% |
| Loan impairment charges | Retail (Principal RBWM – see page 34) loan impairment charges as % of advances | <0.65% | 0.53% |
| | Wholesale loan impairment charges as % of advances | <0.45% | 0.29% |

For footnote, see page 56.

Financial summary

Use of non-GAAP financial measures

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Use of non-GAAP financial measures

Our reported results are prepared in accordance with IFRSs as detailed in the Financial Statements starting on page 101. In measuring our performance, the financial measures that we use include those which have been derived from our reported results in order to eliminate factors which distort period-on-period comparisons. These are considered non-GAAP financial measures.

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

Adjusted performance

Adjusted performance is computed by adjusting reported results for the period-on-period effects of foreign currency translation differences and significant items which distort period-on-period comparisons.

We use the term 'significant items' to collectively describe the group of individual adjustments which are excluded from reported results when arriving at adjusted performance. Significant items, which are detailed below, are those items which management and investors would ordinarily identify and consider separately when assessing performance in order to better understand the underlying trends in the business.

We consider adjusted performance provides useful information for investors by aligning internal and external reporting, identifying and quantifying items management believe to be significant and providing insight into how management assesses period-on-period performance.

Foreign currency translation differences

Foreign currency translation differences reflect the movements of the US dollar against most major currencies for the half-year to 30 June 2015. We exclude the translation differences when deriving constant currency data because using this data allows us to assess balance sheet and income statement performance on a like-for-like basis to better understand the underlying trends in the business.

Foreign currency translation differences

Foreign currency translation differences for the half-years to 30 June 2014 and 31 December 2014 are computed by retranslating into US dollars for non-US dollar branches, subsidiaries, joint ventures and associates:

- the income statements for the half-years to 30 June 2014 and 31 December 2014 at the average rates of exchange for the half-year to 30 June 2015; and
- the balance sheets at 30 June 2014 and 31 December 2014 at the prevailing rates of exchange on 30 June 2015.

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 foreign currency translation differences 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.

Significant items

The tables on pages 50 to 55 detail the effect of significant items on each of our geographical segments and global businesses during the first half of 2015 and the two halves of 2014.

Consolidated income statement

Summary consolidated income statement

| | Half-year to | | |
|---|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Net interest income | 16,444 | 17,405 | 17,300 |
| Net fee income | 7,725 | 8,177 | 7,780 |
| Net trading income | 4,573 | 3,275 | 3,485 |
| Net income from financial instruments designated at fair value | 2,666 | 1,660 | 813 |
| Gains less losses from financial investments | 1,874 | 946 | 389 |
| Dividend income | 68 | 88 | 223 |
| Net insurance premium income | 5,607 | 6,137 | 5,784 |
| Other operating income | 836 | 538 | 593 |
| Total operating income | 39,793 | 38,226 | 36,367 |
| Net insurance claims and benefits paid and movement in liabilities to policyholders | (6,850) | (7,059) | (6,286) |
| Net operating income before loan impairment charges and other credit risk provisions | 32,943 | 31,167 | 30,081 |
| Loan impairment charges and other credit risk provisions | (1,439) | (1,841) | (2,010) |
| Net operating income | 31,504 | 29,326 | 28,071 |
| Total operating expenses | (19,187) | (18,266) | (22,983) |
| Operating profit | 12,317 | 11,060 | 5,088 |
| Share of profit in associates and joint ventures | 1,311 | 1,280 | 1,252 |
| Profit before tax | 13,628 | 12,340 | 6,340 |
| Tax expense | (2,907) | (2,022) | (1,953) |
| Profit for the period | 10,721 | 10,318 | 4,387 |
| Profit attributable to shareholders of the parent company | 9,618 | 9,746 | 3,942 |
| Profit attributable to non-controlling interests | 1,103 | 572 | 445 |
| Average foreign exchange translation rates to \$: | | | |
| \$1: £ | 0.657 | 0.599 | 0.615 |
| \$1: € | 0.897 | 0.730 | 0.777 |

Reported performance

Reported profit before tax of \$13.6bn in the first half of 2015 ('1H15') was \$1.3bn or 10% higher than in the first half of 2014 ('1H14'). This was primarily driven by a net favourable movement in significant items partly offset by the adverse effects of currency translation between the periods.

Reported net operating income before loan impairment charges and other credit risk provisions ('revenue') of \$32.9bn was \$1.8bn or 6% higher than in 1H14. Revenue was affected by significant items including, in 1H15, a \$1.4bn gain on the partial sale of our shareholding in Industrial Bank Co. Ltd ('Industrial Bank') and positive favourable fair value movements on our own debt designated at fair value of \$0.7bn compared with adverse movements of \$0.2bn and a gain of \$0.4bn recorded on the sale of our shareholding in Bank of Shanghai in 1H14. The overall favourable movement in significant items was largely offset by the adverse effects of currency translation between the periods. Excluding these items, the increase in revenue was primarily driven by growth in client-facing GB&M (see footnote 5 on page 56), Principal RBWM (see page 34) and CMB.

Reported loan impairment charges and other credit risk provisions ('LICs') of \$1.4bn were \$0.4bn or 22% lower than in 1H14, notably in North America and Latin America, partly offset in Middle East and North Africa.

Reported operating expenses of \$19.2bn were \$0.9bn or 5% higher than in 1H14, with 1H15 significant items, which included \$1.1bn relating to settlements and provisions in connection with legal matters, more than offset by the positive effects of currency translation between the periods of \$1.5bn.

Income from associates of \$1.3bn increased marginally compared with 1H14.

On 3 August 2015, the Board announced the second interim dividend for 2015 of \$0.10 per ordinary share.

Adjusted performance

For further information on non-GAAP financial measures, see page 15.

From reported results to adjusted performance

To arrive at adjusted performance, we adjust for:

- the period-on-period effects of currency translation; and
- the effect of significant items.

Reconciliations of our reported and adjusted results are provided on pages 50 to 55.

On an adjusted basis, profit before tax of \$13.0bn in 1H15 rose by \$0.3bn compared with 1H14. Higher revenue, notably in client-facing GB&M, Principal RBWM and CMB, and lower LICs were partly offset by higher operating expenses.

The following commentary is on an adjusted basis.

Revenue was 4% higher with growth in client-facing GB&M, Principal RBWM and CMB

Revenue rose by \$1.3bn to \$30.8bn reflecting global business performance as follows:

- In GB&M, total revenue was \$0.9bn or 10% higher. This was driven by an increase of \$0.8bn or 10% in client-facing GB&M, mainly in Europe, and an increase of \$0.2bn in Balance Sheet Management ('BSM'), in part driven by increased gains on disposal of available-for-sale debt securities. The rise in client-facing GB&M was notably in Markets, where revenue rose in Equities by \$0.5bn and in Foreign Exchange by \$0.3bn following increased volatility in the period. Equities also benefited from higher client flows and favourable movements on own credit spreads compared with minimal movements in 1H14. By contrast, revenue fell in Principal Investments reflecting lower gains on disposal than in 1H14. Legacy credit also fell from reduced revaluation gains.
- In RBWM, revenue was \$0.2bn or 2% higher driven by Principal RBWM (up \$0.5bn) partly offset by the run-off of our US Consumer and Mortgage Lending ('CML') portfolio (\$0.2bn lower). In our Principal RBWM business, revenue increased by 4%, mainly driven by higher income across all Wealth Management products, notably in Hong Kong from equities and mutual funds products in Investment Distribution as a result of higher stock market turnover. The increase also reflected a net favourable valuation movement in our life insurance manufacturing business following increasing interest rates in the eurozone compared with falling rates in 1H14, and improved equity market performance in Asia. Current accounts, savings and deposit revenues were up by 2%, mainly due to customer account balances increasing by 4%, principally in the UK and Hong Kong. By contrast, personal lending revenues decreased by 2% despite higher balances, driven lower in the UK by a reduction in overdraft fees reflecting re-pricing and the introduction in November 2014 of a text message alert service for customers, and reduced spreads on mortgages.
- In CMB, revenue rose by \$0.3bn or 4%, primarily due to higher net interest income in Credit and Lending and Payments and Cash Management, mainly in Hong Kong and the UK. In Hong Kong, this reflected average balance sheet growth and wider lending spreads, while in the UK it reflected continued balance sheet growth, notably from lending in our Large Corporate and Middle-Market Enterprises ('MME') segments. In addition, revenue increased in the US, primarily from lending growth to Large Corporate customers, and in Argentina, in part reflecting wider deposit spreads.
- In GPB, revenue was broadly unchanged as a decrease arising from the managed reduction in client assets from the ongoing repositioning of our business, notably in

Europe, was offset by an increase in revenue in Hong Kong which reflected a rise in client transaction volumes and higher market volatility, coupled with the effect of positive net new money in 2014. We continued to grow the parts of the business that fit our target model, attracting net new money of \$7bn in 1H15, mainly in Hong Kong, the US and the UK, over 45% of which was driven by referrals from our three other global businesses.

LICs fell by 8%, primarily in North America and Latin America, partly offset in Middle East and North Africa, Europe and Asia

LICs reduced by \$0.1bn.

- In North America, LICs continued to fall in the US CML portfolio in RBWM, driven by reduced levels of delinquency and new impaired loans in addition to lower lending balances from the continued run-off and loan sales. The reduction also reflected the non-recurrence of impairment charges recorded in CMB and GB&M in 1H14 following a revision to certain estimates used in our corporate loan impairment calculation. These factors were partly offset by lower favourable market value adjustments of underlying properties in the CML portfolio as improvements in housing market conditions were less pronounced in 1H15 than in 1H14.
- In Latin America, LICs decreased, mainly due to lower collectively assessed impairment charges in RBWM in Brazil, in part due to the non-recurrence of charges from refinements made in 1H14 to the impairment model for non-restructured loan portfolios, and in Mexico reflecting lower delinquency rates on personal lending, payroll and card portfolios.

However, LICs increased:

- in Middle East and North Africa, where the adverse movement reflected individually assessed impairment charges in 1H15 compared with a net release in 1H14, primarily on UAE-related exposures in CMB and GB&M;
- in Europe, primarily in GB&M reflecting lower releases of available-for-sale asset-backed securities ('ABS's) and higher impairment charges relating to Greek exposures, partly offset by lower individually assessed impairment charges notably in GB&M in the UK; and
- in Asia, mainly reflecting a specific CMB impairment charge in Indonesia in 1H15.

Operating expenses were 7% higher in 1H15

On an adjusted basis, operating expenses increased by \$1.2bn or 7% reflecting increases in both 'run-the-bank' and 'change-the-bank' costs. For further information on the categorisation of operating expenses as run-the-bank and change-the-bank costs, see page 26.

The rise in run-the-bank costs of \$0.8bn was primarily driven by staff costs, reflecting wage inflation, principally in Latin America and Hong Kong, and a targeted increase in the number of staff to support growth initiatives in the global businesses. The increase in staff numbers included:

- in GB&M, investment in our Payments and Cash Management business in North America, Asia and Europe;
- in CMB, investment in Payments and Cash Management in North America and organic growth initiatives in Asia and Europe; and
- in RBWM, additional FTEs in Asia to support revenue growth.

This investment was in line with our strategic objectives to prioritise growth in Asia and achieve revenue growth above GDP from our international network. Run-the-bank costs also increased due to higher Regulatory Programmes and Compliance costs as a result of our ongoing focus on Global Standards, particularly in the area of financial crime and compliance.

The increase in change-the-bank costs of \$0.4bn was also driven by inflation and higher regulatory and compliance costs. This was a result of the continued focus on Global Standards, including the Group-wide roll out of the new AML and sanctions policy procedures and the ongoing parallel deployment of enhanced customer due diligence and financial crime compliance infrastructure. These actions are in line with our strategic target to complete the implementation of Global Standards by the end of 2017.

The number of employees, expressed in full-time equivalent numbers ('FTE's), increased by 2,186 during 1H15 to 259,788. The average number of FTEs adjusted for business disposals increased by 2% compared with 1H14 due to additional FTE requirements for regulatory programmes and compliance and business growth in GB&M.

Income from associates

Income from associates of \$1.3bn increased marginally compared with 1H14.

Effective tax rate

The effective tax rate was 21.3% compared with 16.4% in 1H14.

The effective tax rate for 1H14 was significantly lower principally due to prior year adjustments.

Brazil and Turkey

We intend to dispose of our operations in Brazil and Turkey as part of the plans to re-size and simplify the business announced in our Investor Update. A presence in Brazil will be maintained to serve large corporate clients with respect to their international needs. We expect that the sales will have a significant effect on the future trading results of the Group, in particular the disposal of Brazil (see page 47 for further details).

The assets and liabilities relating to Brazil have been classified as 'held for sale' on the Group balance sheet in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.

There is no separate presentation in the income statement.

Group performance by income and expense item

For further financial performance data for each geographical region and global business, see pages 33 to 41 and 42 to 49, respectively.

Net interest income

| | Half-year to | | |
|--|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Interest income | 24,019 | 25,435 | 25,520 |
| Interest expense | (7,575) | (8,030) | (8,220) |
| Net interest income⁶ | 16,444 | 17,405 | 17,300 |
| Average interest-earning assets | 1,730,663 | 1,801,862 | 1,771,460 |
| Gross interest yield ⁷ | 2.80% | 2.85% | 2.86% |
| Cost of funds | (1.03%) | (1.03%) | (1.07%) |
| Net interest spread ⁸ | 1.77% | 1.82% | 1.79% |
| Net interest margin ⁸ | 1.92% | 1.95% | 1.94% |

For footnotes, see page 56.

Reported net interest income of \$16.4bn decreased by \$1.0bn or 6% compared with 1H14. This was driven by the currency translation and significant items summarised in

Significant items and currency translation

| | Half-year to | | |
|--|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Significant items | | | |
| – releases/(provisions) arising from the ongoing review of compliance with the Consumer Credit Act in the UK | 12 | (367) | (265) |
| – acquisitions, disposals and dilutions | – | 34 | 4 |
| | 12 | (333) | (261) |
| Currency translation | | 1,356 | 1,069 |
| Total | 12 | 1,023 | 808 |

On a reported basis, net interest spread and margin were marginally lower in 1H15 due to reduced yields on customer lending in Europe, Latin America and North America. In addition, there were lower yields on short-term funds and financial investments.

Interest income

Reported interest income decreased by \$1.4bn compared with 1H14 due to lower interest income on loans and advances to customers. The decrease was driven by currency translation, notably in Latin America and Europe, although this was partly offset in Europe as 1H14 included the effect of UK Consumer Credit Act ('CCA') provisions. Excluding these factors, interest income on loans and advances to customers was broadly unchanged as higher interest income in Asia and Latin America was broadly offset in Europe and North America.

In Asia, the rise in interest income was driven by growth in average term lending balances, the effect of which was partly offset by compressed yields on customer lending in mainland China due to central bank rate reductions. In Latin America, the increase was primarily in Brazil and Argentina driven by average balance sheet growth and,

the table below. On an adjusted basis, net interest income was broadly unchanged compared with 1H14.

additionally, in Brazil, by the effect of successive increases in central bank interest rates since late 2014.

By contrast, in Europe, the reduction in interest income was driven by lower average balances and yields on mortgages in the UK in line with competitive pricing, and the effect of downward movements in market interest rates in the eurozone. Interest income also decreased in North America as new lending to customers in RBWM and CMB was at reduced yields in the current low interest rate environment, and the CML portfolio continued to decrease from run-off and sales.

Interest income on short-term funds and financial investments in BSM decreased, due to currency translation in Latin America, notably in Brazil, and in Europe. Excluding this, interest income rose, primarily in Latin America due to an increase in average balances and the effect of central bank rate rises in Brazil. These rate rises also drove increased interest income on reverse repurchase agreements. The rise in Latin America was partly offset by falls in Europe due to a managed reduction in average balances and, to a lesser extent, in Asia reflecting movement in central bank interest rates in mainland China and changes in the currency mix of the overall portfolio.

Interest expense

Reported interest expense decreased by \$0.5bn compared with 1H14, primarily on customer accounts, reflecting currency translation, primarily in Latin America and Europe. Excluding this, interest expense on customer accounts rose in Latin America notably in Brazil, driven by increases in the central bank interest rate and growth in average balances.

In North America, other interest expense increased as 1H14 benefited from the release of accrued interest associated with uncertain tax positions.

Interest expense on debt issued also increased, excluding the effects of currency translation. This was largely in Latin America, notably Brazil, in line with central bank interest rate rises, coupled with an increase in average balances. These factors were partly offset in Europe, as new debt was issued at lower prevailing rates and average outstanding balances fell as a result of net redemptions.

Net fee income

| | Half-year to | | |
|-----------------------------|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Account services | 1,383 | 1,734 | 1,673 |
| Funds under management | 1,310 | 1,283 | 1,375 |
| Cards | 1,120 | 1,210 | 1,250 |
| Credit facilities | 989 | 963 | 927 |
| Broking income | 817 | 664 | 707 |
| Unit trusts | 595 | 518 | 487 |
| Imports/exports | 485 | 558 | 557 |
| Underwriting | 450 | 536 | 336 |
| Remittances | 387 | 411 | 422 |
| Global custody | 371 | 359 | 367 |
| Insurance agency commission | 284 | 302 | 214 |
| Other | 1,181 | 1,493 | 1,199 |
| Fee income | 9,372 | 10,031 | 9,514 |
| Less: fee expense | (1,647) | (1,854) | (1,734) |
| Net fee income | 7,725 | 8,177 | 7,780 |

Reported net fee income fell by \$452m compared with 1H14, primarily reflecting the adverse effects of currency translation of \$598m between the periods, notably in Europe and Latin America.

On an adjusted basis, net fee income increased by \$156m or 2%. This reflected higher net fee income in Asia and North America, mainly in RBWM, partly offset by a reduction in Europe, primarily within GB&M and RBWM.

Fee income from both broking and unit trusts grew strongly, mainly in Hong Kong, driven by higher sales of equities and mutual funds in RBWM. This reflected higher stock market turnover, in part facilitated by the Shanghai-Hong Kong Stock Connect platform following a relaxation of certain restrictions in 1H15 by the regulator in mainland China, and higher investor appetite following improvements in Asian equity markets notwithstanding the weakness experienced in the latter part of June 2015.

Fee income from funds under management also increased in Asia, Europe and North America. In our Global Asset Management business, management fees increased in Hong Kong, France and the US driven by volume growth, in part due to higher net inflows of fixed income products, and stronger equity market performance, notably in Europe

and Asia. Fee income from funds under management also increased in Germany reflecting business growth in GB&M.

In addition, fee income from credit facilities increased, mainly in North America, reflecting continued lending growth in CMB through our focus on internationally connected cities.

By contrast, account services fee income decreased, primarily in the UK in RBWM where lower overdraft fees reflected re-pricing and fewer overdrawn balances following the introduction in November 2014 of a text-alert service for customers. Account services fees also reduced in Switzerland due to the continued repositioning of our GPB business.

In addition, underwriting fee income decreased, mainly in Hong Kong in GB&M reflecting reduced activity in equity capital markets, although this was partly offset by higher volumes of debt issuances in the US.

Fee expenses were marginally lower by \$15m or 1%, compared with 1H14, primarily in the US reflecting favourable adjustments to mortgage servicing rights valuations following mortgage interest rate increases in 1H15 compared with decreases in 1H14.

Net trading income

| | Half-year to | | |
|---|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Trading activities | 3,553 | 2,666 | 2,753 |
| Net interest income on trading activities | 1,053 | 913 | 994 |
| Gain/(loss) on termination of hedges | (8) | (4) | 5 |
| Other trading income/(expense) – hedge ineffectiveness: | | | |
| – on cash flow hedges | 4 | 15 | 19 |
| – on fair value hedges | 26 | 22 | (3) |
| Adverse fair value movement on non-qualifying hedges | (55) | (337) | (283) |
| Net trading income | 4,573 | 3,275 | 3,485 |

Reported net trading income of \$4.6bn was \$1.3bn higher compared with 1H14, predominantly in Asia and Europe. The movement in net trading income in part reflected the

following significant items and currency translation summarised in the table below.

Significant items and currency translation

| | Half-year to | | |
|---|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Included within trading activities: | | | |
| – favourable/(adverse) debit valuation adjustment on derivative contracts | 165 | (155) | (177) |
| Other significant items: | | | |
| – adverse fair value movements on non-qualifying hedges | (45) | (322) | (219) |
| – acquisitions, disposals and dilutions | – | 2 | – |
| Currency translation | 120 | (475) | (396) |
| | | 240 | 207 |
| Total | 120 | (235) | (189) |

On an adjusted basis, excluding the significant items and currency translation tabulated above, net trading income from trading activities increased by \$943m compared with 1H14, notably in client-facing GB&M driven by our Equities and Foreign Exchange businesses, primarily in the UK, following a rise in volatility in 1H15. Equities also benefited from increased client activity and favourable movements

on own credit spreads compared with minimal movements in 1H14.

Net interest income from trading activities grew, mainly in Asia from increased average balances of trading assets, and in North America from a change in portfolio mix towards higher-yielding debt securities.

Net income from financial instruments designated at fair value

| | Half-year to | | |
|--|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Net income/(expense) arising from: | | | |
| – financial assets held to meet liabilities under insurance and investment contracts | 1,615 | 1,396 | 904 |
| – liabilities to customers under investment contracts | (301) | (231) | (204) |
| – HSBC's long-term debt issued and related derivatives | 1,324 | 438 | 70 |
| – change in own credit spread on long-term debt | 650 | (215) | 632 |
| – other changes in fair value | 674 | 653 | (562) |
| – other instruments designated at fair value and related derivatives | 28 | 57 | 43 |
| Net income from financial instruments designated at fair value | 2,666 | 1,660 | 813 |

Assets and liabilities from which net income from financial instruments designated at fair value arose

| | At | | |
|--|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Financial assets designated at fair value | 25,168 | 31,823 | 29,037 |
| Financial liabilities designated at fair value | 69,485 | 82,968 | 76,153 |
| Including: | | | |
| Financial assets held to meet liabilities under: | | | |
| – insurance contracts and investment contracts with DPF | 11,341 | 11,906 | 10,650 |
| – unit-linked insurance and other insurance and investment contracts | 12,297 | 16,927 | 16,333 |
| Long-term debt issues designated at fair value | 62,962 | 75,740 | 69,681 |

The majority of the financial liabilities designated at fair value are fixed-rate long-term debt issues and are managed in conjunction with interest rate swaps as part of our interest rate management strategy. These liabilities are discussed further on page 50 of the *Annual Report and Accounts 2014*.

Reported net income from financial instruments designated at fair value was \$2.7bn in 1H15, compared with \$1.7bn in 1H14. The former included favourable movements in the fair value of our own long-term debt of \$650m due to changes in credit spread, compared with adverse movements of \$215m in the latter period.

On an adjusted basis, which excludes changes in own credit spread and the net adverse effect of currency translation of \$226m, net income from financial instruments designated at fair value increased by \$367m.

Net income arising from financial assets held to meet liabilities under insurance and investment contracts of \$1.6bn was \$387m higher than in 1H14. This primarily

reflected stronger equity market performance, notably in Hong Kong, mainland China and France.

Investment gains or losses arising from equity markets result in a corresponding movement in liabilities to customers, reflecting the extent to which unit-linked policyholders, in particular, participate in the investment performance of the associated asset portfolio. Where these relate to assets held to back investment contracts, the corresponding movement in liabilities to customers is also recorded under 'Net income/(expense) from financial instruments designated at fair value'. This is in contrast to gains or losses related to assets held to back insurance contracts or investment contracts with discretionary participation features ('DPF'), where the corresponding movement in liabilities to customers is recorded under 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.

Net income from 'Other changes in fair value' increased mainly reflecting a net favourable movement of \$73m due to interest and exchange rate hedging ineffectiveness.

Gains less losses from financial investments

| | Half-year to | | |
|---|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Net gains from disposal of: | | | |
| – debt securities | 310 | 185 | 480 |
| – equity securities | 1,578 | 782 | 255 |
| – other financial investments | 4 | 2 | 4 |
| | 1,892 | 969 | 739 |
| Impairment of available-for-sale equity securities | (18) | (23) | (350) |
| Gains less losses from financial investments | 1,874 | 946 | 389 |

In 1H15, gains less losses from financial investments increased by \$928m on a reported basis compared with 1H14, driven by the significant items and currency translation tabulated below, notably the gain on the partial sale of our shareholding in Industrial Bank (\$1.4bn).

On an adjusted basis, excluding all significant items and currency translation tabulated below, gains less losses from

financial investments increased by \$46m, driven by an increase from the disposal of available-for-sale debt securities in Europe, Asia and North America. This was partly offset by lower gains on disposal in Principal Investments in the UK.

Significant items and currency translation

| | Half-year to | | |
|---|--------------|------------|--------------|
| | 30 June | 30 June | 31 December |
| | 2015 | 2014 | 2014 |
| | \$m | \$m | \$m |
| Significant items | | | |
| – gain on the partial sale of shareholding in Industrial Bank | 1,372 | – | – |
| – gain on sale of shareholding in Bank of Shanghai | – | 428 | – |
| – impairment on our investment in Industrial Bank | – | – | (271) |
| | 1,372 | 428 | (271) |
| Currency translation | | 62 | 26 |
| Total | 1,372 | 490 | (245) |

Net insurance premium income

| | Half-year to | | |
|-------------------------------------|--------------|--------------|--------------|
| | 30 June | 30 June | 31 December |
| | 2015 | 2014 | 2014 |
| | \$m | \$m | \$m |
| Gross insurance premium income | 5,855 | 6,358 | 6,012 |
| Reinsurance premiums | (248) | (221) | (228) |
| Net insurance premium income | 5,607 | 6,137 | 5,784 |

Reported net insurance premium income decreased by \$530m compared with 1H14, mainly reflecting the adverse effect of currency translation of \$448m. On an adjusted basis, net insurance premium income fell marginally by \$82m or 1%, driven by a reduction in Asia partly offset by higher premium income in Europe and Latin America.

In Asia, premium income fell, primarily in Hong Kong from lower unit-linked contract premiums and lower sales of endowment products.

In Europe, premium income increased, driven by France, where there were higher sales of investment contracts with DPF reflecting customer demand, partly offset in the UK by lower pension premiums following a decision to exit the commercial pensions market in 2014.

Net insurance premium income also increased in Latin America, primarily in Brazil due to higher volumes of new business reflecting sales campaigns.

Other operating income

| | Half-year to | | |
|---|--------------|------------|-------------|
| | 30 June | 30 June | 31 December |
| | 2015 | 2014 | 2014 |
| | \$m | \$m | \$m |
| Rent received | 84 | 82 | 80 |
| Gains recognised on assets held for sale | 34 | 10 | 210 |
| Gains on investment properties | 33 | 71 | 49 |
| Gains on disposal of property, plant and equipment, intangible assets and non-financial investments | 26 | 3 | 29 |
| Change in present value of in-force long-term insurance business | 438 | 200 | 61 |
| Other | 221 | 172 | 164 |
| Other operating income | 836 | 538 | 593 |

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

| | Half-year to | | |
|---|--------------|------------|-------------|
| | 30 June | 30 June | 31 December |
| | 2015 | 2014 | 2014 |
| | \$m | \$m | \$m |
| Value of new business | 438 | 479 | 391 |
| Expected return | (279) | (286) | (259) |
| Assumption changes and experience variances | 241 | (3) | (113) |
| Other adjustments | 38 | 10 | 42 |
| Change in present value of in-force long-term insurance business | 438 | 200 | 61 |

Financial summary (continued)

Group performance

Reported other operating income of \$836m increased by \$298m compared with 1H14. This was in part due to the

significant items and currency translation summarised in the table below.

Significant items and currency translation

| | Half year to | | |
|---|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Significant items | | | |
| Included within gains recognised on assets held for sale: | | | |
| – gain/(loss) on sale of several tranches of real estate secured accounts in the US | 17 | (15) | 183 |
| Included within the remaining line items: | | | |
| – acquisitions, disposals and dilutions | – | (14) | (27) |
| Currency translation | 17 | (29) | 156 |
| | | (45) | (28) |
| Total | 17 | (74) | 128 |

On an adjusted basis, excluding the significant items and currency translation tabulated above, other operating income increased by \$207m compared with 1H14. This was primarily due to higher favourable movements in the present value of in force long-term insurance business ('PVIF') in RBWM, partly offset by lower disposal and revaluation gains on investment properties in 1H15.

The higher favourable movement in the PVIF balance was driven by positive investment assumption changes

in France due to rising interest rates in 1H15, compared with falling rates in 1H14. In addition, positive experience variances were reported in Hong Kong, though they were offset by an increase in liabilities to policyholders following a change in the regulatory discount rate. The overall increases were partially offset by a reduction in the value of new business driven mainly by a change in business mix in Hong Kong.

Net insurance claims and benefits paid and movement in liabilities to policyholders

| | Half-year to | | |
|--|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Insurance claims and benefits paid and movement in liabilities to policyholders: | | | |
| – gross | 7,099 | 7,212 | 6,511 |
| – reinsurers' share | (249) | (153) | (225) |
| Net total | 6,850 | 7,059 | 6,286 |

Reported net insurance claims and benefits paid and movement in liabilities to policyholders were \$209m lower than in 1H14, mainly reflecting the effect of currency translation of \$562m. On an adjusted basis, net insurance claims and benefits paid and movement in liabilities to policyholders were \$353m higher.

The increase was mainly driven by higher investment returns on the assets held to support liabilities under contracts where the policyholder bears investment risk. Notably, this included stronger equity market performance in France. The gains or losses recognised on the financial assets designated at fair value held to support these

insurance and investment contract liabilities are reported in 'Net income from financial instruments designated at fair value'.

In addition, there was a one-off increase in liabilities to policyholders in Hong Kong following a change in the regulatory discount rate applied to the liabilities which is offset by the corresponding PVIF experience variance noted above.

These increases were partially offset by lower net insurance premium income as described above.

Loan impairment charges and other credit risk provisions

| | Half-year to | | |
|---|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Loan impairment charges | | | |
| – new allowances net of allowance releases | 1,797 | 2,581 | 2,429 |
| – recoveries of amounts previously written off | (350) | (556) | (399) |
| | 1,447 | 2,025 | 2,030 |
| – individually assessed allowances | 480 | 558 | 1,222 |
| – collectively assessed allowances | 967 | 1,467 | 808 |
| Releases of impairment allowances of available-for-sale debt securities | (38) | (214) | (105) |
| Other credit risk provisions | 30 | 30 | 85 |
| Loan impairment charges and other credit risk provisions | 1,439 | 1,841 | 2,010 |
| | % | % | % |
| Impairment charges on loans and advances to customers as a percentage of average gross loans and advances to customers (annualised) | 0.31 | 0.44 | 0.43 |

Reported loan impairment charges and other credit risk provisions ('LICs') of \$1.4bn were \$402m lower than in 1H14, in part reflecting the favourable effect of currency translation of \$267m, notably in Latin America and Europe.

On an adjusted basis, LICs decreased by \$133m or 8%, primarily within North America and Latin America, partly offset in Middle East and North Africa, Europe and Asia. The percentage of impairment charges to average gross loans and advances to customers fell to 30bps in 1H15 from 33bps in 1H14.

Collectively assessed impairment charges fell by \$303m, mainly in North America and Latin America, partly offset in Europe.

- In North America, impairment charges continued to fall in the US CML portfolio in RBWM, reflecting reduced levels of delinquency and new impaired loans in addition to lower lending balances from the continued run-off and loan sales. The reduction also reflected the non-recurrence of impairment charges recorded in CMB and GB&M in 1H14 following a revision to certain estimates used in our corporate loan impairment calculation. These factors were partly offset by lower favourable market value adjustments of underlying properties in the CML portfolio as improvements in housing market conditions were less pronounced in 1H15 than in 1H14; and
- in Latin America, the decrease primarily reflected lower impairment charges in RBWM in Brazil, in part due to the non-recurrence of charges from refinements made in 1H14 to the impairment model for non-restructured

loan portfolios, and in Mexico reflecting lower delinquency rates on personal lending, payroll and card portfolios.

These were partly offset:

- in Europe, where the increase primarily reflected higher impairment charges relating to Greek exposures in GB&M, RBWM and CMB (see page 74 for further details).

Individually assessed impairment charges were broadly unchanged, as increases in Middle East and North Africa, Latin America and Asia were largely offset by a reduction in Europe.

- In Middle East and North Africa, the increase reflected impairment charges in 1H15 compared with a net release in 1H14, primarily on UAE-related exposures in CMB and GB&M;
- in Latin America, impairment charges rose, notably in CMB in Brazil; and
- in Asia, the increase reflected a specific CMB impairment charge in Indonesia in 1H15.

These factors were broadly offset:

- in Europe, where the reduction primarily reflected lower impairment charges notably in GB&M in the UK.

Net releases of credit risk provisions decreased by \$161m, mainly in the UK driven by lower releases of available-for-sale ABSs in the GB&M legacy portfolio.

Operating expenses

In addition to detailing operating expense items by category, as set out in the table below, we also categorise adjusted expenses as follows:

- run-the-bank costs comprise business as usual running costs that keep operations functioning at the required quality and standard year-on-year, maintain IT infrastructure and support revenue growth;
- change-the-bank costs comprise expenses relating to the implementation of mandatory regulatory changes and other investment costs incurred relating to projects to change

business as usual activity to enhance future operating capabilities.

Change-the-bank costs do not include one-off transformation costs incurred to deliver the cost reduction and productivity outcomes outlined in the Investor Update; and

- the UK bank levy is reported as a separate category.
- Run-the-bank costs are split between front office and back office reflecting the way the Group is organised into four global businesses ('front office'), supported by the global functions ('back office').

| | Half-year to | | |
|--|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| By expense category | | | |
| Employee compensation and benefits | 10,041 | 9,978 | 10,388 |
| Premises and equipment (excluding depreciation and impairment) | 1,939 | 2,092 | 2,112 |
| General and administrative expenses | 6,190 | 5,035 | 9,326 |
| Administrative expenses | 18,170 | 17,105 | 21,826 |
| Depreciation and impairment of property, plant and equipment | 604 | 712 | 670 |
| Amortisation and impairment of intangible assets | 413 | 449 | 487 |
| Operating expenses | 19,187 | 18,266 | 22,983 |

Staff numbers (full-time equivalent)

| | At | | |
|------------------------------|-----------------|-----------------|---------------------|
| | 30 June 2015 | 30 June 2014 | 31 December 2014 |
| Geographical regions | | | |
| Europe | 69,867 | 69,642 | 69,363 |
| Asia | 120,588 | 115,111 | 118,322 |
| Middle East and North Africa | 8,208 | 8,530 | 8,305 |
| North America | 20,338 | 20,649 | 20,412 |
| Latin America | 40,787 | 42,157 | 41,201 |
| Staff numbers | 259,788 | 256,089 | 257,603 |

Reported operating expenses of \$19.2bn were \$0.9bn or 5% higher than in 1H14, with the increase in significant

items in 1H15 more than offset by the positive effects of currency translation.

Significant items and currency translation

| | Half-year to | | |
|---|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Significant items | | | |
| – charge in relation to the settlement agreement with Federal Housing Finance Authority | – | – | 550 |
| – settlements and provisions in connection with legal matters | 1,144 | – | 1,187 |
| – regulatory provisions in GBP | 147 | – | 65 |
| – UK customer redress programmes | 137 | 234 | 1,041 |
| – restructuring and other related costs | 117 | 82 | 196 |
| – acquisitions, disposals and dilutions | – | 35 | 5 |
| | 1,545 | 351 | 3,044 |
| Currency translation | | 1,479 | 1,287 |
| Total | 1,545 | 1,830 | 4,331 |

| | Half-year to | | |
|-----------------------------|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| By expense group | | | |
| Run-the-bank – front office | 8,027 | 7,448 | 7,746 |
| Run-the-bank – back office | 7,924 | 7,680 | 8,273 |
| Change-the-bank | 1,736 | 1,353 | 1,525 |
| Bank levy | (45) | (45) | 1,108 |
| Significant items | 1,545 | 351 | 3,044 |
| Currency translation | – | 1,479 | 1,287 |
| Operating expenses | 19,187 | 18,266 | 22,983 |

On an adjusted basis, excluding the significant items and currency translation tabulated above, operating expenses in 1H15 were \$1.2bn or 7% higher than in 1H14 reflecting increases in both run-the-bank and change-the-bank costs.

Front office run-the-bank costs totalled \$8.0bn in 1H15, an increase of \$0.6bn (8%) on 1H14. This was primarily driven by higher staff costs reflecting wage inflation, principally in Argentina, Brazil and Hong Kong, and a targeted increase in the number of staff to support growth as follows:

- in line with our strategic target to achieve revenue growth above GDP from our international network, in CMB and GB&M we invested in Payments and Cash Management in North America, Asia and Europe; and
- in RBWM we invested in additional FTEs, mainly in Asia to support revenue growth.

Back office run-the-bank costs totalled \$7.9bn in 1H15, an increase of \$0.2bn (3%) on 1H14 in part driven by both wage inflation and non-wage inflation such as rental costs in Asia.

Regulatory Programmes and Compliance costs increased as a result of our ongoing focus on Global Standards, as part of which we continue to improve our compliance capabilities, particularly in the area of financial crime

Reported cost efficiency ratios

| | Half-year to | | |
|---|----------------------|----------------------|--------------------------|
| | 30 June 2015 % | 30 June 2014 % | 31 December 2014 % |
| HSBC | 58.2 | 58.6 | 76.4 |
| Geographical regions | | | |
| Europe | 78.3 | 76.8 | 110.9 |
| Asia | 38.8 | 41.4 | 46.8 |
| Middle East and North Africa | 48.4 | 47.4 | 48.0 |
| North America | 79.7 | 69.8 | 87.9 |
| Latin America | 67.6 | 67.8 | 75.8 |
| Global businesses | | | |
| Retail Banking and Wealth Management ⁹ | 67.1 | 67.6 | 75.8 |
| Commercial Banking ⁹ | 44.1 | 42.5 | 46.1 |
| Global Banking and Markets | 56.4 | 50.6 | 88.5 |
| Global Private Banking | 85.0 | 70.6 | 79.3 |

For footnote, see page 56.

Share of profit in associates and joint ventures

| | Half-year to | | |
|---|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Associates | | | |
| Bank of Communications Co., Limited | 1,021 | 978 | 996 |
| The Saudi British Bank | 240 | 239 | 216 |
| Other | 25 | 37 | 27 |
| Share of profit in associates | 1,286 | 1,254 | 1,239 |
| Share of profit in joint ventures | 25 | 26 | 13 |
| Share of profit in associates and joint ventures | 1,311 | 1,280 | 1,252 |

HSBC's share of profit in associates and joint ventures of \$1.3bn increased marginally compared with 1H14 driven by a higher contribution from Bank of Communications Co., Limited ('BoCom').

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

At 30 June 2015, we performed an impairment review of our investment in BoCom and concluded that it was not impaired based on our value in use calculation (see Note 14 in the Financial Statements for further details). The continued uncertainty regarding future movements in the value in use and the expectations around increases in the carrying amount are discussed further on page 55 of the *Annual Report and Accounts 2014*.

Tax expense

| | Half-year to | | |
|-------------------------|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Profit before tax | 13,628 | 12,340 | 6,340 |
| Tax expense | (2,907) | (2,022) | (1,953) |
| Profit after tax | 10,721 | 10,318 | 4,387 |
| Effective tax rate | 21.3% | 16.4% | 30.8% |

The effective tax rate for the first half of the year of 21.3% was slightly higher than the UK corporation tax rate of 20.25% principally due to non-deductible regulatory settlements and provisions.

The effective tax rate for 1H14 was significantly lower, principally due to prior year adjustments.

Consolidated balance sheet

Summary consolidated balance sheet

| | At 30 June 2015 \$m | At 30 June 2014 \$m | At 31 December 2014 \$m |
|--|------------------------------|------------------------------|----------------------------------|
| ASSETS | | | |
| Cash and balances at central banks | 144,324 | 132,137 | 129,957 |
| Trading assets | 283,138 | 347,106 | 304,193 |
| Financial assets designated at fair value | 25,168 | 31,823 | 29,037 |
| Derivatives | 296,942 | 269,839 | 345,008 |
| Loans and advances to banks | 109,405 | 127,387 | 112,149 |
| Loans and advances to customers | 953,985 | 1,047,241 | 974,660 |
| Reverse repurchase agreements – non-trading | 149,384 | 198,301 | 161,713 |
| Financial investments | 404,682 | 423,710 | 415,467 |
| Assets held for sale | 60,929 | 10,248 | 7,647 |
| Other assets | 143,756 | 165,801 | 154,308 |
| Total assets | 2,571,713 | 2,753,593 | 2,634,139 |
| LIABILITIES AND EQUITY | | | |
| Liabilities | | | |
| Deposits by banks | 71,140 | 92,764 | 77,426 |
| Customer accounts | 1,335,800 | 1,415,705 | 1,350,642 |
| Repurchase agreements – non-trading | 81,506 | 165,506 | 107,432 |
| Trading liabilities | 181,435 | 228,135 | 190,572 |
| Financial liabilities designated at fair value | 69,485 | 82,968 | 76,153 |
| Derivatives | 289,984 | 263,494 | 340,669 |
| Debt securities in issue | 102,656 | 96,397 | 95,947 |
| Liabilities under insurance contracts | 69,494 | 75,223 | 73,861 |
| Liabilities of disposal groups held for sale | 53,226 | 12,361 | 6,934 |
| Other liabilities | 115,605 | 122,318 | 114,525 |
| Total liabilities | 2,370,331 | 2,554,871 | 2,434,161 |
| Equity | | | |
| Total shareholders' equity | 192,427 | 190,281 | 190,447 |
| Non-controlling interests | 8,955 | 8,441 | 9,531 |
| Total equity | 201,382 | 198,722 | 199,978 |
| Total liabilities and equity | 2,571,713 | 2,753,593 | 2,634,139 |

Selected financial information

| | At 30 June 2015 \$m | At 30 June 2014 \$m | At 31 December 2014 \$m |
|--|------------------------------|------------------------------|----------------------------------|
| Called up share capital | 9,758 | 9,535 | 9,609 |
| Total regulatory capital | 195,110 | 192,834 | 190,730 |
| Undated subordinated loan capital | 2,771 | 2,777 | 2,773 |
| Preferred securities and dated subordinated loan capital | 44,852 | 49,644 | 47,208 |
| Risk-weighted assets | 1,193,154 | 1,248,572 | 1,219,765 |
| Financial statistics | | | |
| Loans and advances to customers as a percentage of customer accounts | 71.4 | 74.0 | 72.2 |
| Average total shareholders' equity to average total assets | 7.1 | 6.9 | 7.0 |
| Net asset value per ordinary share at period-end (\$) | 9.11 | 9.64 | 9.28 |
| Number of \$0.50 ordinary shares in issue (millions) | 19,516 | 19,071 | 19,218 |
| Closing foreign exchange translation rates to \$: | | | |
| \$1: £ | 0.635 | 0.586 | 0.642 |
| \$1: € | 0.893 | 0.732 | 0.823 |

A more detailed consolidated balance sheet is contained in the Financial Statements on page 101.

Combined view of customer lending and customer deposits

| | At | | |
|--|-----------------------|-----------------------|-----------------------|
| | 30 Jun 2015 \$m | 30 Jun 2014 \$m | 31 Dec 2014 \$m |
| Loans and advances to customers | 953,985 | 1,047,241 | 974,660 |
| Loans and advances to customers reported in 'Assets held for sale' | 21,024 | 1,658 | 577 |
| – Brazil | 20,827 | – | – |
| – other | 197 | 1,658 | 577 |
| Combined customer lending | 975,009 | 1,048,899 | 975,237 |
| Customer accounts | 1,335,800 | 1,415,705 | 1,350,642 |
| Customer accounts reported in 'Liabilities of disposal groups held for sale' | 19,432 | 4,880 | 145 |
| – Brazil | 19,432 | – | – |
| – other | – | 4,880 | 145 |
| Combined customer deposits | 1,355,232 | 1,420,585 | 1,350,787 |

Movement from 31 December 2014 to 30 June 2015

Total reported assets of \$2.6 trillion were 2% lower than at 31 December 2014. On a constant currency basis, total assets were broadly unchanged.

Our ratio of customer advances to customer accounts was 71%. Both customer loans and customer accounts were lower on a reported basis with these movements including:

- adverse currency translation movements of \$12bn and \$14bn, respectively;
- the transfer to 'Assets held for sale' and 'Liabilities of disposal groups held for sale' of balances relating to the planned disposal of our operations in Brazil of \$21bn and \$19bn, respectively; and
- a \$10bn reduction in corporate overdraft and current account balances relating to a small number of clients in our Payments and Cash Management business in the UK who settled their overdraft and deposit balances on a net basis. During 2014 we made our approach to our Payments and Cash Management business more globally consistent, with customers increasing the frequency with which they settled their overdraft and deposit positions.

Excluding these movements, customer lending grew by \$22bn and customer accounts grew by \$29bn, notably in Asia in each case.

Assets

Cash and balances at central banks increased by \$14bn, primarily in Asia, notably Hong Kong, and in Europe, partly offset by a fall in North America as we managed the balance of our liquid asset portfolios across our regions.

Trading assets decreased by \$21bn despite a rise in settlement accounts of \$12bn, driven by reduced holdings of debt securities across Europe, Asia and North America, as we looked to maximise the effectiveness of our asset deployment.

Derivative assets decreased by \$48bn or 14%, notably in Europe relating to interest rate contracts reflecting movements in yield curves.

Loans and advances to customers decreased by \$21bn driven by Latin America and Europe. This included the following items:

- adverse currency translation movements of \$12bn;
- reclassification of \$21bn to 'Assets held for sale' relating to Brazil; and
- a \$10bn reduction in corporate overdraft balances in Europe, with a corresponding fall in corporate customer accounts.

Excluding these factors, customer lending balances grew by \$22bn or 3%, largely from growth in Asia of \$12bn, North America \$5bn and Europe \$3bn.

In Asia, term lending to GB&M and CMB customers grew, primarily in Hong Kong, which included growth in lending to the property sector. Residential mortgage balances also increased, mainly in Hong Kong and mainland China. In North America the growth in balances was driven by increased term lending to corporate and commercial customers in CMB and GB&M, and in Europe, the growth in CMB was mainly driven by an increase in term lending, notably in the UK and Germany.

Liabilities

Repurchase agreements decreased by \$26bn or 24%, driven by falls in Europe, notably in the UK and France, and in North America. We continued to closely manage these balances, as we reassessed the overall returns on these activities in light of new regulatory requirements.

Customer accounts decreased by \$15bn and included the following items:

- adverse currency translation movements of \$14bn;
- reclassification of over \$19bn to 'Liabilities of disposal groups held for sale' relating to Brazil; and
- a \$10bn reduction in corporate current account balances, in line with the fall in corporate overdraft positions.

Excluding these factors, customer accounts grew by \$29bn, notably in Asia in the second quarter, reflecting growth in our Payments and Cash Management and Securities Services businesses in CMB and GB&M, respectively, together with a rise in RBWM from increased savings balances by new and existing Premier customers.

Balances in Europe were broadly unchanged. Growth in our Payments and Cash Management business in CMB and a rise in RBWM balances reflecting customers' continued preference for holding balances in current and savings accounts were broadly offset by a fall in GB&M relating to a small number of clients.

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

Equity

Total shareholders' equity rose by \$2bn driven by profits generated in the period which were partly offset by dividends paid. In addition, shareholders' equity increased from the issue of new contingent convertible securities of \$2.5bn. These movements were partly offset by a reduction of \$3.2bn in our foreign exchange reserve reflecting the weakening of a number of global currencies, notably the euro, partly offset by the strengthening of sterling against the US dollar.

Customer accounts by country

| | At | | |
|--|-----------------------|-----------------------|-----------------------|
| | 30 Jun 2015 \$m | 30 Jun 2014 \$m | 31 Dec 2014 \$m |
| Europe | 536,251 | 614,776 | 545,959 |
| – UK | 435,958 | 499,295 | 439,313 |
| – France | 35,713 | 47,347 | 40,750 |
| – Germany | 15,741 | 15,912 | 15,757 |
| – Switzerland | 10,887 | 11,073 | 11,058 |
| – other | 37,952 | 41,149 | 39,081 |
| Asia | 599,940 | 570,221 | 577,491 |
| – Hong Kong | 412,652 | 381,058 | 389,094 |
| – Australia | 18,214 | 20,803 | 19,312 |
| – India | 11,372 | 12,155 | 11,678 |
| – Indonesia | 6,087 | 5,979 | 5,788 |
| – Mainland China | 47,348 | 41,198 | 46,588 |
| – Malaysia | 15,942 | 17,570 | 16,292 |
| – Singapore | 43,889 | 45,885 | 43,731 |
| – Taiwan | 13,014 | 14,609 | 14,901 |
| – other | 31,422 | 30,964 | 30,107 |
| Middle East and North Africa (excluding Saudi Arabia) | 38,186 | 40,082 | 39,720 |
| – Egypt | 6,638 | 6,945 | 7,663 |
| – United Arab Emirates | 19,864 | 19,840 | 19,771 |
| – other | 11,684 | 13,297 | 12,286 |
| North America | 137,296 | 136,774 | 138,884 |
| – US | 85,360 | 79,536 | 84,894 |
| – Canada | 40,548 | 46,197 | 43,871 |
| – other | 11,388 | 11,041 | 10,119 |
| Latin America | 24,127 | 53,852 | 48,588 |
| – Mexico | 17,112 | 20,112 | 18,360 |
| – other | 7,015 | 33,740 | 30,228 |
| included in other: Brazil ¹⁰ | – | 27,068 | 23,204 |
| At end of period | 1,335,800 | 1,415,705 | 1,350,642 |

For footnote, see page 56.

Risk-weighted assets

Risk-weighted assets totalled \$1,193bn at 30 June 2015, a decrease of \$27bn or 2% from 31 December 2014, reflecting targeted RWA initiatives and the effects of currency translation, partly offset by business growth. In 1H15, RWA initiatives resulted in a reduction of \$50bn and included asset sales in the GB&M legacy book, the sale of part of our shareholding in Industrial Bank, and recognition of collateral and more detailed mapping in RWA calculations. Excluding associates, we achieved business growth in RWAs of \$22bn, primarily in corporate lending across CMB and GB&M across Asia, Europe and North America.

Reconciliation of RoRWA measures

Performance Management

We target a return on average ordinary shareholders' equity of greater than 10% by the end of 2017. For internal management purposes we monitor global businesses and geographical regions by pre-tax return on average risk-weighted assets ('RoRWA'), a metric which combines return on equity and regulatory capital efficiency objectives.

In addition to measuring RoRWA, we measure our performance internally using the non-GAAP measure of adjusted RoRWA, which is adjusted profit before tax as a percentage of average risk-weighted assets ('RWA's) which are adjusted for the effects of foreign currency translation differences and acquisitions and disposals. Excluded from adjusted RoRWA are certain items which distort period-on-period performance as explained on page 15.

We also present the non-GAAP measure of adjusted RoRWA excluding run-off portfolios, in which adjusted RoRWA is further amended to exclude the run-off portfolios and the Card and Retail Services ('CRS') business which was sold in May 2012.

The CRS average RWAs as at 30 June 2014 in the table below represent the average of the associated operational risk RWAs that were not immediately released on disposal and were not adjusted for as part of the adjusted RoRWA calculation. These RWAs are now fully amortised.

Financial Summary (continued)

Reconciliation of RoRWA measures

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

| | Half-year to 30 June 2015 | | |
|---|---------------------------|----------------------|--------------------------|
| | Pre-tax return \$m | Average RWAs \$bn | RoRWA ¹¹ % |
| Reported | 13,628 | 1,208 | 2.3 |
| Adjusted ¹¹ | 13,002 | 1,203 | 2.2 |
| Run-off portfolios | 275 | 91 | 0.6 |
| – legacy credit in GB&M | 71 | 38 | 0.4 |
| – US CML and other | 204 | 53 | 0.8 |
| Card and Retail Services | – | – | – |
| Adjusted (excluding run-off portfolios and Card and Retail Services) | 12,727 | 1,112 | 2.3 |

| | Half-year to 30 June 2014 | | | Half-year to 31 December 2014 | | |
|---|---------------------------|----------------------|--------------------------|-------------------------------|----------------------|--------------------------|
| | Pre-tax return \$m | Average RWAs \$bn | RoRWA ¹¹ % | Pre-tax return \$m | Average RWAs \$bn | RoRWA ¹¹ % |
| Reported | 12,340 | 1,200 | 2.1 | 6,340 | 1,232 | 1.0 |
| Adjusted ¹¹ | 12,722 | 1,146 | 2.2 | 9,387 | 1,190 | 1.6 |
| Run-off portfolios | 528 | 122 | 0.9 | 318 | 110 | 0.6 |
| – legacy credit in GB&M | 286 | 48 | 1.2 | (138) | 49 | (0.6) |
| – US CML and other | 242 | 74 | 0.7 | 456 | 61 | 1.5 |
| Card and Retail Services | – | 1 | – | – | – | – |
| Adjusted (excluding run-off portfolios and Card and Retail Services) | 12,194 | 1,023 | 2.4 | 9,069 | 1,080 | 1.7 |

For footnote, see page 56.

Reconciliation of reported and adjusted average risk-weighted assets

| | Half-year to | | | | | |
|---|---------------------|---------------------|-------------|---------------------|---------------------|-------------|
| | 30 Jun 2015 \$bn | 30 Jun 2014 \$bn | Change % | 30 Jun 2015 \$bn | 31 Dec 2014 \$bn | Change % |
| Average reported RWAs | 1,208 | 1,200 | 1 | 1,208 | 1,232 | (2) |
| Currency translation adjustment ¹² | – | (46) | (100) | – | (32) | (100) |
| Acquisitions, disposals and dilutions | (5) | (8) | (38) | (5) | (10) | (50) |
| Average adjusted RWAs | 1,203 | 1,146 | 5 | 1,203 | 1,190 | 1 |

For footnote, see page 56.

Global businesses

| | |
|--------------------------------------|----|
| Summary | 33 |
| Retail Banking and Wealth Management | 34 |
| Commercial Banking | 35 |
| Global Banking and Markets | 36 |
| Global Private Banking | 37 |
| Other | 38 |

Summary

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

We present global businesses followed by geographical regions because certain strategic themes, business initiatives and trends affect more than one geographical region.

Profit/(loss) before tax

| | Half-year to | | | | | |
|---|---------------|--------------|---------------|--------------|------------------|--------------|
| | 30 June 2015 | | 30 June 2014 | | 31 December 2014 | |
| | \$m | % | \$m | % | \$m | % |
| Retail Banking and Wealth Management ⁹ | 3,362 | 24.7 | 3,002 | 24.4 | 2,579 | 40.7 |
| Commercial Banking ⁹ | 4,523 | 33.2 | 4,814 | 39.0 | 4,000 | 63.1 |
| Global Banking and Markets | 4,754 | 34.9 | 5,033 | 40.8 | 856 | 13.5 |
| Global Private Banking | 180 | 1.3 | 364 | 2.9 | 262 | 4.1 |
| Other ¹³ | 809 | 5.9 | (873) | (7.1) | (1,357) | (21.4) |
| | 13,628 | 100.0 | 12,340 | 100.0 | 6,340 | 100.0 |

Total assets¹⁴

| | At | | | | | |
|---|------------------|--------------|------------------|--------------|------------------|--------------|
| | 30 June 2015 | | 30 June 2014 | | 31 December 2014 | |
| | \$m | % | \$m | % | \$m | % |
| Retail Banking and Wealth Management ⁹ | 497,199 | 19.3 | 526,089 | 19.1 | 500,864 | 19.0 |
| Commercial Banking ⁹ | 378,641 | 14.7 | 375,014 | 13.6 | 370,958 | 14.1 |
| Global Banking and Markets | 1,790,461 | 69.6 | 2,043,767 | 74.2 | 1,839,644 | 69.8 |
| Global Private Banking | 85,740 | 3.3 | 99,379 | 3.6 | 88,342 | 3.4 |
| Other | 167,946 | 6.5 | 170,802 | 6.2 | 164,537 | 6.2 |
| Intra-HSBC items | (348,274) | (13.4) | (461,458) | (16.7) | (330,206) | (12.5) |
| | 2,571,713 | 100.0 | 2,753,593 | 100.0 | 2,634,139 | 100.0 |

Risk-weighted assets

| | At | | | | | |
|---|----------------|--------------|----------------|--------------|------------------|--------------|
| | 30 June 2015 | | 30 June 2014 | | 31 December 2014 | |
| | \$bn | % | \$bn | % | \$bn | % |
| Retail Banking and Wealth Management ⁹ | 204.6 | 17.2 | 225.4 | 18.1 | 207.2 | 17.0 |
| Commercial Banking ⁹ | 439.6 | 36.8 | 422.5 | 33.8 | 430.3 | 35.3 |
| Global Banking and Markets | 491.0 | 41.1 | 537.3 | 43.0 | 516.1 | 42.3 |
| Global Private Banking | 21.1 | 1.8 | 22.1 | 1.8 | 20.8 | 1.7 |
| Other | 36.9 | 3.1 | 41.3 | 3.3 | 45.4 | 3.7 |
| | 1,193.2 | 100.0 | 1,248.6 | 100.0 | 1,219.8 | 100.0 |

For footnotes, see page 56.

Global Banking and Markets client-facing and BSM

The GB&M client-facing and BSM businesses measure (see page 36) excludes the effects of the legacy credit portfolio and income from associates. We believe that highlighting the

Basis of preparation

The results of global businesses are presented in accordance with the accounting policies used in the preparation of HSBC's consolidated financial statements. Our operations are closely integrated and, accordingly, the presentation of global business data includes internal allocations of certain items of income and expense. These allocations include the costs of some support services and global functions to the extent that they can be meaningfully attributed to operational business lines. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity. Those costs which are not allocated to global businesses are included in 'Other'.

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

The expense of the UK bank levy is included in the Europe geographical region as we regard the levy as a cost of being headquartered in the UK. For the purposes of the segmentation by global businesses, the cost of the levy is included in 'Other'.

Retail Banking and Wealth Management

RBWM provides banking and wealth management services for our personal customers to help them secure their future prosperity and realise their ambitions.

| | Total RBWM \$m | US run-off portfolio \$m | Principal RBWM ¹⁶ \$m |
|--|-------------------|-----------------------------|-------------------------------------|
| Half-year to 30 June 2015 | | | |
| Net interest income | 8,054 | 536 | 7,518 |
| Net fee income/(expense) | 3,334 | (2) | 3,336 |
| Other income | 1,054 | 46 | 1,008 |
| Net operating income¹⁵ | 12,442 | 580 | 11,862 |
| LICs | (934) | (47) | (887) |
| Net operating income | 11,508 | 533 | 10,975 |
| Total operating expenses | (8,354) | (688) | (7,666) |
| Operating profit/(loss) | 3,154 | (155) | 3,309 |
| Income from associates | 208 | – | 208 |
| Profit/(loss) before tax | 3,362 | (155) | 3,517 |
| RoRWA | 3.3% | (0.6)% | 4.6% |

| Half-year to 30 June 2014⁹ | | | |
|--|---------------|------------|---------------|
| Net interest income | 8,617 | 750 | 7,867 |
| Net fee income/(expense) | 3,377 | (1) | 3,378 |
| Other income/(expense) | 622 | (149) | 771 |
| Net operating income¹⁵ | 12,616 | 600 | 12,016 |
| LICs | (1,299) | (180) | (1,119) |
| Net operating income | 11,317 | 420 | 10,897 |
| Total operating expenses | (8,530) | (361) | (8,169) |
| Operating profit | 2,787 | 59 | 2,728 |
| Income from associates | 215 | – | 215 |
| Profit before tax | 3,002 | 59 | 2,943 |
| RoRWA | 2.6% | 0.2% | 3.8% |

| Half-year to 31 December 2014⁹ | | | |
|--|---------------|------------|---------------|
| Net interest income | 8,513 | 640 | 7,873 |
| Net fee income/(expense) | 3,459 | (3) | 3,462 |
| Other income | 561 | 100 | 461 |
| Net operating income¹⁵ | 12,533 | 737 | 11,796 |
| LICs | (637) | 150 | (787) |
| Net operating income | 11,896 | 887 | 11,009 |
| Total operating expenses | (9,500) | (377) | (9,123) |
| Operating profit | 2,396 | 510 | 1,886 |
| Income from associates | 183 | – | 183 |
| Profit before tax | 2,579 | 510 | 2,069 |
| RoRWA | 2.4% | 1.7% | 2.7% |

For footnotes, see page 56.

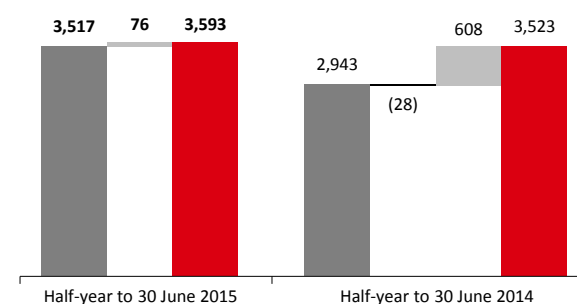
For details of significant items, see page 53.

Principal RBWM¹⁶ performance Management view of adjusted revenue¹⁵

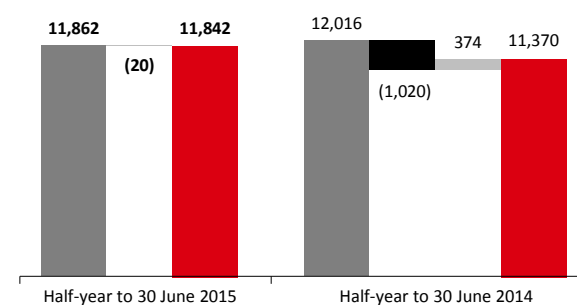
| | Half-year to | | |
|--|--------------------|--------------------|--------------------|
| | 30 Jun 2015 \$m | 30 Jun 2014 \$m | 31 Dec 2014 \$m |
| Current accounts, savings and deposits | 2,815 | 2,766 | 2,845 |
| Wealth Management products | 3,605 | 3,008 | 2,879 |
| – investment distribution | 1,966 | 1,635 | 1,666 |
| – life insurance | 1,080 | 866 | 681 |
| – asset management | 559 | 507 | 532 |
| Personal lending | 5,101 | 5,222 | 5,210 |
| – mortgages | 1,432 | 1,491 | 1,494 |
| – credit cards | 1,995 | 1,992 | 2,037 |
| – other personal lending | 1,674 | 1,739 | 1,679 |
| Other | 321 | 374 | 395 |
| Net operating income¹⁵ | 11,842 | 11,370 | 11,329 |

For footnotes, see page 56.

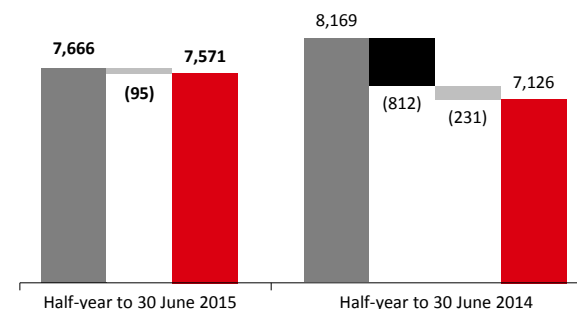
Profit before tax (\$m)



Revenue (\$m)



Operating expenses (\$m)



■ Reported ■ Currency translation ■ Significant items ■ Adjusted

Commercial Banking

CMB offers a full range of financial services and tailored solutions to almost three million customers ranging from small and medium-sized enterprises to publicly quoted companies in around 55 countries.

| | Half-year to | | |
|--|--------------------|---------------------------------|---------------------------------|
| | 30 Jun 2015 \$m | 30 Jun 2014 ⁹ \$m | 31 Dec 2014 ⁹ \$m |
| Net interest income | 4,892 | 4,994 | 5,164 |
| Net fee income | 2,168 | 2,327 | 2,243 |
| Other income | 474 | 502 | 518 |
| Net operating income¹⁵ | 7,534 | 7,823 | 7,925 |
| LICs | (511) | (488) | (1,070) |
| Net operating income | 7,023 | 7,335 | 6,855 |
| Total operating expenses | (3,321) | (3,327) | (3,654) |
| Operating profit | 3,702 | 4,008 | 3,201 |
| Income from associates | 821 | 806 | 799 |
| Profit before tax | 4,523 | 4,814 | 4,000 |
| RoRWA | 2.1% | 2.4% | 1.9% |

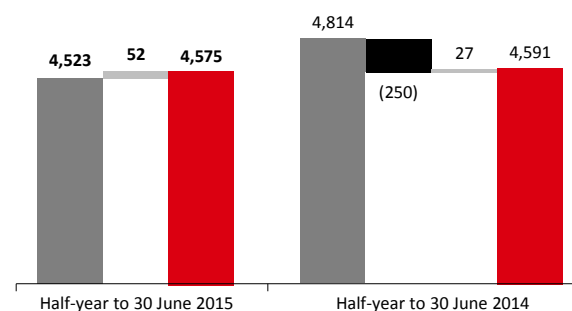
Management view of adjusted revenue¹⁵

| | Half-year to | | |
|---|--------------------|---------------------------------|---------------------------------|
| | 30 Jun 2015 \$m | 30 Jun 2014 ⁹ \$m | 31 Dec 2014 ⁹ \$m |
| Global Trade and Receivables Finance | 1,219 | 1,214 | 1,266 |
| Credit and Lending | 2,982 | 2,747 | 2,925 |
| Payments and Cash Management, current accounts and savings deposits | 2,262 | 2,184 | 2,287 |
| Markets products, Insurance and Investments and Other | 1,071 | 1,069 | 996 |
| Net operating income¹⁵ | 7,534 | 7,214 | 7,474 |

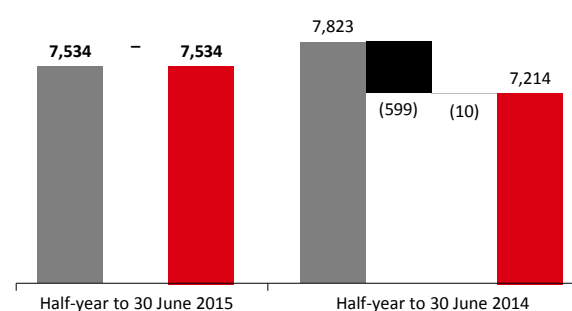
For footnotes, see page 56.

For details of significant items, see page 53.

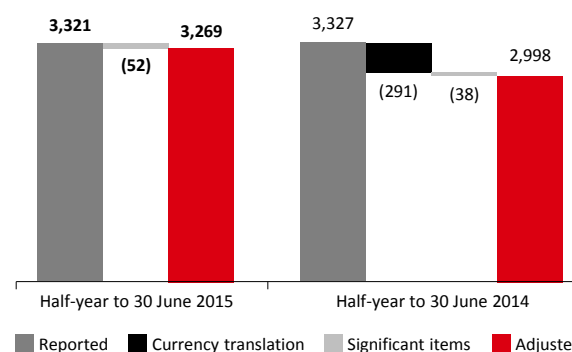
Profit before tax (\$m)



Revenue (\$m)



Operating expenses (\$m)



■ Reported ■ Currency translation ■ Significant items ■ Adjusted

Global Banking and Markets

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

| | Total GB&M \$m | Legacy \$m | GB&M client facing and BSM \$m |
|---|----------------|------------|--------------------------------|
| Half-year to 30 June 2015 | | | |
| Net interest income | 3,629 | 114 | 3,515 |
| Net fee income/(expense) | 1,711 | (6) | 1,717 |
| Net trading income/(expense) ⁶ | 3,743 | (1) | 3,744 |
| Other income/(expense) | 1,178 | (10) | 1,188 |
| Net operating income¹⁵ | 10,261 | 97 | 10,164 |
| LICs | 11 | 15 | (4) |
| Net operating income | 10,272 | 112 | 10,160 |
| Total operating expenses | (5,790) | (41) | (5,749) |
| Operating profit | 4,482 | 71 | 4,411 |
| Income from associates | 272 | | |
| Profit before tax | 4,754 | | |
| RoRWA | 1.9% | 0.4% | 2.0% |

| Half-year to 30 June 2014 | | | |
|--|--------------|------------|--------------|
| Net interest income/(expense) | 3,602 | (19) | 3,621 |
| Net fee income | 1,939 | 4 | 1,935 |
| Net trading income ⁶ | 2,790 | 51 | 2,739 |
| Other income | 1,460 | 140 | 1,320 |
| Net operating income¹⁵ | 9,791 | 176 | 9,615 |
| LICs | (49) | 217 | (266) |
| Net operating income | 9,742 | 393 | 9,349 |
| Total operating expenses | (4,958) | (86) | (4,872) |
| Operating profit | 4,784 | 307 | 4,477 |
| Income from associates | 249 | | |
| Profit before tax | 5,033 | | |
| RoRWA | 2.0% | 1.3% | 2.1% |

| Half-year to 31 December 2014 | | | |
|--|--------------|--------------|--------------|
| Net interest income/(expense) | 3,420 | (153) | 3,573 |
| Net fee income/(expense) | 1,621 | (11) | 1,632 |
| Net trading income/(expense) ⁶ | 3,071 | (106) | 3,177 |
| Other income/(expense) | (125) | 92 | (217) |
| Net operating income/(expense)¹⁵ | 7,987 | (178) | 8,165 |
| LICs | (316) | 132 | (448) |
| Net operating income/(expense) | 7,671 | (46) | 7,717 |
| Total operating expenses | (7,070) | (622) | (6,448) |
| Operating profit/(loss) | 601 | (668) | 1,269 |
| Income from associates | 255 | | |
| Profit/(loss) before tax | 856 | | |
| RoRWA | 0.3% | (2.7)% | 0.6% |

For footnotes, see page 56.

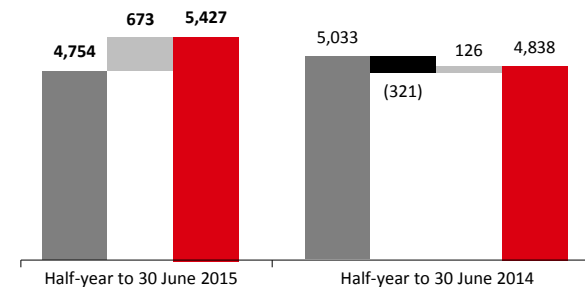
For details of significant items, see page 53.

Total GB&M performance Management view of adjusted revenue¹⁵

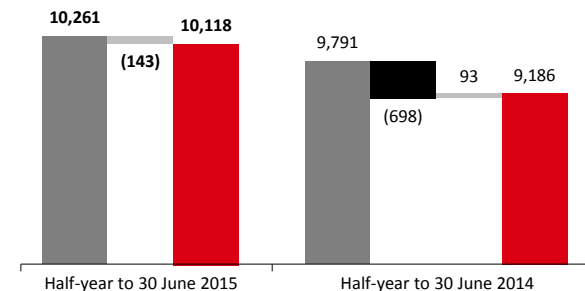
| | Half-year to | | |
|--|-----------------|-----------------|-----------------|
| | 30 Jun 2015 \$m | 30 Jun 2014 \$m | 31 Dec 2014 \$m |
| Markets | 4,372 | 3,557 | 2,261 |
| – Legacy credit | 97 | 161 | (177) |
| – Credit | 492 | 395 | 138 |
| – Rates | 1,006 | 1,027 | 395 |
| – Foreign Exchange | 1,670 | 1,343 | 1,411 |
| – Equities | 1,107 | 631 | 494 |
| Capital Financing | 1,881 | 1,922 | 1,891 |
| Payments and Cash Management | 899 | 851 | 849 |
| Securities Services | 865 | 792 | 814 |
| Global Trade and Receivables Finance | 370 | 359 | 353 |
| Balance Sheet Management | 1,588 | 1,369 | 1,508 |
| Principal Investments | 128 | 318 | 182 |
| Other ¹⁷ | 15 | 18 | (83) |
| Net operating income¹⁵ | 10,118 | 9,186 | 7,775 |

For footnotes, see page 56.

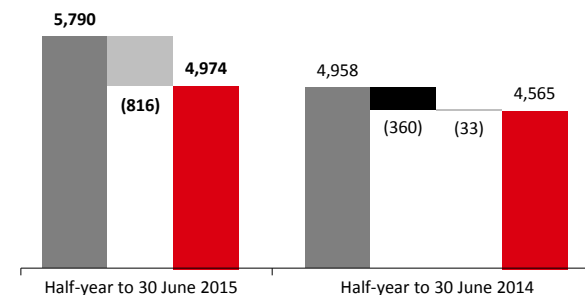
Profit before tax (\$m)



Revenue (\$m)



Operating expenses (\$m)



Reported Currency translation Significant items Adjusted

Global Private Banking

GPB serves high net worth individuals and families with complex and international financial needs within the Group's priority markets.

| | Half-year to | | |
|--|-----------------------|-----------------------|-----------------------|
| | 30 Jun 2015 \$m | 30 Jun 2014 \$m | 31 Dec 2014 \$m |
| Net interest income | 454 | 536 | 458 |
| Net fee income | 527 | 533 | 523 |
| Other income/(expense) | 196 | 161 | 166 |
| Net operating income¹⁵ | 1,177 | 1,230 | 1,147 |
| LICs | (5) | (6) | 14 |
| Net operating income | 1,172 | 1,224 | 1,161 |
| Total operating expenses | (1,001) | (868) | (910) |
| Operating profit | 171 | 356 | 251 |
| Income from associates | 9 | 8 | 11 |
| Profit before tax | 180 | 364 | 262 |
| RoRWA | 1.8% | 3.3% | 2.4% |

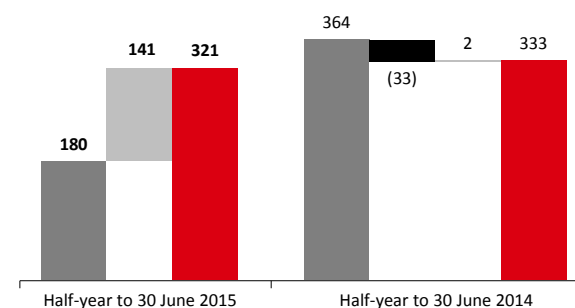
Client assets¹⁸

| | Half-year to | | |
|---------------------------------------|------------------------|------------------------|------------------------|
| | 30 Jun 2015 \$bn | 30 Jun 2014 \$bn | 31 Dec 2014 \$bn |
| At beginning of period | 365 | 382 | 384 |
| Net new money | (1) | (3) | - |
| – of which: areas targeted for growth | 7 | 5 | 9 |
| Value change | 9 | 6 | 2 |
| Exchange and other | (3) | (1) | (21) |
| At end of period | 370 | 384 | 365 |

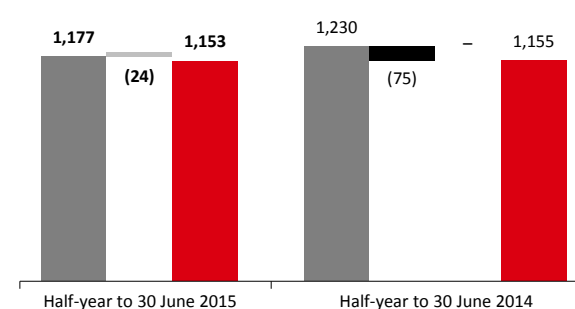
For footnotes, see page 56.

For details of significant items, see page 53.

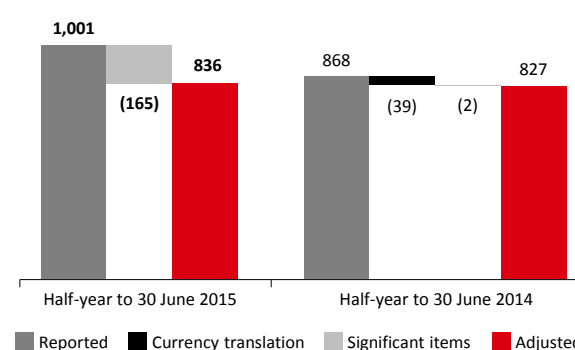
Profit before tax (\$m)



Revenue (\$m)



Operating expenses (\$m)



■ Reported ■ Currency translation ■ Significant items ■ Adjusted

Other¹³

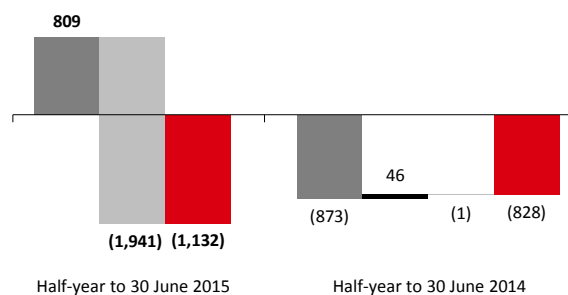
'Other' contains the results of HSBC's holding company and financing operations, central support and functional costs with associated recoveries, unallocated investment activities, centrally held investment companies, certain property transactions and movements in fair value of own debt.

| | Half-year to | | |
|--|----------------|----------------|----------------|
| | 30 Jun 2015 | 30 Jun 2014 | 31 Dec 2014 |
| | \$m | \$m | \$m |
| Net interest expense | (397) | (221) | (280) |
| Net fee income/(expense) | (15) | 1 | (66) |
| Net trading income/(expense) | (123) | (120) | 28 |
| – changes in fair value of long-term debt issued and related derivatives | 1,324 | 438 | 70 |
| – changes in other financial instruments designated at fair value | (661) | (719) | 710 |
| Net income/(expense) from financial instruments designated at fair value | 663 | (281) | 780 |
| Other income | 4,559 | 3,279 | 3,245 |
| Net operating income | 4,687 | 2,658 | 3,707 |
| Total operating expenses | (3,879) | (3,533) | (5,068) |
| Operating profit/(loss) | 808 | (875) | (1,361) |
| Income from associates | 1 | 2 | 4 |
| Profit/(loss) before tax | 809 | (873) | (1,357) |

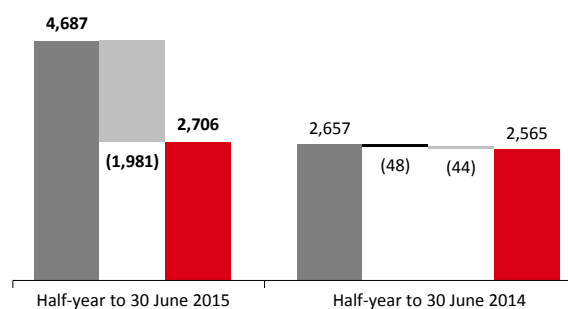
For footnotes, see page 56.

For details of significant items, see page 53.

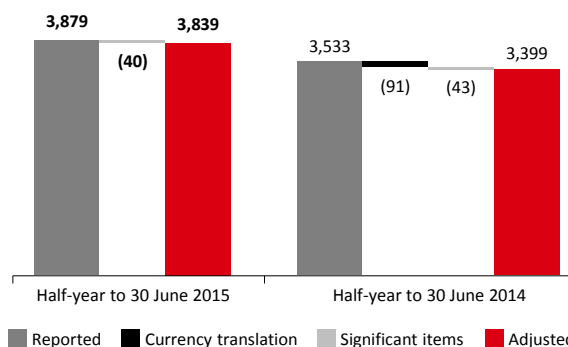
Profit/(loss) before tax (\$m)



Revenue (\$m)



Operating expenses (\$m)



■ Reported ■ Currency translation ■ Significant items ■ Adjusted

Analysis by global business

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

| | Half-year to 30 June 2015 | | | | | | Total \$m |
|--|---|------------------------------|---|-------------------------------------|----------------------------|---|---------------|
| | Retail Banking and Wealth Management \$m | Commercial Banking \$m | Global Banking and Markets \$m | Global Private Banking \$m | Other ¹³ \$m | Inter- segment elimination ¹⁹ \$m | |
| Profit before tax | | | | | | | |
| Net interest income/(expense) | 8,054 | 4,892 | 3,629 | 454 | (397) | (188) | 16,444 |
| Net fee income/(expense) | 3,334 | 2,168 | 1,711 | 527 | (15) | - | 7,725 |
| - trading income/(expense) excluding net interest income | 295 | 308 | 2,880 | 175 | (138) | - | 3,520 |
| - net interest income/(expense) on trading activities | (5) | (7) | 863 | (1) | 15 | 188 | 1,053 |
| Net trading income/(expense) ⁶ | 290 | 301 | 3,743 | 174 | (123) | 188 | 4,573 |
| Net income from financial instruments designated at fair value | 1,237 | 128 | 638 | - | 663 | - | 2,666 |
| Gains less losses from financial investments | 51 | 27 | 402 | 24 | 1,370 | - | 1,874 |
| Dividend income | 11 | 10 | 17 | 4 | 26 | - | 68 |
| Net insurance premium income | 4,950 | 624 | 3 | 30 | - | - | 5,607 |
| Other operating income | 609 | 100 | 120 | 2 | 3,163 | (3,158) | 836 |
| Total operating income | 18,536 | 8,250 | 10,263 | 1,215 | 4,687 | (3,158) | 39,793 |
| Net insurance claims | (6,094) | (716) | (2) | (38) | - | - | (6,850) |
| Net operating income¹⁵ | 12,442 | 7,534 | 10,261 | 1,177 | 4,687 | (3,158) | 32,943 |
| Loan impairment (charges)/ recoveries and other credit risk provisions | (934) | (511) | 11 | (5) | - | - | (1,439) |
| Net operating income | 11,508 | 7,023 | 10,272 | 1,172 | 4,687 | (3,158) | 31,504 |
| - employee expenses ²⁰ | (2,571) | (1,171) | (1,994) | (350) | (3,955) | - | (10,041) |
| - other operating income/ (expense) | (5,783) | (2,150) | (3,796) | (651) | 76 | 3,158 | (9,146) |
| Total operating expenses | (8,354) | (3,321) | (5,790) | (1,001) | (3,879) | 3,158 | (19,187) |
| Operating profit | 3,154 | 3,702 | 4,482 | 171 | 808 | - | 12,317 |
| Share of profit in associates and joint ventures | 208 | 821 | 272 | 9 | 1 | - | 1,311 |
| Profit before tax | 3,362 | 4,523 | 4,754 | 180 | 809 | - | 13,628 |
| | % | % | % | % | % | | % |
| Share of HSBC's profit before tax | 24.7 | 33.2 | 34.9 | 1.3 | 5.9 | | 100.0 |
| Cost efficiency ratio | 67.1 | 44.1 | 56.4 | 85.0 | 82.8 | | 58.2 |
| Balance sheet data¹⁴ | | | | | | | |
| | \$m | \$m | \$m | \$m | \$m | | \$m |
| Loans and advances to customers (net) | 352,189 | 310,256 | 244,321 | 44,242 | 2,977 | | 953,985 |
| Reported in held for sale | 6,640 | 10,325 | 4,016 | 43 | - | | 21,024 |
| Total assets | 497,199 | 378,641 | 1,790,461 | 85,740 | 167,946 | (348,274) | 2,571,713 |
| Customer accounts | 589,715 | 362,069 | 299,181 | 82,878 | 1,957 | | 1,335,800 |
| Reported in held for sale | 9,549 | 4,694 | 3,438 | 1,751 | - | | 19,432 |

Global businesses (continued)

Analysis

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

| | Half-year to 30 June 2014 | | | | | | |
|--|--|---|---|-------------------------------------|----------------------------|---|--------------|
| | Retail Banking and Wealth Management ⁹ \$m | Commercial Banking ⁹ \$m | Global Banking and Markets \$m | Global Private Banking \$m | Other ¹³ \$m | Inter- segment elimination ¹⁹ \$m | Total \$m |
| Profit/(loss) before tax | | | | | | | |
| Net interest income/(expense) | 8,617 | 4,994 | 3,602 | 536 | (221) | (123) | 17,405 |
| Net fee income | 3,377 | 2,327 | 1,939 | 533 | 1 | – | 8,177 |
| – trading income/(expense) excluding net interest income | (12) | 338 | 2,001 | 161 | (126) | – | 2,362 |
| – net interest income/(expense) on trading activities | 1 | (4) | 789 | (2) | 6 | 123 | 913 |
| Net trading income/(expense) ⁵ | (11) | 334 | 2,790 | 159 | (120) | 123 | 3,275 |
| Net income/(expense) from financial instruments designated at fair value | 1,078 | 119 | 743 | 1 | (281) | – | 1,660 |
| Gains less losses from financial investments | 7 | 25 | 462 | 12 | 440 | – | 946 |
| Dividend income | 15 | 14 | 32 | 3 | 24 | – | 88 |
| Net insurance premium income | 5,501 | 615 | 2 | 19 | – | – | 6,137 |
| Other operating income/(expense) | 378 | 81 | 222 | (7) | 2,814 | (2,950) | 538 |
| Total operating income | 18,962 | 8,509 | 9,792 | 1,256 | 2,657 | (2,950) | 38,226 |
| Net insurance claims | (6,346) | (686) | (1) | (26) | – | – | (7,059) |
| Net operating income ¹⁵ | 12,616 | 7,823 | 9,791 | 1,230 | 2,657 | (2,950) | 31,167 |
| Loan impairment (charges)/ recoveries and other credit risk provisions | (1,299) | (488) | (49) | (6) | 1 | – | (1,841) |
| Net operating income | 11,317 | 7,335 | 9,742 | 1,224 | 2,658 | (2,950) | 29,326 |
| – employee expenses ²⁰ | (2,544) | (1,147) | (1,806) | (363) | (4,118) | – | (9,978) |
| – other operating income/ (expense) | (5,986) | (2,180) | (3,152) | (505) | 585 | 2,950 | (8,288) |
| Total operating expenses | (8,530) | (3,327) | (4,958) | (868) | (3,533) | 2,950 | (18,266) |
| Operating profit/(loss) | 2,787 | 4,008 | 4,784 | 356 | (875) | – | 11,060 |
| Share of profit in associates and joint ventures | 215 | 806 | 249 | 8 | 2 | – | 1,280 |
| Profit/(loss) before tax | 3,002 | 4,814 | 5,033 | 364 | (873) | – | 12,340 |
| | % | % | % | % | % | | % |
| Share of HSBC's profit before tax | 24.4 | 39.0 | 40.8 | 2.9 | (7.1) | | 100.0 |
| Cost efficiency ratio | 67.6 | 42.5 | 50.6 | 70.6 | 133.0 | | 58.6 |
| Balance sheet data¹⁴ | | | | | | | |
| | \$m | \$m | \$m | \$m | \$m | | \$m |
| Loans and advances to customers (net) | 381,353 | 315,001 | 303,133 | 45,131 | 2,623 | | 1,047,241 |
| Reported in held for sale | 380 | 157 | 82 | 972 | – | | 1,591 |
| Total assets | 526,089 | 375,014 | 2,043,767 | 99,379 | 170,802 | (461,458) | 2,753,593 |
| Customer accounts | 600,650 | 363,235 | 360,732 | 89,641 | 1,447 | | 1,415,705 |
| Reported in held for sale | 181 | 485 | 373 | 3,841 | – | | 4,880 |

| | Half-year to 31 December 2014 | | | | | | |
|--|--|---|---|-------------------------------------|----------------------------|---|--------------|
| | Retail Banking and Wealth Management ⁹ \$m | Commercial Banking ⁹ \$m | Global Banking and Markets \$m | Global Private Banking \$m | Other ¹³ \$m | Inter- segment elimination ¹⁹ \$m | Total \$m |
| Profit/(loss) before tax | | | | | | | |
| Net interest income/(expense) | 8,513 | 5,164 | 3,420 | 458 | (280) | 25 | 17,300 |
| Net fee income/(expense) | 3,459 | 2,243 | 1,621 | 523 | (66) | – | 7,780 |
| – trading income excluding net interest income | (14) | 280 | 2,062 | 137 | 26 | – | 2,491 |
| – net interest income/(expense) on trading activities | 8 | 2 | 1,009 | (2) | 2 | (25) | 994 |
| Net trading income/(expense) ⁶ | (6) | 282 | 3,071 | 135 | 28 | (25) | 3,485 |
| Net income/(expense) from financial instruments designated at fair value | 606 | 160 | (731) | (2) | 780 | – | 813 |
| Gains less losses from financial investments | 7 | 6 | 655 | (3) | (276) | – | 389 |
| Dividend income | 9 | 4 | 48 | 2 | 160 | – | 223 |
| Net insurance premium income | 5,108 | 642 | 3 | 31 | – | – | 5,784 |
| Other operating income/(expense) | 348 | 160 | (98) | 40 | 3,362 | (3,219) | 593 |
| Total operating income | 18,044 | 8,661 | 7,989 | 1,184 | 3,708 | (3,219) | 36,367 |
| Net insurance claims | (5,511) | (736) | (2) | (37) | – | – | (6,286) |
| Net operating income ¹⁵ | 12,533 | 7,925 | 7,987 | 1,147 | 3,708 | (3,219) | 30,081 |
| Loan impairment (charges)/ recoveries and other credit risk provisions | (637) | (1,070) | (316) | 14 | (1) | – | (2,010) |
| Net operating income | 11,896 | 6,855 | 7,671 | 1,161 | 3,707 | (3,219) | 28,071 |
| – employee expenses ²⁰ | (2,582) | (1,204) | (1,849) | (369) | (4,384) | – | (10,388) |
| – other operating expenses | (6,918) | (2,450) | (5,221) | (541) | (684) | 3,219 | (12,595) |
| Total operating expenses | (9,500) | (3,654) | (7,070) | (910) | (5,068) | 3,219 | (22,983) |
| Operating profit/(loss) | 2,396 | 3,201 | 601 | 251 | (1,361) | – | 5,088 |
| Share of profit in associates and joint ventures | 183 | 799 | 255 | 11 | 4 | – | 1,252 |
| Profit/(loss) before tax | 2,579 | 4,000 | 856 | 262 | (1,357) | – | 6,340 |
| | % | % | % | % | % | | % |
| Share of HSBC's profit before tax | 40.7 | 63.1 | 13.5 | 4.1 | (21.4) | | 100.0 |
| Cost efficiency ratio | 75.8 | 46.1 | 88.5 | 79.3 | 136.7 | | 76.4 |
| Balance sheet data¹⁴ | | | | | | | |
| | \$m | \$m | \$m | \$m | \$m | | \$m |
| Loans and advances to customers (net) | 360,704 | 313,039 | 254,463 | 44,102 | 2,352 | | 974,660 |
| Reported in held for sale | 198 | – | 288 | 91 | – | | 577 |
| Total assets | 500,864 | 370,958 | 1,839,644 | 88,342 | 164,537 | (330,206) | 2,634,139 |
| Customer accounts | 583,757 | 361,318 | 319,121 | 85,465 | 981 | | 1,350,642 |
| Reported in held for sale | – | – | – | 145 | – | | 145 |

For footnotes, see page 56.

Geographical regions

Summary / Europe

Geographical regions

| | |
|------------------------------|----|
| Summary | 42 |
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| North America | 46 |
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Summary

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

In the analysis of profit and loss by geographical region that follows, operating income and operating expenses include intra-HSBC items of \$1,564m (first half of 2014: \$1,439m; second half of 2014: \$1,533m).

Profit/(loss) before tax

| | Half-year to | | | | | |
|------------------------------|--------------|-------|--------------|-------|------------------|--------|
| | 30 June 2015 | | 30 June 2014 | | 31 December 2014 | |
| | \$m | % | \$m | % | \$m | % |
| Europe | 2,205 | 16.2 | 2,258 | 18.3 | (1,662) | (26.2) |
| Asia | 9,400 | 69.0 | 7,894 | 64.0 | 6,731 | 106.2 |
| Middle East and North Africa | 901 | 6.6 | 989 | 8.0 | 837 | 13.2 |
| North America | 690 | 5.1 | 825 | 6.7 | 592 | 9.3 |
| Latin America | 432 | 3.1 | 374 | 3.0 | (158) | (2.5) |
| Profit before tax | 13,628 | 100.0 | 12,340 | 100.0 | 6,340 | 100.0 |

Total assets¹⁴

| | At 30 June 2015 | | At 30 June 2014 | | At 31 December 2014 | |
|------------------------------|-----------------|-------|-----------------|-------|---------------------|-------|
| | \$m | % | \$m | % | \$m | % |
| Europe | 1,236,270 | 48.1 | 1,430,863 | 52.0 | 1,290,926 | 49.0 |
| Asia | 917,489 | 35.7 | 874,334 | 31.8 | 878,723 | 33.4 |
| Middle East and North Africa | 61,625 | 2.4 | 61,289 | 2.2 | 62,417 | 2.4 |
| North America | 411,601 | 16.0 | 437,706 | 15.9 | 436,859 | 16.6 |
| Latin America | 104,203 | 4.1 | 125,630 | 4.6 | 115,354 | 4.4 |
| Intra-HSBC items | (159,475) | (6.3) | (176,229) | (6.5) | (150,140) | (5.8) |
| Total assets | 2,571,713 | 100.0 | 2,753,593 | 100.0 | 2,634,139 | 100.0 |

Risk-weighted assets²¹

| | At 30 June 2015 | | At 30 June 2014 | | At 31 December 2014 | |
|------------------------------|-----------------|------|-----------------|------|---------------------|------|
| | \$bn | % | \$bn | % | \$bn | % |
| Total RWAs | 1,193.2 | | 1,248.6 | | 1,219.8 | |
| Europe | 369.5 | 30.3 | 393.6 | 31.0 | 375.4 | 30.1 |
| Asia | 487.4 | 40.0 | 481.1 | 37.9 | 499.8 | 40.0 |
| Middle East and North Africa | 63.1 | 5.2 | 62.7 | 4.9 | 63.0 | 5.0 |
| North America | 215.7 | 17.7 | 236.9 | 18.6 | 221.4 | 17.8 |
| Latin America | 82.3 | 6.8 | 96.8 | 7.6 | 88.8 | 7.1 |

For footnotes, see page 56.

Europe

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

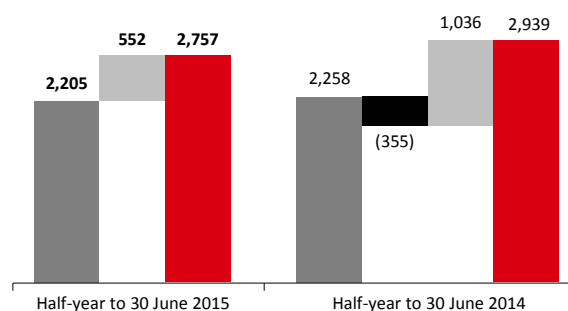
| | Half-year to | | |
|--|-----------------------|-----------------------|-----------------------|
| | 30 Jun 2015 \$m | 30 Jun 2014 \$m | 31 Dec 2014 \$m |
| Net interest income | 5,115 | 5,244 | 5,367 |
| Net fee income | 2,447 | 3,188 | 2,854 |
| Net trading income | 1,913 | 982 | 1,552 |
| Other income | 1,994 | 1,459 | 925 |
| Net operating income¹⁵ | 11,469 | 10,873 | 10,698 |
| LICs | (288) | (266) | (498) |
| Net operating income | 11,181 | 10,607 | 10,200 |
| Total operating expenses | (8,978) | (8,352) | (11,865) |
| Operating profit/(loss) | 2,203 | 2,255 | (1,665) |
| Income from associates | 2 | 3 | 3 |
| Profit/(loss) before tax | 2,205 | 2,258 | (1,662) |
| Loans and advances to customers (net) | 400,452 | 479,670 | 409,733 |
| Customer accounts | 536,251 | 614,776 | 545,959 |
| RoRWA | 1.2% | 1.2% | (0.9)% |
| Cost efficiency ratio | 78.3% | 76.8% | 110.9% |
| Period-end staff numbers | 69,867 | 69,642 | 69,363 |

For footnote, see page 56.

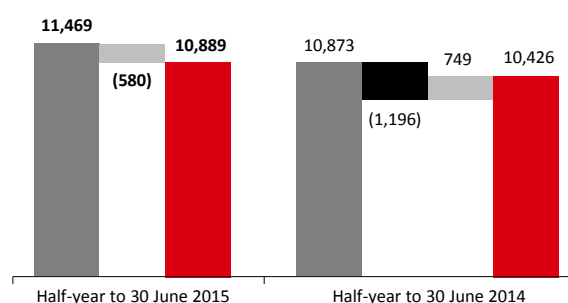
Country view of adjusted revenue

| | Half-year to | | |
|-------------|-----------------------|-----------------------|-----------------------|
| | 30 Jun 2015 \$m | 30 Jun 2014 \$m | 31 Dec 2014 \$m |
| UK | 7,707 | 7,655 | 7,363 |
| France | 1,619 | 1,289 | 1,198 |
| Germany | 417 | 405 | 384 |
| Switzerland | 360 | 341 | 379 |
| Other | 786 | 736 | 611 |
| | 10,889 | 10,426 | 9,935 |

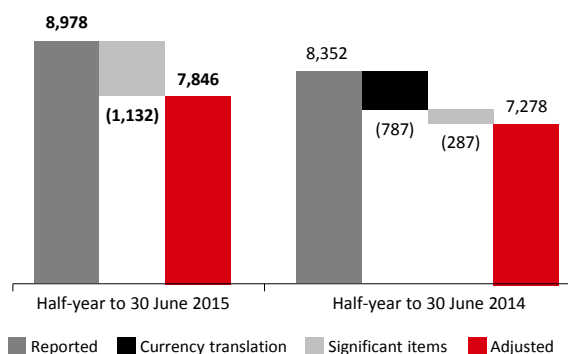
Profit before tax (\$m)



Revenue (\$m)



Operating expenses (\$m)



For details of significant items, see page 50.

Asia

Our principal banking subsidiaries in Hong Kong are The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited. The former is the largest bank incorporated in Hong Kong and is our flagship bank in Asia.

We offer a wide range of banking and financial services in mainland China through our local subsidiaries, HSBC Bank (China) Company Limited and Hang Seng Bank (China) Limited. We also participate indirectly in mainland China through our associate, Bank of Communications.

Outside Hong Kong and mainland China in Asia, we conduct business in 18 countries and territories, with particularly strong coverage in Australia, India, Indonesia, Malaysia, Singapore and Taiwan.

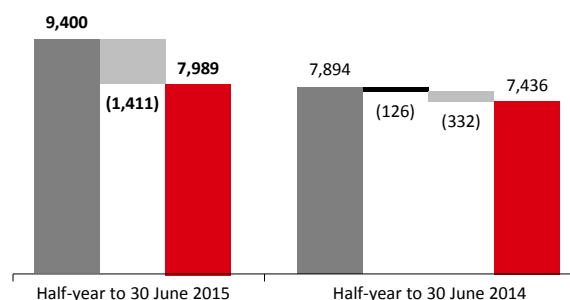
| | Half-year to | | |
|--|---------------|---------------|---------------|
| | 30 Jun 2015 | 30 Jun 2014 | 31 Dec 2014 |
| | \$m | \$m | \$m |
| Net interest income | 6,060 | 6,090 | 6,183 |
| Net fee income | 3,291 | 2,966 | 2,944 |
| Net trading income | 1,779 | 1,329 | 1,293 |
| Other income | 2,935 | 1,722 | 1,150 |
| Net operating income¹⁵ | 14,065 | 12,107 | 11,570 |
| LICs | (246) | (216) | (431) |
| Net operating income | 13,819 | 11,891 | 11,139 |
| Total operating expenses | (5,457) | (5,009) | (5,418) |
| Operating profit | 8,362 | 6,882 | 5,721 |
| Income from associates | 1,038 | 1,012 | 1,010 |
| Profit before tax | 9,400 | 7,894 | 6,731 |
| Loans and advances to customers (net) | 371,639 | 362,387 | 362,955 |
| Customer accounts | 599,940 | 570,221 | 577,491 |
| RoRWA | 3.8% | 3.4% | 2.7% |
| Cost efficiency ratio | 38.8% | 41.4% | 46.8% |
| Period-end staff numbers | 120,588 | 115,111 | 118,322 |

For footnote, see page 56.

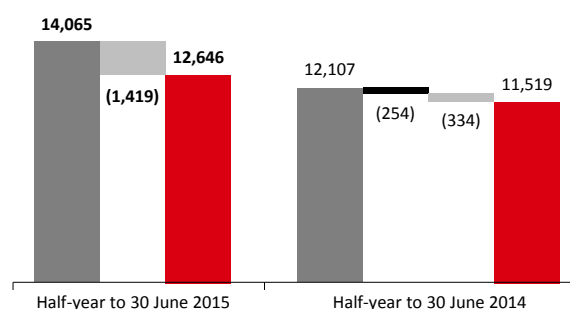
Country view of adjusted revenue

| | Half-year to | | |
|----------------|---------------|---------------|---------------|
| | 30 Jun 2015 | 30 Jun 2014 | 31 Dec 2014 |
| | \$m | \$m | \$m |
| Hong Kong | 7,750 | 6,820 | 6,908 |
| Australia | 421 | 420 | 424 |
| India | 929 | 870 | 896 |
| Indonesia | 267 | 252 | 258 |
| Mainland China | 1,331 | 1,214 | 1,234 |
| Malaysia | 519 | 473 | 484 |
| Singapore | 653 | 620 | 640 |
| Taiwan | 218 | 262 | 217 |
| Other | 558 | 588 | 566 |
| | 12,646 | 11,519 | 11,627 |

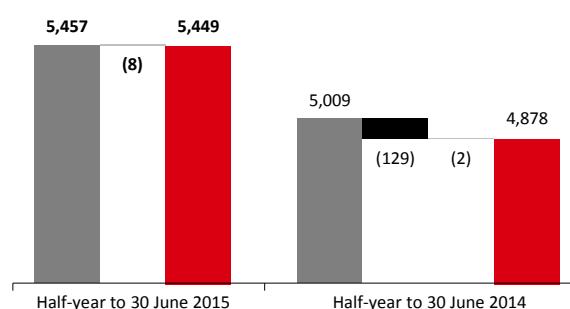
Profit before tax (\$m)



Revenue (\$m)



Operating expenses (\$m)



■ Reported ■ Currency translation ■ Significant items ■ Adjusted

For details of significant items, see page 50.

Middle East and North Africa

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

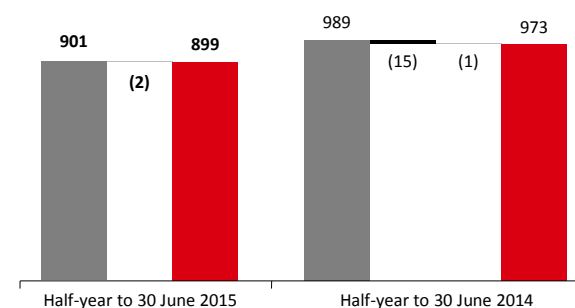
| | Half-year to | | |
|--|--------------|--------------|--------------|
| | 30 Jun 2015 | 30 Jun 2014 | 31 Dec 2014 |
| | \$m | \$m | \$m |
| Net interest income | 758 | 736 | 783 |
| Net fee income | 325 | 335 | 315 |
| Net trading income | 167 | 193 | 121 |
| Other income | 39 | 30 | 35 |
| Net operating income¹⁵ | 1,289 | 1,294 | 1,254 |
| LICs | (31) | 50 | (44) |
| Net operating income | 1,258 | 1,344 | 1,210 |
| Total operating expenses | (624) | (614) | (602) |
| Operating profit | 634 | 730 | 608 |
| Income from associates | 267 | 259 | 229 |
| Profit before tax | 901 | 989 | 837 |
| Loans and advances to customers (net) | 31,207 | 28,910 | 29,063 |
| Customer accounts | 38,186 | 40,082 | 39,720 |
| RoRWA | 2.9% | 3.2% | 2.7% |
| Cost efficiency ratio | 48.4% | 47.4% | 48.0% |
| Period-end staff numbers | 8,208 | 8,530 | 8,305 |

For footnote, see page 56.

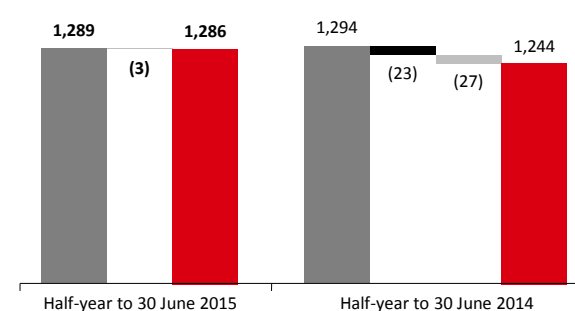
Country view of adjusted revenue

| | Half-year to | | |
|-------|--------------|--------------|--------------|
| | 30 Jun 2015 | 30 Jun 2014 | 31 Dec 2014 |
| | \$m | \$m | \$m |
| UAE | 716 | 732 | 660 |
| Egypt | 301 | 235 | 266 |
| Other | 269 | 277 | 334 |
| | 1,286 | 1,244 | 1,260 |

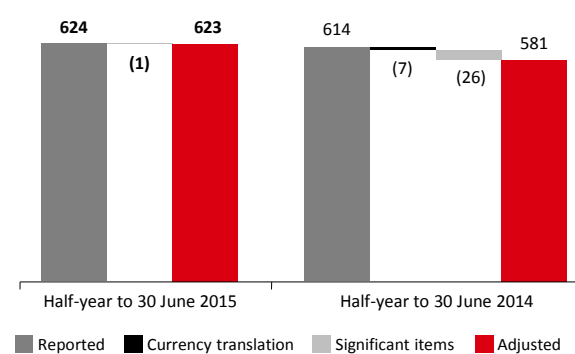
Profit before tax (\$m)



Revenue (\$m)



Operating expenses (\$m)



For details of significant items, see page 50.

North America

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

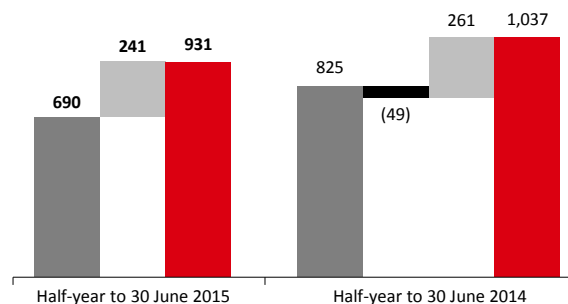
| | Half-year to | | |
|--|-----------------------|-----------------------|-----------------------|
| | 30 Jun 2015 \$m | 30 Jun 2014 \$m | 31 Dec 2014 \$m |
| Net interest income | 2,278 | 2,635 | 2,380 |
| Net fee income | 1,057 | 991 | 949 |
| Net trading income | 296 | 228 | 183 |
| Other income | 495 | 213 | 573 |
| Net operating income¹⁵ | 4,126 | 4,067 | 4,085 |
| LICs | (153) | (411) | 89 |
| Net operating income | 3,973 | 3,656 | 4,174 |
| Total operating expenses | (3,287) | (2,837) | (3,592) |
| Operating profit | 686 | 819 | 582 |
| Income from associates | 4 | 6 | 10 |
| Profit before tax | 690 | 825 | 592 |
| Loans and advances to customers (net) | 132,340 | 129,620 | 129,787 |
| Customer accounts | 137,296 | 136,774 | 138,884 |
| RoRWA | 0.6% | 0.7% | 0.5% |
| Cost efficiency ratio | 79.7% | 69.8% | 87.9% |
| Period-end staff numbers | 20,338 | 20,649 | 20,412 |

For footnote, see page 56.

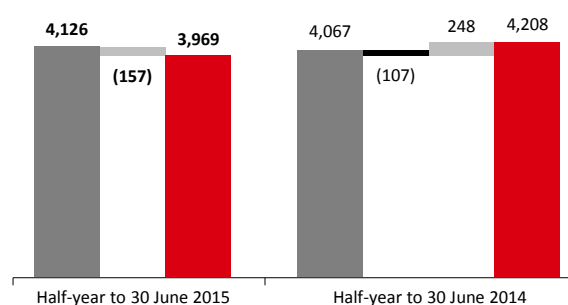
Country view of adjusted revenue

| | Half-year to | | |
|--------|-----------------------|-----------------------|-----------------------|
| | 30 Jun 2015 \$m | 30 Jun 2014 \$m | 31 Dec 2014 \$m |
| US | 3,011 | 3,194 | 2,889 |
| Canada | 852 | 878 | 844 |
| Other | 106 | 136 | 132 |
| | 3,969 | 4,208 | 3,865 |

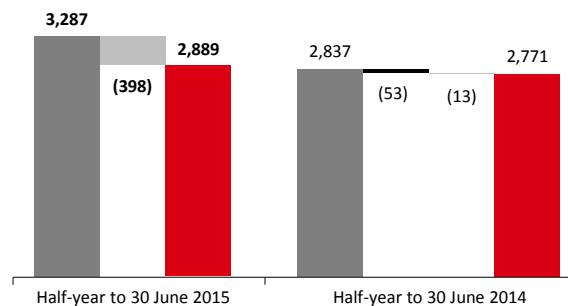
Profit before tax (\$m)



Revenue (\$m)



Operating expenses (\$m)



Reported Currency translation Significant items Adjusted

For details of significant items, see page 50.

Latin America

| | Total Latin America \$m | Brazil \$m | Other Latin America \$m |
|--|----------------------------|---------------|----------------------------|
| Half year to 30 June 2015 | | | |
| Net interest income | 2,249 | 1,214 | 1,035 |
| Net fee income | 605 | 307 | 298 |
| Net trading income | 402 | 242 | 160 |
| Other income | 302 | 279 | 23 |
| Net operating income¹⁵ | 3,558 | 2,042 | 1,516 |
| LICs | (721) | (498) | (223) |
| Net operating income | 2,837 | 1,544 | 1,293 |
| Total operating expenses | (2,405) | (1,353) | (1,052) |
| Operating profit | 432 | 191 | 241 |
| Income from associates | - | - | - |
| Profit before tax | 432 | 191 | 241 |
| Loans and advances to customers (net) | 18,347 | - | 18,347 |
| - reported in held for sale | 20,827 | 20,827 | - |
| Customer accounts | 24,127 | - | 24,127 |
| - reported in held for sale | 19,432 | 19,432 | - |
| RoRWA | 1.0% | 0.8% | 1.3% |
| Cost efficiency ratio | 67.6% | 66.3% | 69.4% |
| Period-end staff numbers | 40,787 | 19,641 | 21,146 |

| | | | |
|--|--------------|--------------|--------------|
| Half-year to 30 June 2014 | | | |
| Net interest income | 2,700 | 1,572 | 1,128 |
| Net fee income | 697 | 365 | 332 |
| Net trading income | 543 | 246 | 297 |
| Other income | 325 | 290 | 35 |
| Net operating income¹⁵ | 4,265 | 2,473 | 1,792 |
| LICs | (998) | (684) | (314) |
| Net operating income | 3,267 | 1,789 | 1,478 |
| Total operating expenses | (2,893) | (1,734) | (1,159) |
| Operating profit | 374 | 55 | 319 |
| Income from associates | - | - | - |
| Profit before tax | 374 | 55 | 319 |
| Loans and advances to customers (net) | 46,654 | 27,515 | 19,139 |
| Customer accounts | 53,852 | 27,068 | 26,784 |
| Cost efficiency ratio | 67.8% | 70.1% | 64.7% |
| RoRWA | 0.8% | 0.2% | 1.6% |
| Period-end staff numbers | 42,157 | 19,881 | 22,276 |

| | | | |
|--|--------------|--------------|--------------|
| Half-year to 31 December 2014 | | | |
| Net interest income | 2,610 | 1,468 | 1,142 |
| Net fee income | 718 | 376 | 342 |
| Net trading income | 313 | 206 | 107 |
| Other income | 366 | 296 | 70 |
| Net operating income¹⁵ | 4,007 | 2,346 | 1,661 |
| LICs | (1,126) | (815) | (311) |
| Net operating income | 2,881 | 1,531 | 1,350 |
| Total operating expenses | (3,039) | (1,833) | (1,206) |
| Operating profit/(loss) | (158) | (302) | 144 |
| Income from associates | - | - | - |
| Profit/(loss) before tax | (158) | (302) | 144 |
| Loans and advances to customers (net) | 43,122 | 23,749 | 19,373 |
| Customer accounts | 48,588 | 23,204 | 25,384 |
| RoRWA | (0.3)% | (1.1)% | 0.7% |
| Cost efficiency ratio | 75.8% | 78.1% | 72.6% |
| Period-end staff numbers | 41,201 | 19,564 | 21,637 |

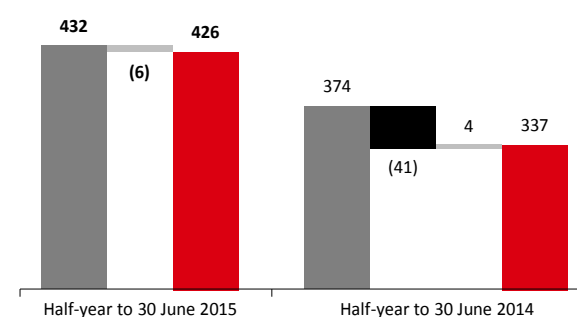
For footnote, see page 56.

Our operations in Latin America principally comprise HSBC Bank Brasil S.A.-Banco Múltiplo and HSBC México, S.A. In addition to banking services, we operate insurance businesses in Brazil, Mexico and Argentina. During the period our operations in Brazil were classified as held for sale.

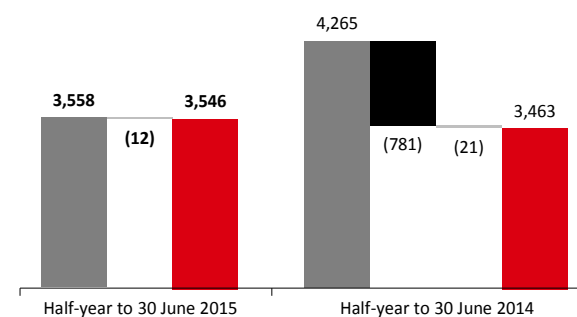
Country view of adjusted revenue

| | Half-year to | | |
|-----------------------------|--------------------|--------------------|--------------------|
| | 30 Jun 2015 \$m | 30 Jun 2014 \$m | 31 Dec 2014 \$m |
| Mexico | 1,018 | 1,027 | 979 |
| Other | 2,528 | 2,436 | 2,353 |
| - included in Other: Brazil | 2,031 | 1,916 | 1,832 |
| | 3,546 | 3,463 | 3,332 |

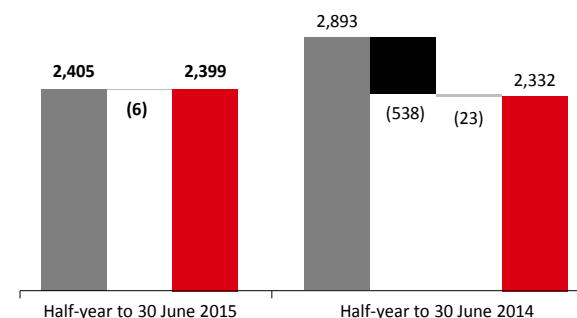
Profit before tax (\$m)



Revenue (\$m)



Operating expenses (\$m)



■ Reported ■ Currency translation ■ Significant items ■ Adjusted

For details of significant items, see page 50.

Analysis by country

Profit/(loss) before tax by priority growth markets within global businesses

| | Retail Banking and Wealth Management \$m | Commercial Banking \$m | Global Banking and Markets \$m | Global Private Banking \$m | Other \$m | Total \$m |
|---|---|------------------------------|---|-------------------------------------|--------------|---------------|
| Europe | 863 | 1,287 | 905 | (23) | (827) | 2,205 |
| – UK | 633 | 1,115 | 398 | 100 | (821) | 1,425 |
| – France | 284 | 83 | 241 | 10 | 5 | 623 |
| – Germany | 12 | 30 | 74 | 12 | (14) | 114 |
| – Switzerland | – | 3 | 1 | (162) | – | (158) |
| – other | (66) | 56 | 191 | 17 | 3 | 201 |
| Asia | 2,531 | 2,404 | 2,683 | 156 | 1,626 | 9,400 |
| – Hong Kong | 2,172 | 1,239 | 1,238 | 120 | 1,464 | 6,233 |
| – Australia | 24 | 61 | 128 | – | (7) | 206 |
| – India | (3) | 46 | 195 | 7 | 90 | 335 |
| – Indonesia | – | (29) | 38 | – | 17 | 26 |
| – Mainland China | 184 | 817 | 544 | (1) | 38 | 1,582 |
| – Malaysia | 67 | 60 | 105 | – | 8 | 240 |
| – Singapore | 45 | 63 | 139 | 31 | (17) | 261 |
| – Taiwan | 11 | 12 | 66 | – | (5) | 84 |
| – other | 31 | 135 | 230 | (1) | 38 | 433 |
| Middle East and North Africa | 172 | 273 | 470 | 8 | (22) | 901 |
| – Egypt | 26 | 50 | 128 | – | (1) | 203 |
| – Saudi Arabia | 54 | 82 | 118 | 10 | – | 264 |
| – UAE | 83 | 76 | 157 | (1) | (21) | 294 |
| – other | 9 | 65 | 67 | (1) | – | 140 |
| North America | (172) | 423 | 356 | 37 | 46 | 690 |
| – Canada | 33 | 206 | 142 | – | (17) | 364 |
| – USA | (219) | 204 | 190 | 37 | 70 | 282 |
| – other | 14 | 13 | 24 | – | (7) | 44 |
| Latin America | (32) | 136 | 340 | 2 | (14) | 432 |
| – Mexico | 33 | 28 | 56 | – | 1 | 118 |
| – other | (65) | 108 | 284 | 2 | (15) | 314 |
| included in other: Brazil ¹⁰ | (74) | 32 | 208 | 2 | 23 | 191 |
| Half-year to 30 June 2015 | 3,362 | 4,523 | 4,754 | 180 | 809 | 13,628 |
| Europe | 480 | 1,551 | 1,425 | 176 | (1,374) | 2,258 |
| – UK | 565 | 1,324 | 887 | 112 | (1,192) | 1,696 |
| – France | (39) | 123 | 237 | (2) | (115) | 204 |
| – Germany | 14 | 38 | 86 | 17 | (7) | 148 |
| – Switzerland | – | 2 | 1 | 14 | (2) | 15 |
| – other | (60) | 64 | 214 | 35 | (58) | 195 |
| Asia | 2,339 | 2,372 | 2,415 | 133 | 635 | 7,894 |
| – Hong Kong | 1,928 | 1,125 | 977 | 99 | 419 | 4,548 |
| – Australia | 49 | 62 | 92 | – | (5) | 198 |
| – India | 6 | 59 | 243 | 5 | 67 | 380 |
| – Indonesia | 2 | 43 | 62 | – | 6 | 113 |
| – Mainland China | 140 | 797 | 515 | (2) | 94 | 1,544 |
| – Malaysia | 90 | 54 | 90 | – | 12 | 246 |
| – Singapore | 71 | 75 | 127 | 30 | (7) | 296 |
| – Taiwan | 18 | 19 | 101 | – | 2 | 140 |
| – other | 35 | 138 | 208 | 1 | 47 | 429 |

| | Retail Banking and Wealth Management ⁹ \$m | Commercial Banking ⁹ \$m | Global Banking and Markets \$m | Global Private Banking \$m | Other \$m | Total \$m |
|---|--|---|---|-------------------------------------|--------------|--------------|
| Middle East and North Africa | 182 | 356 | 477 | 9 | (35) | 989 |
| – Egypt | 33 | 46 | 71 | – | (1) | 149 |
| – Saudi Arabia | 55 | 94 | 99 | 9 | 1 | 258 |
| – UAE | 82 | 133 | 203 | – | (35) | 383 |
| – other | 12 | 83 | 104 | – | – | 199 |
| North America | 130 | 386 | 314 | 51 | (56) | 825 |
| – Canada | 35 | 280 | 130 | – | (6) | 439 |
| – USA | 80 | 110 | 162 | 50 | (50) | 352 |
| – other | 15 | (4) | 22 | 1 | – | 34 |
| Latin America | (129) | 149 | 402 | (5) | (43) | 374 |
| – Mexico | (18) | 12 | 73 | (1) | (7) | 59 |
| – other | (111) | 137 | 329 | (4) | (36) | 315 |
| included in other: Brazil ¹⁰ | (161) | 54 | 175 | (6) | (7) | 55 |
| Half-year to 30 June 2014 | 3,002 | 4,814 | 5,033 | 364 | (873) | 12,340 |
| Europe | (166) | 997 | (1,376) | 139 | (1,256) | (1,662) |
| – UK | 24 | 869 | (1,688) | 79 | (1,036) | (1,752) |
| – France | (142) | 117 | 117 | 2 | (84) | 10 |
| – Germany | 14 | 33 | 76 | 10 | (3) | 130 |
| – Switzerland | – | 3 | 1 | 24 | (1) | 27 |
| – other | (62) | (25) | 118 | 24 | (132) | (77) |
| Asia | 2,133 | 2,370 | 2,161 | 78 | (11) | 6,731 |
| – Hong Kong | 1,799 | 1,139 | 830 | 47 | (221) | 3,594 |
| – Australia | 29 | 64 | 140 | – | 1 | 234 |
| – India | (2) | 62 | 199 | 6 | 55 | 320 |
| – Indonesia | 8 | 10 | 48 | – | 19 | 85 |
| – Mainland China | 152 | 736 | 439 | (1) | 81 | 1,407 |
| – Malaysia | 66 | 68 | 100 | – | 16 | 250 |
| – Singapore | 58 | 93 | 116 | 27 | (1) | 293 |
| – Taiwan | 1 | 16 | 65 | – | (1) | 81 |
| – other | 22 | 182 | 224 | (1) | 40 | 467 |
| Middle East and North Africa | 141 | 248 | 449 | 10 | (11) | 837 |
| – Egypt | 31 | 48 | 106 | – | 1 | 186 |
| – Saudi Arabia | 36 | 74 | 104 | 10 | 4 | 228 |
| – UAE | 72 | 57 | 161 | – | (11) | 279 |
| – other | 2 | 69 | 78 | – | (5) | 144 |
| North America | 502 | 527 | (426) | 34 | (45) | 592 |
| – Canada | 61 | 234 | 112 | – | (17) | 390 |
| – USA | 433 | 290 | (565) | 32 | (10) | 180 |
| – other | 8 | 3 | 27 | 2 | (18) | 22 |
| Latin America | (31) | (142) | 48 | 1 | (34) | (158) |
| – Mexico | 25 | (35) | 16 | (1) | (13) | (8) |
| – other | (56) | (107) | 32 | 2 | (21) | (150) |
| included in other: Brazil ¹⁰ | (69) | (151) | (60) | 4 | (26) | (302) |
| Half-year to 31 December 2014 | 2,579 | 4,000 | 856 | 262 | (1,357) | 6,340 |

For footnotes, see page 56.

Other information

FuM/ Reconciliation of reported results to adjusted performance

Other information

Funds under management

| | Half-year to | | |
|---|---------------------|---------------------|---------------------|
| | 30 Jun 2015 \$bn | 30 Jun 2014 \$bn | 31 Dec 2014 \$bn |
| Funds under management by business | | | |
| Global Asset Management | 440 | 465 | 445 |
| Global Private Banking | 280 | 286 | 275 |
| Affiliates | 6 | 6 | 5 |
| Other | 237 | 207 | 229 |
| | 963 | 964 | 954 |
| At beginning of period | 954 | 921 | 964 |
| Net new money | 3 | 181 | 20 |
| Value change | 32 | 21 | 19 |
| Exchange and other | (26) | 4 | (49) |
| At end of period | 963 | 964 | 954 |

Reconciliation of reported results to adjusted performance

Reconciliation of reported results to adjusted performance – geographical regions

| | Half-year to 30 June 2015 | | | | | | | |
|---|---------------------------|----------------|--------------|-------------------------|-------------------------|-----------------|----------------|---------------------|
| | Europe \$m | Asia \$m | MENA \$m | North America \$m | Latin America \$m | Total \$m | UK \$m | Hong Kong \$m |
| Revenue¹⁵ | | | | | | | | |
| Reported | 11,469 | 14,065 | 1,289 | 4,126 | 3,558 | 32,943 | 8,246 | 9,130 |
| Significant items | (580) | (1,419) | (3) | (157) | (12) | (2,171) | (539) | (1,380) |
| – debit valuation adjustment ('DVA') on derivative contracts | (79) | (50) | (1) | (22) | (13) | (165) | (67) | (14) |
| – fair value movements on non-qualifying hedges ²² | 23 | – | – | 21 | 1 | 45 | 44 | 5 |
| – releases arising from the ongoing review of compliance with the Consumer Credit Act in the UK | (12) | – | – | – | – | (12) | (12) | – |
| – gain on the partial sale of shareholding in Industrial Bank | – | (1,372) | – | – | – | (1,372) | – | (1,372) |
| – gain on sale of several tranches of real estate secured accounts in the US | – | – | – | (17) | – | (17) | – | – |
| – own credit spread ²³ | (512) | 3 | (2) | (139) | – | (650) | (504) | 1 |
| Adjusted | 10,889 | 12,646 | 1,286 | 3,969 | 3,546 | 30,772 | 7,707 | 7,750 |
| Loan impairment charges and other credit risk provisions ('LIC's') | | | | | | | | |
| Reported | (288) | (246) | (31) | (153) | (721) | (1,439) | (72) | (58) |
| Adjusted | (288) | (246) | (31) | (153) | (721) | (1,439) | (72) | (58) |
| Operating expenses | | | | | | | | |
| Reported | (8,978) | (5,457) | (624) | (3,287) | (2,405) | (19,187) | (6,753) | (2,855) |
| Significant items | 1,132 | 8 | 1 | 398 | 6 | 1,545 | 967 | 6 |
| – restructuring and other related costs | 68 | 8 | 1 | 34 | 6 | 117 | 50 | 6 |
| – regulatory provisions in GPB | 147 | – | – | – | – | 147 | – | – |
| – settlements and provisions in connection with legal matters | 780 | – | – | 364 | – | 1,144 | 780 | – |
| – UK customer redress programmes | 137 | – | – | – | – | 137 | 137 | – |
| Adjusted | (7,846) | (5,449) | (623) | (2,889) | (2,399) | (17,642) | (5,786) | (2,849) |
| Share of profit in associates and joint ventures | | | | | | | | |
| Reported | 2 | 1,038 | 267 | 4 | – | 1,311 | 4 | 16 |
| Adjusted | 2 | 1,038 | 267 | 4 | – | 1,311 | 4 | 16 |
| Profit before tax | | | | | | | | |
| Reported | 2,205 | 9,400 | 901 | 690 | 432 | 13,628 | 1,425 | 6,233 |
| Significant items | 552 | (1,411) | (2) | 241 | (6) | (626) | 428 | (1,374) |
| – revenue | (580) | (1,419) | (3) | (157) | (12) | (2,171) | (539) | (1,380) |
| – operating expenses | 1,132 | 8 | 1 | 398 | 6 | 1,545 | 967 | 6 |
| Adjusted | 2,757 | 7,989 | 899 | 931 | 426 | 13,002 | 1,853 | 4,859 |

| | Half-year to 30 June 2014 | | | | | | | |
|--|---------------------------|----------------|--------------|----------------|----------------|-----------------|----------------|----------------|
| | Europe | Asia | MENA | North | Latin | Total | UK | Hong |
| | \$m | \$m | \$m | America | America | \$m | \$m | Kong |
| | | | | \$m | \$m | | | \$m |
| Revenue¹⁵ | | | | | | | | |
| Reported | 10,873 | 12,107 | 1,294 | 4,067 | 4,265 | 31,167 | 7,658 | 7,220 |
| Currency translation ²⁴ | (1,196) | (254) | (23) | (107) | (781) | (2,326) | (646) | 4 |
| Significant items | 749 | (334) | (27) | 248 | (21) | 615 | 643 | (404) |
| – DVA on derivative contracts | 79 | 53 | 3 | 14 | 6 | 155 | 57 | 15 |
| – fair value movements on non-qualifying hedges ²² | 144 | 4 | – | 174 | – | 322 | 94 | 10 |
| – provisions arising from the ongoing review of compliance with the Consumer Credit Act in the UK | 367 | – | – | – | – | 367 | 367 | – |
| – own credit spread ²³ | 159 | 5 | 6 | 45 | – | 215 | 125 | (1) |
| – loss on sale of several tranches of real estate secured accounts in the US | – | – | – | 15 | – | 15 | – | – |
| – gain on sale of shareholding in Bank of Shanghai | – | (428) | – | – | – | (428) | – | (428) |
| – gain on sale arising from HSBC Latin America Holdings UK Limited's disposal of HSBC Bank (Colombia) S.A. ('HSBC Colombia') | – | – | – | – | (18) | (18) | – | – |
| – reclassification loss in respect of our holding in Vietnam Technological & Commercial Joint Stock Bank following the loss of significant influence | – | 32 | – | – | – | 32 | – | – |
| – trading results – HSBC Colombia | – | – | – | – | (9) | (9) | – | – |
| – trading results – HSBC Bank Middle East Limited's Pakistan operations | – | – | (8) | – | – | (8) | – | – |
| – trading results – HSBC Bank Middle East Limited's banking business in Jordan | – | – | (28) | – | – | (28) | – | – |
| Adjusted | 10,426 | 11,519 | 1,244 | 4,208 | 3,463 | 29,456 | 7,655 | 6,820 |
| LICs | | | | | | | | |
| Reported | (266) | (216) | 50 | (411) | (998) | (1,841) | 30 | (100) |
| Currency translation | 50 | 8 | 1 | 6 | 202 | 267 | (2) | – |
| Significant items | – | – | – | – | 2 | 2 | – | – |
| – trading results – HSBC Colombia | – | – | – | – | 2 | 2 | – | – |
| Adjusted | (216) | (208) | 51 | (405) | (794) | (1,572) | 28 | (100) |
| Operating expenses | | | | | | | | |
| Reported | (8,352) | (5,009) | (614) | (2,837) | (2,893) | (18,266) | (5,995) | (2,597) |
| Currency translation ²⁴ | 787 | 129 | 7 | 53 | 538 | 1,479 | 415 | – |
| Significant items | 287 | 2 | 26 | 13 | 23 | 351 | 274 | 3 |
| – restructuring and other related costs | 53 | 2 | – | 13 | 14 | 82 | 40 | 3 |
| – UK customer redress programmes | 234 | – | – | – | – | 234 | 234 | – |
| – trading results – HSBC Colombia | – | – | – | – | 9 | 9 | – | – |
| – trading results – HSBC Bank Middle East Limited's Pakistan operations | – | – | 9 | – | – | 9 | – | – |
| – trading results – HSBC Bank Middle East Limited's banking business in Jordan | – | – | 17 | – | – | 17 | – | – |
| Adjusted | (7,278) | (4,878) | (581) | (2,771) | (2,332) | (16,436) | (5,306) | (2,594) |
| Share of profit in associates and joint ventures | | | | | | | | |
| Reported | 3 | 1,012 | 259 | 6 | – | 1,280 | 3 | 25 |
| Currency translation | 4 | (9) | – | (1) | – | (6) | 2 | – |
| Adjusted | 7 | 1,003 | 259 | 5 | – | 1,274 | 5 | 25 |
| Profit before tax | | | | | | | | |
| Reported | 2,258 | 7,894 | 989 | 825 | 374 | 12,340 | 1,696 | 4,548 |
| Currency translation | (355) | (126) | (15) | (49) | (41) | (586) | (231) | 4 |
| Significant items | 1,036 | (332) | (1) | 261 | 4 | 968 | 917 | (401) |
| – revenue | 749 | (334) | (27) | 248 | (21) | 615 | 643 | (404) |
| – LICs | – | – | – | – | 2 | 2 | – | – |
| – operating expenses | 287 | 2 | 26 | 13 | 23 | 351 | 274 | 3 |
| Adjusted | 2,939 | 7,436 | 973 | 1,037 | 337 | 12,722 | 2,382 | 4,151 |

Other information (continued)

Reconciliation of reported results to adjusted performance

Reconciliation of reported results to adjusted performance – geographical regions (continued)

| | Half-year to 31 December 2014 | | | | | | | |
|--|-------------------------------|----------------|--------------|-------------------------|-------------------------|-----------------|----------------|---------------------|
| | Europe \$m | Asia \$m | MENA \$m | North America \$m | Latin America \$m | Total \$m | UK \$m | Hong Kong \$m |
| Revenue¹⁵ | | | | | | | | |
| Reported | 10,698 | 11,570 | 1,254 | 4,085 | 4,007 | 30,081 | 8,069 | 6,624 |
| Currency translation ²⁴ | (722) | (229) | (18) | (88) | (677) | (1,698) | (416) | (1) |
| Significant items | (41) | 286 | 24 | (132) | 2 | 139 | (290) | 285 |
| – DVA on derivative contracts | 155 | 16 | 2 | 2 | 2 | 177 | 146 | 11 |
| – fair value movements on non-qualifying hedges ²² | 91 | – | – | 128 | – | 219 | (102) | 1 |
| – provisions arising from the ongoing review of compliance with the Consumer Credit Act in the UK | 265 | – | – | – | – | 265 | 265 | – |
| – impairment of our investment in Industrial Bank | – | 271 | – | – | – | 271 | – | 271 |
| – own credit spread ²³ | (552) | (1) | – | (79) | – | (632) | (599) | 2 |
| – gain on sale of several tranches of real estate secured accounts in the US | – | – | – | (183) | – | (183) | – | – |
| – loss on sale arising from HSBC Bank Middle East Limited's disposal of its operations in Pakistan | – | – | 27 | – | – | 27 | – | – |
| – trading results – HSBC Bank Middle East Limited's Pakistan operations | – | – | (5) | – | – | (5) | – | – |
| Adjusted | 9,935 | 11,627 | 1,260 | 3,865 | 3,332 | 28,522 | 7,363 | 6,908 |
| LICs | | | | | | | | |
| Reported | (498) | (431) | (44) | 89 | (1,126) | (2,010) | (244) | (220) |
| Currency translation | 69 | 10 | (2) | 4 | 204 | 285 | 28 | – |
| Significant items | – | – | (2) | – | – | (2) | – | – |
| – trading results – HSBC Bank Middle East Limited's Pakistan operations | – | – | (2) | – | – | (2) | – | – |
| Adjusted | (429) | (421) | (48) | 93 | (922) | (1,727) | (216) | (220) |
| Operating expenses | | | | | | | | |
| Reported | (11,865) | (5,418) | (602) | (3,592) | (3,039) | (22,983) | (9,581) | (2,827) |
| Currency translation ²⁴ | 637 | 118 | 6 | 46 | 516 | 1,287 | 395 | – |
| Significant items | 2,314 | 56 | 7 | 565 | 102 | 3,044 | 2,279 | 53 |
| – restructuring and other related costs | 70 | 7 | 2 | 15 | 102 | 196 | 51 | 4 |
| – regulatory provisions in GBP | 16 | 49 | – | – | – | 65 | – | 49 |
| – UK customer redress programmes | 1,041 | – | – | – | – | 1,041 | 1,041 | – |
| – charge in relation to the settlement agreement with the Federal Housing Finance Authority | – | – | – | 550 | – | 550 | – | – |
| – settlements and provisions in connection with legal matters | 1,187 | – | – | – | – | 1,187 | 1,187 | – |
| – trading results – HSBC Bank Middle East Limited's Pakistan operations | – | – | 5 | – | – | 5 | – | – |
| Adjusted | (8,914) | (5,244) | (589) | (2,981) | (2,421) | (18,652) | (6,907) | (2,774) |
| Share of profit in associates and joint ventures | | | | | | | | |
| Reported | 3 | 1,010 | 229 | 10 | – | 1,252 | 4 | 17 |
| Currency translation | 1 | (8) | – | (1) | – | (8) | – | (1) |
| Adjusted | 4 | 1,002 | 229 | 9 | – | 1,244 | 4 | 16 |
| Profit before tax | | | | | | | | |
| Reported | (1,662) | 6,731 | 837 | 592 | (158) | 6,340 | (1,752) | 3,594 |
| Currency translation | (15) | (109) | (14) | (39) | 43 | (134) | 7 | (2) |
| Significant items | 2,273 | 342 | 29 | 433 | 104 | 3,181 | 1,989 | 338 |
| – revenue | (41) | 286 | 24 | (132) | 2 | 139 | (290) | 285 |
| – LICs | – | – | (2) | – | – | (2) | – | – |
| – operating expenses | 2,314 | 56 | 7 | 565 | 102 | 3,044 | 2,279 | 53 |
| Adjusted | 596 | 6,964 | 852 | 986 | (11) | 9,387 | 244 | 3,930 |

For footnotes, see page 56.

Reconciliation of reported results to adjusted performance – global businesses

| | Half-year to 30 June 2015 | | | | | |
|--|---------------------------|------------|-------------|------------|--------------|--------------|
| | RBWM \$m | CMB \$m | GB&M \$m | GPB \$m | Other \$m | Total \$m |
| Revenue¹⁵ | | | | | | |
| Reported | 12,442 | 7,534 | 10,261 | 1,177 | 4,687 | 32,943 |
| Significant items | (23) | – | (143) | (24) | (1,981) | (2,171) |
| – DVA on derivative contracts | – | – | (165) | – | – | (165) |
| – fair value movements on non-qualifying hedges ²² | (18) | – | 22 | – | 41 | 45 |
| – provisions/(releases) arising from the ongoing review of compliance with the Consumer Credit Act in the UK | 12 | – | – | (24) | – | (12) |
| – gain on the partial sale of shareholding in Industrial Bank | – | – | – | – | (1,372) | (1,372) |
| – gain on sale of several tranches of real estate secured accounts in the US | (17) | – | – | – | – | (17) |
| – own credit spread ²³ | – | – | – | – | (650) | (650) |
| Adjusted | 12,419 | 7,534 | 10,118 | 1,153 | 2,706 | 30,772 |
| LICs | | | | | | |
| Reported | (934) | (511) | 11 | (5) | – | (1,439) |
| Adjusted | (934) | (511) | 11 | (5) | – | (1,439) |
| Operating expenses | | | | | | |
| Reported | (8,354) | (3,321) | (5,790) | (1,001) | (3,879) | (19,187) |
| Significant items | 472 | 52 | 816 | 165 | 40 | 1,545 |
| – restructuring and other related costs | 32 | 5 | 22 | 18 | 40 | 117 |
| – regulatory provisions in GPB | – | – | – | 147 | – | 147 |
| – settlements and provisions in connection with legal matters | 350 | – | 794 | – | – | 1,144 |
| – UK customer redress programmes | 90 | 47 | – | – | – | 137 |
| Adjusted | (7,882) | (3,269) | (4,974) | (836) | (3,839) | (17,642) |
| Share of profit in associates and joint ventures | | | | | | |
| Reported | 208 | 821 | 272 | 9 | 1 | 1,311 |
| Adjusted | 208 | 821 | 272 | 9 | 1 | 1,311 |
| Profit before tax | | | | | | |
| Reported | 3,362 | 4,523 | 4,754 | 180 | 809 | 13,628 |
| Significant items | 449 | 52 | 673 | 141 | (1,941) | (626) |
| – revenue | (23) | – | (143) | (24) | (1,981) | (2,171) |
| – operating expenses | 472 | 52 | 816 | 165 | 40 | 1,545 |
| Adjusted | 3,811 | 4,575 | 5,427 | 321 | (1,132) | 13,002 |

Other information (continued)

Reconciliation of reported results to adjusted performance

Reconciliation of reported results to adjusted performance – global businesses (continued)

| | Half-year to 30 June 2014 | | | | | |
|--|---------------------------|----------------|----------------|--------------|----------------|-----------------|
| | RBWM \$m | CMB \$m | GB&M \$m | GPB \$m | Other \$m | Total \$m |
| Revenue¹⁵ | | | | | | |
| Reported | 12,616 | 7,823 | 9,791 | 1,230 | 2,657 | 31,167 |
| Currency translation ²⁴ | (1,020) | (599) | (698) | (75) | (48) | (2,326) |
| Significant items | 576 | (10) | 93 | – | (44) | 615 |
| – DVA on derivative contracts | – | – | 155 | – | – | 155 |
| – fair value movements on non-qualifying hedges ²² | 234 | – | (50) | – | 138 | 322 |
| – provisions arising from the ongoing review of compliance with the Consumer Credit Act in the UK | 353 | 14 | – | – | – | 367 |
| – own credit spread ²³ | – | – | 2 | – | 213 | 215 |
| – loss on sale of several tranches of real estate secured accounts in the US | 15 | – | – | – | – | 15 |
| – gain on sale of shareholding in Bank of Shanghai | – | – | – | – | (428) | (428) |
| – (gain)/loss on sale arising from HSBC Latin America Holdings UK Limited's disposal of HSBC Bank (Colombia) S.A. ('HSBC Colombia') | (7) | (7) | (5) | – | 1 | (18) |
| – reclassification loss in respect of our holding in Vietnam Technological & Commercial Joint Stock Bank following the loss of significant influence | – | – | – | – | 32 | 32 |
| – trading results – HSBC Colombia | (6) | (1) | (2) | – | – | (9) |
| – trading results – HSBC Bank Middle East Limited's Pakistan operations | (2) | (4) | (2) | – | – | (8) |
| – trading results – HSBC Bank Middle East Limited's banking business in Jordan | (11) | (12) | (5) | – | – | (28) |
| Adjusted | 12,172 | 7,214 | 9,186 | 1,155 | 2,565 | 29,456 |
| LICs | | | | | | |
| Reported | (1,299) | (488) | (49) | (6) | 1 | (1,841) |
| Currency translation | 181 | 66 | 18 | 2 | – | 267 |
| Significant items | 3 | (1) | – | – | – | 2 |
| – trading results – HSBC Colombia | 2 | – | – | – | – | 2 |
| – trading results – HSBC Bank Middle East Limited's banking business in Jordan | 1 | (1) | – | – | – | – |
| Adjusted | (1,115) | (423) | (31) | (4) | 1 | (1,572) |
| Operating expenses | | | | | | |
| Reported | (8,530) | (3,327) | (4,958) | (868) | (3,533) | (18,266) |
| Currency translation ²⁴ | 812 | 291 | 360 | 39 | 91 | 1,479 |
| Significant items | 235 | 38 | 33 | 2 | 43 | 351 |
| – restructuring and other related costs | 22 | 6 | 9 | 2 | 43 | 82 |
| – UK customer redress programmes | 194 | 20 | 20 | – | – | 234 |
| – trading results – HSBC Colombia | 6 | 1 | 2 | – | – | 9 |
| – trading results – HSBC Bank Middle East Limited's Pakistan operations | 4 | 4 | 1 | – | – | 9 |
| – trading results – HSBC Bank Middle East Limited's banking business in Jordan | 9 | 7 | 1 | – | – | 17 |
| Adjusted | (7,483) | (2,998) | (4,565) | (827) | (3,399) | (16,436) |
| Share of profit in associates and joint ventures | | | | | | |
| Reported | 215 | 806 | 249 | 8 | 2 | 1,280 |
| Currency translation | (1) | (8) | (1) | 1 | 3 | (6) |
| Adjusted | 214 | 798 | 248 | 9 | 5 | 1,274 |
| Profit before tax | | | | | | |
| Reported | 3,002 | 4,814 | 5,033 | 364 | (873) | 12,340 |
| Currency translation | (28) | (250) | (321) | (33) | 46 | (586) |
| Significant items | 814 | 27 | 126 | 2 | (1) | 968 |
| – revenue | 576 | (10) | 93 | – | (44) | 615 |
| – LICs | 3 | (1) | – | – | – | 2 |
| – operating expenses | 235 | 38 | 33 | 2 | 43 | 351 |
| Adjusted | 3,788 | 4,591 | 4,838 | 333 | (828) | 12,722 |

| | Half-year to 31 December 2014 | | | | | |
|--|-------------------------------|------------|-------------|------------|--------------|--------------|
| | RBWM \$m | CMB \$m | GB&M \$m | GPB \$m | Other \$m | Total \$m |
| Revenue ¹⁵ | | | | | | |
| Reported | 12,533 | 7,925 | 7,987 | 1,147 | 3,708 | 30,081 |
| Currency translation ²⁴ | (821) | (470) | (449) | 9 | (70) | (1,698) |
| Significant items | 301 | 19 | 237 | 41 | (459) | 139 |
| – DVA on derivative contracts | – | – | 177 | – | – | 177 |
| – fair value movements on non-qualifying hedges ²² | 259 | (1) | 58 | 1 | (98) | 219 |
| – provisions arising from the ongoing review of compliance with the Consumer Credit Act in the UK | 215 | 10 | – | 40 | – | 265 |
| – impairment of our investment in Industrial Bank | – | – | – | – | 271 | 271 |
| – own credit spread ²³ | – | – | – | – | (632) | (632) |
| – gain on sale of several tranches of real estate secured accounts in the US | (183) | – | – | – | – | (183) |
| – loss on sale arising from HSBC Bank Middle East Limited's disposal of its operations in Pakistan | 11 | 13 | 3 | – | – | 27 |
| – trading results – HSBC Bank Middle East Limited's Pakistan operations | (1) | (3) | (1) | – | – | (5) |
| Adjusted | 12,013 | 7,474 | 7,775 | 1,197 | 3,179 | 28,522 |
| LICs | | | | | | |
| Reported | (637) | (1,070) | (316) | 14 | (1) | (2,010) |
| Currency translation | 100 | 120 | 67 | (2) | – | 285 |
| Significant items | (1) | (1) | – | – | – | (2) |
| – trading results – HSBC Bank Middle East Limited's Pakistan operations | (1) | (1) | – | – | – | (2) |
| Adjusted | (538) | (951) | (249) | 12 | (1) | (1,727) |
| Operating expenses | | | | | | |
| Reported | (9,500) | (3,654) | (7,070) | (910) | (5,068) | (22,983) |
| Currency translation ²⁴ | 739 | 243 | 352 | 11 | 45 | 1,287 |
| Significant items | 883 | 151 | 1,864 | 69 | 77 | 3,044 |
| – restructuring and other related costs | 66 | 31 | 18 | 4 | 77 | 196 |
| – regulatory provisions in GPB | – | – | – | 65 | – | 65 |
| – UK customer redress programmes | 798 | 118 | 125 | – | – | 1,041 |
| – charge in relation to the settlement agreement with the Federal Housing Finance Authority | 17 | – | 533 | – | – | 550 |
| – settlements and provisions in connection with legal matters | – | – | 1,187 | – | – | 1,187 |
| – trading results – HSBC Bank Middle East Limited's Pakistan operations | 2 | 2 | 1 | – | – | 5 |
| Adjusted | (7,878) | (3,260) | (4,854) | (830) | (4,946) | (18,652) |
| Share of profit in associates and joint ventures | | | | | | |
| Reported | 183 | 799 | 255 | 11 | 4 | 1,252 |
| Currency translation | (1) | (4) | (3) | – | – | (8) |
| Adjusted | 182 | 795 | 252 | 11 | 4 | 1,244 |
| Profit before tax | | | | | | |
| Reported | 2,579 | 4,000 | 856 | 262 | (1,357) | 6,340 |
| Currency translation | 17 | (111) | (33) | 18 | (25) | (134) |
| Significant items | 1,183 | 169 | 2,101 | 110 | (382) | 3,181 |
| – revenue | 301 | 19 | 237 | 41 | (459) | 139 |
| – LICs | (1) | (1) | – | – | – | (2) |
| – operating expenses | 883 | 151 | 1,864 | 69 | 77 | 3,044 |
| Adjusted | 3,779 | 4,058 | 2,924 | 390 | (1,764) | 9,387 |

For footnotes, see page 56.

Footnotes to pages 2 to 55

- 1 The risk profile measures HSBC against a peer group average from a sample set of five global banks and five regional banks measured by: (a) the ratio of gross loans and advances to customers versus deposits; (b) the ratio of LICs to loans and advances to customers; and (c) the leverage ratio.
- 2 2014 pro forma basis ex associates; excluding business growth.
- 3 The sum of balances presented does not agree to consolidated amounts because inter-company eliminations are not presented here.
- 4 Adjusted jaws is the difference between the percentage rate of growth of revenue and the percentage rate of growth of operating expenses, both on an adjusted basis.
- 5 Client-facing GB&M refers to GB&M excluding associates, legacy credit and Balance Sheet Management. The GB&M client-facing and BSM businesses measure excludes the effects of the legacy credit portfolio and income from associates. We believe that looking at the client-facing and BSM businesses allows GB&M management to more clearly discuss the cause of material changes from period-to-period in the ongoing businesses and to assess the factors and trends in the business which are expected to have a material effect in future years.
- 6 Net interest income includes the cost of internally funding trading assets, while the related revenues are reported in net trading income. In our global business results, the total cost of funding trading assets is included within GB&M's net trading income as an interest expense. In the statutory presentation, internal interest income and expense are eliminated.
- 7 Gross interest yield is the average annualised interest rate earned on average interest-earning assets ('AIEA').
- 8 Net interest spread is the difference between the average annualised interest rate earned on AIEA, net of amortised premiums and loan fees, and the average annualised interest rate payable on average interest-bearing funds. Net interest margin is net interest income expressed as an annualised percentage of AIEA.
- 9 In the first half of 2015, a portfolio of customers was transferred from CMB to RBWM in Latin America in order to better align the combined banking needs of the customers with our established global businesses. Comparative data have been re-presented accordingly.
- 10 During the first half of 2015 our operations in Brazil were classified as held for sale. As a result, balance sheet accounts have been classified to 'assets held for sale' and 'liabilities of disposal groups held for sale'. There is no separate income statement classification.
- 11 Adjusted RoRWA is calculated using adjusted pre-tax return and reported average RWAs at constant currency and adjusted for the effects of business disposals. RoRWAs are calculated using annualised PBT and average RWAs on a CRD IV basis for all periods from 1 January 2014 and on a Basel 2.5 basis at 31 December 2013.
- 12 'Currency translation adjustment' is the effect of translating the assets and liabilities of subsidiaries and associates for the previous period-end at the rates of exchange applicable at the current period-end.
- 13 The main items reported under 'Other' are the results of HSBC's holding company and financing operations, which includes net interest earned on free capital held centrally, operating costs incurred by the head office operations in providing stewardship and central management services to HSBC, along with the costs incurred by the Group Service Centres and Shared Service Organisations and associated recoveries. The results also include fines and penalties as part of the settlement of investigations into past inadequate compliance with anti-money laundering and sanctions laws, the UK bank levy together with unallocated investment activities, centrally held investment companies, gains arising from the dilution of interests in associates and joint ventures and certain property transactions. In addition, 'Other' also includes part of the movement in the fair value of long-term debt designated at fair value (the remainder of the Group's movement on own debt is included in GB&M).
- 14 Assets by geographical region and global businesses include intra-HSBC items. These items are eliminated, where appropriate, under the headings 'intra-HSBC items' or 'inter-segment elimination', as appropriate.
- 15 Net operating income before loan impairment charges and other credit risk provisions, also referred to as revenue.
- 16 The Principal RBWM business measure excludes the effects of the US run-off portfolio. We believe that looking at the Principal RBWM business allows management to more clearly discuss the cause of material changes from period-to-period in the ongoing business and to assess the factors and trends in the business which are expected to have a material effect in future years.
- 17 'Other' in GB&M includes net interest earned on free capital held in the global business not assigned to products and gains resulting from business disposals. Within the management view of total operating income, notional tax credits are allocated to the businesses to reflect the economic benefit generated by certain activities which is not reflected within operating income, for example notional credits on income earned from tax-exempt investments where the economic benefit of the activity is reflected in tax expense. In order to reflect the total operating income on an IFRSs basis, the offset to these tax credits are included within 'Other'.
- 18 'Client assets' are translated at the rates of exchange applicable for their respective period-ends, with the effects of currency translation reported separately. The main components of client assets are funds under management, which are not reported on the Group's balance sheet, and customer deposits, which are reported on the Group's balance sheet.
- 19 Inter-segment elimination comprises (i) the costs of shared services and Group Service Centres included within 'Other' which are recovered from global businesses, and (ii) the intra-segment funding costs of trading activities undertaken within GB&M. The Balance Sheet Management business, reported within GB&M, provides funding to the trading businesses. To report GB&M's net trading income on a fully funded basis, 'Net interest income/(expense)' and 'Net interest income/(expense) on trading activities' are grossed up to reflect internal funding transactions prior to their elimination in the inter-segment column.
- 20 'Employee expenses' comprises costs directly incurred by each global business. The reallocation and recharging of employee and other expenses directly incurred in the 'Other' category is shown in 'Other operating expenses'.
- 21 RWAs are non-additive across geographical regions due to market risk diversification effects within the Group.
- 22 Excludes items where there are substantial offsets in the income statement for the same period.
- 23 'Own credit spread' includes the fair value movements on our long-term debt attributable to credit spread where the net result of such movements will be zero upon maturity of the debt. This does not include fair value changes due to own credit risk in respect of trading liabilities or derivative liabilities.
- 24 Currency translations are non-additive across geographical regions and global businesses due to inter-company transactions within the Group.

| Risk | |
|---|----|
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There have been no material changes to the policies and practices regarding risk management and governance described in the *Annual Report and Accounts 2014* with the exception of the implementation of the new AML and sanctions policy procedures outlined on page 83.

A description of our principal risks and uncertainties for the remaining six months of 2015 is discussed in top and emerging risks below.

A summary of our current policies and practices regarding risk is provided in the Appendix to Risk on page 204 of the Annual Report and Accounts 2014.

Risk profile

Managing our risk profile

- A strong balance sheet remains core to our philosophy.
- Our portfolios continue to be aligned to our risk appetite and strategy.
- Our risk management framework is supported by strong forward-looking risk identification.
- We manage and reduce financial crime compliance risk with defined global standards programme.

Maintaining capital strength and a strong liquidity position

- Our common equity tier 1 capital ratio remained strong at 11.6%.
- We sustained our strong liquidity position throughout the first half of 2015.
- The ratio of customer advances to deposits remained significantly below 90%.

Strong governance

- Robust risk governance and accountability is embedded across the Group.
- The Board, advised by the Group Risk Committee, approves our risk appetite.
- Our global risk operating model supports adherence to globally consistent standards and risk management policies across the Group.

Managing risk

Our established framework ensures appropriate oversight of and accountability for the effective management of risk.

We employ a risk management framework at all levels of the organisation and across all risk types, fostering a continuous monitoring of the risk environment and an integrated evaluation of risks and their interactions. It is underpinned by a strong risk culture and reinforced by HSBC Values and our Global Standards and ensures that our risk profile remains conservative and aligned to our risk appetite. Our risk management framework is set out on page 24 of the *Annual Report and Accounts 2014*.

Risk factors

Our businesses are exposed to a broad range of risks that could potentially affect the results of our operations or financial condition. These risk factors are summarised on page 113 of the *Annual Report and Accounts 2014*. They inform the ongoing assessment of our top and emerging risks, which may result in our risk appetite being revised.

Top and emerging risks

Our top and emerging risk framework enables us to identify, continuously monitor and manage current and forward-looking risks to ensure our risk appetite remains appropriate.

The ongoing assessment of our top and emerging risks, which is informed by analysis of our risk factors and the results of our stress testing programme, may result in our risk appetite being revised. Our approach to identifying and monitoring top and emerging risks is described on page 22 of the *Annual Report and Accounts 2014*.

During 1H15, senior management paid particular attention to those risks which were identified as top or emerging, and made one change to them during the period to reflect our assessment of their effect on HSBC. 'Internet crime and fraud' was removed as a top risk as mitigating actions taken have reduced losses through digital channels. HSBC remains a target for cyber-attacks, which is noted as a top risk under 'Information security risk'.

'Economic outlook' heightened in 1H15. Expectations of divergent monetary policies increased market volatility and resulted in changes in capital flows. The impact of the turmoil in Greece is discussed further on page 74.

Our current top and emerging risks are summarised overleaf.

Top and emerging risks **T** / **E**

| Risk | Description | Mitigants |
|---|--|--|
| Macroeconomic and geopolitical risk | | |
| E Economic outlook | Weak economic growth in both developed and emerging market countries could adversely affect global trade and capital flows and our profits from operations in those countries. | We closely monitor economic developments in key markets and take appropriate action as circumstances evolve. We use stress testing, both internal and regulatory programmes, to assess the effect of changes in economic conditions on our operations. |
| E Increased geopolitical risk | Our operations are exposed to risks arising from political instability and civil unrest in a number of countries. This may have a wider effect on regional stability and regional and global economies. | We continuously monitor the geopolitical and economic outlook, particularly in countries where we have material exposures and/or a physical presence. |
| Macro-prudential, regulatory and legal risks to our business model | | |
| T Regulatory developments affecting our business model and Group profitability | Governments and regulators continue to develop and implement policies which impose new or additional requirements, particularly in the areas of capital and liquidity management and our business, governance and corporate structure. | We actively assess and consider the impact of relevant developments and engage closely with governments and regulators in the countries in which we operate. We seek to ensure that requirements are considered properly and implemented in an effective manner. |
| T Regulatory and other investigations, fines, sanctions, commitments and other requirements relating to conduct of business and financial crime negatively affecting our results and brand | Financial service providers are at risk of regulatory and other sanctions or fines related to conduct of business and financial crime. These can take significant time both to crystallise and to resolve. Breach of the US DPA may allow the US authorities to prosecute HSBC with respect to matters covered thereunder. | We actively seek to manage and defend HSBC's interests in those investigations. Significant programmes to enhance the management of conduct and financial crime risks are progressing in all global businesses and functions and we have significantly enhanced our financial crime and regulatory compliance controls and resources. We continue to take steps to address the requirements of the US DPA and other consent orders in consultation with the relevant regulatory agencies. |
| T Dispute risk | HSBC is party to legal proceedings arising out of its normal business operations which could give rise to potential financial loss and significant reputational damage. | We continue to focus on identifying emerging regulatory and judicial trends in order to limit exposure to litigation or regulatory enforcement action in the future. |
| Risks related to our business operations, governance and internal control systems | | |
| T Heightened execution risk | The execution of the Group's strategy requires the management of complex projects that are resource demanding and time sensitive. The size and scope of actions to meet regulatory demands and risks from business and portfolio disposals may affect our ability to execute our strategy. | We have strengthened our prioritisation and governance processes for significant projects and have invested in our project implementation and IT capabilities. |
| T People risk | Regulatory reform and remediation are placing significant demands on the human capital of the Group. | We continuously review our remuneration policy to ensure we remain competitive and attract and retain key talent. We have increased the level of specialist resources in key areas. We are embedding a learning-based culture to improve employee capability, collaboration and engagement. |
| E Third-party risk management | Risks arising from the use of third-party service providers may be less transparent and more challenging to manage or influence. | We continue to strengthen our risk management processes and procedures in relation to the use and monitoring of third-party service providers. |
| T Information security risk | HSBC and other multinational organisations continue to be the targets of cyber-attacks. | We continue to improve our governance and controls framework to protect HSBC information and technical infrastructure against ever-increasing and sophisticated cyber-threats. |
| T Data management | Regulatory requirements necessitate more frequent and granular data submissions, which must be produced on a consistent, accurate and timely basis. | A number of key initiatives and projects are in progress to implement our data strategy to enable consistent data aggregation, reporting and management. |
| T Model risk | Adverse consequences could result from decisions based on incorrect model outputs or from models that are poorly developed, implemented or used. The regulatory environment and supervisory concerns over banks' use of internal models to determine regulatory capital further contribute to model risk. | The development, usage and validation of models used for a range of purposes including regulatory and economic capital calculations, stress testing, granting credit and pricing are subject to increased governance and independent review. |

Areas of special interest

During 1H15, we considered a number of particular areas because of the effect they may have on the Group. While some of these areas may have already been identified in top and emerging risks, further details of the actions taken in 1H15 are provided below.

Financial crime compliance and regulatory compliance

We have experienced increasing levels of compliance risk in recent years as regulators and other agencies pursued investigations into historical activities, for example, investigations regarding inadequate compliance with AML and sanctions law (giving rise to the US DPA), mis-selling in the UK of payment protection insurance ('PPI') policies, investigations in connection with the setting of Libor and other benchmark interest rates, and activities related to foreign exchange, precious metals and credit default swaps. Details of these investigations and legal proceedings can be found in Note 19 on the Financial Statements and the work of the Monitor, who has been appointed to assess our progress against our various obligations in the US DPA is discussed on page 13.

The level of inherent compliance risk remained high in 1H15 as the industry continued to experience greater regulatory scrutiny and heightened levels of regulatory oversight and supervision. Further information about the Group's compliance risk management may be found on page 83.

Swiss Private Bank

Various tax administration, regulatory and law enforcement authorities around the world are conducting investigations and reviews of HSBC Swiss Private Bank in connection with past practices at the bank and the financial affairs of some of its clients. Details of these investigations and reviews may be found in Note 19 on the Financial Statements. We are cooperating with the relevant authorities.

Regulatory stress tests

Stress testing is an important tool for regulators to assess the resilience of the banking sector and of individual banks to adverse economic or financial developments. The results inform the regulators' view of the capital adequacy of individual institutions and could have a significant effect on capital requirements, risk and capital management practices and planned capital actions, including the payment of dividends, going forward.

The Group is participating in the 2015 PRA concurrent stress test programme, which involves all major UK banks. The scenarios for the 2015 stress test incorporate a synchronised global downturn affecting Asia, Brazil and the eurozone in particular, a reduction in global risk appetite and market liquidity, and a slowdown in the UK

driven by a downturn in its trading partners. The results will be published by the Bank of England alongside the Financial Stability Report in the fourth quarter of 2015.

HSBC North America Holdings Inc. ('HNAH') participated in the Comprehensive Capital Analysis and Review ('CCAR') and Dodd-Frank Act Stress Testing ('DFAST') 2015 programmes of the Federal Reserve Board ('FRB'); HSBC Bank USA N.A. ('HSBC Bank USA') participated in the DFAST 2015 programme of the Office of the Comptroller of the Currency. Submissions were made on 5 January 2015 and summaries of the results of the stress test were disclosed on 5 March 2015. On 11 March 2015, HNAH received the FRB's non-objection to its 2015 CCAR submission and its capital plan, and on 16 July 2015, it disclosed a summary of the results of its DFAST 2015 company-run mid-cycle stress test.

Other entities in the Group, including the Hongkong and Shanghai Banking Corporation Limited, continue to participate in regional regulatory stress tests activities.

A summary of our approach to stress testing and scenario analysis programme is provided on page 117 of the Annual Report and Accounts 2014.

Oil and gas prices

Oil and commodity prices declined significantly during 2014 as a result of increasing global supply and demand imbalances and changes in market sentiment. During 1H15 oil prices increased compared with 2014. At the prices prevailing during 1H15 the pressure on large integrated producers and Middle Eastern economies was somewhat reduced. Higher cost non-integrated producers remained relatively weaker while we expect that infrastructure and services providers will continue to come under pressure due to reduced capital expenditure across the industry.

Our diversified lending portfolio was resilient during 1H15; impairments as a result of the lower oil and gas prices were insignificant. The sector remains under enhanced monitoring with risk appetite and new lending carefully monitored.

Greece

In light of recent developments in Greece we invoked our long-established major incident crisis management procedures and continue to monitor the situation carefully.

The rest of the eurozone, including Italy, Ireland, Portugal and Spain, has remained resilient. Various indicators such as credit default swap prices and interest rate spreads suggest that the risk of contagion to other peripheral eurozone countries has been successfully contained.

As a result of the unfolding crisis we have raised additional loan impairment charges and other credit risk provisions amounting to \$0.1bn. Exposures to Greece are described in further detail on page 74.

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from certain other products such as guarantees and credit derivatives and from holding assets in the form of debt securities.

There have been no material changes to the policies and practices for the management of credit risk summarised in the credit risk section on page 127 and the Appendix to Risk on page 206 of the *Annual Report and Accounts 2014*.

Credit risk in the first half of 2015

An update on the effect of oil and gas prices is provided in 'Areas of special interest' on page 59, and our exposures to Greece are set out on page 74.

Reported gross loans and advances declined by \$26bn. During 1H15, the assets of our Brazilian operations were reclassified as 'Assets held for sale' (see Note 12 on the Financial Statements), which reduced reported gross loans and advances by \$31bn as detailed on page 62. Foreign exchange differences reduced reported gross loans and advances by a further \$11bn. Excluding these adjustments, lending grew in both wholesale and personal lending.

Loan impairment charges reduced by 25% compared with 1H14 with notable decreases in Latin America, North America and Europe.

Information on constant currency movements is provided on page 71. The commentary that follows is on a constant currency basis, while tables are presented on a reported basis.

Excluding the Brazilian reclassification, wholesale gross loans grew by \$13bn. Balances in Asia grew by \$12bn, mainly in other property and international trade and services, and in North America by \$5.6bn, mainly in manufacturing and commercial real estate, though this growth was partly offset by a \$4.0bn reduction in Europe.

Excluding the Brazilian reclassification and the ongoing run-off of the US CML portfolio, personal lending balances grew by \$4.5bn in 1H15. This was mainly due to increased mortgage and other lending in Asia, other personal lending in Mexico and growth in the Premier mortgage portfolio in the US.

Summary of credit risk

| | 30 Jun 2015 \$bn | 30 Jun 2014 \$bn | 31 Dec 2014 \$bn |
|---|------------------------|------------------------|------------------------|
| At end of period | | | |
| Maximum exposure to credit risk | | | |
| – total assets subject to credit risk | 2,373 | 2,546 | 2,434 |
| – off-balance sheet commitments subject to credit risk ¹ | 699 | 688 | 699 |
| | 3,072 | 3,234 | 3,133 |
| Gross loans and advances | | | |
| – personal lending | 385 | 416 | 393 |
| – wholesale lending | 688 | 773 | 706 |
| | 1,073 | 1,189 | 1,099 |
| Impaired loans | | | |
| – personal lending | 13 | 18 | 15 |
| – wholesale lending | 12 | 16 | 14 |
| | 25 | 34 | 29 |
| Impaired loans as a % of gross loans and advances | | | |
| – personal lending | 3.4% | 4.2% | 3.9% |
| – wholesale lending | 1.7% | 2.1% | 2.0% |
| – total | 2.3% | 2.9% | 2.7% |
| | \$bn | \$bn | \$bn |
| Impairment allowances | | | |
| – personal lending | 3.3 | 5.9 | 4.6 |
| – wholesale lending | 6.4 | 8.1 | 7.8 |
| | 9.7 | 14.0 | 12.4 |
| Loans and advances net of impairment allowances | 1,063 | 1,175 | 1,087 |
| For the period ended | | | |
| Loan impairment charges | | | |
| – personal lending | 0.9 | 1.2 | 0.6 |
| – wholesale lending | 0.6 | 0.8 | 1.5 |
| | 1.5 | 2.0 | 2.1 |

For footnote, see page 86.

Loans and advances

The following table analyses loans and advances by industry sector and by the location of the principal operations of the lending subsidiary or, in the case of the operations of The Hongkong and Shanghai Banking Corporation, HSBC Bank plc, HSBC Bank Middle East and HSBC Bank USA, by the location of the lending branch. The distribution of loans across geographical regions and industries remained similar to last year.

Gross loans and advances by industry sector and by geographical region

| | Europe \$m | Asia \$m | MENA \$m | North America \$m | Latin America \$m | Total \$m | As a % of total gross loans |
|---------------------------------------|----------------|----------------|---------------|-------------------------|-------------------------|------------------|--------------------------------------|
| At 30 June 2015 | | | | | | | |
| Personal | 177,311 | 132,375 | 6,648 | 62,990 | 5,976 | 385,300 | 35.9 |
| – first lien residential mortgages | 130,909 | 95,176 | 2,642 | 53,995 | 2,031 | 284,753 | 26.5 |
| – other personal | 46,402 | 37,199 | 4,006 | 8,995 | 3,945 | 100,547 | 9.4 |
| Wholesale | | | | | | | |
| Corporate and commercial | 200,188 | 225,249 | 22,833 | 63,524 | 12,413 | 524,207 | 48.9 |
| – manufacturing | 43,465 | 35,599 | 2,570 | 17,392 | 3,072 | 102,098 | 9.5 |
| – international trade and services | 65,459 | 76,683 | 10,109 | 13,720 | 3,508 | 169,479 | 15.8 |
| – commercial real estate | 26,925 | 34,249 | 721 | 7,444 | 1,418 | 70,757 | 6.6 |
| – other property-related | 8,209 | 39,518 | 1,691 | 9,652 | 39 | 59,109 | 5.5 |
| – government | 2,260 | 1,117 | 1,552 | 164 | 947 | 6,040 | 0.6 |
| – other commercial ² | 53,870 | 38,083 | 6,190 | 15,152 | 3,429 | 116,724 | 10.9 |
| Financial | 27,163 | 15,413 | 2,896 | 8,055 | 691 | 54,218 | 5.0 |
| Banks | 23,460 | 66,286 | 9,014 | 7,372 | 3,311 | 109,443 | 10.2 |
| Total gross loans and advances | 428,122 | 439,323 | 41,391 | 141,941 | 22,391 | 1,073,168 | 100.0 |
| Percentage of total | 39.9% | 40.9% | 3.9% | 13.2% | 2.1% | 100.0% | |
| At 30 June 2014 | | | | | | | |
| Personal | 194,898 | 129,680 | 6,553 | 69,573 | 15,048 | 415,752 | 35.0 |
| – first lien residential mortgages | 144,225 | 95,489 | 2,543 | 58,677 | 4,501 | 305,435 | 25.7 |
| – other personal | 50,673 | 34,191 | 4,010 | 10,896 | 10,547 | 110,317 | 9.3 |
| Wholesale | | | | | | | |
| Corporate and commercial | 260,097 | 221,852 | 20,983 | 56,054 | 32,965 | 591,951 | 49.8 |
| – manufacturing | 65,374 | 35,210 | 2,445 | 12,941 | 14,196 | 130,166 | 10.9 |
| – international trade and services | 79,981 | 80,574 | 10,072 | 13,087 | 8,534 | 192,248 | 16.2 |
| – commercial real estate | 30,935 | 34,727 | 434 | 6,677 | 2,492 | 75,265 | 6.3 |
| – other property-related | 7,444 | 32,730 | 1,593 | 8,644 | 348 | 50,759 | 4.3 |
| – government | 2,404 | 1,082 | 1,696 | 568 | 1,007 | 6,757 | 0.6 |
| – other commercial ² | 73,959 | 37,529 | 4,743 | 14,137 | 6,388 | 136,756 | 11.5 |
| Financial | 29,603 | 12,091 | 2,838 | 7,579 | 1,397 | 53,508 | 4.5 |
| Banks | 27,763 | 72,222 | 8,644 | 6,252 | 12,569 | 127,450 | 10.7 |
| Total gross loans and advances | 512,361 | 435,845 | 39,018 | 139,458 | 61,979 | 1,188,661 | 100.0 |
| Percentage of total | 43.1% | 36.7% | 3.3% | 11.7% | 5.2% | 100.0% | |
| At 31 December 2014 | | | | | | | |
| Personal | 178,531 | 129,515 | 6,571 | 65,400 | 13,537 | 393,554 | 35.8 |
| – first lien residential mortgages | 131,000 | 93,147 | 2,647 | 55,577 | 4,153 | 286,524 | 26.1 |
| – other personal | 47,531 | 36,368 | 3,924 | 9,823 | 9,384 | 107,030 | 9.7 |
| Wholesale | | | | | | | |
| Corporate and commercial | 212,523 | 220,799 | 20,588 | 57,993 | 30,722 | 542,625 | 49.4 |
| – manufacturing | 39,456 | 37,767 | 2,413 | 15,299 | 12,051 | 106,986 | 9.7 |
| – international trade and services | 76,629 | 72,814 | 9,675 | 13,484 | 8,189 | 180,791 | 16.4 |
| – commercial real estate | 28,187 | 35,678 | 579 | 6,558 | 2,291 | 73,293 | 6.7 |
| – other property-related | 7,126 | 34,379 | 1,667 | 8,934 | 281 | 52,387 | 4.8 |
| – government | 2,264 | 1,195 | 1,552 | 164 | 968 | 6,143 | 0.6 |
| – other commercial ² | 58,861 | 38,966 | 4,702 | 13,554 | 6,942 | 123,025 | 11.2 |
| Financial | 23,103 | 13,997 | 3,291 | 9,034 | 1,393 | 50,818 | 4.6 |
| Banks | 21,978 | 62,960 | 10,495 | 7,405 | 9,360 | 112,198 | 10.2 |
| Total gross loans and advances | 436,135 | 427,271 | 40,945 | 139,832 | 55,012 | 1,099,195 | 100.0 |
| Percentage of total | 39.7% | 38.9% | 3.7% | 12.7% | 5.0% | 100.0% | |

For footnote, see page 86.

Risk (continued)

Credit risk

Assets held for sale

During 1H15, gross loans and advances and related impairment allowances arising in our Brazilian operations were reclassified from 'Loans and advances to customers' and 'Loans and advances to banks' to 'Assets held for sale' in the balance sheet. There was no separate income statement reclassification. As a result, charges for loan impairment losses shown in the credit risk disclosures include loan impairment charges relating to financial assets classified as 'Assets held for sale'.

Loans and advances to banks and customers measured at amortised cost

| | Total gross loans and advances \$m | Impairment allowances on loans and advances \$m |
|------------------------------------|---------------------------------------|--|
| As reported | 1,073,168 | (9,778) |
| Reported in 'Assets held for sale' | 26,883 | (1,666) |
| At 30 June 2015 | 1,100,051 | (11,444) |

At 31 December 2014, the gross loans and advances and related impairment allowances of our Brazilian operations were \$31bn and \$1.7bn, respectively. Gross loans and advances reduced by \$4.3bn mainly as a result of foreign exchange movements.

Gross loans and impairment allowances on loans and advances to customers and banks reported in 'Assets held for sale'

| | Brazil \$m | Other \$m | Total \$m |
|---------------------------------|----------------|--------------|----------------|
| Gross loans | | | |
| Loans and advances to customers | 22,460 | 230 | 22,690 |
| – personal | 6,749 | 182 | 6,931 |
| – corporate and commercial | 15,403 | 48 | 15,451 |
| – financial | 308 | – | 308 |
| Loans and advances to banks | 4,193 | – | 4,193 |
| At 30 June 2015 | 26,653 | 230 | 26,883 |
| Impairment allowances | | | |
| Loans and advances to customers | (1,632) | (34) | (1,666) |
| – personal | (713) | (16) | (729) |
| – corporate and commercial | (918) | (18) | (936) |
| – financial | (1) | – | (1) |
| Loans and advances to banks | – | – | – |
| At 30 June 2015 | (1,632) | (34) | (1,666) |

The table below analyses the amount of LICs arising from assets held for sale. They primarily relate to the Brazilian operations.

Loan impairment charges and other credit risk provisions

| | Total \$m |
|----------------------------------|--------------|
| LICs arising from: | |
| – assets held for sale | 478 |
| – assets not held for sale | 961 |
| Half-year to 30 June 2015 | 1,439 |

Credit quality of financial instruments

We assess credit quality on all financial instruments which bear credit risk. The distribution of financial instruments by credit quality is tabulated below.

Distribution of total financial instruments exposed to credit risk by credit quality

| | Neither past due nor impaired | | | | Past due but not impaired \$m | Impaired \$m | Total gross amount \$m | Impairment allowances \$m | Total \$m |
|------------------------|-------------------------------|-------------|---------------------|---------------------|----------------------------------|-----------------|---------------------------|------------------------------|--------------|
| | Strong \$m | Good \$m | Satisfactory \$m | Sub-standard \$m | | | | | |
| At 30 June 2015 | 1,599,418 | 410,280 | 303,630 | 28,141 | 13,282 | 29,569 | 2,384,320 | (11,445) | 2,372,875 |
| At 30 June 2014 | 1,677,301 | 456,507 | 335,139 | 40,041 | 14,163 | 37,112 | 2,560,263 | (14,109) | 2,546,154 |
| At 31 December 2014 | 1,631,391 | 421,563 | 315,958 | 31,530 | 13,568 | 32,492 | 2,446,502 | (12,402) | 2,434,100 |
| | % | % | % | % | % | % | % | | |
| At 30 June 2015 | 67.1 | 17.2 | 12.7 | 1.2 | 0.6 | 1.2 | 100.0 | | |
| At 30 June 2014 | 65.5 | 17.8 | 13.1 | 1.6 | 0.6 | 1.4 | 100.0 | | |
| At 31 December 2014 | 66.7 | 17.2 | 12.9 | 1.3 | 0.6 | 1.3 | 100.0 | | |

This table shows the credit quality distribution for all assets exposed to credit risk, including the balances relating to our Brazilian operations. Within past due but not impaired

amounts at 30 June 2015, 99% were less than 90 days past due in line with previous periods.

Distribution of loans and advances held at amortised cost by credit quality

| | Neither past due nor impaired | | | | Past due but not impaired \$m | Impaired \$m | Total gross amount \$m | Impairment allowances \$m | Total \$m |
|--|-------------------------------|-------------|---------------------|---------------------|----------------------------------|-----------------|---------------------------|------------------------------|--------------|
| | Strong \$m | Good \$m | Satisfactory \$m | Sub-standard \$m | | | | | |
| At 30 June 2015 | | | | | | | | | |
| Loans and advances to customers ³ | 478,003 | 234,178 | 196,723 | 17,463 | 12,248 | 25,110 | 963,725 | (9,740) | 953,985 |
| – personal | 316,984 | 31,572 | 14,715 | 975 | 7,817 | 13,237 | 385,300 | (3,339) | 381,961 |
| – corporate and commercial | 133,683 | 186,759 | 172,404 | 15,960 | 3,834 | 11,567 | 524,207 | (6,127) | 518,080 |
| – financial | 27,336 | 15,847 | 9,604 | 528 | 597 | 306 | 54,218 | (274) | 53,944 |
| Loans and advances to banks | 86,768 | 17,655 | 4,571 | 404 | 1 | 44 | 109,443 | (38) | 109,405 |
| At 30 June 2014 | | | | | | | | | |
| Loans and advances to customers ³ | 501,162 | 274,776 | 212,714 | 24,712 | 13,967 | 33,880 | 1,061,211 | (13,970) | 1,047,241 |
| – personal | 332,045 | 38,673 | 16,847 | 1,366 | 9,283 | 17,538 | 415,752 | (5,906) | 409,846 |
| – corporate and commercial | 140,941 | 222,982 | 185,541 | 22,450 | 4,327 | 15,710 | 591,951 | (7,686) | 584,265 |
| – financial | 28,176 | 13,121 | 10,326 | 896 | 357 | 632 | 53,508 | (378) | 53,130 |
| Loans and advances to banks | 96,849 | 21,948 | 6,986 | 1,599 | 12 | 56 | 127,450 | (63) | 127,387 |
| At 31 December 2014 | | | | | | | | | |
| Loans and advances to customers ³ | 487,734 | 239,136 | 196,685 | 20,802 | 13,357 | 29,283 | 986,997 | (12,337) | 974,660 |
| – personal | 320,678 | 32,601 | 15,109 | 1,130 | 8,876 | 15,160 | 393,554 | (4,600) | 388,954 |
| – corporate and commercial | 141,375 | 192,799 | 171,748 | 18,986 | 3,922 | 13,795 | 542,625 | (7,441) | 535,184 |
| – financial | 25,681 | 13,736 | 9,828 | 686 | 559 | 328 | 50,818 | (296) | 50,522 |
| Loans and advances to banks | 83,766 | 19,525 | 7,945 | 914 | 1 | 47 | 112,198 | (49) | 112,149 |

For footnote, see page 86.

This table shows loans and advances held at amortised cost by credit quality distribution. Assets of our Brazilian

operations are not included in the 30 June 2015 balances following their classification as 'Assets held for sale'.

Impaired loans

Impaired gross loans and advances to customers and banks by industry sector

| | Impaired loans and advances at 30 June 2015 | | | Impaired loans and advances at 30 June 2014 | | | Impaired loans and advances at 31 December 2014 | | |
|----------------------------|---|------------------------------|--------------|---|------------------------------|--------------|---|------------------------------|--------------|
| | Individually assessed \$m | Collectively assessed \$m | Total \$m | Individually assessed \$m | Collectively assessed \$m | Total \$m | Individually assessed \$m | Collectively assessed \$m | Total \$m |
| Banks | 44 | – | 44 | 56 | – | 56 | 47 | – | 47 |
| Customers | 14,122 | 10,988 | 25,110 | 18,076 | 15,804 | 33,880 | 15,879 | 13,404 | 29,283 |
| – personal | 2,334 | 10,903 | 13,237 | 2,171 | 15,367 | 17,538 | 2,096 | 13,064 | 15,160 |
| – corporate and commercial | 11,482 | 85 | 11,567 | 15,274 | 436 | 15,710 | 13,456 | 339 | 13,795 |
| – financial | 306 | – | 306 | 631 | 1 | 632 | 327 | 1 | 328 |
| | 14,166 | 10,988 | 25,154 | 18,132 | 15,804 | 33,936 | 15,926 | 13,404 | 29,330 |

On a reported basis, during 1H15 impaired gross loans and advances declined by \$4.2bn. The classification of the assets of our Brazilian operations as 'Assets held for sale' reduced personal collectively assessed impaired loan balances by \$0.7bn. The continued run-off of the US CML portfolio reduced personal collectively assessed impaired loan balances by a further \$0.9bn. Personal individually assessed impaired loans increased, largely due to enhancements to the identification of impaired UK residential mortgages and the calculation of allowances on individual loans rather than on a collective basis. Corporate and commercial impaired loans reduced by \$2.2bn mainly due to the Brazilian reclassification. Corporate and commercial impaired loans also decreased as a result of write-offs in Europe and Middle East and North Africa.

Renegotiated loans and forbearance

The most significant portfolio of renegotiated loans remained in North America, substantially all of which were personal loans held by HSBC Finance Corporation ('HSBC Finance'). On a reported basis, during 1H15, total renegotiated loans decreased by \$1.9bn to \$25.6bn. The Brazilian reclassification reduced reported renegotiated loans by \$1.0bn. The ongoing run-off of the US CML portfolio reduced renegotiated loans by a further \$0.9bn, and new renegotiated loans and delinquency in the US CML portfolio diminished as a result of improvements in the US housing market and economic conditions.

The following tables show the gross carrying amounts of the Group's holdings of renegotiated loans and advances to customers by industry sector, geography and credit quality classification.

Risk (continued)

Credit risk
Renegotiated loans and advances to customers by geographical region

| | Europe \$m | Asia \$m | MENA \$m | North America \$m | Latin America \$m | Total \$m |
|--|---------------|-------------|--------------|-------------------------|-------------------------|---------------|
| First lien residential mortgages | 1,586 | 82 | 49 | 12,828 | 44 | 14,589 |
| – neither past due nor impaired | 568 | 55 | 26 | 3,680 | 28 | 4,357 |
| – past due but not impaired | 213 | 6 | 1 | 1,822 | 6 | 2,048 |
| – impaired | 805 | 21 | 22 | 7,326 | 10 | 8,184 |
| Other personal lending | 318 | 280 | 23 | 1,166 | 41 | 1,828 |
| – neither past due nor impaired | 183 | 160 | 14 | 446 | 13 | 816 |
| – past due but not impaired | 39 | 18 | 4 | 198 | 1 | 260 |
| – impaired | 96 | 102 | 5 | 522 | 27 | 752 |
| Corporate and commercial ⁴ | 5,468 | 471 | 1,394 | 430 | 648 | 8,411 |
| – neither past due nor impaired | 1,290 | 76 | 344 | 39 | 262 | 2,011 |
| – past due but not impaired | 42 | 1 | 24 | – | 4 | 71 |
| – impaired | 4,136 | 394 | 1,026 | 391 | 382 | 6,329 |
| Financial ⁵ | 444 | 4 | 282 | – | – | 730 |
| – neither past due nor impaired | 222 | – | 282 | – | – | 504 |
| – past due but not impaired | – | – | – | – | – | – |
| – impaired | 222 | 4 | – | – | – | 226 |
| Renegotiated loans at 30 June 2015 | 7,816 | 837 | 1,748 | 14,424 | 733 | 25,558 |
| – neither past due nor impaired | 2,263 | 291 | 666 | 4,165 | 303 | 7,688 |
| – past due but not impaired | 294 | 25 | 29 | 2,020 | 11 | 2,379 |
| – impaired | 5,259 | 521 | 1,053 | 8,239 | 419 | 15,491 |
| Impairment allowances on renegotiated loans | 1,458 | 158 | 513 | 1,246 | 146 | 3,521 |
| – renegotiated loans as % of total gross loans | 1.9% | 0.2% | 5.4% | 10.7% | 3.8% | 2.7% |
| First lien residential mortgages | 1,743 | 107 | 69 | 15,034 | 74 | 17,027 |
| – neither past due nor impaired | 593 | 72 | 22 | 3,827 | 36 | 4,550 |
| – past due but not impaired | 296 | 13 | 10 | 2,032 | 5 | 2,356 |
| – impaired | 854 | 22 | 37 | 9,175 | 33 | 10,121 |
| Other personal lending | 423 | 311 | 54 | 1,376 | 457 | 2,621 |
| – neither past due nor impaired | 287 | 201 | 31 | 468 | 15 | 1,002 |
| – past due but not impaired | 28 | 24 | 17 | 234 | 2 | 305 |
| – impaired | 108 | 86 | 6 | 674 | 440 | 1,314 |
| Corporate and commercial ⁴ | 7,064 | 454 | 1,579 | 508 | 2,024 | 11,629 |
| – neither past due nor impaired | 1,559 | 124 | 689 | 41 | 436 | 2,849 |
| – past due but not impaired | 145 | 2 | 95 | 2 | 35 | 279 |
| – impaired | 5,360 | 328 | 795 | 465 | 1,553 | 8,501 |
| Financial ⁵ | 287 | 5 | 356 | 1 | 1 | 650 |
| – neither past due nor impaired | 93 | – | 265 | – | – | 358 |
| – past due but not impaired | – | – | – | – | – | – |
| – impaired | 194 | 5 | 91 | 1 | 1 | 292 |
| Renegotiated loans at 30 June 2014 | 9,517 | 877 | 2,058 | 16,919 | 2,556 | 31,927 |
| – neither past due nor impaired | 2,532 | 396 | 1,007 | 4,336 | 488 | 8,759 |
| – past due but not impaired | 470 | 39 | 121 | 2,268 | 42 | 2,940 |
| – impaired | 6,515 | 442 | 930 | 10,315 | 2,026 | 20,228 |
| Impairment allowances on renegotiated loans | 1,355 | 73 | 436 | 2,025 | 893 | 4,782 |
| – renegotiated loans as % of total gross loans | 2.0% | 0.2% | 6.8% | 12.7% | 5.2% | 3.0% |

| | Europe \$m | Asia \$m | MENA \$m | North America \$m | Latin America \$m | Total \$m |
|--|---------------|-------------|-------------|-------------------------|-------------------------|--------------|
| First lien residential mortgages | 1,605 | 94 | 58 | 13,540 | 60 | 15,357 |
| – neither past due nor impaired | 529 | 63 | 19 | 3,695 | 32 | 4,338 |
| – past due but not impaired | 221 | 8 | 1 | 1,894 | 5 | 2,129 |
| – impaired | 855 | 23 | 38 | 7,951 | 23 | 8,890 |
| Other personal lending | 324 | 292 | 27 | 1,267 | 326 | 2,236 |
| – neither past due nor impaired | 184 | 173 | 16 | 453 | 14 | 840 |
| – past due but not impaired | 40 | 22 | 5 | 214 | 1 | 282 |
| – impaired | 100 | 97 | 6 | 600 | 311 | 1,114 |
| Corporate and commercial ⁴ | 5,469 | 501 | 1,439 | 427 | 1,324 | 9,160 |
| – neither past due nor impaired | 1,383 | 102 | 483 | 36 | 303 | 2,307 |
| – past due but not impaired | 68 | – | 31 | 1 | 1 | 101 |
| – impaired | 4,018 | 399 | 925 | 390 | 1,020 | 6,752 |
| Financial ⁵ | 413 | 4 | 323 | 1 | 1 | 742 |
| – neither past due nor impaired | 219 | – | 305 | – | – | 524 |
| – past due but not impaired | – | – | – | – | – | – |
| – impaired | 194 | 4 | 18 | 1 | 1 | 218 |
| Renegotiated loans at 31 December 2014 | 7,811 | 891 | 1,847 | 15,235 | 1,711 | 27,495 |
| – neither past due nor impaired | 2,315 | 338 | 823 | 4,184 | 349 | 8,009 |
| – past due but not impaired | 329 | 30 | 37 | 2,109 | 7 | 2,512 |
| – impaired | 5,167 | 523 | 987 | 8,942 | 1,355 | 16,974 |
| Impairment allowances on renegotiated loans | 1,458 | 170 | 458 | 1,499 | 704 | 4,289 |
| – renegotiated loans as % of total gross loans | 1.9% | 0.2% | 6.1% | 11.5% | 3.7% | 2.8% |

For footnotes, see page 86.

Loan impairment in the first half of 2015

On a reported basis, loan impairment charges of \$1.4bn were \$578m lower than in 1H14, in part reflecting the favourable effect of foreign currency movements of \$282m, mainly in Latin America and, to a lesser extent, in Europe.

The following commentary is on a constant currency basis. Loan impairment charges decreased by \$296m or 17%, primarily in North America, Europe and Latin America partly offset in Middle East and North Africa.

In North America, loan impairment charges decreased for both personal and corporate and commercial lending. The decrease in corporate and commercial lending impairment charges mainly reflected charges recorded in 1H14 following a revision to certain estimates used in our corporate loan impairment calculation. Personal lending loan impairment charges fell mainly due to lower collectively assessed charges on first lien mortgages, primarily in the US CML portfolio. This decline reflected reduced levels of delinquency and lower new impaired loans in addition to lower lending balances from the continued run-off and loan sales. These factors were partly

offset by lower favourable market value adjustments of underlying properties as improvements in housing market conditions were less pronounced in 1H15 than in 1H14.

In Europe, the reduction was driven by lower impairment charges on corporate and commercial lending. This primarily reflected the lower individually assessed loan impairment charge in the UK in 1H14, partly offset by \$92m of loan impairments charges relating to Greek exposures during 1H15. An additional \$19m of other credit risk provisions were taken in relation to off-balance sheet exposures to Greece.

In Latin America, loan impairment charges decreased by \$88m, primarily in personal lending in Brazil due to the non-recurrence of loan impairment charges from refinements made in 1H14 to the impairment model for non-restructured loan portfolios, and in Mexico, reflecting lower delinquency rates on personal lending, payroll and card portfolios.

These factors were partly offset in Middle East and North Africa, reflecting higher individually assessed loan impairment charges in 1H15 compared with a net release in 1H14, primarily on commercial exposures in the UAE.

Risk (continued)

Credit risk
Loan impairment charge to the income statement by industry sector

| | Europe \$m | Asia \$m | MENA \$m | North America \$m | Latin America \$m | Total \$m |
|---|---------------|-------------|-------------|-------------------------|-------------------------|--------------|
| Personal | 113 | 145 | 24 | 101 | 488 | 871 |
| – first lien residential mortgages | (32) | 2 | (7) | 68 | 33 | 64 |
| – other personal | 145 | 143 | 31 | 33 | 455 | 807 |
| Corporate and commercial | 214 | 97 | 21 | 50 | 216 | 598 |
| – manufacturing and international trade and services | 103 | 109 | (11) | 9 | 175 | 385 |
| – commercial real estate and other property-related | (10) | 13 | 25 | 1 | 17 | 46 |
| – other commercial ² | 121 | (25) | 7 | 40 | 24 | 167 |
| Financial ⁵ | (6) | – | (12) | (3) | (1) | (22) |
| Total loan impairment charge for the half-year to 30 June 2015 | 321 | 242 | 33 | 148 | 703 | 1,447 |
| Personal | 122 | 155 | 15 | 225 | 701 | 1,218 |
| – first lien residential mortgages | (37) | (2) | (5) | 168 | 12 | 136 |
| – other personal | 159 | 157 | 20 | 57 | 689 | 1,082 |
| Corporate and commercial | 329 | 63 | (44) | 141 | 290 | 779 |
| – manufacturing and international trade and services | 291 | 61 | (8) | 79 | 141 | 564 |
| – commercial real estate and other property-related | (17) | (9) | (30) | 23 | 59 | 26 |
| – other commercial ² | 55 | 11 | (6) | 39 | 90 | 189 |
| Financial ⁵ | 28 | (2) | (28) | 29 | 1 | 28 |
| Total loan impairment charge for the half-year to 30 June 2014 | 479 | 216 | (57) | 395 | 992 | 2,025 |
| Personal | 123 | 166 | 10 | (108) | 394 | 585 |
| – first lien residential mortgages | (38) | 8 | (19) | (142) | 3 | (188) |
| – other personal | 161 | 158 | 29 | 34 | 391 | 773 |
| Corporate and commercial | 461 | 264 | 50 | 55 | 647 | 1,477 |
| – manufacturing and international trade and services | 229 | 136 | 44 | 37 | 241 | 687 |
| – commercial real estate and other property-related | 95 | 38 | 2 | 4 | 117 | 256 |
| – other commercial ² | 137 | 90 | 4 | 14 | 289 | 534 |
| Financial ⁵ | 16 | (2) | (4) | (42) | – | (32) |
| Total loan impairment charge for the half-year to 31 December 2014 | 600 | 428 | 56 | (95) | 1,041 | 2,030 |

For footnotes, see page 86.

Movement in impairment allowances on loans and advances to customers and banks

| | Banks | Customers | | Total \$m |
|---|---------------------------------|---------------------------------|---------------------------------|--------------|
| | individually assessed \$m | Individually assessed \$m | Collectively assessed \$m | |
| At 1 January 2015 | 49 | 6,195 | 6,142 | 12,386 |
| Amounts written off | – | (727) | (1,463) | (2,190) |
| Recoveries of loans and advances previously written off | – | 23 | 327 | 350 |
| Charge to income statement | (8) | 488 | 967 | 1,447 |
| Reclassified to held for sale | – | (656) | (1,047) | (1,703) |
| Exchange and other movements | (3) | (124) | (385) | (512) |
| At 30 June 2015 | 38 | 5,199 | 4,541 | 9,778 |
| Impairment allowances: | | | | |
| on loans and advances to customers | | 5,199 | 4,541 | 9,740 |
| – personal | | 425 | 2,914 | 3,339 |
| – corporate and commercial | | 4,587 | 1,540 | 6,127 |
| – financial | | 187 | 87 | 274 |
| as a percentage of gross loans and advances | 0.04% | 0.54% | 0.47% | 0.92% |

| | Banks | Customers | | Total \$m |
|---|---------------------------------|---------------------------------|---------------------------------|--------------|
| | individually assessed \$m | Individually assessed \$m | Collectively assessed \$m | |
| At 1 January 2014 | 58 | 7,072 | 8,071 | 15,201 |
| Amounts written off | (6) | (1,276) | (2,288) | (3,570) |
| Recoveries of loans and advances previously written off | – | 74 | 483 | 557 |
| Charge to income statement | 10 | 548 | 1,467 | 2,025 |
| Reclassified to held for sale | – | – | (160) | (160) |
| Exchange and other movements | 1 | 73 | (94) | (20) |
| At 30 June 2014 | 63 | 6,491 | 7,479 | 14,033 |
| Impairment allowances: | | | | |
| on loans and advances to customers | | 6,491 | 7,479 | 13,970 |
| – personal | | 534 | 5,372 | 5,906 |
| – corporate and commercial | | 5,708 | 1,978 | 7,686 |
| – financial | | 249 | 129 | 378 |
| as a percentage of gross loans and advances | 0.05% | 0.61% | 0.71% | 1.19% |
| At 1 July 2014 | 63 | 6,491 | 7,479 | 14,033 |
| Amounts written off | – | (1,037) | (1,772) | (2,809) |
| Recoveries of loans and advances previously written off | – | 40 | 358 | 398 |
| Charge to income statement | (6) | 1,228 | 808 | 2,030 |
| Reclassified to held for sale | – | (50) | (144) | (194) |
| Exchange and other movements | (8) | (477) | (587) | (1,072) |
| At 31 December 2014 | 49 | 6,195 | 6,142 | 12,386 |
| Impairment allowances: | | | | |
| on loans and advances to customers | | 6,195 | 6,142 | 12,337 |
| – personal | | 468 | 4,132 | 4,600 |
| – corporate and commercial | | 5,532 | 1,909 | 7,441 |
| – financial | | 195 | 101 | 296 |
| as a percentage of gross loans and advances | 0.04% | 0.63% | 0.62% | 1.13% |

Charge for impairment losses as a percentage of average gross loans and advances to customers by geographical region

| | Europe % | Asia % | MENA % | North America % | Latin America % | Total % |
|--|-------------|-----------|-----------|-----------------------|-----------------------|------------|
| Half-year to 30 June 2015 | | | | | | |
| New allowances net of allowance releases | 0.27 | 0.18 | 0.32 | 0.29 | 3.65 | 0.39 |
| Recoveries | (0.09) | (0.04) | (0.11) | (0.06) | (0.30) | (0.08) |
| Total charge for impairment losses | 0.18 | 0.14 | 0.21 | 0.23 | 3.35 | 0.31 |
| Amount written off net of recoveries | 0.22 | 0.09 | 1.67 | 0.57 | 3.19 | 0.40 |
| Half-year to 30 June 2014 | | | | | | |
| New allowances net of allowance releases | 0.39 | 0.17 | (0.23) | 0.71 | 4.72 | 0.55 |
| Recoveries | (0.15) | (0.04) | (0.17) | (0.10) | (0.49) | (0.12) |
| Total charge for impairment losses | 0.24 | 0.13 | (0.40) | 0.61 | 4.23 | 0.43 |
| Amount written off net of recoveries | 0.61 | 0.11 | 0.38 | 1.11 | 3.74 | 0.65 |
| Half-year to 31 December 2014 | | | | | | |
| New allowances net of allowance releases | 0.34 | 0.29 | 0.51 | (0.07) | 5.38 | 0.52 |
| Recoveries | (0.02) | (0.04) | (0.12) | (0.07) | (0.96) | (0.09) |
| Total charge for impairment losses | 0.32 | 0.25 | 0.39 | (0.14) | 4.42 | 0.43 |
| Amount written off net of recoveries | 0.36 | 0.15 | 0.79 | 0.83 | 3.52 | 0.52 |

Wholesale lending

Wholesale lending covers the range of credit facilities granted to sovereign borrowers, banks, non-bank financial institutions, corporate entities and commercial borrowers.

Total wholesale lending

| | Europe \$m | Asia \$m | MENA \$m | North America \$m | Latin America \$m | Total \$m |
|--|----------------|----------------|---------------|-------------------------|-------------------------|----------------|
| Corporate and commercial | 200,188 | 225,249 | 22,833 | 63,524 | 12,413 | 524,207 |
| – manufacturing | 43,465 | 35,599 | 2,570 | 17,392 | 3,072 | 102,098 |
| – international trade and services | 65,459 | 76,683 | 10,109 | 13,720 | 3,508 | 169,479 |
| – commercial real estate | 26,925 | 34,249 | 721 | 7,444 | 1,418 | 70,757 |
| – other property-related | 8,209 | 39,518 | 1,691 | 9,652 | 39 | 59,109 |
| – government | 2,260 | 1,117 | 1,552 | 164 | 947 | 6,040 |
| – other commercial ² | 53,870 | 38,083 | 6,190 | 15,152 | 3,429 | 116,724 |
| Financial | 27,163 | 15,413 | 2,896 | 8,055 | 691 | 54,218 |
| Loans and advances to banks | 23,460 | 66,286 | 9,014 | 7,372 | 3,311 | 109,443 |
| Gross loans at 30 June 2015 | 250,811 | 306,948 | 34,743 | 78,951 | 16,415 | 687,868 |
| Impairment allowances on wholesale lending | | | | | | |
| Corporate and commercial | 2,927 | 1,138 | 983 | 561 | 518 | 6,127 |
| – manufacturing | 563 | 266 | 134 | 134 | 50 | 1,147 |
| – international trade and services | 823 | 589 | 330 | 139 | 48 | 1,929 |
| – commercial real estate | 819 | 33 | 146 | 92 | 364 | 1,454 |
| – other property-related | 151 | 71 | 236 | 34 | 1 | 493 |
| – government | 7 | – | – | 1 | – | 8 |
| – other commercial | 564 | 179 | 137 | 161 | 55 | 1,096 |
| Financial | 216 | 13 | 10 | 35 | – | 274 |
| Loans and advances to banks | 20 | – | 18 | – | – | 38 |
| Impairment allowances at 30 June 2015 | 3,163 | 1,151 | 1,011 | 596 | 518 | 6,439 |
| Corporate and commercial | 260,097 | 221,852 | 20,983 | 56,054 | 32,965 | 591,951 |
| – manufacturing | 65,374 | 35,210 | 2,445 | 12,941 | 14,196 | 130,166 |
| – international trade and services | 79,981 | 80,574 | 10,072 | 13,087 | 8,534 | 192,248 |
| – commercial real estate | 30,935 | 34,727 | 434 | 6,677 | 2,492 | 75,265 |
| – other property-related | 7,444 | 32,730 | 1,593 | 8,644 | 348 | 50,759 |
| – government | 2,404 | 1,082 | 1,696 | 568 | 1,007 | 6,757 |
| – other commercial ² | 73,959 | 37,529 | 4,743 | 14,137 | 6,388 | 136,756 |
| Financial | 29,603 | 12,091 | 2,838 | 7,579 | 1,397 | 53,508 |
| Loans and advances to banks | 27,763 | 72,222 | 8,644 | 6,252 | 12,569 | 127,450 |
| Gross loans at 30 June 2014 | 317,463 | 306,165 | 32,465 | 69,885 | 46,931 | 772,909 |
| Impairment allowances on wholesale lending | | | | | | |
| Corporate and commercial | 3,355 | 951 | 1,161 | 817 | 1,402 | 7,686 |
| – manufacturing | 526 | 252 | 162 | 148 | 372 | 1,460 |
| – international trade and services | 961 | 458 | 490 | 187 | 257 | 2,353 |
| – commercial real estate | 1,062 | 19 | 147 | 178 | 454 | 1,860 |
| – other property-related | 257 | 99 | 239 | 89 | 7 | 691 |
| – government | 3 | – | 4 | 1 | – | 8 |
| – other commercial | 546 | 123 | 119 | 214 | 312 | 1,314 |
| Financial | 250 | 15 | 30 | 81 | 2 | 378 |
| Loans and advances to banks | 45 | – | 18 | – | – | 63 |
| Impairment allowances at 30 June 2014 | 3,650 | 966 | 1,209 | 898 | 1,404 | 8,127 |
| Corporate and commercial | 212,523 | 220,799 | 20,588 | 57,993 | 30,722 | 542,625 |
| – manufacturing | 39,456 | 37,767 | 2,413 | 15,299 | 12,051 | 106,986 |
| – international trade and services | 76,629 | 72,814 | 9,675 | 13,484 | 8,189 | 180,791 |
| – commercial real estate | 28,187 | 35,678 | 579 | 6,558 | 2,291 | 73,293 |
| – other property-related | 7,126 | 34,379 | 1,667 | 8,934 | 281 | 52,387 |
| – government | 2,264 | 1,195 | 1,552 | 164 | 968 | 6,143 |
| – other commercial ² | 58,861 | 38,966 | 4,702 | 13,554 | 6,942 | 123,025 |
| Financial | 23,103 | 13,997 | 3,291 | 9,034 | 1,393 | 50,818 |
| Loans and advances to banks | 21,978 | 62,960 | 10,495 | 7,405 | 9,360 | 112,198 |
| Gross loans at 31 December 2014 | 257,604 | 297,756 | 34,374 | 74,432 | 41,475 | 705,641 |

Total wholesale lending (continued)

| | Europe \$m | Asia \$m | MENA \$m | North America \$m | Latin America \$m | Total \$m |
|--|---------------|-------------|-------------|-------------------------|-------------------------|--------------|
| Impairment allowances on wholesale lending | | | | | | |
| Corporate and commercial | 3,112 | 1,089 | 1,171 | 608 | 1,461 | 7,441 |
| – manufacturing | 529 | 242 | 141 | 152 | 348 | 1,412 |
| – international trade and services | 877 | 533 | 536 | 157 | 237 | 2,340 |
| – commercial real estate | 909 | 44 | 147 | 101 | 476 | 1,677 |
| – other property-related | 203 | 55 | 219 | 57 | 12 | 546 |
| – government | 4 | – | 1 | – | – | 5 |
| – other commercial | 590 | 215 | 127 | 141 | 388 | 1,461 |
| Financial | 221 | 13 | 21 | 39 | 2 | 296 |
| Loans and advances to banks | 31 | – | 18 | – | – | 49 |
| Impairment allowances at 31 December 2014 | 3,364 | 1,102 | 1,210 | 647 | 1,463 | 7,786 |

For footnote, see page 86.

On a reported basis, gross loans decreased by \$18bn, mainly due to the classification of the assets of our Brazilian operations as 'Assets held for sale' of \$23bn and adverse foreign exchange movements of \$7.9bn.

Loan impairment allowances reduced by \$1.3bn, mainly due to the Brazilian reclassification.

The commentary that follows is on a constant currency basis.

Excluding the Brazilian reclassification, gross loans increased by \$13bn.

In Asia, balances grew by \$12bn, mainly in other property and international trade and services. In North America, we experienced growth of \$5.6bn mainly in manufacturing and commercial real estate. In Europe, balances reduced by \$4.0bn mainly due to corporate and commercial lending balances reducing by \$10bn which was partly offset by increases in financial and banks. The corporate and commercial lending reduction was mainly in the UK,

in international trade and service and other commercial balances which was partially offset by increases in manufacturing balances. These movements are mainly related to corporate overdraft balances where a small number of clients benefit from the use of net interest arrangements across overdraft and deposits. As a result, while net risk exposures are generally stable, gross balances can be volatile. In Middle East and North Africa, balances increased by \$0.8bn, mainly due to an increase in corporate and commercial lending of \$2.5bn partially offset by decreases in loans and advances to banks of \$1.2bn.

Personal lending

We provide a broad range of secured and unsecured personal lending products to meet customer needs. Personal lending includes loans secured on assets such as first liens on residential property, and unsecured lending products such as overdrafts, credit cards and payroll loans.

Total personal lending

| | Europe \$m | Asia \$m | MENA \$m | North America \$m | Latin America \$m | Total \$m |
|--|----------------|----------------|--------------|-------------------------|-------------------------|----------------|
| First lien residential mortgages | 130,909 | 95,176 | 2,642 | 53,995 | 2,031 | 284,753 |
| Of which: | | | | | | |
| – interest only (including offset) | 43,541 | 887 | – | 227 | – | 44,655 |
| – affordability (including ARMs) | 340 | 4,984 | – | 16,899 | – | 22,223 |
| Other personal lending | 46,402 | 37,199 | 4,006 | 8,995 | 3,945 | 100,547 |
| – motor vehicle finance | 5 | 264 | 377 | 16 | 408 | 1,070 |
| – credit cards | 12,559 | 9,760 | 859 | 999 | 1,934 | 26,111 |
| – second lien residential mortgages | – | 43 | 2 | 4,089 | – | 4,134 |
| – other | 33,838 | 27,132 | 2,768 | 3,891 | 1,603 | 69,232 |
| Total gross loans at 30 June 2015 | 177,311 | 132,375 | 6,648 | 62,990 | 5,976 | 385,300 |
| Impairment allowances on personal lending | | | | | | |
| First lien residential mortgages | 271 | 43 | 88 | 1,362 | 23 | 1,787 |
| Other personal lending | 792 | 205 | 87 | 276 | 192 | 1,552 |
| – motor vehicle finance | 1 | 1 | 5 | – | 4 | 11 |
| – credit cards | 354 | 114 | 30 | 30 | 117 | 645 |
| – second lien residential mortgages | – | – | – | 210 | – | 210 |
| – other | 437 | 90 | 52 | 36 | 71 | 686 |
| Total impairment allowances at 30 June 2015 | 1,063 | 248 | 175 | 1,638 | 215 | 3,339 |

Total personal lending (continued)

| | Europe \$m | Asia \$m | MENA \$m | North America \$m | Latin America \$m | Total \$m |
|--|----------------|----------------|--------------|-------------------------|-------------------------|----------------|
| First lien residential mortgages | 144,225 | 95,489 | 2,543 | 58,677 | 4,501 | 305,435 |
| Of which: | | | | | | |
| – interest only (including offset) | 50,339 | 1,138 | 18 | 332 | – | 51,827 |
| – affordability (including ARMs) | 350 | 5,532 | – | 15,950 | – | 21,832 |
| Other personal lending | 50,673 | 34,191 | 4,010 | 10,896 | 10,547 | 110,317 |
| – motor vehicle finance | 9 | 407 | 379 | 28 | 1,568 | 2,391 |
| – credit cards | 14,019 | 9,681 | 905 | 1,084 | 3,515 | 29,204 |
| – second lien residential mortgages | – | 80 | 3 | 4,879 | – | 4,962 |
| – other | 36,645 | 24,023 | 2,723 | 4,905 | 5,464 | 73,760 |
| Total gross loans at 30 June 2014 | 194,898 | 129,680 | 6,553 | 69,573 | 15,048 | 415,752 |
| Impairment allowances on personal lending | | | | | | |
| First lien residential mortgages | 398 | 52 | 110 | 2,254 | 39 | 2,853 |
| Other personal lending | 925 | 218 | 163 | 434 | 1,313 | 3,053 |
| – motor vehicle finance | 4 | 2 | 5 | – | 106 | 117 |
| – credit cards | 417 | 125 | 61 | 37 | 298 | 938 |
| – second lien residential mortgages | – | – | – | 345 | – | 345 |
| – other | 504 | 91 | 97 | 52 | 909 | 1,653 |
| Total impairment allowances at 30 June 2014 | 1,323 | 270 | 273 | 2,688 | 1,352 | 5,906 |
| First lien residential mortgages | 131,000 | 93,147 | 2,647 | 55,577 | 4,153 | 286,524 |
| Of which: | | | | | | |
| – interest only (including offset) | 44,163 | 956 | – | 276 | – | 45,395 |
| – affordability (including ARMs) | 337 | 5,248 | – | 16,452 | – | 22,037 |
| Other personal lending | 47,531 | 36,368 | 3,924 | 9,823 | 9,384 | 107,030 |
| – motor vehicle finance | 5 | 328 | 392 | 12 | 1,216 | 1,953 |
| – credit cards | 12,959 | 10,289 | 897 | 1,050 | 3,322 | 28,517 |
| – second lien residential mortgages | – | 56 | 2 | 4,433 | – | 4,491 |
| – other | 34,567 | 25,695 | 2,633 | 4,328 | 4,846 | 72,069 |
| Total gross loans at 31 December 2014 | 178,531 | 129,515 | 6,571 | 65,400 | 13,537 | 393,554 |
| Impairment allowances on personal lending | | | | | | |
| First lien residential mortgages | 306 | 46 | 97 | 1,644 | 36 | 2,129 |
| Other personal lending | 786 | 208 | 97 | 350 | 1,030 | 2,471 |
| – motor vehicle finance | 1 | 2 | 5 | – | 60 | 68 |
| – credit cards | 347 | 119 | 33 | 36 | 298 | 833 |
| – second lien residential mortgages | – | – | – | 271 | – | 271 |
| – other | 438 | 87 | 59 | 43 | 672 | 1,299 |
| Total impairment allowances at 31 December 2014 | 1,092 | 254 | 194 | 1,994 | 1,066 | 4,600 |

On a reported basis, total personal lending reduced by \$8.3bn, mainly due to the classification of \$7.6bn of assets of our Brazilian operations as 'Assets held for sale' and adverse foreign exchange movements of \$3.3bn.

Loan impairment allowances reduced by \$1.3bn, mainly due to the Brazilian reclassification.

Loan impairment charges were \$0.9bn, \$0.3bn less than in 1H14 due to reduced levels of lending balances and lower new impaired loans and delinquency in the US CML portfolio, reflecting the continued portfolio run-off and loan sales.

Excluding the Brazilian reclassification, personal lending grew by \$2.7bn on a constant currency basis.

Mortgage lending

The commentary that follows is on a constant currency basis:

Excluding the effect of the reclassification of the assets of our Brazilian operations as 'Assets held for sale' and the

US CML run-off portfolio, mortgage lending increased by \$3.4bn during 1H15. Mortgage lending balances in Asia grew by \$3.1bn, primarily attributable to continued growth in Hong Kong (\$2.2bn) due to increased promotional campaigns and, to a lesser extent, in Australia and mainland China (\$1.0bn) as a result of strong demand and our competitive customer offerings. The quality of our Asian mortgage book remained high with negligible defaults and impairment allowances. The average loan to value ('LTV') ratio on new mortgage lending in Hong Kong was 44% compared with an estimated 27% for the overall portfolio.

In North America, our Canadian mortgage balances increased by \$0.5bn during 1H15 a result of a spring mortgage campaign.

The Premier mortgage portfolio in the US also increased by \$0.6bn as we continued to focus on growth in our core portfolios of higher credit quality mortgages. Collectively assessed impairment allowances reduced in 1H15 due to continued improvement in the credit quality of the

mortgage portfolio. The US CML portfolio declined by \$1.8bn, including second lien mortgages, in 1H15.

We classified mortgage lending balances of \$1.9bn in Brazil as 'Assets held for sale'.

In Europe, there was a decline of \$0.8bn or 0.6% in the mortgage portfolio due to decreased new mortgage lending and the effect of repayments, mainly in the UK, and a fall in impairment allowances due to reductions in receivables and defaulted loans.

The LTV ratio on new lending in the UK was 55.9% compared with an average of 42.5% for the total mortgage portfolio. The credit quality of our UK mortgage portfolio remained high and both loan impairment charges and delinquency levels declined in 1H15.

Other personal lending

The commentary that follows is on a constant currency basis:

Excluding the effect of the Brazilian reclassification and the US CML run-off portfolio, other personal lending increased by \$1.0bn during 1H15. This was driven by strong growth in personal loans in Hong Kong (\$1.5bn) and an increase in other lending in France (\$0.4bn).

These increases were partially offset by reductions in credit card lending of \$0.2bn in the UK and \$0.3bn in Hong Kong. Other personal lending in North America declined by \$0.6bn, of which \$0.3bn was a reduction in second lien mortgage balances during 1H15.

HSBC Finance

Lending in HSBC Finance for residential mortgages, including second lien mortgages, decreased by \$1.8bn

to \$21.8bn at 30 June 2015. Of the mortgage lending in HSBC Finance 90% consisted of first lien residential mortgages and 10% of second lien mortgages. In addition to the continued loan sales in the CML portfolio, we transferred a further \$0.4bn to 'Assets held for sale' during 1H15, and these loans were mainly sold in May 2015. The average gain on sale of foreclosed properties that arose after we took title to the property was 1%.

The decrease in impairment allowances from \$1.7bn at 31 December 2014 to \$1.3bn at 30 June 2015 reflected reduced levels of delinquency and lower newly impaired loans and loan balances outstanding as a result of continued sale and liquidation of the portfolio.

Across the first and second lien residential mortgages in our CML portfolio, two months and over delinquent balances reduced by \$0.5bn to \$1.8bn during 1H15, reflecting the continued portfolio run-off and loan sales.

At 30 June 2015, renegotiated real estate secured accounts in HSBC Finance represented 92% (December 2014: 93%) of North America's total renegotiated loans. \$7bn of renegotiated real estate secured loans were classified as impaired (31 December 2014: \$8bn). During 1H15, the aggregate number of renegotiated loans in HSBC Finance reduced due to portfolio run-off and further loan sales in the CML portfolio.

HSBC Bank USA

In HSBC Bank USA, mortgage balances grew by \$0.6bn to \$17.4bn during 1H15 as we continued to implement our strategy to grow the HSBC Premier and Advance customer base. We continued to sell all agency eligible new originations in the secondary market.

Supplementary information

Reconciliation of reported and constant currency changes impaired loans and allowances by geographical region

| | 31 December 2014 as reported \$m | Currency translation adjustment ⁶ \$m | 31 December 2014 at 30 June 2015 exchange rates \$m | Movement on a constant currency basis \$m | 30 June 2015 as reported \$m | Reported change ⁷ % | Constant currency change ⁷ % |
|------------------------------|---|---|--|--|---------------------------------------|--------------------------------------|--|
| Impaired loans | | | | | | | |
| Europe | 10,242 | (231) | 10,011 | (491) | 9,520 | (7) | (5) |
| Asia | 2,048 | (56) | 1,992 | 159 | 2,151 | 5 | 8 |
| Middle East and North Africa | 1,981 | (13) | 1,968 | (264) | 1,704 | (14) | (13) |
| North America | 11,694 | (30) | 11,664 | (1,029) | 10,635 | (9) | (9) |
| Latin America | 3,365 | (383) | 2,982 | (1,838) | 1,144 | (66) | (62) |
| | 29,330 | (713) | 28,617 | (3,463) | 25,154 | (14) | (12) |
| Impairment allowances | | | | | | | |
| Europe | 4,455 | (133) | 4,322 | (94) | 4,228 | (5) | (2) |
| Asia | 1,356 | (25) | 1,331 | 67 | 1,398 | 3 | 5 |
| Middle East and North Africa | 1,406 | (7) | 1,399 | (212) | 1,187 | (16) | (15) |
| North America | 2,640 | (21) | 2,619 | (388) | 2,231 | (15) | (15) |
| Latin America | 2,529 | (293) | 2,236 | (1,502) | 734 | (71) | (67) |
| | 12,386 | (479) | 11,907 | (2,129) | 9,778 | (21) | (18) |

For footnotes, see page 86.

Risk (continued)

Credit risk

Gross loans and advances by industry sector

| | At 31 December 2014 \$m | Currency effect \$m | Movement \$m | At 30 June 2015 \$m |
|--|----------------------------------|---------------------------|-----------------|------------------------------|
| Personal | 393,554 | (3,933) | (4,321) | 385,300 |
| – first lien residential mortgages | 286,524 | (1,895) | 124 | 284,753 |
| – other personal | 107,030 | (2,038) | (4,445) | 100,547 |
| Corporate and commercial | 542,625 | (8,345) | (10,073) | 524,207 |
| – manufacturing | 106,986 | (2,467) | (2,421) | 102,098 |
| – international trade and services | 180,791 | (2,651) | (8,661) | 169,479 |
| – commercial real estate | 73,293 | (993) | (1,543) | 70,757 |
| – other property-related | 52,387 | (326) | 7,048 | 59,109 |
| – government | 6,143 | (128) | 25 | 6,040 |
| – other commercial ² | 123,025 | (1,780) | (4,521) | 116,724 |
| Financial | 50,818 | (357) | 3,757 | 54,218 |
| Total gross loans and advances to customers (A) | 986,997 | (12,635) | (10,637) | 963,725 |
| Gross loans and advances to banks | 112,198 | (2,471) | (284) | 109,443 |
| Total gross loans and advances | 1,099,195 | (15,106) | (10,921) | 1,073,168 |
| Impaired loans and advances to customers | 29,283 | (713) | (3,460) | 25,110 |
| – as a percentage of (A) | 3.0% | | | 2.6% |
| Impairment allowances on loans and advances to customers | 12,337 | (480) | (2,117) | 9,740 |
| – as a percentage of (A) | 1.2% | | | 1.0% |

For footnote, see page 86.

The currency effect on personal lending gross loans and advances of \$3.9bn was made up as follows: Asia \$1.4bn, North America \$1.4bn, Latin America \$1.0bn and Europe \$0.1bn. The currency effect on wholesale lending gross

loans and advances of \$11.2bn was made up as follows: Latin America \$4.4bn, Europe \$2.8bn, Asia \$2.4bn, North America \$1.1bn and Middle East and North Africa \$0.5bn.

Gross loans and advances to customers by country

| | First lien residential mortgages \$m | Other personal \$m | Property- related \$m | Commercial, international trade and other \$m | Total \$m |
|---|---|--------------------------|-----------------------------|--|----------------|
| Europe | 130,909 | 46,402 | 35,134 | 192,217 | 404,662 |
| – UK | 124,001 | 21,221 | 26,303 | 148,414 | 319,939 |
| – France | 2,342 | 12,248 | 6,811 | 21,028 | 42,429 |
| – Germany | 5 | 216 | 364 | 7,933 | 8,518 |
| – Switzerland | 346 | 8,266 | 235 | 841 | 9,688 |
| – other | 4,215 | 4,451 | 1,421 | 14,001 | 24,088 |
| Asia | 95,176 | 37,199 | 73,767 | 166,895 | 373,037 |
| – Hong Kong | 58,884 | 24,380 | 55,627 | 84,411 | 223,302 |
| – Australia | 9,079 | 709 | 1,837 | 6,457 | 18,082 |
| – India | 1,357 | 287 | 630 | 6,189 | 8,463 |
| – Indonesia | 58 | 380 | 84 | 5,706 | 6,228 |
| – Mainland China | 4,823 | 1,908 | 6,992 | 25,224 | 38,947 |
| – Malaysia | 4,945 | 1,576 | 2,000 | 5,446 | 13,967 |
| – Singapore | 8,942 | 5,707 | 4,146 | 12,137 | 30,932 |
| – Taiwan | 4,099 | 689 | 119 | 5,903 | 10,810 |
| – other | 2,989 | 1,563 | 2,332 | 15,422 | 22,306 |
| Middle East and North Africa (excluding Saudi Arabia) | 2,642 | 4,006 | 2,412 | 23,317 | 32,377 |
| – Egypt | 1 | 515 | 124 | 2,414 | 3,054 |
| – UAE | 2,248 | 1,866 | 1,650 | 14,935 | 20,699 |
| – other | 393 | 1,625 | 638 | 5,968 | 8,624 |
| North America | 53,995 | 8,995 | 17,096 | 54,483 | 134,569 |
| – US | 36,952 | 5,088 | 12,964 | 41,812 | 96,816 |
| – Canada | 15,679 | 3,654 | 3,807 | 11,618 | 34,758 |
| – other | 1,364 | 253 | 325 | 1,053 | 2,995 |
| Latin America | 2,031 | 3,945 | 1,457 | 11,647 | 19,080 |
| – Mexico | 1,919 | 2,630 | 1,296 | 8,435 | 14,280 |
| – other | 112 | 1,315 | 161 | 3,212 | 4,800 |
| At 30 June 2015 | 284,753 | 100,547 | 129,866 | 448,559 | 963,725 |

| | First lien residential mortgages \$m | Other personal \$m | Property- related \$m | Commercial, international trade and other \$m | Total \$m |
|---|---|--------------------------|-----------------------------|--|--------------|
| Europe | 144,225 | 50,673 | 38,379 | 251,321 | 484,598 |
| – UK | 135,701 | 22,121 | 28,124 | 204,624 | 390,570 |
| – France | 3,131 | 14,177 | 8,322 | 23,292 | 48,922 |
| – Germany | 6 | 205 | 146 | 8,080 | 8,437 |
| – Switzerland | 352 | 8,189 | 248 | 461 | 9,250 |
| – other | 5,035 | 5,981 | 1,539 | 14,864 | 27,419 |
| Asia | 95,489 | 34,191 | 67,457 | 166,486 | 363,623 |
| – Hong Kong | 54,988 | 21,777 | 49,209 | 84,002 | 209,976 |
| – Australia | 10,214 | 915 | 2,805 | 7,135 | 21,069 |
| – India | 1,169 | 303 | 593 | 4,993 | 7,058 |
| – Indonesia | 70 | 469 | 75 | 5,632 | 6,246 |
| – Mainland China | 5,516 | 151 | 6,228 | 24,349 | 36,244 |
| – Malaysia | 5,463 | 1,892 | 1,988 | 5,181 | 14,524 |
| – Singapore | 10,330 | 6,118 | 4,351 | 12,803 | 33,602 |
| – Taiwan | 4,193 | 691 | 127 | 6,960 | 11,971 |
| – other | 3,546 | 1,875 | 2,081 | 15,431 | 22,933 |
| Middle East and North Africa (excluding Saudi Arabia) | 2,543 | 4,010 | 2,027 | 21,794 | 30,374 |
| – Egypt | 1 | 493 | 104 | 2,264 | 2,862 |
| – UAE | 2,168 | 1,815 | 1,314 | 13,379 | 18,676 |
| – other | 374 | 1,702 | 609 | 6,151 | 8,836 |
| North America | 58,677 | 10,896 | 15,321 | 48,312 | 133,206 |
| – US | 39,939 | 5,842 | 10,609 | 34,279 | 90,669 |
| – Canada | 17,174 | 4,769 | 4,210 | 13,064 | 39,217 |
| – other | 1,564 | 285 | 502 | 969 | 3,320 |
| Latin America | 4,501 | 10,547 | 2,840 | 31,522 | 49,410 |
| – Mexico | 2,155 | 2,987 | 1,428 | 9,128 | 15,698 |
| – other | 2,346 | 7,560 | 1,412 | 22,394 | 33,712 |
| Included in other: Brazil | 2,232 | 6,360 | 1,273 | 19,555 | 29,420 |
| At 30 June 2014 | 305,435 | 110,317 | 126,024 | 519,435 | 1,061,211 |
| Europe | 131,000 | 47,531 | 35,313 | 200,313 | 414,157 |
| – UK | 123,239 | 21,023 | 25,927 | 156,577 | 326,766 |
| – France | 2,914 | 12,820 | 7,341 | 21,834 | 44,909 |
| – Germany | 6 | 212 | 304 | 7,275 | 7,797 |
| – Switzerland | 298 | 8,149 | 225 | 614 | 9,286 |
| – other | 4,543 | 5,327 | 1,516 | 14,013 | 25,399 |
| Asia | 93,147 | 36,368 | 70,057 | 164,739 | 364,311 |
| – Hong Kong | 56,656 | 22,891 | 52,208 | 82,362 | 214,117 |
| – Australia | 9,154 | 815 | 2,130 | 6,360 | 18,459 |
| – India | 1,235 | 285 | 613 | 5,099 | 7,232 |
| – Indonesia | 64 | 469 | 202 | 5,476 | 6,211 |
| – Mainland China | 4,238 | 1,981 | 6,606 | 24,875 | 37,700 |
| – Malaysia | 5,201 | 1,750 | 1,988 | 5,217 | 14,156 |
| – Singapore | 9,521 | 5,878 | 4,210 | 11,951 | 31,560 |
| – Taiwan | 3,920 | 626 | 118 | 7,057 | 11,721 |
| – other | 3,158 | 1,673 | 1,982 | 16,342 | 23,155 |
| Middle East and North Africa (excluding Saudi Arabia) | 2,647 | 3,924 | 2,246 | 21,633 | 30,450 |
| – Egypt | 1 | 510 | 98 | 2,272 | 2,881 |
| – UAE | 2,263 | 1,782 | 1,545 | 13,814 | 19,404 |
| – other | 383 | 1,632 | 603 | 5,547 | 8,165 |
| North America | 55,577 | 9,823 | 15,492 | 51,535 | 132,427 |
| – US | 37,937 | 5,482 | 11,461 | 38,632 | 93,512 |
| – Canada | 16,236 | 4,085 | 3,708 | 11,825 | 35,854 |
| – other | 1,404 | 256 | 323 | 1,078 | 3,061 |
| Latin America | 4,153 | 9,384 | 2,572 | 29,543 | 45,652 |
| – Mexico | 1,967 | 2,642 | 1,336 | 9,503 | 15,448 |
| – other | 2,186 | 6,742 | 1,236 | 20,040 | 30,204 |
| Included in other: Brazil | 2,067 | 5,531 | 1,077 | 16,814 | 25,489 |
| At 31 December 2014 | 286,524 | 107,030 | 125,680 | 467,763 | 986,997 |

Greece

As a result of the unfolding crisis, we have raised additional loan impairment charges and other credit risk provisions amounting to \$111m. The tables in this section summarise our Greek country exposures.

Exposures to banks, other financial corporations, non-financial corporations and households are based on the counterparty's country of domicile. We separately identify exposures to the shipping industry. These are denominated in US dollars and booked in the UK. We believe the shipping industry is less sensitive to the Greek economy as it is mainly dependent on international trade. The average LTV weighted by the value of loans of our residential mortgages is 66%. We have had restricted lending appetite in Greece for a number of years.

Summary of exposures to Greece

| | \$bn |
|---|------------|
| On-balance sheet exposures | |
| Loans and advances to customers | 3.0 |
| – other financial institutions and corporates | 0.7 |
| – shipping industry booked in UK | 1.7 |
| – personal – mortgages | 0.6 |
| Derivative assets | 0.4 |
| Gross balance sheet exposure before risk mitigation | 3.4 |
| Risk mitigation: collateral and derivative liabilities | (0.4) |
| Net on-balance sheet exposure | 3.0 |
| Off-balance sheet exposures | |
| Gross off-balance sheet exposure to banks before risk mitigation | 0.3 |
| Risk mitigation: collateral and guarantees held on off-balance sheet exposures to banks | (0.1) |
| Net off-balance sheet exposures to banks | 0.2 |
| Gross off-balance sheet exposures to customers | 0.6 |
| Net off-balance sheet exposures | 0.8 |
| Total net exposures at 30 June 2015 | 3.8 |

Basis of preparation

The gross exposure represents the on-balance sheet carrying amounts recorded in accordance with IFRSs and off-balance sheet exposures before risk mitigation.

The net exposure is stated after taking into account mitigating offsets that are incorporated into the risk management view of the exposure but do not meet accounting offset requirements. These risk mitigating offsets include:

- derivative liabilities for which a legally enforceable right of offset with derivative assets exists;
- collateral received on derivative assets; and
- cash collateral and guarantees received on off-balance sheet exposures.

Redenomination risk

There is the continuing possibility of Greece exiting the eurozone. There remains no established legal framework within the European treaties to facilitate such an event; consequently, it is not possible to accurately predict the course of events and legal consequences that would ensue.

Greece funding exposure

| | Denominated in | | | Total \$bn |
|---------------------------------|----------------|-----------------|-----------------------|------------|
| | Euros \$bn | US dollars \$bn | Other currencies \$bn | |
| At 30 June 2015 | | | | |
| In-country assets | 1.0 | 0.0 | – | 1.0 |
| In-country liabilities | (0.8) | (0.3) | – | (1.1) |
| Net in-country funding exposure | 0.2 | (0.3) | – | (0.1) |
| Off-balance sheet exposure | 0 | – | – | 0 |

Key risks associated with an exit by Greece include:

Foreign exchange losses: an exit would probably be accompanied by the passing of laws establishing a new local currency and providing for a redenomination of euro assets into the new local currency. The value of assets and liabilities in Greece would immediately fall assuming the value of the redenominated currency is less than the original euros when translated into the carrying amounts. It is not possible to predict what the total consequential loss might be as it is uncertain which assets and liabilities would be legally redenominated or the extent of the devaluation. These assets and liabilities predominantly comprise loans and deposits arising from our commercial banking operations in Greece, and the net assets represent our net funding exposure. The table above also identifies in-country off-balance sheet exposures as these are at risk of redenomination should they be called, giving rise to a balance sheet exposure.

External contracts redenomination risk: contracts entered into between HSBC businesses based outside Greece with in-country counterparties or those otherwise closely connected with Greece may be affected by redenomination. The effect remains subject to a high level of uncertainty. Factors such as the country law under which the contract is documented, the HSBC entity involved and the payment mechanism may all be relevant to this assessment, as will the precise exit scenario as the consequences for external contracts of a disorderly exit may differ from one sanctioned under EU law. In addition, capital controls could be introduced which may affect our ability to repatriate funds including currencies not affected by the redenomination event.

We continue to identify and monitor potential redenomination risks and, where possible, take steps to mitigate them and/or reduce our overall exposure to losses that might arise in the event of a redenomination. We recognise, however, that a euro exit could take different forms, depending on the scenario. These could have distinct legal consequences which could significantly alter the potential effectiveness of any mitigation initiatives, and it is accordingly not possible to predict how effective particular measures may be until they are tested against the precise circumstances of a redenomination event.

Securitisation exposures and other structured products

The following table summarises the carrying amount of our asset-backed securities ('ABS's) exposure by categories of collateral and includes assets held in the GB&M legacy credit portfolio with a carrying value of \$19bn (30 June 2014: \$27bn; 31 December 2014: \$23bn).

At 30 June 2015, the available-for-sale reserve in respect of ABSs was a deficit of \$818m (30 June 2014: \$951m; 31 December 2014: \$777m). For 2015, the impairment write-back in respect of ABSs was \$90m (30 June 2014: \$203m; 31 December 2014: \$276m).

Carrying amount of HSBC's consolidated holdings of ABSs

| | Trading \$m | Available for sale \$m | Held to maturity \$m | Designated at fair value through profit or loss \$m | Loans and receivables \$m | Total \$m | Of which held through consolidated SEs \$m |
|--|----------------|------------------------------|----------------------------|---|---------------------------------|---------------|--|
| Mortgage-related assets | 2,343 | 23,469 | 14,140 | – | 742 | 40,694 | 7,047 |
| – sub-prime residential | 114 | 2,571 | – | – | 164 | 2,849 | 1,884 |
| – US Alt-A residential | 88 | 2,353 | 9 | – | 85 | 2,535 | 2,247 |
| – US Government agency and sponsored enterprises: MBSs | 158 | 14,611 | 14,131 | – | – | 28,900 | – |
| – other residential | 1,279 | 1,181 | – | – | 205 | 2,665 | 660 |
| – commercial property | 704 | 2,753 | – | – | 288 | 3,745 | 2,256 |
| Leveraged finance-related assets | 263 | 3,001 | – | – | 191 | 3,455 | 2,092 |
| Student loan-related assets | 250 | 3,271 | – | – | 95 | 3,616 | 3,057 |
| Other assets | 1,602 | 973 | – | 13 | 212 | 2,800 | 683 |
| At 30 June 2015 | 4,458 | 30,714 | 14,140 | 13 | 1,240 | 50,565 | 12,879 |
| Mortgage-related assets | 1,117 | 29,863 | 1,022 | – | 1,477 | 33,479 | 11,587 |
| – sub-prime residential | 150 | 3,231 | – | – | 394 | 3,775 | 3,041 |
| – US Alt-A residential | 96 | 3,214 | 18 | – | 128 | 3,456 | 2,738 |
| – US Government agency and sponsored enterprises: MBSs | 136 | 16,739 | 1,004 | – | – | 17,879 | – |
| – other residential | 266 | 1,737 | – | – | 362 | 2,365 | 1,336 |
| – commercial property | 469 | 4,942 | – | – | 593 | 6,004 | 4,472 |
| Leveraged finance-related assets | 298 | 4,836 | – | – | 242 | 5,376 | 4,209 |
| Student loan-related assets | 227 | 3,654 | – | – | 123 | 4,004 | 3,546 |
| Other assets | 1,375 | 1,245 | – | 22 | 1,051 | 3,693 | 995 |
| At 30 June 2014 | 3,017 | 39,598 | 1,022 | 22 | 2,893 | 46,552 | 20,337 |
| Mortgage-related assets | 1,882 | 21,350 | 13,447 | – | 1,264 | 37,944 | 7,992 |
| – sub-prime residential | 122 | 3,081 | – | – | 308 | 3,511 | 2,075 |
| – US Alt-A residential | 96 | 3,022 | 11 | – | 110 | 3,239 | 2,411 |
| – US Government agency and sponsored enterprises: MBSs | 82 | 10,401 | 13,436 | – | – | 23,919 | – |
| – other residential | 928 | 1,220 | – | – | 330 | 2,478 | 652 |
| – commercial property | 654 | 3,627 | – | – | 516 | 4,797 | 2,854 |
| Leveraged finance-related assets | 172 | 3,660 | – | – | 218 | 4,050 | 2,526 |
| Student loan-related assets | 242 | 3,545 | – | – | 119 | 3,906 | 3,284 |
| Other assets | 1,264 | 1,114 | – | 19 | 646 | 3,043 | 758 |
| At 31 December 2014 | 3,560 | 29,670 | 13,447 | 19 | 2,247 | 48,943 | 14,560 |

Liquidity and funding

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. The risk arises from mismatches in the timing of cash flows.

Funding risk is the risk that funding considered to be sustainable (and therefore used to fund assets) proves not to be sustainable over time.

There have been no material changes to the policies and practices for the management of liquidity and funding risks described in the *Annual Report and Accounts 2014*.

A summary of our current policies and practices regarding liquidity and funding is provided on page 215 of the Annual Report and Accounts 2014.

Our liquidity and funding risk management framework

The objective of our liquidity framework is to allow us to withstand very severe liquidity stresses. It is designed to be adaptable to changing business models, markets and regulations.

Our liquidity and funding risk management framework requires:

- liquidity to be managed by operating entities on a stand-alone basis with no implicit reliance on the Group or central banks;
- all operating entities to comply with their limits for the advances to core funding ratio; and
- all operating entities to maintain a positive stressed cash flow position out to three months under prescribed Group stress scenarios.

Liquidity and funding in the first half of 2015

The liquidity position of the Group remained strong in 1H15, as demonstrated by the key liquidity and funding metrics presented below. During the period, reported customer accounts decreased by 1% (\$15bn) while reported loans and advances to customers decreased by 2% (\$21bn), leading to a small reduction in our advances to deposits ratio to 71% (30 June 2014: 74%; 31 December 2014: 72%).

Wholesale senior funding markets

Conditions in wholesale debt markets deteriorated through the second quarter as the uncertainty around Greece affected market confidence. The path of interest rates and broader global economic uncertainty means further volatility can be expected; however global bank funding needs and regulatory proposals for increased loss absorbing capacity suggest continued volumes of primary market supply. We retained good access to debt capital markets with Group entities issuing \$9.6bn of public transactions, of which \$4.3bn was in the form of senior unsecured debt.

Liquidity regulation

The European adoption of the Basel Committee framework (legislative texts known as the Capital Requirements Regulation and Directive – CRR/CRD IV) was published in June 2013, requiring the reporting of the liquidity coverage ratio ('LCR') and the net stable funding ratio ('NSFR') to European regulators from 30 June 2014. A significant level of interpretation was involved in reporting and calculating the LCR as defined in the CRR text as certain areas were only addressed by the finalisation of the LCR regulation in January 2015. This will not become a regulatory standard until 1 October 2015. The European calibration of NSFR is pending following the Basel Committee's final recommendation in October 2014. We monitor NSFR in line with the relevant text from the Basel Committee of Banking Supervision (BCBS295), pending its implementation in Europe. Both Group NSFR and Group LCR as reported were above 100%.

Management of liquidity and funding risk

Our liquidity and funding risk management framework ('LFRF') employs two key measures to define, monitor and control the liquidity and funding risk of each of our operating entities. The advances to core funding ratio is used to monitor our structural long-term funding position, and the stressed coverage ratio, incorporating Group-defined stress scenarios, is used to monitor our resilience to severe liquidity stresses.

The three principal entities listed in the tables below represented 64% (30 June 2014: 67%; 31 December 2014: 66%) of the Group's customer accounts. Including the other principal entities, the figure was 93% (30 June 2014: 96%; 31 December 2014: 95%).

Advances to core funding ratio

The table below shows the extent to which loans and advances to customers in the listed principal banking entities were financed by reliable and stable sources of funding.

Advances to core funding ratios⁸

| | Half-year to | | |
|---|--------------|-------------|-------------|
| | 30 Jun 2015 | 30 Jun 2014 | 31 Dec 2014 |
| | % | % | % |
| HSBC UK | | | |
| Period-end | 96 | 99 | 97 |
| Maximum | 98 | 102 | 100 |
| Minimum | 96 | 99 | 97 |
| Average | 97 | 101 | 99 |
| The Hongkong and Shanghai Banking Corporation | | | |
| Period-end | 74 | 74 | 75 |
| Maximum | 75 | 75 | 75 |
| Minimum | 73 | 72 | 73 |
| Average | 74 | 74 | 74 |
| HSBC USA | | | |
| Period-end | 95 | 97 | 100 |
| Maximum | 100 | 98 | 100 |
| Minimum | 95 | 85 | 95 |
| Average | 97 | 93 | 97 |

Advances to core funding ratios⁸ (continued)

| | Half-year to | | |
|--|---------------------|---------------------|---------------------|
| | 30 Jun 2015 % | 30 Jun 2014 % | 31 Dec 2014 % |
| Total of HSBC's other principal entities | | | |
| Period-end | 93 | 93 | 92 |
| Maximum | 94 | 94 | 93 |
| Minimum | 92 | 93 | 92 |
| Average | 93 | 93 | 93 |

For footnote, see page 86.

There were no material movements in 1H15 for any of the principal banking entities and all entities remained within their advances to core funding limits. The limits set for principal operating entities at 30 June 2015 ranged from 80% to 120%.

Stressed one-month and three-month coverage ratios⁸

| | Stressed one-month coverage ratios for the half-year to | | | Stressed three-month coverage ratios for the half-year to | | |
|---|--|---------------------|---------------------|--|---------------------|---------------------|
| | 30 Jun 2015 % | 30 Jun 2014 % | 31 Dec 2014 % | 30 Jun 2015 % | 30 Jun 2014 % | 31 Dec 2014 % |
| HSBC UK | | | | | | |
| Period-end | 127 | 103 | 117 | 114 | 103 | 109 |
| Maximum | 127 | 106 | 117 | 114 | 109 | 109 |
| Minimum | 112 | 102 | 103 | 105 | 103 | 103 |
| Average | 117 | 104 | 110 | 108 | 104 | 104 |
| The Hongkong and Shanghai Banking Corporation | | | | | | |
| Period-end | 118 | 114 | 117 | 114 | 111 | 112 |
| Maximum | 118 | 119 | 118 | 114 | 114 | 114 |
| Minimum | 113 | 114 | 114 | 111 | 111 | 111 |
| Average | 116 | 115 | 116 | 112 | 112 | 113 |
| HSBC USA | | | | | | |
| Period-end | 120 | 115 | 111 | 110 | 108 | 104 |
| Maximum | 120 | 115 | 122 | 110 | 110 | 111 |
| Minimum | 109 | 108 | 111 | 101 | 104 | 104 |
| Average | 113 | 112 | 118 | 104 | 107 | 108 |
| Total of HSBC's other principal entities | | | | | | |
| Period-end | 116 | 115 | 121 | 109 | 108 | 108 |
| Maximum | 121 | 121 | 121 | 109 | 115 | 109 |
| Minimum | 112 | 114 | 115 | 106 | 108 | 108 |
| Average | 115 | 117 | 116 | 107 | 111 | 108 |

The coverage ratio for HSBC UK increased due to strong growth in deposits over the period.

Sources of funding

Our primary sources of funding are customer current accounts and customer savings deposits payable on demand or at short notice. We issue wholesale securities (secured and unsecured) to supplement our customer deposits and change the currency mix, maturity profile or location of our liabilities.

Stressed coverage ratios

The ratios tabulated below express stressed cash inflows as a percentage of stressed cash outflows over both one-month and three-month time horizons. Operating entities are required to maintain a ratio of 100% or more out to three months.

Inflows included in the numerator of the stressed coverage ratio are generated from liquid assets net of assumed haircuts, and cash inflows related to assets contractually maturing within the time period.

In general, customer advances are assumed to be renewed and as a result do not generate a cash inflow.

The level of customer accounts continued to exceed the level of loans and advances to customers. The positive funding gap was predominantly deployed into liquid assets, cash and balances with central banks and financial investments, as required by the LFRF.

Loans and other receivables due from banks continued to exceed deposits taken from banks. The Group remained a net unsecured lender to the banking sector.

Risk (continued)

Liquidity and funding / Market risk

Consolidated funding sources and uses

| | At | | |
|---|-----------------------|-----------------------|-----------------------|
| | 30 Jun 2015 \$m | 30 Jun 2014 \$m | 31 Dec 2014 \$m |
| Sources | | | |
| Customer accounts | 1,335,800 | 1,415,705 | 1,350,642 |
| Deposits by banks | 71,140 | 92,764 | 77,426 |
| Repurchase agreements – non-trading | 81,506 | 165,506 | 107,432 |
| Debt securities in issue | 102,656 | 96,397 | 95,947 |
| Liabilities of disposal groups held for sale | 53,226 | 12,361 | 6,934 |
| Subordinated liabilities | 24,781 | 28,052 | 26,664 |
| Financial liabilities designated at fair value | 69,485 | 82,968 | 76,153 |
| Liabilities under insurance contracts | 69,494 | 75,223 | 73,861 |
| Trading liabilities | 181,435 | 228,135 | 190,572 |
| – repos | 2,081 | 5,189 | 3,798 |
| – stock lending | 13,655 | 15,252 | 12,032 |
| – settlement accounts | 29,398 | 41,240 | 17,454 |
| – other trading liabilities | 136,301 | 166,454 | 157,288 |
| Total equity | 201,382 | 198,722 | 199,978 |
| | 2,190,905 | 2,395,833 | 2,205,609 |

| | At | | |
|--|-----------------------|-----------------------|-----------------------|
| | 30 Jun 2015 \$m | 30 Jun 2014 \$m | 31 Dec 2014 \$m |
| Uses | | | |
| Loans and advances to customers | 953,985 | 1,047,241 | 974,660 |
| Loans and advances to banks | 109,405 | 127,387 | 112,149 |
| Reverse repurchase agreements – non-trading | 149,384 | 198,301 | 161,713 |
| Assets held for sale | 60,929 | 10,248 | 7,647 |
| Trading assets | 283,138 | 347,106 | 304,193 |
| – reverse repos | 741 | 4,484 | 1,297 |
| – stock borrowing | 11,639 | 13,903 | 7,969 |
| – settlement accounts | 33,249 | 48,139 | 21,327 |
| – other trading assets | 237,509 | 280,580 | 273,600 |
| Financial investments | 404,682 | 423,710 | 415,467 |
| Cash and balances with central banks | 144,324 | 132,137 | 129,957 |
| Net deployment in other balance sheet assets and liabilities | 85,058 | 109,703 | 99,823 |
| | 2,190,905 | 2,395,833 | 2,205,609 |

Market risk

Market risk is the risk that adverse movements in market factors, such as foreign exchange rates, interest rates, credit spreads, equity prices and commodity prices, will reduce our income or the value of our portfolios.

There were no material changes to the policies and practices for the management of market risk described in the *Annual Report and Accounts 2014*.

A summary of our market risk management framework including current policies is provided on page 221 of the Annual Report and Accounts 2014.

Market risk in the first half of 2015

Global markets were influenced by the Greek crisis and concerns about the slowdown in the mainland Chinese economy. Markets remained volatile given the uncertainties in the global economic outlook compounded by volatility in the oil and gas markets.

We maintained an overall defensive risk profile that resulted in a continued reduction in our trading value at risk ('VaR'). Non-trading VaR increased slightly during the first half of the year, driven by the expectations of an increase in US rates.

As a consequence of the Greek crisis, the yields on lower rated European government bonds increased but remained well below previous crisis peaks.

Although the Chinese government intervened through policy adjustments, mainly around interest rates and reserve requirements, the mainland Chinese equity markets fell during the latter part of the period under review.

In addition, divergent monetary policies were seen in the US and Europe. The US Federal Reserve Board continued to discuss a move to normalise monetary policy with an expected interest rate rise in 2015. This contrasted with the eurozone implementing its asset purchase programme earlier in the year.

Capital flows to emerging markets remained weak and are likely to stay uncertain as they await the timing of a possible US interest rate increase later this year.

Trading portfolios

Value at risk of the trading portfolios

Trading VaR resides within Global Markets. The VaR for trading activity at 30 June 2015 was lower than at 31 December 2014 due primarily to declines in interest rate trading VaR.

The Group trading VaR for the half-year is shown in the table below.

Trading VaR, 99% 1 day

| | Foreign exchange and commodity \$m | Interest rate \$m | Equity \$m | Credit spread \$m | Portfolio diversification including RNIV ⁹ \$m | Total \$m |
|--------------------------------------|---|-------------------------|---------------|-------------------------|--|--------------|
| Half-year to 30 June 2015 | 11.5 | 36.7 | 8.1 | 14.9 | (14.1) | 57.1 |
| Average | 15.2 | 41.1 | 7.2 | 16.3 | (16.9) | 62.9 |
| Maximum | 21.7 | 47.1 | 12.4 | 21.8 | – | 77.9 |
| Minimum | 9.2 | 33.3 | 3.4 | 9.9 | – | 51.3 |
| Half-year to 30 June 2014 | 13.6 | 41.7 | 9.1 | 12.7 | (27.9) | 49.2 |
| Average | 15.8 | 37.1 | 5.9 | 15.0 | (22.5) | 51.3 |
| Maximum | 28.0 | 50.5 | 12.4 | 20.9 | – | 63.4 |
| Minimum | 8.7 | 26.9 | 3.2 | 9.3 | – | 38.5 |
| Half-year to 31 December 2014 | 9.8 | 45.4 | 7.3 | 12.5 | (14.3) | 60.7 |
| Average | 18.0 | 41.9 | 7.9 | 12.4 | (13.4) | 66.8 |
| Maximum | 34.2 | 50.6 | 15.6 | 17.1 | – | 77.8 |
| Minimum | 8.8 | 34.4 | 3.8 | 8.8 | – | 49.9 |

For footnote, see page 86.

Back-testing

There were no loss or profit exceptions for the Group in 1H15.

Non-trading portfolios

Value at risk of the non-trading portfolios

Non-trading VaR of the Group includes contributions from all global businesses. There is no commodity risk in the

non-trading portfolios. The VaR for non-trading activity at 30 June 2015 was slightly higher than at 31 December 2014 driven by an increase in non-trading interest rate VaR, partially offset by an increase in diversification benefit.

The Group non-trading VaR for the half-year is shown in the table below.

Non-trading VaR, 99% 1 day

| | Interest rate \$m | Credit spread \$m | Portfolio diversification ⁹ \$m | Total \$m |
|--------------------------------------|-------------------------|-------------------------|--|--------------|
| Half-year to 30 June 2015 | 106.4 | 66.7 | (45.3) | 127.8 |
| Average | 86.6 | 61.7 | (33.6) | 114.7 |
| Maximum | 112.6 | 71.9 | – | 128.1 |
| Minimum | 70.5 | 54.3 | – | 91.5 |
| Half-year to 30 June 2014 | 103.6 | 75.1 | (27.7) | 151.0 |
| Average | 116.1 | 79.3 | (40.9) | 154.5 |
| Maximum | 147.7 | 91.9 | – | 189.0 |
| Minimum | 99.1 | 69.0 | – | 122.5 |
| Half-year to 31 December 2014 | 88.2 | 62.5 | (28.5) | 122.2 |
| Average | 90.9 | 67.5 | (34.0) | 124.4 |
| Maximum | 105.1 | 82.8 | – | 160.6 |
| Minimum | 83.3 | 49.6 | – | 92.3 |

For footnote, see page 86.

Non-trading VaR excludes equity risk on available-for-sale securities, structural foreign exchange risk and interest rate risk on fixed rate securities issued by HSBC Holdings. This section and the sections below describe the scope of HSBC's management of market risks in non-trading books.

Non-trading interest rate risk

Our policies regarding the funds transfer priority process for managing non-trading interest rate risk and liquidity and funding risk are described on pages 226 and 219, respectively, of the *Annual Report and Accounts 2014*.

Third-party assets in Balance Sheet Management

Third-party assets in BSM in total did not change during 1H15, primarily as a result of the reclassification of \$10bn of assets in Brazil to held for sale, offset by an increase of \$6bn in financial investments due to increased deployment of commercial surplus funds into securities in Hong Kong. Notwithstanding the reclassification, BSM continues to manage Brazilian assets pending entity disposal.

Third-party assets in Balance Sheet Management

| | At | | |
|---|-----------------------|-----------------------|-----------------------|
| | 30 Jun 2015 \$m | 30 Jun 2014 \$m | 31 Dec 2014 \$m |
| Cash and balances at central banks | 107,513 | 107,698 | 103,008 |
| Trading assets | 2,104 | 5,673 | 4,610 |
| Financial assets designated at fair value | – | 70 | – |
| Loans and advances | | | |
| – to banks | 54,586 | 61,277 | 53,842 |
| – to customers | 2,723 | 1,871 | 1,931 |
| Reverse repurchase agreements | 48,922 | 69,844 | 59,172 |
| Financial investments | 312,975 | 311,333 | 306,763 |
| Other | 2,370 | 1,420 | 2,470 |
| | 531,193 | 559,186 | 531,796 |

Sensitivity of net interest income

The table below sets out the effect on our future net interest income ('NII') of an incremental 25 basis points parallel rise or fall in all yield curves worldwide at the beginning of each quarter during the 12 months from 1 July 2015.

The sensitivities shown represent the change in the base case projected NII that would be expected under the two rate scenarios assuming that all other non-interest rate risk variables remain constant, and there are no management actions. In deriving our base case net interest income projections, the repricing rate of assets and liabilities used is derived from current yield curves. The interest rate sensitivities are indicative and based on simplified scenarios.

Assuming no management response, a sequence of such rises ('up-shock scenario') would increase planned net interest income for the 12 months to 30 June 2016 by \$1,027m (to 31 December 2015: \$885m), while a sequence of such falls ('down-shock scenario') would decrease planned net interest income by \$1,905m (to 31 December 2015: \$2,089m).

The NII sensitivity of the Group can be split into three key components; the structural sensitivity arising from the four

global businesses excluding BSM and Global Markets, the sensitivity of the funding of the trading book (Global Markets) and the sensitivity of BSM.

The structural sensitivity is positive in a rising rate environment and negative in a falling rate environment. The sensitivity of the funding of the trading book is negative in a rising rate environment and positive in a falling rate environment. The sensitivity of BSM depends on its position. Typically, assuming no management response, the sensitivity of BSM is negative in a rising rate environment and positive in a falling rate environment.

The NII sensitivity figures below also incorporate the effect of any interest rate behaviouralisation applied and the effect of any assumed repricing across products under the specific interest rate scenario. They do not incorporate the effect of any management decision to change the composition of HSBC's balance sheet.

The NII sensitivity in BSM arises from a combination of the techniques that BSM uses to mitigate the transferred interest rate risk and the methods it uses to optimise net revenues in line with its defined risk mandate. The figures in the table below do not incorporate the effect of any management decisions within BSM, but in reality it is likely that there would be some short-term adjustment in BSM positioning to offset the NII effects of the specific interest rate scenario where necessary.

The NII sensitivity arising from the funding of the trading book comprises the expense of funding trading assets, while the revenue from these trading assets is reported in net trading income. This leads to an asymmetry in the NII sensitivity figures which is cancelled out in our global business results, where we include both NII and net trading income. It is likely, therefore, that the overall effect on profit before tax of the funding of the trading book will be much less pronounced than is shown in the figures below.

The scenario sensitivities remained broadly unchanged in 1H15.

Sensitivity of projected net interest income

| | US dollar bloc \$m | Rest of Americas bloc \$m | Hong Kong dollar bloc \$m | Rest of Asia bloc \$m | Sterling bloc \$m | Euro bloc \$m | Total \$m |
|--|--------------------------|------------------------------------|------------------------------------|--------------------------------|-------------------------|---------------------|--------------|
| Change in July 2015 to June 2016 projected net interest income arising from a shift in yield curves at the beginning of each quarter of: | | | | | | | |
| + 25 basis points | 347 | 5 | 307 | 297 | 174 | (103) | 1,027 |
| – 25 basis points | (470) | (22) | (580) | (246) | (565) | (22) | (1,905) |
| Change in January 2015 to December 2015 projected net interest income arising from a shift in yield curves at the beginning of each quarter of: | | | | | | | |
| + 25 basis points | 209 | (9) | 245 | 265 | 321 | (146) | 885 |
| – 25 basis points | (521) | (1) | (494) | (259) | (783) | (31) | (2,089) |
| Change in July 2014 to June 2015 projected net interest income arising from a shift in yield curves at the beginning of each quarter of: | | | | | | | |
| + 25 basis points | 54 | 26 | 293 | 252 | 451 | (97) | 979 |
| – 25 basis points | (308) | (37) | (450) | (235) | (691) | (25) | (1,746) |

We monitor the sensitivity of reported reserves to interest rate movements on a monthly basis by assessing the expected reduction in valuation of available-for-sale portfolios and cash flow hedges due to parallel movements of plus or minus 100bps in all yield curves. These particular exposures form only a part of our overall interest rate exposures. The accounting treatment of our remaining interest rate exposures, while economically largely

offsetting the exposures shown in the above table, does not require revaluation movements to go to reserves.

The table below describes the sensitivity of our reported reserves to the stipulated movements in yield curves and the maximum and minimum month-end figures during the period. The sensitivities are indicative and based on simplified scenarios.

Sensitivity of reported reserves to interest rate movements

| | Impact in the preceding 6 months | | |
|---|----------------------------------|----------------|----------------|
| | \$m | Maximum \$m | Minimum \$m |
| At 30 June 2015 | | | |
| + 100 basis point parallel move in all yield curves | (3,858) | (3,858) | (3,306) |
| As a percentage of total shareholders' equity | (2.0%) | (2.0%) | (1.7%) |
| – 100 basis point parallel move in all yield curves | 3,786 | 3,786 | 3,251 |
| As a percentage of total shareholders' equity | 2.0% | 2.0% | 1.7% |
| At 30 June 2014 | | | |
| + 100 basis point parallel move in all yield curves | (5,157) | (5,212) | (5,066) |
| As a percentage of total shareholders' equity | (2.7%) | (2.7%) | (2.7%) |
| – 100 basis point parallel move in all yield curves | 4,730 | 4,915 | 4,730 |
| As a percentage of total shareholders' equity | (2.5%) | (2.6%) | (2.5%) |
| At 31 December 2014 | | | |
| + 100 basis point parallel move in all yield curves | (3,696) | (5,212) | (3,696) |
| As a percentage of total shareholders' equity | (1.9%) | (2.7%) | (1.9%) |
| – 100 basis point parallel move in all yield curves | 3,250 | 4,915 | 3,250 |
| As a percentage of total shareholders' equity | 1.7% | 2.6% | 1.7% |

Additional market risk measures applicable only to the parent company

The principal tools used in the management of market risk are VaR for foreign exchange rate risk and the projected sensitivity of HSBC Holdings' NII to future changes in yield curves and interest rate gap repricing for interest rate risk.

Foreign exchange risk

Total foreign exchange VaR arising within HSBC Holdings in the first half of 2015 was as follows:

HSBC Holdings – foreign exchange VaR

| | Half-year to | | |
|---------------|-----------------------|-----------------------|-----------------------|
| | 30 Jun 2015 \$m | 30 Jun 2014 \$m | 31 Dec 2014 \$m |
| At period-end | 47.1 | 51.3 | 29.3 |
| Average | 38.8 | 47.0 | 42.1 |
| Maximum | 47.1 | 51.5 | 50.0 |
| Minimum | 32.9 | 42.5 | 29.3 |

The foreign exchange risk largely arises from loans to subsidiaries of a capital nature that are not denominated in the functional currency of either the provider or the recipient and which are accounted for as financial assets. Changes in the carrying amount of these loans due to foreign exchange rate differences are taken directly to HSBC Holdings' income statement. These loans, and most of the associated foreign exchange exposures, are eliminated on consolidation.

Interest rate repricing gap table

The interest rate risk on the fixed-rate securities issued by HSBC Holdings is not included within the Group VaR but is managed on a repricing gap basis. The interest rate repricing gap table below analyses the full-term structure of interest rate mismatches within HSBC Holdings' balance sheet.

Risk (continued)

Operational risk / Reputational risk

Repricing gap analysis of HSBC Holdings

| | Total \$m | Up to 1 year \$m | 1 to 5 years \$m | 5 to 10 years \$m | More than 10 years \$m | Non-interest bearing \$m |
|--|--------------|------------------------|------------------------|-------------------------|------------------------------|--------------------------------|
| Cumulative interest rate gap | | | | | | |
| Total assets | 148,926 | 46,084 | 402 | 2,144 | – | 100,296 |
| Total liabilities and equity | (148,926) | (2,345) | (6,850) | (10,104) | (14,507) | (115,120) |
| Off-balance sheet items attracting interest rate sensitivity | – | (21,248) | 5,351 | 9,222 | 5,763 | 912 |
| Net interest rate risk gap at 30 June 2015 | – | 22,491 | (1,097) | 1,262 | (8,744) | (13,912) |
| Cumulative interest rate risk gap | – | 22,491 | 21,394 | 22,656 | 13,912 | – |
| | | | | | | |
| Total assets | 145,891 | 45,396 | 591 | 1,961 | 665 | 97,278 |
| Total liabilities and equity | (145,891) | (9,503) | (10,348) | (8,509) | (14,891) | (102,640) |
| Off-balance sheet items attracting interest rate sensitivity | – | (20,597) | 7,137 | 7,400 | 6,042 | 18 |
| Net interest rate risk gap at 30 June 2014 | – | 15,296 | (2,620) | 852 | (8,184) | (5,344) |
| Cumulative interest rate risk gap | – | 15,296 | 12,676 | 13,528 | 5,344 | – |
| | | | | | | |
| Total assets | 147,864 | 44,613 | 290 | 1,824 | – | 101,137 |
| Total liabilities and equity | (147,864) | (3,506) | (9,238) | (8,413) | (14,458) | (112,249) |
| Off-balance sheet items attracting interest rate sensitivity | – | (21,525) | 7,295 | 7,400 | 5,763 | 1,067 |
| Net interest rate risk gap at 31 December 2014 | – | 19,582 | (1,653) | 811 | (8,695) | (10,045) |
| Cumulative interest rate risk gap | – | 19,582 | 17,929 | 18,740 | 10,045 | – |

Operational risk

Operational risk is relevant to every aspect of our business and covers a wide spectrum of issues, in particular legal, compliance, security and fraud. Losses and other adverse consequences arising from breaches of regulation and law, unauthorised activities, error, omission, fraud, systems failure or external events all fall within the definition of operational risk.

Activity to further enhance and embed our Operational Risk Management Framework ('ORMF') continued in the first half of 2015. Responsibility for minimising operational risk lies with HSBC's management and staff.

All regional, global business, country, business unit and functional heads are required to manage the operational risks and internal controls of the business and operational activities for which they are responsible.

The diagrammatic representation of our ORMF is provided on page 187 of the *Annual Report and Accounts 2014*.

A summary of our current policies and practices regarding operational risk is provided on page 228 of the Annual Report and Accounts 2014.

Operational risk profile in the first half of 2015

During 1H15, our operational risk profile continued to be dominated by compliance risks and we continued to see losses that relate to events from prior years (significant events are outlined in Notes 17 and 19 on the Financial Statements). A number of mitigating actions are being undertaken to prevent future conduct-related incidents.

Operational risks include:

- *compliance with regulatory agreements and orders:* failure to implement our obligations under the US DPA could have a material adverse effect on our results and operations. The work of the Monitor is discussed on page 13, with compliance risk described below;
- *level of change creating operational complexity:* the Global Risk function is engaged with business management in business transformation initiatives to ensure robust internal controls are maintained as we execute our change agenda;
- *fraud risks:* while compared with the industry our loss performance remains strong in most markets, the introduction of new technologies and ways of banking mean that we continue to be subject to fraud attacks as new attack vectors are developed. We continue to increase monitoring and enhance detective controls to mitigate these risks in accordance with our risk appetite;
- *information security:* the security of our information and technology infrastructure is crucial for maintaining our banking services and protecting our customers and the HSBC brand. We continue to be a target of increasingly sophisticated cyber-attacks such as 'distributed denial of service', in common with other banks and multinational organisations, which can affect the availability of customer-facing websites. Programmes of work are ongoing to strengthen internal security controls to prevent unauthorised access to our systems, including lessons learnt from attacks experienced within the industry and information sharing with other financial institutions, government agencies and external

intelligence providers. Our UK operation is currently participating in an external penetration testing scheme called CBEST developed by the PRA that is aimed at assessing the ability of critical financial institutions to detect and defend against cyber-attacks;

- *third-party risk management*: we are strengthening our third-party risk management capability, particularly the management of vendor risks, including the implementation of the supplier performance management programme with our most important suppliers. Attention is also being paid to the screening of suppliers to enable us to identify if any of them are on a sanctions list and we should therefore exit such relationships. Vendor risk management is a core element of third-party risk management.

Other operational risks are also monitored and managed through the use of the ORMF and governing policies.

Compliance risk

Compliance risk is the risk that we fail to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice, and incur fines and penalties and suffer damage to our business as a consequence. Compliance risk falls within the definition of operational risk.

All Group companies and employees are required to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice. These include those relating to AML, counter-terrorist and proliferation financing, sanctions compliance, anti-bribery and corruption, conduct of business and market conduct. The compliance risk policies and practices are described on pages 189 and 229 of the *Annual Report and Accounts 2014*. There were no material changes to our policies and practices for the management of compliance risk in the first half of 2015 with the exception of the implementation of the new AML and sanctions policy procedures as outlined below.

Enhanced global AML and sanctions policies were approved in 2014. Global businesses and all in-scope countries had implemented new AML and sanctions policy procedures by the end of March 2015. The application of procedures required to embed them in our day to day business operations globally will remain a key focus during the rest of 2015. The overriding policy objective is for every employee to engage in only 'the right kind of business, conducted in the right way'.

Programmes to enhance the Group's standards of regulatory conduct ensuring the delivery of fair outcomes for customers and orderly and transparent operations in financial markets continued to progress in 1H15.

We have experienced increasing levels of compliance risk in recent years as regulators and other agencies pursued investigations into historical activities, and we have continued to work with them in relation to these matters. They are described in 'Areas of special interest' on page 59.

It is clear that the level of inherent compliance risk that we face will continue to remain high for the foreseeable future. However, we consider that good progress is being made and will continue to be made in ensuring that we are well placed to effectively manage those risks.

Whistleblowing

HSBC operates global disclosure lines (telephone and email) which are available to allow employees to raise concerns regarding potential wrongdoing when the normal channels for escalation are unavailable or inappropriate. Matters raised are independently investigated by appropriate subject matter teams. Outcomes including remedial action taken are reported to the Conduct & Values Committee, in respect of AML and sanctions matters to the Financial System Vulnerabilities Committee and in respect of audit and accounting matters to the Group Audit Committee.

Reputational risk

Reputational risk is the risk of failure to meet stakeholder expectations as a result of any event, behaviour, action or inaction, either by HSBC itself, our employees or those with whom we are associated, that might cause stakeholders to form a negative view of the Group. This may have financial or non-financial implications or have other consequences such as loss of confidence.

The reputational risk policies and practices are described on pages 199 and 235 of the *Annual Report and Accounts 2014*.

We have a zero tolerance for knowingly engaging in any business, activity or association where foreseeable reputational damage has not been considered and mitigated. There must be no barriers to open discussion and the escalation of issues that could affect the Group negatively. While there is a level of risk in every aspect of business activity, appropriate consideration of potential harm to HSBC's good name must be a part of all business decisions.

We have restructured our Reputational Risk Function and created a Reputational Risk Management team. This team's mandate is to provide bespoke advisory services to the business on reputational risks to the bank and to work with the Financial Crime and Regulatory Compliance teams to mitigate such risks where possible.

Risk management of insurance operations

The majority of the risk in our insurance business derives from manufacturing activities and can be categorised as insurance risk and financial risk. Insurance risk is the risk, other than financial risk, of loss transferred from the holder of the insurance contract to the issuer (HSBC). Financial risks include market risk, credit risk and liquidity risk.

There have been no material changes to the policies and practices for the management of risks arising in our insurance operations described in the *Annual Report and Accounts 2014*.

A summary of our policies and practices regarding the risk management of insurance operations, our insurance model and the main contracts we manufacture are provided on page 231 of the Annual Report and Accounts 2014.

Risk management of insurance operations in the first half of 2015

We measure the risk profile of our insurance manufacturing businesses using an economic capital approach. Under this approach, assets and liabilities are measured on a market value basis and capital is held to ensure that there is less than a 1 in 200 chance of insolvency during the coming year given the risks that the businesses are exposed to. This approach is aligned to the measurement approach for market, credit and insurance risks in the economic capital

model in the European Solvency II insurance capital regulations applicable from 2016.

The risk profile of our life insurance manufacturing businesses did not change materially during 1H15 despite the decrease in liabilities under insurance contracts to \$69bn (31 December 2014: \$74bn).

This reduction arose from the transfer of \$5bn of these liabilities to 'Liabilities of disposal groups held for sale' during the period when we announced the plan to sell our operations in Brazil (including the entire insurance business there).

Asset and liability matching

A principal tool used to manage exposures to both financial and insurance risk, in particular for life insurance contracts, is asset and liability matching. In many markets in which we operate it is neither possible nor appropriate to follow a perfect asset and liability matching strategy. For long-dated non-linked contracts, in particular, this results in a duration mismatch between assets and liabilities. We therefore structure portfolios that support liabilities under non-linked contracts with due consideration to the risk exposure to HSBC and the capital requirements.

The table below shows the composition of assets and liabilities by contract type and demonstrates that there were sufficient assets to cover the liabilities to policyholders, in each case at 30 June 2015.

Balance sheet of insurance manufacturing subsidiaries by type of contract

| | Insurance contracts | | | | Investment contracts | | | Other assets and liabilities | Total |
|---|---------------------|-----------------|---------------|--------------|----------------------|-----------------|--------------|------------------------------|----------------|
| | With DPF \$m | Unit-linked \$m | Annuities \$m | Other \$m | With DPF \$m | Unit-linked \$m | Other \$m | | |
| Financial assets | 30,199 | 7,351 | 1,272 | 6,359 | 22,570 | 2,587 | 4,027 | 5,862 | 80,227 |
| – trading assets | – | – | 3 | – | – | – | – | – | 3 |
| – financial assets designated at fair value | 4,563 | 7,157 | 343 | 699 | 6,778 | 2,174 | 1,924 | 1,136 | 24,774 |
| – derivatives | 42 | 1 | – | 2 | 100 | – | 11 | 63 | 219 |
| – financial investments | 22,784 | – | 830 | 5,478 | 13,902 | – | 1,425 | 4,663 | 49,082 |
| – other financial assets | 2,810 | 193 | 96 | 180 | 1,790 | 413 | 667 | – | 6,149 |
| Reinsurance assets | 199 | 239 | – | 754 | – | – | – | – | 1,192 |
| PVIF | – | – | – | – | – | – | – | 5,363 | 5,363 |
| Other assets and investment properties | 828 | 11 | 24 | 109 | 739 | 12 | 26 | 12,887 | 14,636 |
| Total assets at 30 June 2015 | 31,226 | 7,601 | 1,296 | 7,222 | 23,309 | 2,599 | 4,053 | 24,112 | 101,418 |
| Liabilities under investment contracts: | – | – | – | – | – | 2,558 | 3,786 | – | 6,344 |
| – designated at fair value | – | – | – | – | – | 2,558 | 3,786 | – | 6,344 |
| Liabilities under insurance contracts | 30,914 | 7,541 | 1,237 | 6,493 | 23,309 | – | – | – | 69,494 |
| Deferred tax | 12 | – | 8 | 4 | – | – | – | 1,131 | 1,155 |
| Other liabilities | – | – | – | – | – | – | – | 13,837 | 13,837 |
| Total liabilities | 30,926 | 7,541 | 1,245 | 6,497 | 23,309 | 2,558 | 3,786 | 14,968 | 90,830 |
| Total equity | – | – | – | – | – | – | – | 10,588 | 10,588 |
| Total equity and liabilities at 30 June 2015 | 30,926 | 7,541 | 1,245 | 6,497 | 23,309 | 2,558 | 3,786 | 25,556 | 101,418 |

Balance sheet of insurance manufacturing subsidiaries by type of contract (continued)

| | Insurance contracts | | | | Investment contracts | | | Other assets and liabilities | Total |
|---|---------------------|---------------|--------------|--------------|----------------------|--------------|--------------|------------------------------|----------------|
| | With DPF | Unit-linked | Annuities | Other | With DPF | Unit-linked | Other | | |
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| Financial assets | 28,014 | 12,043 | 1,629 | 5,452 | 26,657 | 2,867 | 4,455 | 6,064 | 87,181 |
| – trading assets | – | – | 4 | – | – | – | – | – | 4 |
| – financial assets designated at fair value | 4,383 | 11,760 | 564 | 651 | 7,523 | 2,411 | 1,541 | 2,219 | 31,052 |
| – derivatives | 7 | 1 | – | 2 | 95 | – | – | 71 | 176 |
| – financial investments | 20,565 | – | 960 | 4,421 | 17,049 | – | 1,750 | 3,697 | 48,442 |
| – other financial assets | 3,059 | 282 | 101 | 378 | 1,990 | 456 | 1,164 | 77 | 7,507 |
| Reinsurance assets | 183 | 265 | – | 723 | – | – | – | 2 | 1,173 |
| PVIF | – | – | – | – | – | – | – | 5,438 | 5,438 |
| Other assets and investment properties | 794 | 330 | 19 | 101 | 728 | 11 | 27 | 7,813 | 9,823 |
| Total assets at 30 June 2014 | 28,991 | 12,638 | 1,648 | 6,276 | 27,385 | 2,878 | 4,482 | 19,317 | 103,615 |
| Liabilities under investment contracts: | – | – | – | – | – | 2,878 | 4,276 | – | 7,154 |
| – designated at fair value | – | – | – | – | – | 2,878 | 3,800 | – | 6,678 |
| – carried at amortised cost | – | – | – | – | – | – | 476 | – | 476 |
| Liabilities under insurance contracts | 28,217 | 12,518 | 1,591 | 5,512 | 27,385 | – | – | – | 75,223 |
| Deferred tax | 12 | – | 11 | 10 | – | – | – | 1,223 | 1,256 |
| Other liabilities | – | – | – | – | – | – | – | 9,451 | 9,451 |
| Total liabilities | 28,229 | 12,518 | 1,602 | 5,522 | 27,385 | 2,878 | 4,276 | 10,674 | 93,084 |
| Total equity | – | – | – | – | – | – | – | 10,531 | 10,531 |
| Total equity and liabilities at 30 June 2014 | 28,229 | 12,518 | 1,602 | 5,522 | 27,385 | 2,878 | 4,276 | 21,205 | 103,615 |
| Financial assets | 29,040 | 11,278 | 1,517 | 6,253 | 24,238 | 2,561 | 4,322 | 5,732 | 84,941 |
| – trading assets | – | – | 3 | – | – | – | – | – | 3 |
| – financial assets designated at fair value | 4,304 | 11,111 | 533 | 782 | 6,346 | 2,223 | 1,684 | 1,713 | 28,696 |
| – derivatives | 12 | 1 | – | 1 | 101 | 1 | 10 | 73 | 199 |
| – financial investments | 21,152 | – | 886 | 5,167 | 15,677 | – | 1,807 | 3,812 | 48,501 |
| – other financial assets | 3,572 | 166 | 95 | 303 | 2,114 | 337 | 821 | 134 | 7,542 |
| Reinsurance assets | 190 | 262 | – | 617 | – | – | – | 2 | 1,071 |
| PVIF | – | – | – | – | – | – | – | 5,307 | 5,307 |
| Other assets and investment properties | 698 | 328 | 23 | 107 | 831 | 7 | 26 | 7,383 | 9,403 |
| Total assets at 31 December 2014 | 29,928 | 11,868 | 1,540 | 6,977 | 25,069 | 2,568 | 4,348 | 18,424 | 100,722 |
| Liabilities under investment contracts: | – | – | – | – | – | 2,542 | 4,155 | – | 6,697 |
| – designated at fair value | – | – | – | – | – | 2,542 | 3,770 | – | 6,312 |
| – carried at amortised cost | – | – | – | – | – | – | 385 | – | 385 |
| Liabilities under insurance contracts | 29,479 | 11,820 | 1,473 | 6,021 | 25,068 | – | – | – | 73,861 |
| Deferred tax | 12 | – | 11 | 18 | – | – | – | 1,180 | 1,221 |
| Other liabilities | – | – | – | – | – | – | – | 8,577 | 8,577 |
| Total liabilities | 29,491 | 11,820 | 1,484 | 6,039 | 25,068 | 2,542 | 4,155 | 9,757 | 90,356 |
| Total equity | – | – | – | – | – | – | – | 10,366 | 10,366 |
| Total equity and liabilities at 31 December 2014 | 29,491 | 11,820 | 1,484 | 6,039 | 25,068 | 2,542 | 4,155 | 20,123 | 100,722 |

The Brazilian insurance operations and the UK pensions business are reported as disposal groups held for sale at 30 June 2015. The assets and liabilities of these disposal groups are included in the 'Other assets and liabilities' column of the table above.

These disposal groups contained a total of \$12bn of total liabilities (mainly liabilities under insurance and investment contracts) and \$12bn of total assets (mainly financial and reinsurance assets backing these liabilities and the PVIF associated with the insurance contracts) at 30 June 2015. The disposal of the UK pensions business is expected to be completed in the second half of 2015.

Insurance risk

Insurance risk is principally measured in terms of liabilities under the contracts in force.

A principal risk we face is that, over time, the cost of acquiring and administering a contract, claims and benefits may exceed the aggregate amount of premiums received and investment income. The cost of claims and benefits can be influenced by many factors, including mortality and morbidity experience, lapse and surrender rates and, if the policy has a savings element, the performance of the assets held to support the liabilities.

The insurance risk profile and related exposures remain largely consistent with those observed at 31 December 2014.

Footnotes to Risk

Credit risk

- 1 *The amount of loan commitments reflects, where relevant, the expected level of take-up of pre-approved loan offers made by mailshots to personal customers. In addition to those amounts, there is a further maximum possible exposure to credit risk of \$70bn (30 June 2014: \$60bn; 31 December 2014: \$71bn), reflecting the full take-up of loan commitments. The take-up of such offers is generally at modest levels.*
- 2 *'Other commercial loans and advances' includes advances in respect of agriculture, transport, energy utilities and ABSs reclassified to 'Loans and advances'.*
- 3 *'Loans and advances to customers' includes asset-backed securities that have been externally rated as strong (30 June 2015: \$812m; 30 June 2014: \$1.8bn; 31 December 2014: \$1.2bn), good (30 June 2015: \$100m; 30 June 2014: \$88m; 31 December 2014: \$256m), satisfactory (30 June 2015: \$125m; 30 June 2014: \$54m; 31 December 2014: \$332m), sub-standard (30 June 2015: \$102m; 30 June 2014: \$220m; 31 December 2014: \$94m) and impaired (30 June 2015: \$101m; 30 June 2014: \$321m; 31 December 2014: \$128m).*
- 4 *Corporate and commercial includes commercial real estate renegotiated loans of \$2,547m (30 June 2014: \$3,527; 31 December 2014: \$2,724m) of which \$656m (30 June 2014: \$475m; 31 December 2014: \$608m) were neither past due nor impaired, \$1m (30 June 2014: \$97m; 31 December 2014: \$1m) were past due but not impaired and \$1,890m (30 June 2014: \$2,955m; 31 December 2014: \$2,115m) were impaired.*
- 5 *'Financial' includes loans and advances to banks.*
- 6 *'Currency translation adjustment' is the effect of translating the results of subsidiaries and associates for the previous period at the average rates of exchange applicable in the current period.*
- 7 *Negative numbers are favourable: positive numbers are unfavourable.*

Liquidity and funding

- 8 *The most favourable metrics are a smaller advances to core funding and a larger stressed one month coverage ratio.*

Market risk

- 9 *Portfolio diversification is the market risk dispersion effect of holding a portfolio containing different risk types. It represents the reduction in unsystematic market risk that occurs when combining a number of different risk types, for example, interest rate, equity and foreign exchange, together in one portfolio. It is measured as the difference between the sum of the VaR by individual risk type and the combined total VaR. A negative number represents the benefit of portfolio diversification. As the maximum and minimum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification benefit for these measures. For presentation purposes, portfolio diversification within the trading portfolio includes VaR-based RNIV.*

Capital

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Our objective in the management of Group capital is to maintain appropriate levels of capital to support our business strategy and meet our regulatory and stress testing related requirements.

Capital highlights

- Our end point CET1 ratio of 11.6% was up from 11.1% at the end of 2014 as a result of continued capital generation and RWA initiatives offset by business growth and regulatory changes.
- Our leverage ratio remained strong at 4.9%.

Capital overview

Capital ratios

| | At | | |
|---|-------------|-------------|-------------|
| | 30 Jun 2015 | 30 Jun 2014 | 31 Dec 2014 |
| | % | % | % |
| CRD IV end point | | | |
| Common equity tier 1 ratio ¹ | 11.6 | 11.3 | 11.1 |
| CRD IV transitional | | | |
| Common equity tier 1 ratio ¹ | 11.6 | 11.2 | 10.9 |
| Tier 1 ratio | 13.4 | 12.3 | 12.5 |
| Total capital ratio | 16.3 | 15.4 | 15.6 |

Total regulatory capital and risk-weighted assets

| | At | | |
|---|----------------|----------------|----------------|
| | 30 Jun 2015 | 30 Jun 2014 | 31 Dec 2014 |
| | \$m | \$m | \$m |
| CRD IV end point | | | |
| Common equity tier 1 capital ¹ | 138,080 | 141,557 | 135,953 |
| CRD IV transitional | | | |
| Common equity tier 1 capital ¹ | 138,080 | 140,070 | 133,200 |
| Additional tier 1 capital | 21,346 | 13,813 | 19,539 |
| Tier 2 capital | 35,684 | 38,951 | 37,991 |
| Total regulatory capital | 195,110 | 192,834 | 190,730 |
| Risk-weighted assets | 1,193,154 | 1,248,572 | 1,219,765 |

For footnotes, see page 100.

Our approach to managing Group capital is designed to ensure that we exceed current regulatory requirements and that we respect the payment priority of our capital providers. Throughout the first half of 2015, we complied with the PRA's regulatory capital adequacy requirements, including those relating to stress testing. We are also well placed to meet our expected future capital requirements.

We continue to manage Group capital to meet a medium-term target for return on equity of more than 10% by 2017. This is modelled on a CET1 ratio on an end point basis in the range of 12% to 13%, which takes into account known and quantifiable end point CET1 requirements including a regulatory and management buffer of 1.5-2.5%, based on our estimate of the additional CET1 we will need to hold to cover the new time-varying buffers and other factors. It will be kept under review as clarity in respect of future regulatory developments continues to improve.

Capital and RWAs are calculated and presented on the Group's interpretation of final CRD IV legislation and the PRA's final rules as set out in the PRA Rulebook.

We continue to exceed the PRA's current requirements in relation to capital ratios for major UK banks and building societies.

Despite the rules published to date, there remains continued uncertainty around the amount of capital that UK banks will be required to hold. While there is emerging clarity around the interaction of the capital buffers and the PRA's Pillar 2 framework, uncertainty remains around the broader capital framework, including Basel revisions to the RWA framework, capital floors, global systemically important bank ('G-SIB') developments and total loss absorbing capacity ('TLAC') requirements. Furthermore, there remain a number of draft and unpublished European Banking Authority ('EBA') regulatory and implementing technical standards due in 2015.

A summary of our policies and practices regarding capital management, measurement and allocation is provided on page 257 of the Annual Report and Accounts 2014.

Movements by major driver

Capital and RWA movements by major driver – CRD IV end point basis

| | Common equity tier 1 capital \$bn | RWAs \$bn |
|--|-----------------------------------|----------------|
| CRD IV end point basis at 1 January 2015 | 136.0 | 1,219.8 |
| Capital generation from profit | 5.6 | |
| – consolidated profits attributable to shareholders of the parent company (including regulatory adjustments) Of which \$1.4bn gain on the partial sale of our shareholding in Industrial Bank including fair value gains reclassified to the income statement | 8.2 | |
| – dividends net of scrip ^{2,3} | (0.7) | |
| – second interim dividend ² net of planned scrip | (1.9) | |
| Further impact on partial sale of shareholding in Industrial Bank including fair value gains reclassified to the income statement and lower allowable non-controlling interests | (3.6) | |
| Regulatory changes | | 5.8 |
| RWA initiatives | | (50.3) |
| Business growth including associates | | 30.0 |
| Foreign currency translation differences ⁴ | (1.8) | (14.2) |
| Other movements | 1.9 | 2.1 |
| CRD IV end point basis at 30 June 2015 | 138.1 | 1,193.2 |

For footnotes, see page 100.

Capital generation from profits contributed \$5.6bn to CET1 capital, being profits attributable to shareholders of the parent company after regulatory adjustment for own credit spread, debit valuation adjustment and deconsolidation of insurance entities and net of dividends including the foreseeable second interim dividend after planned scrip. This also included the benefit of a higher fourth interim dividend scrip take-up and fair value gains reclassified to the income statement from the partial sale of our shareholding in Industrial Bank.

At our Investor Update we announced that we plan to significantly reduce Group RWAs by the end of 2017 and redeploy them to support higher returning areas. A number of internal programmes have been established to drive and manage these plans. RWAs reduced in the period,

driven by RWA initiatives and foreign currency translation differences. The reduction was largely offset by business growth, principally in CMB and Global Banking across Asia, Europe and North America and business growth in our associate BoCom.

These initiatives included accelerated reduction of GB&M legacy assets of \$14.1bn from both the disposal of securitisation positions and the unwinding of other securitisation transactions. In both GB&M and CMB, more detailed mapping within RWA calculations and improved recognition of collateral and netting, reduced RWAs by \$12.6bn and \$6.1bn, respectively. The partial sale of our shareholding in Industrial Bank reduced RWAs by \$12.3bn. In addition, the continued reduction of RBWM's US CML run-off portfolio reduced RWAs by \$5.2bn.

Risk-weighted assets

RWAs by risk type

| | At | | |
|---------------------------|------------------|------------------|------------------|
| | 30 Jun 2015 \$bn | 30 Jun 2014 \$bn | 31 Dec 2014 \$bn |
| Credit risk | 935.1 | 966.0 | 955.3 |
| – standardised approach | 348.5 | 350.9 | 356.9 |
| – IRB foundation approach | 23.3 | 15.5 | 16.8 |
| – IRB advanced approach | 563.3 | 599.6 | 581.6 |
| Counterparty credit risk | 83.7 | 101.4 | 90.7 |
| – standardised approach | 24.3 | 30.6 | 25.2 |
| – advanced approach | 59.4 | 70.8 | 65.5 |
| Market risk | 56.6 | 63.1 | 56.0 |
| – internal model based | 46.5 | 49.5 | 44.6 |
| – standardised approach | 10.1 | 13.6 | 11.4 |
| Operational risk | 117.8 | 118.1 | 117.8 |
| | 1,193.2 | 1,248.6 | 1,219.8 |
| Of which: | | | |
| Run-off portfolios | 79.9 | 121.6 | 99.2 |
| – legacy credit in GB&M | 30.0 | 52.7 | 44.1 |
| – US CML and Other | 49.9 | 68.9 | 55.1 |

RWAs by global businesses

| | At | | |
|---|------------------------|------------------------|------------------------|
| | 30 Jun 2015 \$bn | 30 Jun 2014 \$bn | 31 Dec 2014 \$bn |
| Retail Banking and Wealth Management ⁵ | 204.6 | 225.4 | 207.2 |
| Commercial Banking ⁵ | 439.6 | 422.5 | 430.3 |
| Global Banking and Markets | 491.0 | 537.3 | 516.1 |
| Global Private Banking | 21.1 | 22.1 | 20.8 |
| Other | 36.9 | 41.3 | 45.4 |
| | 1,193.2 | 1,248.6 | 1,219.8 |

RWAs by geographical regions⁶

| | At | | |
|------------------------------|------------------------|------------------------|------------------------|
| | 30 Jun 2015 \$bn | 30 Jun 2014 \$bn | 31 Dec 2014 \$bn |
| Europe | 369.5 | 393.6 | 375.4 |
| Asia | 487.4 | 481.1 | 499.8 |
| Middle East and North Africa | 63.1 | 62.7 | 63.0 |
| North America | 215.7 | 236.9 | 221.4 |
| Latin America | 82.3 | 96.8 | 88.8 |
| | 1,193.2 | 1,248.6 | 1,219.8 |

For footnotes, see page 100.

Credit risk RWAs

Credit risk exposure – RWAs by geographical region

| | Europe \$bn | Asia \$bn | MENA \$bn | North America \$bn | Latin America \$bn | Total \$bn |
|---------------------------------|----------------|--------------|--------------|--------------------------|--------------------------|---------------|
| IRB approach | 204.0 | 216.2 | 15.5 | 139.4 | 11.5 | 586.6 |
| – IRB advanced approach | 186.0 | 216.2 | 10.2 | 139.4 | 11.5 | 563.3 |
| – IRB foundation approach | 18.0 | – | 5.3 | – | – | 23.3 |
| Standardised approach | 50.7 | 177.7 | 38.6 | 32.5 | 49.0 | 348.5 |
| RWAs at 30 June 2015 | 254.7 | 393.9 | 54.1 | 171.9 | 60.5 | 935.1 |
| IRB approach | 222.6 | 209.9 | 15.3 | 155.3 | 12.0 | 615.1 |
| – IRB advanced approach | 211.2 | 209.9 | 11.2 | 155.3 | 12.0 | 599.6 |
| – IRB foundation approach | 11.4 | – | 4.1 | – | – | 15.5 |
| Standardised approach | 46.9 | 174.3 | 39.0 | 30.7 | 60.0 | 350.9 |
| RWAs at 30 June 2014 | 269.5 | 384.2 | 54.3 | 186.0 | 72.0 | 966.0 |
| IRB approach | 216.1 | 213.1 | 15.6 | 142.0 | 11.6 | 598.4 |
| – IRB advanced approach | 203.3 | 213.1 | 11.6 | 142.0 | 11.6 | 581.6 |
| – IRB foundation approach | 12.8 | – | 4.0 | – | – | 16.8 |
| Standardised approach | 47.1 | 186.0 | 39.0 | 29.6 | 55.2 | 356.9 |
| RWAs at 31 December 2014 | 263.2 | 399.1 | 54.6 | 171.6 | 66.8 | 955.3 |

Credit risk exposure – RWAs by global businesses

| | US | | Total RBWM \$bn | CMB ⁵ \$bn | GB&M \$bn | GPB \$bn | Other \$bn | Total \$bn |
|-----------------------------|--|------------------------------|-----------------------|--------------------------|--------------|-------------|---------------|---------------|
| | Principal ⁵ RBWM \$bn | run-off portfolio \$bn | | | | | | |
| IRB approach | 60.1 | 42.6 | 102.7 | 225.6 | 234.8 | 9.5 | 14.0 | 586.6 |
| – IRB advanced approach | 60.1 | 42.6 | 102.7 | 210.6 | 227.8 | 9.4 | 12.8 | 563.3 |
| – IRB foundation approach | – | – | – | 15.0 | 7.0 | 0.1 | 1.2 | 23.3 |
| Standardised approach | 59.8 | 4.3 | 64.1 | 181.9 | 72.0 | 7.7 | 22.8 | 348.5 |
| RWAs at 30 June 2015 | 119.9 | 46.9 | 166.8 | 407.5 | 306.8 | 17.2 | 36.8 | 935.1 |
| IRB approach | 60.5 | 60.6 | 121.1 | 213.2 | 256.4 | 11.2 | 13.2 | 615.1 |
| – IRB advanced approach | 60.5 | 60.6 | 121.1 | 206.0 | 249.5 | 11.1 | 11.9 | 599.6 |
| – IRB foundation approach | – | – | – | 7.2 | 6.9 | 0.1 | 1.3 | 15.5 |
| Standardised approach | 60.0 | 5.5 | 65.5 | 177.5 | 73.6 | 6.5 | 27.8 | 350.9 |
| RWAs at 30 June 2014 | 120.5 | 66.1 | 186.6 | 390.7 | 330.0 | 17.7 | 41.0 | 966.0 |

Capital (continued)

Movements by major driver / RWAs

| | Principal ⁵ RBWM \$bn | US run-off portfolio \$bn | Total RBWM \$bn | CMB ⁵ \$bn | GB&M \$bn | GPB \$bn | Other \$bn | Total \$bn |
|---------------------------|--|------------------------------------|-----------------------|--------------------------|--------------|-------------|---------------|---------------|
| IRB approach | 56.1 | 47.3 | 103.4 | 217.2 | 255.6 | 10.2 | 12.0 | 598.4 |
| – IRB advanced approach | 56.1 | 47.3 | 103.4 | 209.2 | 248.1 | 10.0 | 10.9 | 581.6 |
| – IRB foundation approach | – | – | – | 8.0 | 7.5 | 0.2 | 1.1 | 16.8 |
| Standardised approach | 61.2 | 4.8 | 66.0 | 181.0 | 70.1 | 6.6 | 33.2 | 356.9 |
| RWAs at 31 December 2014 | 117.3 | 52.1 | 169.4 | 398.2 | 325.7 | 16.8 | 45.2 | 955.3 |

Credit risk RWAs are calculated using three approaches as permitted by the PRA. For consolidated Group reporting we have adopted the advanced IRB approach for the

majority of our business, with a small proportion being on the foundation IRB approach and the remaining portfolios on the standardised approach.

RWA movement by geographical regions by key driver – credit risk – IRB only⁷

| | Europe \$bn | Asia \$bn | MENA \$bn | North America \$bn | Latin America \$bn | Total \$bn |
|---------------------------------|----------------|--------------|--------------|--------------------------|--------------------------|---------------|
| RWAs at 1 January 2015 | 216.1 | 213.1 | 15.6 | 142.0 | 11.6 | 598.4 |
| Foreign currency movement | (0.8) | (2.2) | (0.4) | (1.8) | (1.0) | (6.2) |
| Acquisitions and disposals | (12.1) | – | – | – | – | (12.1) |
| Book size | 3.6 | 8.8 | (0.6) | 1.3 | (0.8) | 12.3 |
| Book quality | (5.0) | (3.1) | (0.2) | (0.6) | 1.7 | (7.2) |
| Model updates | 1.6 | (1.7) | – | – | – | (0.1) |
| Methodology and policy | 0.6 | 1.3 | 1.1 | (1.5) | – | 1.5 |
| – internal updates | (2.0) | (0.7) | 1.0 | (1.5) | – | (3.2) |
| – external updates – regulatory | 2.6 | 2.0 | 0.1 | – | – | 4.7 |
| Total RWA movement | (12.1) | 3.1 | (0.1) | (2.6) | (0.1) | (11.8) |
| RWAs at 30 June 2015 | 204.0 | 216.2 | 15.5 | 139.4 | 11.5 | 586.6 |
| RWAs at 1 January 2014 | 166.9 | 182.9 | 15.0 | 161.5 | 8.5 | 534.8 |
| Foreign currency movement | 4.9 | 0.8 | (0.2) | (0.1) | (0.4) | 5.0 |
| Acquisitions and disposals | (2.3) | – | (0.5) | (2.6) | (0.1) | (5.5) |
| Book size | 3.0 | 13.0 | (0.2) | (0.5) | 1.9 | 17.2 |
| Book quality | (1.7) | 0.7 | 0.7 | (2.3) | 0.4 | (2.2) |
| Model updates | 14.9 | 0.3 | – | (5.1) | – | 10.1 |
| Methodology and policy | 36.9 | 12.2 | 0.5 | 4.4 | 1.7 | 55.7 |
| – internal updates | (9.8) | (5.6) | (0.2) | (2.6) | (0.1) | (18.3) |
| – external updates – regulatory | 2.2 | 6.7 | (0.2) | 0.7 | 0.1 | 9.5 |
| – CRD IV impact | 37.0 | 5.7 | 0.4 | 4.9 | 0.2 | 48.2 |
| – NCOA moving from STD to IRB | 7.5 | 5.4 | 0.5 | 1.4 | 1.5 | 16.3 |
| Total RWA movement | 55.7 | 27.0 | 0.3 | (6.2) | 3.5 | 80.3 |
| RWAs at 30 June 2014 | 222.6 | 209.9 | 15.3 | 155.3 | 12.0 | 615.1 |
| RWAs at 1 July 2014 | 222.6 | 209.9 | 15.3 | 155.3 | 12.0 | 615.1 |
| Foreign currency movement | (16.5) | (4.8) | – | (2.3) | (1.5) | (25.1) |
| Acquisitions and disposals | (1.2) | – | (0.2) | (1.6) | – | (3.0) |
| Book size | 8.4 | 6.5 | 2.0 | 3.4 | 0.1 | 20.4 |
| Book quality | 0.2 | (0.7) | (1.5) | (8.0) | 1.0 | (9.0) |
| Model updates | 4.5 | – | – | (1.0) | – | 3.5 |
| Methodology and policy | (1.9) | 2.2 | – | (3.8) | – | (3.5) |
| – internal updates | (1.9) | 0.4 | – | (3.8) | – | (5.3) |
| – external updates – regulatory | – | 1.8 | – | – | – | 1.8 |
| – CRD IV impact | – | – | – | – | – | – |
| – NCOA moving from STD to IRB | – | – | – | – | – | – |
| Total RWA movement | (6.5) | 3.2 | 0.3 | (13.3) | (0.4) | (16.7) |
| RWAs at 31 December 2014 | 216.1 | 213.1 | 15.6 | 142.0 | 11.6 | 598.4 |

RWA movement by global businesses by key driver – credit risk – IRB only⁷

| | US | | Total | CMB ⁵ | GB&M | GPB | Other | Total |
|---------------------------------|--|------------------------------|--------------|------------------|--------------|------------|-------------|--------------|
| | Principal ⁵ RBWM \$bn | run-off portfolio \$bn | | | | | | |
| RWAs at 1 January 2015 | 56.1 | 47.3 | 103.4 | 217.2 | 255.6 | 10.2 | 12.0 | 598.4 |
| Foreign currency movement | (0.5) | – | (0.5) | (2.7) | (2.8) | – | (0.2) | (6.2) |
| Acquisitions and disposals | – | – | – | – | (12.1) | – | – | (12.1) |
| Book size | 1.6 | (2.7) | (1.1) | 9.0 | 2.6 | (0.2) | 2.1 | 12.4 |
| Book quality | (1.5) | (2.3) | (3.8) | 2.0 | (5.6) | – | 0.1 | (7.3) |
| Model updates | – | – | – | 1.6 | (1.7) | – | – | (0.1) |
| Methodology and policy | 4.4 | 0.3 | 4.7 | (1.5) | (1.2) | (0.5) | – | 1.5 |
| – internal updates | 2.4 | 0.3 | 2.7 | (1.5) | (3.9) | (0.5) | – | (3.2) |
| – external updates – regulatory | 2.0 | – | 2.0 | – | 2.7 | – | – | 4.7 |
| Total RWA movement | 4.0 | (4.7) | (0.7) | 8.4 | (20.8) | (0.7) | 2.0 | (11.8) |
| RWAs at 30 June 2015 | 60.1 | 42.6 | 102.7 | 225.6 | 234.8 | 9.5 | 14.0 | 586.6 |
| RWAs at 1 January 2014 | 58.5 | 72.6 | 131.1 | 189.4 | 198.5 | 10.6 | 5.2 | 534.8 |
| Foreign currency movement | 0.5 | – | 0.5 | 2.2 | 2.1 | 0.2 | – | 5.0 |
| Acquisitions and disposals | – | – | – | – | (5.5) | – | – | (5.5) |
| Book size | 1.2 | (3.4) | (2.2) | 11.6 | 8.5 | (0.4) | (0.3) | 17.2 |
| Book quality | (1.8) | (4.0) | (5.8) | 2.8 | 0.7 | (0.3) | 0.4 | (2.2) |
| Model updates | 0.1 | (4.9) | (4.8) | 9.3 | 5.3 | 0.3 | – | 10.1 |
| Methodology and policy | 2.0 | 0.3 | 2.3 | (2.1) | 46.8 | 0.8 | 7.9 | 55.7 |
| – internal updates | (2.6) | – | (2.6) | (5.5) | (9.9) | (0.3) | – | (18.3) |
| – external updates – regulatory | – | – | – | 2.5 | 6.3 | 0.5 | 0.2 | 9.5 |
| – CRD IV impact | – | – | – | (0.7) | 48.6 | 0.2 | 0.1 | 48.2 |
| – NCOA moving from STD to IRB | 4.6 | 0.3 | 4.9 | 1.6 | 1.8 | 0.4 | 7.6 | 16.3 |
| Total RWA movement | 2.0 | (12.0) | (10.0) | 23.8 | 57.9 | 0.6 | 8.0 | 80.3 |
| RWAs at 30 June 2014 | 60.5 | 60.6 | 121.1 | 213.2 | 256.4 | 11.2 | 13.2 | 615.1 |
| RWAs at 1 July 2014 | 60.5 | 60.6 | 121.1 | 213.2 | 256.4 | 11.2 | 13.2 | 615.1 |
| Foreign currency movement | (3.1) | – | (3.1) | (10.9) | (10.2) | (0.4) | (0.5) | (25.1) |
| Acquisitions and disposals | – | – | – | – | (2.7) | – | (0.3) | (3.0) |
| Book size | 0.7 | (3.5) | (2.8) | 11.5 | 12.6 | (0.1) | (0.8) | 20.4 |
| Book quality | (3.9) | (4.6) | (8.5) | – | (0.9) | – | 0.4 | (9.0) |
| Model updates | 0.5 | (1.3) | (0.8) | 2.9 | 1.7 | (0.3) | – | 3.5 |
| Methodology and policy | 1.4 | (3.9) | (2.5) | 0.5 | (1.3) | (0.2) | – | (3.5) |
| – internal updates | (0.4) | (3.9) | (4.3) | 0.5 | (1.3) | (0.2) | – | (5.3) |
| – external updates – regulatory | 1.8 | – | 1.8 | – | – | – | – | 1.8 |
| – CRD IV impact | – | – | – | – | – | – | – | – |
| – NCOA moving from STD to IRB | – | – | – | – | – | – | – | – |
| Total RWA movement | (4.4) | (13.3) | (17.7) | 4.0 | (0.8) | (1.0) | (1.2) | (16.7) |
| RWAs at 31 December 2014 | 56.1 | 47.3 | 103.4 | 217.2 | 255.6 | 10.2 | 12.0 | 598.4 |

Standardised approach

For portfolios treated under the standardised approach, credit risk RWAs decreased by \$8.4bn of which \$8.0bn was due to foreign currency movements. Credit risk RWAs decreased by \$12.3bn due to the partial sale of our investment in Industrial Bank as recorded in 'Other'.

Business growth in North America, Europe and Middle East and Asia increased RWAs by \$11.0bn.

RWA initiatives in CMB and GB&M resulted in an overall decrease in RWAs of \$2.2bn across Middle East and Latin America.

Additionally, internal updates in CMB and GB&M relating to the reclassification of corporate exposures from the IRB to the standardised approach resulted in an increase in RWAs of \$3.0bn on the standardised approach and a decline in the IRB approach of \$2.6bn.

RWA increased by \$0.8bn due to deferred tax assets.

Internal ratings-based approach

For portfolios treated under the IRB approach, credit risk RWAs decreased by \$11.8bn of which \$6.2bn was due to foreign currency movements driven by the deterioration of a range of currencies including euro against US dollar.

Acquisitions and disposals

The continued disposal of legacy securitisation positions and the unwinding of other securitisation transactions in GB&M resulted in a decrease in RWAs of \$12.1bn in Europe.

Book size

Business growth from higher term lending to corporate customers and institutions in CMB and GB&M in Asia, North America and Europe increased RWAs by \$16.6bn. This was partially offset by RWA initiatives in Europe including a reduction in net current account balances which decreased RWAs by \$2.2bn, and the run-down of legacy securitisation positions lowering RWAs by \$3.6bn.

In North America, in RBWM, continued run-off of the US CML retail mortgage portfolios resulted in an RWA reduction of \$2.7bn in book size. This was partially offset by growth in retail lending in Asia and Europe of \$1.6bn.

Book quality

In GB&M, there were favourable movements in average customer credit quality in the corporate portfolio in Asia and Europe which decreased RWAs by \$5.7bn, offset by credit quality deterioration in North America which increased RWAs by \$1.6bn. In addition, improving economic stability in Asia resulted in an upgrade to the internal credit risk rating of sovereigns which decreased RWAs by \$0.6bn, offset by internal sovereign downgrades in Latin America which increased RWAs by \$1.1bn. RWA initiatives relating to the execution of a netting agreement reduced RWAs by \$1.3bn in Europe.

In CMB, change in the average credit quality of the portfolio and model recalibrations resulted in an RWA increase of \$3.2bn across Europe, North America, Middle East and Latin America, offset by credit quality improvements in Asia which reduced RWAs by \$1.1bn.

RWAs reduced by \$2.3bn in the US run-off portfolio in book quality as a result of exposures moving to default combined with continued improvements in the credit quality of the residual performing book.

Credit quality improvements in Principal RBWM related primarily to favourable shifts in portfolio quality in mortgages and revolving credit which reduced RWAs in Europe by \$1.5bn.

Model updates

In CMB, selected portfolios in Europe were migrated from the advanced IRB approach to the foundation IRB approach, as a result of a change in permission, increasing RWAs by \$1.6bn.

In GB&M, the update of the Sovereign PD model decreased RWAs by \$1.8bn in Asia.

Methodology and policy changes

RWA initiatives in GB&M and CMB, consisting of improvements in asset classification and recognition of guarantees, resulted in a decrease in RWAs by \$3.1bn across Europe, Asia and North America.

Internal updates in CMB and GB&M relating to the reclassification of corporate exposures to the standardised methodology resulted in a decrease in IRB RWAs of \$2.6bn and a net increase of \$0.4bn in overall RWAs.

This was partially offset by the application of a scaling factor to the securitisation positions risk-weighted at 1,250%, increasing RWAs by \$2.1bn.

In Principal RBWM, the further application of a regulator mandated risk-weight floor on residential mortgages in Hong Kong resulted in an increase in RWAs of \$2.0bn. Additionally a change in the methodology in the calculation of defaulted mortgage exposures resulted in an increase in RWAs of \$2.0bn in Europe which was offset by a reduction in the capital deduction for expected loss in the calculation of regulatory capital.

Counterparty credit risk and market risk RWAs

Counterparty credit risk RWAs

| | At | | |
|-------------------------------|------------------------|------------------------|------------------------|
| | 30 Jun 2015 \$bn | 30 Jun 2014 \$bn | 31 Dec 2014 \$bn |
| Advanced approach | 59.4 | 70.8 | 65.5 |
| – CCR IRB approach | 55.9 | 65.2 | 62.0 |
| – credit valuation adjustment | 3.5 | 5.6 | 3.5 |
| Standardised approach | 24.3 | 30.6 | 25.2 |
| – CCR standardised approach | 5.2 | 3.9 | 4.4 |
| – credit valuation adjustment | 16.6 | 22.2 | 18.0 |
| – central counterparty | 2.5 | 4.5 | 2.8 |
| | 83.7 | 101.4 | 90.7 |

RWA movement by key driver – counterparty credit risk – advanced approach

| | Half-year to | | |
|-------------------------------|-------------------------|-------------------------|-----------------------------|
| | 30 June 2015 \$bn | 30 June 2014 \$bn | 31 December 2014 \$bn |
| RWAs at beginning of period | 65.5 | 42.2 | 70.8 |
| Book size | (3.0) | 3.2 | (1.6) |
| Book quality | (0.6) | (0.3) | (0.3) |
| Model updates | – | 2.2 | (2.1) |
| Methodology and policy | (2.5) | 23.5 | (1.3) |
| – internal regulatory updates | (2.5) | (1.0) | (2.8) |
| – external regulatory updates | – | 7.5 | 1.5 |
| – CRD IV impact | – | 17.0 | – |
| Total RWA movement | (6.1) | 28.6 | (5.3) |
| RWAs at end of period | 59.4 | 70.8 | 65.5 |

Counterparty credit risk RWAs decreased by \$7.0bn, of which \$6.1bn related to the advanced approach.

Standardised approach

RWA under the standardised approach reduced by \$0.9bn. The main driver was a RWA initiative consisting of increased level of detail in counterparty mappings leading to additional CVA exemptions.

Advanced approach

Book size

The decrease was driven mainly by a combination of reduced portfolio size following trade maturities, RWA

initiatives, mainly trade compressions, and reducing mark to markets of over-the-counter derivatives, most notably in Asian and North American portfolios.

Methodology and policy changes

The decrease in RWAs from internal methodology updates was mainly driven by RWA initiatives consisting of more efficient allocation of collateral, mostly in North America, and refinement of transaction and counterparty static data used to calculate exposures and risk weights in the derivative portfolios globally.

Market risk RWAs

| | At | | |
|------------------------------|------------------------|------------------------|------------------------|
| | 30 Jun 2015 \$bn | 30 Jun 2014 \$bn | 31 Dec 2014 \$bn |
| Internal model based | 46.5 | 49.5 | 44.6 |
| – VaR | 7.2 | 5.6 | 7.3 |
| – stressed VaR | 10.4 | 7.8 | 10.4 |
| – incremental risk charge | 21.0 | 24.9 | 20.1 |
| – comprehensive risk measure | – | 2.0 | – |
| – other VaR and stressed VaR | 7.9 | 9.2 | 6.8 |
| Standardised approach | 10.1 | 13.6 | 11.4 |
| | 56.6 | 63.1 | 56.0 |

RWA movement by key driver – market risk – internal model based

| | Half-year to | | |
|---------------------------------|-------------------------|-------------------------|-----------------------------|
| | 30 June 2015 \$bn | 30 June 2014 \$bn | 31 December 2014 \$bn |
| RWAs at beginning of period | 44.6 | 52.2 | 49.5 |
| Acquisitions and disposals | – | – | (2.2) |
| Movement in risk levels | 2.7 | 0.9 | (5.1) |
| Model updates | – | – | – |
| Methodology and policy | (0.8) | (3.6) | 2.4 |
| – internal updates | (0.8) | 0.5 | (4.3) |
| – external updates – regulatory | – | (4.1) | 6.7 |
| Total RWA movement | 1.9 | (2.7) | (4.9) |
| RWAs at end of period | 46.5 | 49.5 | 44.6 |

Total market risk RWAs remained relatively stable during the first half of the year, increasing marginally by \$0.6bn.

Standardised approach

Market risk RWA movements in portfolios not within the scope of modelled approaches reflected a decrease of \$1.3bn, mainly related to the reduction in securitisation positions held within the trading book.

Internal Model based

Movement in Risk Levels

Movements relating to changes in risk levels reflected an increase in capital requirements arising from internal models due to the net effect of position management and increased market volatility mainly in European markets.

Methodology and policy changes

The movements in 'Methodology and policy' relate to an internal scenario refinement within the risk not in VaR ('RNIV') equity correlation risk model.

Capital

Source and application of total regulatory capital

| | Half-year to | | |
|---|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Movement in total regulatory capital | | | |
| Opening common equity tier 1 capital on a transitional basis ⁸ | 133,200 | 131,233 | 140,070 |
| Transitional adjustments | 2,753 | | |
| – Unrealised gains arising from revaluation of property | 1,375 | | |
| – Unrealised gains in available-for-sale debt and equities | 1,378 | | |
| Opening common equity tier 1 capital on an end point basis ^{1,8} | 135,953 | | |
| Contribution to common equity tier 1 capital from profit for the period | 8,151 | 9,432 | 3,246 |
| – consolidated profits attributable to shareholders of the parent company | 9,618 | 9,746 | 3,942 |
| – removal of own credit spread net of tax | (568) | 202 | (530) |
| – debit valuation adjustment | (121) | 97 | 157 |
| – deconsolidation of insurance entities and SPE entities | (778) | (613) | (323) |
| Net dividends including foreseeable net dividends ² | (2,562) | (2,329) | (5,212) |
| – update for actual dividends and scrip take-up | 1,255 | 1,108 | (15) |
| – first interim dividend net of scrip | (1,875) | (1,766) | |
| – second foreseeable interim dividend net of planned scrip | (1,942) | (1,671) | |
| – third interim dividend net of scrip | | | (1,835) |
| – fourth foreseeable interim dividend net of planned scrip | | | (3,362) |
| Decrease in goodwill and intangible assets deducted ⁴ | (81) | 237 | 159 |
| Ordinary shares issued | 9 | 14 | 253 |
| Foreign currency translation differences ⁴ | (1,838) | 444 | (6,634) |
| Unrealised gains arising from revaluation of property | | (65) | (29) |
| Unrealised gains in available-for-sale debt and equities | | (141) | (1,237) |
| Other, including regulatory adjustments | (1,552) | 1,245 | 2,584 |
| Closing common equity tier 1 capital | 138,080 | 140,070 | 133,200 |
| Opening additional tier 1 capital on a transitional basis ⁸ | 19,539 | 14,408 | 13,813 |
| Movement in additional tier 1 securities | 1,190 | (500) | 5,461 |
| – new issuance | 2,459 | – | 5,681 |
| – grandfathering adjustments | (1,269) | (500) | (220) |
| Other, including regulatory adjustments | 617 | (95) | 265 |
| Closing tier 1 capital on a transitional basis | 159,426 | 153,883 | 152,739 |
| Opening tier 2 capital on a transitional basis ⁸ | 37,991 | 35,538 | 38,951 |
| Movement in tier 2 securities | (2,198) | 3,450 | (1,036) |
| – new issuance | 1,680 | 3,500 | – |
| – grandfathering adjustments | (2,997) | – | – |
| – foreign currency translation differences | (410) | 105 | (1,171) |
| – other movements | (471) | (155) | 135 |
| Other, including regulatory adjustments | (109) | (37) | 76 |
| Closing total regulatory capital on a transitional basis | 195,110 | 192,834 | 190,730 |

For footnotes, see page 100.

Composition of regulatory capital

| | At | | |
|---|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Common equity tier 1 capital | | | |
| Shareholders' equity | 167,374 | 173,453 | 166,617 |
| – shareholders' equity per balance sheet ⁹ | 192,427 | 190,281 | 190,447 |
| – foreseeable interim dividend ² | (1,942) | (1,671) | (3,362) |
| – preference share premium | (1,405) | (1,405) | (1,405) |
| – other equity instruments | (13,991) | (5,851) | (11,532) |
| – deconsolidation of special purpose entities ¹⁰ | (243) | (686) | (323) |
| – deconsolidation of insurance entities | (7,472) | (7,215) | (7,208) |
| Non-controlling interests | 3,579 | 3,792 | 4,640 |
| – non-controlling interests per balance sheet | 8,955 | 8,441 | 9,531 |
| – preference share non-controlling interests | (2,106) | (2,153) | (2,127) |
| – non-controlling interests transferred to tier 2 capital | – | (487) | (473) |
| – non-controlling interests in deconsolidated subsidiaries | (911) | (824) | (851) |
| – surplus non-controlling interest disallowed in CET1 | (2,359) | (1,185) | (1,440) |
| Regulatory adjustments to the accounting basis | (2,660) | (1,072) | (3,556) |
| – own credit spread ¹¹ | 184 | 1,314 | 767 |
| – debit valuation adjustment | (318) | (354) | (197) |
| – defined benefit pension fund adjustment | (2,583) | (2,301) | (4,069) |
| – cash flow hedging reserve | 57 | 269 | (57) |
| Deductions | (30,213) | (34,616) | (31,748) |
| – goodwill and intangible assets | (21,397) | (24,752) | (22,475) |
| – deferred tax assets that rely on future profitability (excludes those arising from temporary differences) | (859) | (945) | (1,036) |
| – additional valuation adjustment (referred to as PVA) | (1,177) | (1,688) | (1,341) |
| – investments in own shares through the holding of composite products of which HSBC is a component (exchange traded funds, derivatives and index stock) | (990) | (904) | (1,083) |
| – negative amounts resulting from the calculation of expected loss amounts | (5,790) | (6,327) | (5,813) |
| Common equity tier 1 capital on an end point basis | 138,080 | 141,557 | 135,953 |
| Tier 1 and tier 2 capital on a transitional basis | | | |
| Common equity tier 1 capital on an end point basis | 138,080 | 141,557 | 135,953 |
| Transitional adjustments | – | (1,487) | (2,753) |
| – unrealised gains arising from revaluation of property | – | (1,346) | (1,375) |
| – unrealised gains in available-for-sale debt and equities | – | (141) | (1,378) |
| Common equity tier 1 capital on a transitional basis | 138,080 | 140,070 | 133,200 |
| Other tier 1 capital before deductions | 21,449 | 13,977 | 19,687 |
| – preference share premium | 1,015 | 1,160 | 1,160 |
| – preference share non-controlling interests | 1,711 | 1,955 | 1,955 |
| – allowable non-controlling interest in AT1 | 1,456 | 635 | 884 |
| – hybrid capital securities | 17,267 | 10,227 | 15,688 |
| Deductions | (103) | (164) | (148) |
| – unconsolidated investments ¹² | (103) | (164) | (148) |
| Tier 1 capital on a transitional basis | 159,426 | 153,883 | 152,739 |
| Tier 2 capital on a transitional basis | | | |
| Total qualifying tier 2 capital before deductions | 35,924 | 39,197 | 38,213 |
| – allowable non-controlling interest in tier 2 | 8 | 47 | 99 |
| – perpetual subordinated debt | 1,941 | 2,218 | 2,218 |
| – term subordinated debt | 33,975 | 36,692 | 35,656 |
| – non-controlling interests in tier 2 capital | – | 240 | 240 |
| Total deductions other than from tier 1 capital | (240) | (246) | (222) |
| – unconsolidated investments ¹² | (240) | (246) | (222) |
| Total regulatory capital on a transitional basis | 195,110 | 192,834 | 190,730 |

For footnotes, see page 100.

Reconciliation of regulatory capital from transitional basis to an estimated CRD IV end point basis

| | At | | |
|---|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Common equity tier 1 capital on a transitional basis | 138,080 | 140,070 | 133,200 |
| Unrealised gains arising from revaluation of property | – | 1,346 | 1,375 |
| Unrealised gains in available-for-sale debt and equities | – | 141 | 1,378 |
| Common equity tier 1 capital on an end point basis | 138,080 | 141,557 | 135,953 |
| Additional tier 1 capital on a transitional basis | 21,346 | 13,813 | 19,539 |
| Grandfathered instruments: | | | |
| Preference share premium | (1,015) | (1,160) | (1,160) |
| Preference share non-controlling interests | (1,711) | (1,955) | (1,955) |
| Hybrid capital securities | (9,127) | (10,227) | (10,007) |
| Transitional provisions: | | | |
| Allowable non-controlling interest in AT1 | (1,282) | (231) | (487) |
| Unconsolidated investments | 103 | 164 | 148 |
| Additional tier 1 capital on an end point basis | 8,314 | 404 | 6,078 |
| Tier 1 capital on an end point basis | 146,394 | 141,961 | 142,031 |
| Tier 2 capital on a transitional basis | 35,684 | 38,951 | 37,991 |
| Grandfathered instruments: | | | |
| Perpetual subordinated debt | (1,941) | (2,218) | (2,218) |
| Term subordinated debt | (19,033) | (21,513) | (21,513) |
| Transitional provisions: | | | |
| Non-controlling interest in tier 2 capital | – | (240) | (240) |
| Allowable non-controlling interest in tier 2 | 14 | 190 | 396 |
| Unconsolidated investments | (103) | (164) | (148) |
| Tier 2 capital on an end point basis | 14,621 | 15,006 | 14,268 |
| Total regulatory capital on an end point basis | 161,015 | 156,967 | 156,299 |

The capital position presented on a CRD IV transitional basis follows the CRD IV legislation as implemented in the PRA Rulebook.

The effects of draft EBA technical standards are not generally captured in our numbers. These could have additional effects on our capital position and RWAs.

While CRD IV allows for the majority of regulatory adjustments and deductions from CET1 to be implemented on a gradual basis from 1 January 2014 to 1 January 2018, the PRA has largely decided not to make use of these transitional provisions. From 1 January 2015, unrealised gains on investment property and available-for-sale securities are to be recognised in CET1 capital. As a result, our end point and transitional CET1 capital and ratios are now aligned. Transitional provisions, however, continue to apply for additional tier 1 and tier 2 capital.

For additional tier 1 and tier 2 capital, the PRA followed the transitional provisions timing as set out in CRD IV to apply the necessary regulatory adjustments and deductions, the effect of which is being phased in at 20% per annum from 1 January 2014 to 1 January 2018.

Non-CRD IV compliant additional tier 1 and tier 2 instruments also benefit from a grandfathering period. This progressively reduces the eligible amount by 10% annually following an initial reduction of 20% on 1 January 2014 until they are fully phased out by 1 January 2022.

Under CRD IV, as implemented in the UK, banks are required to meet a minimum CET1 ratio of 4.5% of RWAs and a minimum tier 1 ratio of 6% of RWAs (from 1 January 2015), and a total capital ratio of 8% of RWAs. In addition to the Pillar 1 minimum ratios, the PRA sets Pillar 2A capital requirements which together are considered the minimum level of regulatory capital to be maintained at all times. Pillar 2A is to be met at least with 56% CET1 capital and the remaining with non-common equity capital.

Alongside CRD IV requirements, from 1 July 2014, the PRA expects major UK banks and building societies to meet a 7% CET1 ratio using the CRD IV end point definition. Going forward, as the grandfathering provisions fall away, we intend to meet these regulatory minima in an economically efficient manner by issuing non-common equity capital as necessary. At 30 June 2015, we had issued \$23.1bn of CRD IV compliant non-common equity capital instruments, of which \$1.7bn of tier 2 and \$2.5bn of additional tier 1 were issued during the first half of 2015. At 30 June 2015, we also had \$32.8bn of non-common equity capital instruments qualifying as eligible capital under CRD IV by virtue of the application of the grandfathering provisions, after applying a 30% reduction as outlined above.

Leverage ratio

Estimated leverage ratio

| | EU Delegated Act basis at | | Basel III 2014 basis at |
|--|------------------------------|-----------------------------|----------------------------|
| | 30 June 2015 \$bn | 31 December 2014 \$bn | 30 June 2014 \$bn |
| Total assets per accounting balance sheet | 2,572 | 2,634 | 2,754 |
| Deconsolidation of insurance/other entities | (103) | (102) | (107) |
| Consolidation of banking associates | 206 | 194 | 186 |
| Total assets per regulatory/accounting balance sheet | 2,675 | 2,726 | 2,833 |
| Adjustment to reverse netting of loans and deposits allowable under IFRS | 37 | 38 | 98 |
| Reversal of accounting values: | (476) | (525) | (498) |
| – derivatives | (298) | (345) | (270) |
| – repurchase agreement and securities finance | (178) | (180) | (228) |
| Replaced with regulatory values: | | | |
| Derivatives: | 168 | 166 | 199 |
| – mark-to-market value | 70 | 81 | 60 |
| – deductions of receivables assets for cash variation margin | (67) | (82) | (55) |
| – add-on amounts for potential future exposure | 143 | 148 | 166 |
| – exposure amount resulting from the additional treatment for written credit derivatives | 22 | 19 | 28 |
| Repurchase agreement and securities finance: | 187 | 188 | 237 |
| – gross securities financing transactions assets | 246 | 269 | 314 |
| – netted amounts of cash payables and cash receivables of gross securities financing transactions assets | (68) | (89) | (86) |
| – measurement of counterparty risk | 9 | 8 | 9 |
| Addition of off balance sheet commitments and guarantees: | 399 | 396 | 445 |
| – guarantees and contingent liabilities | 68 | 67 | 80 |
| – commitments | 322 | 321 | 356 |
| – other | 9 | 8 | 9 |
| Exclusion of items already deducted from the capital measure | (33) | (36) | (37) |
| Exposure measure after regulatory adjustments | 2,957 | 2,953 | 3,277 |
| Tier 1 capital under CRD IV (end point) | 146 | 142 | 142 |
| Estimated leverage ratio (end point) | 4.9% | 4.8% | 4.3% |

In January 2015, the PRA issued a letter setting out the approach to be taken for calculating the leverage ratio for 2014 year end disclosures. While the numerator continues to be calculated using the final CRD IV end point tier 1 capital definition, the exposure measure is calculated based on the EU delegated act (rather than the Basel 2014 definition disclosed in the *Interim Report 2014*).

The basis of preparation for the leverage ratio can be found on page 261 of the *Annual Report and Accounts 2014*. The basis of preparation for the June 2014 comparative can be found on page 198 in the *Interim Report 2014*.

Regulatory developments

Regulatory capital buffers

CRD IV establishes a number of capital buffers, to be met with CET1 capital, broadly aligned with the Basel III framework. CRD IV suggests that these will be phased in from 1 January 2016, subject to national discretion.

Automatic restrictions on capital distributions apply if a bank's CET1 capital falls below the level of its CRD IV combined buffer. The CRD IV combined buffer is defined as the total of the capital conservation buffer ('CCB'), the countercyclical capital buffer ('CCyB'), the global systemically important institutions ('G-SII's) buffer and the systemic risk buffer ('SRB') as these become applicable.

Under the revised Pillar 2 framework, the PRA has introduced a PRA buffer, the use of which will not result in automatic restrictions on capital distributions. However, the PRA expects firms not to meet the CRD IV buffers with any CET1 capital maintained to meet its individual capital guidance ('ICG').

In June 2015, the Financial Policy Committee ('FPC') maintained a 0% CCyB rate for UK exposures and recognised the 1.5% CCyB rates introduced by Norway and Sweden, which are to become effective from June 2016. The FPC had also previously recognised the 1% CCyB rates introduced by both these countries to become effective from October 2015. In March 2015, the FPC further stated that the PRA would reciprocate the HKMA CCyB rate of 0.625% to be applied to Hong Kong exposures from January 2016. In accordance with UK legislation and the PRA's supervisory statement PS 3/14, this rate will directly apply to the calculation of our institution-specific CCyB rate from 1 January 2016.

The institution-specific CCyB rate for the Group is based on the weighted average of the CCyB rates that apply in the jurisdictions where relevant credit exposures are located. Currently the Group's institution-specific CCyB is zero.

Further details of the aforementioned CRD IV buffers are set out on page 252 of the *Annual Report and Accounts 2014*.

Pillar 2 and the 'PRA buffer'

Under the Pillar 2 framework, banks are already required to hold capital in respect of the internal capital adequacy assessment and supervisory review which leads to a final determination by the PRA of ICG under Pillar 2A and Pillar 2B. Pillar 2A was previously met by total capital but, since 1 January 2015, in accordance with the PRA supervisory statement SS5/13, is expected to be met with at least 56% CET1.

The Pillar 2A requirement is a point in time assessment of the amount of capital the PRA considers that a bank should hold to meet the overall financial adequacy rule. It is therefore subject to change pending annual assessment and the supervisory review process. During 2014, our Pillar 2A requirement amounted to 1.5% of RWAs. In February 2015, this was revised to 2.0% of RWAs, of which 1.1% is expected to be met by CET1 with immediate effect.

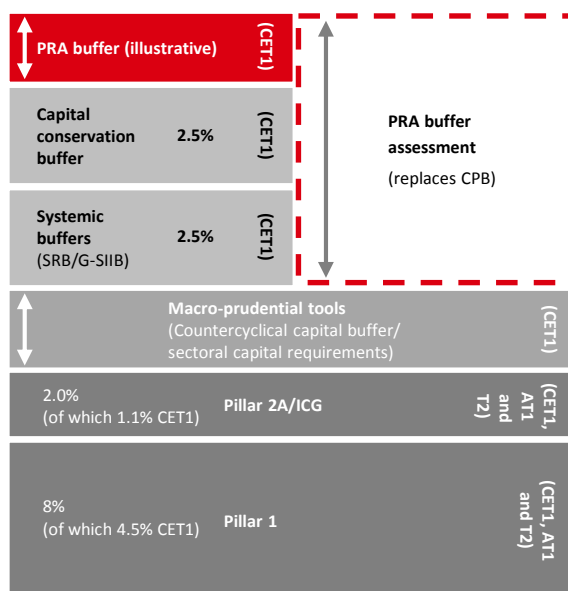
In July 2015, the PRA published a final policy statement PS17/15, setting out revisions to the Pillar 2 Framework. The revised framework is to become effective from 1 January 2016. The PRA statement of policy sets out the methodologies that the PRA will use to inform its setting of firms' Pillar 2 capital requirements, including new approaches for determining Pillar 2 requirements for credit risk, operational risk, credit concentration risk and pension obligation risk.

As is set out in the revised PRA supervisory statement SS31/15, the PRA will also introduce a PRA buffer which is to replace the capital planning buffer ('CPB'), under Pillar 2B. This is to be met in the form of CET1 capital. The PRA buffer will avoid duplication with CRD IV buffers and will be set for a particular firm depending on its vulnerability in a stress scenario. In order to address significant weaknesses in risk management and governance, a scalar may be applied to firms' CET1 Pillar 1 and Pillar 2A capital requirements, and will also form part of the PRA Buffer. Where the PRA considers there is overlap between the CRD IV buffers and the PRA buffer assessment, the PRA buffer will be set as the excess capital required over and above the CCB and relevant systemic buffers. The PRA buffer will also be in addition to the CCyB and sectoral capital requirements.

Overall capital requirements

Elements of the capital requirements that are known or quantified to date are set out in the diagram below.

Capital requirements framework (end point)



There remains residual uncertainty as to what HSBC's precise end point CET1 capital requirement will be. Time-varying elements such as the macro-prudential tools, the Pillar 2A and 2B requirements and systemic buffers are subject to change. This uncertainty is reflected in the 1.5-2.5% regulatory and management buffer we have included in the 12-13% CET1 range that is used to model our medium-term target for return on equity, of more than 10%, by 2017.

In addition, we will need to consider the effect of the FSB proposals in relation to TLAC requirements, and the UK implementation of the EU minimum requirement for own funds and eligible liabilities ('MREL'). For further details, see page 100.

Regulatory stress testing

The Group is subject to supervisory stress testing in many jurisdictions. These supervisory requirements are increasing in frequency and in the granularity with which results are required. As such, stress testing represents a key focus for the Group. The results of the 2014 UK stress testing exercise were published in December 2014.

In March 2015, the Bank of England published key elements of the 2015 stress test and accompanying guidance. Unlike the 2014 stress test, which was based on the 2014 EBA stress testing exercise, the 2015 UK exercise is wholly designed by the Bank of England. This aims to assess the resilience of the UK banking system to a deterioration in global economic conditions. The results of the 2015 UK stress test are expected to be published at the end of 2015.

The EBA is not undertaking a stress testing exercise in 2015, and will instead carry out a transparency exercise towards the end of the year. This exercise will involve publishing detailed data on bank balance sheets, covering their composition of capital, leverage ratio and RWAs. In July 2015, the EBA published draft templates on the data to be disclosed and a tentative list of banks expected to be included in this exercise, which includes HSBC. The EBA also disclosed a timeline for the 2016 EU wide stress test exercise, which is expected to be aligned with banks' annual supervisory review and evaluation process. The EBA expects to publish the 2016 stress test scenario and methodology in the first quarter of 2016, with results published in the third quarter of 2016.

In 2015, Group entities also participated in regional stress testing exercises. For further details on stress testing exercises, see page 59.

RWA developments

Throughout 2014 and in the first half of 2015, UK, EU and international regulators issued a series of consultations designed to revise the various components of the RWA regime and increase related reporting and disclosures. In particular, the Basel Committee published proposals across all Pillar 1 risk types to update standardised, non-modelled approaches for calculating capital requirements and to provide the basis for the application of a capital floor. There have also been various consultations on proposed modelled approaches for market risk requirements. Quantitative impact studies ('QIS') in relation to the Basel Committee proposals for the revised standardised approach to credit risk and capital floors were published in February 2015. The QIS results will inform final requirements which are expected by the end of 2015. These will need to be transposed into EU law before coming into effect.

Further details of Basel RWA developments during 2014 may be found on page 254 of the *Annual Report and Accounts 2014*.

In March 2015, the EBA published a discussion paper on the future of the IRB approach. This set out further work in three key areas: a review of the IRB regulatory framework; supervisory consistency, which will include annual benchmarking exercises; and increased transparency based on comparable templates. In particular, it proposed a phased EBA work-plan to deliver final amendments by the end of 2017 with implementation thereafter.

In May 2015, the EBA consulted on regulatory technical standards ('RTS') for specialised lending exposures. This aims to specify how certain factors (e.g. financial strength and the political and legal environment) should be taken into account when assigning risk weights to specialised lending exposures. This also proposes to include more consistency in categorisation and definitions for specialised lending.

In June 2015, the Basel Committee published a consultation paper on the treatment of interest rate risk in the banking book ('IRRBB'). IRRBB is currently included in the scope of Pillar 2 requirements. The consultation proposes two possible alternatives, either to include IRRBB within Pillar 1 requirements, or introduce a strengthened approach to Pillar 2 which would also include additional disclosures under Pillar 3. The consultation closes in September 2015 and is expected to include a QIS to inform final requirements.

In July 2015, the Basel Committee published a consultation paper proposing amendments to the methodology for calculating CVA. This was in response to calls to review the existing methodology, including from the EU. The Basel consultation will close in October 2015, and a QIS will be completed by September 2015 to inform final requirements. As part of this, the EU will review the exemptions to the CVA charge currently applied to corporates, sovereigns and intragroup exposures. Once finalised, changes would need to be transposed into CRD IV before coming into effect. A further QIS for the proposed revisions to the market risk framework and CVA requirements was also published in July 2015.

UK leverage ratio framework

Following consultations by the FPC and HM Treasury in 2014, secondary legislation came into force in April 2015 to provide the FPC with direction powers in relation to the UK leverage ratio framework. In July 2015, the FPC published its final policy statement setting out its intention to use its new powers of direction. As a result, in July 2015, the PRA issued a consultation paper to introduce requirements for the UK leverage ratio framework. This introduces a minimum leverage ratio of 3%, an additional leverage ratio buffer ('ALRB') for G-SIIs and a countercyclical leverage ratio buffer ('CCLB'). The ALRB and CCLB are to be set at 35% of the relevant buffers in the risk-weighted capital framework. The PRA also proposes to introduce new reporting and disclosure templates as part of this framework. The minimum leverage ratio requirement is aligned with existing PRA expectations (as set out in the PRA supervisory statement SS3/13), and the additional leverage ratio buffers, subject to finalisation, are to apply from 1 January 2016 in line with the corresponding risk-weighted capital buffers. Transitional arrangements are proposed for the new disclosure and reporting requirements.

Both the FPC and the PRA note that an internationally agreed minimum leverage ratio requirement will be applied from 2018 and, as a result, will consider the implications for the UK leverage ratio framework again in 2017.

Banking structural reform and recovery and resolution planning

In the EU, the Bank Recovery and Resolution Directive ('BRRD') came into effect from 1 January 2015, with the option to delay implementation of bail-in provisions until 1 January 2016. Despite this, the UK introduced bail-in powers from 1 January 2015. The UK transposition of the BRRD builds on the resolution framework already in place in the UK. In January 2015, the PRA published a policy statement containing updated requirements for recovery and resolution planning which revises PRA rules that have been in force since 1 January 2014. In addition, the EBA has produced a number of RTS and guidelines, some of which are yet to be finalised, that will further inform the BRRD requirements.

In July 2015, the EBA published final draft RTS for MREL which seeks to provide additional clarity on the criteria that resolution authorities should take into account when setting a firm specific minimum requirement for eligible liabilities. The EBA notes that it aims to implement the MREL in a way which is consistent with the developing international standard on total loss absorbing capacity. The Bank of England is expected to publish a consultation paper later in 2015 on the transposition of MREL into UK requirements.

In respect of UK ring-fencing requirements, in May 2015 the PRA published a policy statement containing near final rules on legal structure, corporate governance, and continuity of services and facilities. The PRA intends to undertake a further consultation in 2015 and publish final versions of PRA rules and supervisory statements during the first half of 2016, with implementation by 1 January 2019.

In the EU, discussions on the Banking Structural Reform Regulation continue to progress. In January 2014, the European Commission published legislative proposals on ring-fencing trading activities from deposit taking and prohibiting proprietary trading in financial instruments and commodities. In June 2015, the European Council published its negotiating position on the regulation, which will need to be agreed with the European Parliament before being finalised.

For further details of the Group's approach to structural reform, see page 12.

Footnotes to Capital

- 1 From 1 January 2015 the CRD IV transitional CET1 and end point CET1 capital ratios became aligned for HSBC Holdings plc due to the recognition of unrealised gains on investment property and available-for-sale securities.
- 2 This includes dividends on ordinary shares, quarterly dividends on preference shares and coupons on capital securities, classified as equity.
- 3 Dividends net of scrip are in respect of the 2015 first interim dividend and an update for a higher 2014 fourth interim dividend scrip take-up in excess of plan.
- 4 The basis of presentation for foreign currency translation differences has changed to reflect the total amount in CET1 capital. Previously this only included foreign currency translation differences recognised in other comprehensive income. The comparative periods have also been updated to reflect the change.
- 5 In the first half of 2015, a portfolio of customers was transferred from CMB to RBWM in Latin America in order to better align the combined banking needs of the customers with our established global businesses. Comparative data have been re-presented accordingly.
- 6 RWAs are non-additive across geographical regions due to market risk diversification effects within the Group.
- 7 For the basis of preparation, see page 260 of the Annual Report and Accounts 2014.
- 8 CRD IV opening balances as at December 2013 were estimated based on the Group's interpretation of final CRD IV legislation and final rules issued by the PRA, details of which can be found in the basis of preparation on page 324 of the Annual Report and Accounts 2013.
- 9 Includes externally verified profits for the half-year to 30 June 2015.
- 10 Mainly comprises unrealised gains/losses in available-for-sale debt securities related to SPEs.
- 11 Includes own credit spread on trading liabilities.
- 12 Mainly comprise investments in insurance entities.

Total loss absorbing capacity proposals

In November 2014, as part of the 'too big to fail' agenda, the FSB published proposals on TLAC for G-SIBs. The FSB proposals include a minimum TLAC requirement in the range of 16-20% of RWAs and a TLAC leverage ratio of at least twice the Basel III tier 1 leverage ratio. The TLAC requirement is to be applied in accordance with individual resolution strategies, as determined by the G-SIB's crisis management group. A QIS was undertaken earlier this year, the results of which will inform final proposals. The conformance period for the TLAC requirement will also be influenced by the QIS, but will not be before 1 January 2019. Once finalised, it is expected that any new TLAC standard should be met alongside the Basel III minimum capital requirements.

The draft proposals require G-SIBs to be subject to a minimum TLAC requirement with the precise details to be informed by the QIS. There are a number of details relating to the types of liabilities which can be used to meet the TLAC requirement, the composition of TLAC and the location of liabilities within a banking group, in accordance with its resolution strategy. The TLAC proposals are expected to be finalised later in 2015 and will need to be implemented into national legislation before coming into effect.

Other regulatory updates

In January 2015, the Basel Committee published final standards on 'Revised Pillar 3 disclosure requirements'. They mandate extensive use of standardised templates to enhance comparability between banks' disclosures and require a considerable volume of disclosures to be produced semi-annually, rather than annually as hitherto. The revised framework calls for implementation concurrently with financial reports, at the latest for 2016 year-end reports, but is yet to be transposed into EU requirements.

In March 2015, the EBA also consulted on guidelines proposing criteria to set limits on exposures to shadow banking entities. Once finalised, implementation by national competent authorities is currently expected by the end of 2015.

Financial Statements

Consolidated income statement

for the half-year to 30 June 2015

| | Notes | Half-year to | | |
|---|-------|------------------------|------------------------|----------------------------|
| | | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Interest income | | 24,019 | 25,435 | 25,520 |
| Interest expense | | (7,575) | (8,030) | (8,220) |
| Net interest income | | 16,444 | 17,405 | 17,300 |
| Fee income | | 9,372 | 10,031 | 9,514 |
| Fee expense | | (1,647) | (1,854) | (1,734) |
| Net fee income | | 7,725 | 8,177 | 7,780 |
| Trading income excluding net interest income | | 3,520 | 2,362 | 2,491 |
| Net interest income on trading activities | | 1,053 | 913 | 994 |
| Net trading income | | 4,573 | 3,275 | 3,485 |
| Changes in fair value of long-term debt issued and related derivatives | | 1,324 | 438 | 70 |
| Net income from other financial instruments designated at fair value | | 1,342 | 1,222 | 743 |
| Net income from financial instruments designated at fair value | | 2,666 | 1,660 | 813 |
| Gains less losses from financial investments | | 1,874 | 946 | 389 |
| Dividend income | | 68 | 88 | 223 |
| Net insurance premium income | | 5,607 | 6,137 | 5,784 |
| Other operating income | | 836 | 538 | 593 |
| Total operating income | | 39,793 | 38,226 | 36,367 |
| Net insurance claims and benefits paid and movement in liabilities to policyholders | | (6,850) | (7,059) | (6,286) |
| Net operating income before loan impairment charges and other credit risk provisions | | 32,943 | 31,167 | 30,081 |
| Loan impairment charges and other credit risk provisions | | (1,439) | (1,841) | (2,010) |
| Net operating income | | 31,504 | 29,326 | 28,071 |
| Employee compensation and benefits | | (10,041) | (9,978) | (10,388) |
| General and administrative expenses | | (8,129) | (7,127) | (11,438) |
| Depreciation and impairment of property, plant and equipment | | (604) | (712) | (670) |
| Amortisation and impairment of intangible assets | | (413) | (449) | (487) |
| Total operating expenses | | (19,187) | (18,266) | (22,983) |
| Operating profit | | 12,317 | 11,060 | 5,088 |
| Share of profit in associates and joint ventures | | 1,311 | 1,280 | 1,252 |
| Profit before tax | | 13,628 | 12,340 | 6,340 |
| Tax expense | 2 | (2,907) | (2,022) | (1,953) |
| Profit for the period | | 10,721 | 10,318 | 4,387 |
| Profit attributable to shareholders of the parent company | | 9,618 | 9,746 | 3,942 |
| Profit attributable to non-controlling interests | | 1,103 | 572 | 445 |
| | | \$ | \$ | \$ |
| Basic earnings per ordinary share | 4 | 0.48 | 0.50 | 0.19 |
| Diluted earnings per ordinary share | 4 | 0.48 | 0.50 | 0.19 |

 The accompanying notes on pages 107 to 139 form an integral part of these financial statements¹.

For footnote, see page 106.

Consolidated statement of comprehensive income for the half-year to 30 June 2015

| | Half-year to | | |
|---|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Profit for the period | 10,721 | 10,318 | 4,387 |
| Other comprehensive income/(expense) | | | |
| Items that will be reclassified subsequently to profit or loss when specific conditions are met: | | | |
| Available-for-sale investments | (2,445) | 958 | 2,014 |
| – fair value gains/(losses) | (355) | 2,183 | 2,611 |
| – fair value gains reclassified to the income statement | (2,317) | (643) | (1,029) |
| – amounts reclassified to the income statement in respect of impairment losses | 2 | 15 | 359 |
| – income taxes | 225 | (597) | 73 |
| Cash flow hedges | (150) | (17) | 205 |
| – fair value gains/(losses) | 341 | (44) | 1,556 |
| – fair value (gains)/losses reclassified to the income statement | (538) | 50 | (1,294) |
| – income taxes | 47 | (23) | (57) |
| Share of other comprehensive income/(expense) of associates and joint ventures | 2 | (16) | 96 |
| – share for the period | 2 | (18) | 96 |
| – reclassified to income statement on disposal | – | 2 | – |
| Exchange differences | (3,267) | 670 | (9,573) |
| – foreign exchange gains reclassified to the income statement on disposal of a foreign operation | – | (21) | – |
| – other exchange differences | (3,395) | 691 | (9,608) |
| – income tax attributable to exchange differences | 128 | – | 35 |
| Items that will not be reclassified subsequently to profit or loss: | | | |
| Remeasurement of defined benefit asset/liability | (1,680) | 316 | 1,669 |
| – before income taxes | (2,085) | 421 | 1,998 |
| – income taxes | 405 | (105) | (329) |
| Other comprehensive income/(expense) for the period, net of tax | (7,540) | 1,911 | (5,589) |
| Total comprehensive income/(expense) for the period | 3,181 | 12,229 | (1,202) |
| Attributable to: | | | |
| – shareholders of the parent company | 2,856 | 11,706 | (2,461) |
| – non-controlling interests | 325 | 523 | 1,259 |
| Total comprehensive income/(expense) for the period | 3,181 | 12,229 | (1,202) |

The accompanying notes on pages 107 to 139 form an integral part of these financial statements¹.

For footnote, see page 106.

Consolidated balance sheet

at 30 June 2015

| | Notes | At 30 June 2015 \$m | At 30 June 2014 \$m | At 31 December 2014 \$m |
|--|-------|------------------------------|------------------------------|----------------------------------|
| Assets | | | | |
| Cash and balances at central banks | | 144,324 | 132,137 | 129,957 |
| Items in the course of collection from other banks | | 10,190 | 8,144 | 4,927 |
| Hong Kong Government certificates of indebtedness | | 28,104 | 26,640 | 27,674 |
| Trading assets | 6 | 283,138 | 347,106 | 304,193 |
| Financial assets designated at fair value | 9 | 25,168 | 31,823 | 29,037 |
| Derivatives | 10 | 296,942 | 269,839 | 345,008 |
| Loans and advances to banks | | 109,405 | 127,387 | 112,149 |
| Loans and advances to customers | | 953,985 | 1,047,241 | 974,660 |
| Reverse repurchase agreements – non-trading | | 149,384 | 198,301 | 161,713 |
| Financial investments | 11 | 404,682 | 423,710 | 415,467 |
| Assets held for sale | 12 | 60,929 | 10,248 | 7,647 |
| Prepayments, accrued income and other assets | | 55,489 | 75,520 | 67,529 |
| Current tax assets | | 566 | 1,068 | 1,309 |
| Interests in associates and joint ventures | 14 | 18,705 | 17,497 | 18,181 |
| Goodwill and intangible assets | | 24,913 | 29,740 | 27,577 |
| Deferred tax assets | | 5,789 | 7,192 | 7,111 |
| Total assets | | 2,571,713 | 2,753,593 | 2,634,139 |
| Liabilities and equity | | | | |
| Liabilities | | | | |
| Hong Kong currency notes in circulation | | 28,104 | 26,640 | 27,674 |
| Deposits by banks | | 71,140 | 92,764 | 77,426 |
| Customer accounts | | 1,335,800 | 1,415,705 | 1,350,642 |
| Repurchase agreements – non-trading | | 81,506 | 165,506 | 107,432 |
| Items in the course of transmission to other banks | | 12,711 | 9,936 | 5,990 |
| Trading liabilities | 15 | 181,435 | 228,135 | 190,572 |
| Financial liabilities designated at fair value | | 69,485 | 82,968 | 76,153 |
| Derivatives | 10 | 289,984 | 263,494 | 340,669 |
| Debt securities in issue | | 102,656 | 96,397 | 95,947 |
| Liabilities of disposal groups held for sale | 12 | 53,226 | 12,361 | 6,934 |
| Accruals, deferred income and other liabilities | | 42,224 | 50,882 | 46,462 |
| Current tax liabilities | | 1,322 | 1,434 | 1,213 |
| Liabilities under insurance contracts | | 69,494 | 75,223 | 73,861 |
| Provisions | 17 | 5,125 | 4,283 | 4,998 |
| Deferred tax liabilities | | 1,338 | 1,091 | 1,524 |
| Subordinated liabilities | | 24,781 | 28,052 | 26,664 |
| Total liabilities | | 2,370,331 | 2,554,871 | 2,434,161 |
| Equity | | | | |
| Called up share capital | | 9,758 | 9,535 | 9,609 |
| Share premium account | | 12,290 | 11,582 | 11,918 |
| Other equity instruments | | 13,991 | 5,851 | 11,532 |
| Other reserves | | 15,180 | 28,355 | 20,244 |
| Retained earnings | | 141,208 | 134,958 | 137,144 |
| Total shareholders' equity | | 192,427 | 190,281 | 190,447 |
| Non-controlling interests | | 8,955 | 8,441 | 9,531 |
| Total equity | | 201,382 | 198,722 | 199,978 |
| Total liabilities and equity | | 2,571,713 | 2,753,593 | 2,634,139 |

The accompanying notes on pages 107 to 139 form an integral part of these financial statements¹.

For footnote, see page 107.

Consolidated statement of cash flows

for the half-year to 30 June 2015

| | Half-year to | | |
|--|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Cash flows from operating activities | | | |
| Profit before tax | 13,628 | 12,340 | 6,340 |
| Adjustments for: | | | |
| – net gain from investing activities | (1,926) | (979) | (949) |
| – share of profit in associates and joint ventures | (1,311) | (1,280) | (1,252) |
| – (gain)/loss on disposal of associates, joint ventures, subsidiaries and businesses | – | (18) | 27 |
| – other non-cash items included in profit before tax | 4,522 | 4,284 | 6,978 |
| – change in operating assets | 12,077 | (86,266) | 112,143 |
| – change in operating liabilities | (15,544) | 59,108 | (152,922) |
| – elimination of exchange differences | 3,951 | (5,486) | 30,057 |
| – dividends received from associates | 770 | 127 | 630 |
| – contributions paid to defined benefit plans | (226) | (315) | (366) |
| – tax paid | (1,351) | (1,358) | (2,215) |
| Net cash generated from/(used in) operating activities | 14,590 | (19,843) | (1,529) |
| Cash flows from investing activities | | | |
| Purchase of financial investments | (211,669) | (187,934) | (196,265) |
| Proceeds from the sale and maturity of financial investments | 208,637 | 194,335 | 188,502 |
| Purchase of property, plant and equipment | (620) | (523) | (954) |
| Proceeds from the sale of property, plant and equipment | 56 | 55 | 33 |
| Net cash inflow/(outflow) from disposal of customer and loan portfolios | 321 | 950 | (1,985) |
| Net purchase of intangible assets | (400) | (385) | (518) |
| Net cash inflow/(outflow) from disposal of subsidiaries, businesses, associates and joint ventures | 7 | (140) | (102) |
| Net cash outflow from acquisition of or increase in stake of associates | (1) | (30) | – |
| Net cash generated from/(used in) investing activities | (3,669) | 6,328 | (11,289) |
| Cash flows from financing activities | | | |
| Issue of ordinary share capital | 9 | 14 | 253 |
| Net sales/(purchases) of own shares for market-making and investment purposes | 139 | (25) | (71) |
| Issue of other equity instruments | 2,459 | – | 5,681 |
| Redemption of preference shares and other equity instruments | (462) | 234 | (468) |
| Subordinated loan capital issued | 1,680 | 3,500 | – |
| Subordinated loan capital repaid | (778) | (3,042) | (121) |
| Dividends paid to ordinary shareholders of the parent company | (1,834) | (1,755) | (4,856) |
| Dividends paid to non-controlling interests | (386) | (350) | (289) |
| Dividends paid to holders of other equity instruments | (428) | (287) | (286) |
| Net cash generated from/(used in) financing activities | 399 | (1,711) | (157) |
| Net increase/(decrease) in cash and cash equivalents | 11,320 | (15,226) | (12,975) |
| Cash and cash equivalents at the beginning of the period | 301,301 | 346,281 | 334,498 |
| Exchange differences in respect of cash and cash equivalents | (3,829) | 3,443 | (20,222) |
| Cash and cash equivalents at the end of the period | 308,792 | 334,498 | 301,301 |

Consolidated statement of changes in equity

for the half-year to 30 June 2015

| | Called up share capital \$m | Share premium \$m | Other equity instruments ² \$m | Retained earnings \$m | Other reserves | | | Merger reserve \$m | Total shareholders' equity \$m | Non-controlling interests \$m | Total equity \$m |
|--|--------------------------------|----------------------|--|--------------------------|---|---|--|-----------------------|-----------------------------------|----------------------------------|---------------------|
| | | | | | Available-for-sale fair value reserve ³ \$m | Cash flow hedging reserve ³ \$m | Foreign exchange reserve ³ \$m | | | | |
| At 1 January 2015 | 9,609 | 11,918 | 11,532 | 137,144 | 2,143 | 58 | (9,265) | 27,308 | 190,447 | 9,531 | 199,978 |
| Profit for the period | - | - | - | 9,618 | - | - | - | - | 9,618 | 1,103 | 10,721 |
| Other comprehensive income (net of tax) | - | - | - | (1,693) | (1,735) | (151) | (3,183) | - | (6,762) | (778) | (7,540) |
| - available-for-sale investments | - | - | - | - | (1,735) | - | - | - | (1,735) | (710) | (2,445) |
| - cash flow hedges | - | - | - | - | - | (151) | - | - | (151) | 1 | (150) |
| - remeasurement of defined benefit asset/liability | - | - | - | (1,695) | - | - | - | - | (1,695) | 15 | (1,680) |
| - share of other comprehensive income of associates and joint ventures | - | - | - | 2 | - | - | - | - | 2 | - | 2 |
| - exchange differences | - | - | - | - | - | - | (3,183) | - | (3,183) | (84) | (3,267) |
| Total comprehensive income for the period | - | - | - | 7,925 | (1,735) | (151) | (3,183) | - | 2,856 | 325 | 3,181 |
| Shares issued under employee remuneration and share plans | 31 | 490 | - | (512) | - | - | - | - | 9 | - | 9 |
| Shares issued in lieu of dividends and amounts arising thereon | 118 | (118) | - | 2,242 | - | - | - | - | 2,242 | - | 2,242 |
| Dividends to shareholders | - | - | - | (6,224) | - | - | - | - | (6,224) | (432) | (6,656) |
| Capital securities issued | - | - | 2,459 | - | - | - | - | - | 2,459 | - | 2,459 |
| Cost of share-based payment arrangements | - | - | - | 444 | - | - | - | - | 444 | - | 444 |
| Other movements | - | - | - | 189 | 5 | - | - | - | 194 | (469) | (275) |
| At 30 June 2015 | 9,758 | 12,290 | 13,991 | 141,208 | 413 | (93) | (12,448) | 27,308 | 192,427 | 8,955 | 201,382 |
| At 1 January 2014 | 9,415 | 11,135 | 5,851 | 128,728 | 97 | (121) | (542) | 27,308 | 181,871 | 8,588 | 190,459 |
| Profit for the period | - | - | - | 9,746 | - | - | - | - | 9,746 | 572 | 10,318 |
| Other comprehensive income (net of tax) | - | - | - | 300 | 956 | (16) | 720 | - | 1,960 | (49) | 1,911 |
| - available-for-sale investments | - | - | - | - | 956 | - | - | - | 956 | 2 | 958 |
| - cash flow hedges | - | - | - | - | - | (16) | - | - | (16) | (1) | (17) |
| - remeasurement of defined benefit asset/liability | - | - | - | 316 | - | - | - | - | 316 | - | 316 |
| - share of other comprehensive income of associates and joint ventures | - | - | - | (16) | - | - | - | - | (16) | - | (16) |
| - exchange differences | - | - | - | - | - | - | 720 | - | 720 | (50) | 670 |
| Total comprehensive income for the period | - | - | - | 10,046 | 956 | (16) | 720 | - | 11,706 | 523 | 12,229 |
| Shares issued under employee remuneration and share plans | 28 | 539 | - | (553) | - | - | - | - | 14 | - | 14 |
| Shares issued in lieu of dividends and amounts arising thereon | 92 | (92) | - | 2,111 | - | - | - | - | 2,111 | - | 2,111 |
| Dividends to shareholders | - | - | - | (5,774) | - | - | - | - | (5,774) | (432) | (6,206) |
| Cost of share-based payment arrangements | - | - | - | 333 | - | - | - | - | 333 | - | 333 |
| Other movements | - | - | - | 67 | (39) | (8) | - | - | 20 | (238) | (218) |
| At 30 June 2014 | 9,535 | 11,582 | 5,851 | 134,958 | 1,014 | (145) | 178 | 27,308 | 190,281 | 8,441 | 198,722 |

Consolidated statement of changes in equity for the half-year to 30 June 2015 (continued)

| | Called up | | Other equity instruments | Retained earnings | Other reserves | | | | Total shareholders' equity | Non-controlling interests | Total equity |
|--|---------------|---------------|--------------------------|-------------------|---------------------------------------|---------------------------|--------------------------|----------------|----------------------------|---------------------------|--------------|
| | share capital | Share premium | | | Available-for-sale fair value reserve | Cash flow hedging reserve | Foreign exchange reserve | Merger reserve | | | |
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | |
| At 1 July 2014 | 9,535 | 11,582 | 5,851 | 134,958 | 1,014 | (145) | 178 | 27,308 | 190,281 | 8,441 | 198,722 |
| Profit for the period | - | - | - | 3,942 | - | - | - | - | 3,942 | 445 | 4,387 |
| Other comprehensive income (net of tax) | - | - | - | 1,766 | 1,069 | 205 | (9,443) | - | (6,403) | 814 | (5,589) |
| - available-for-sale investments | - | - | - | - | 1,069 | - | - | - | 1,069 | 945 | 2,014 |
| - cash flow hedges | - | - | - | - | - | 205 | - | - | 205 | - | 205 |
| - remeasurement of defined benefit asset/liability | - | - | - | 1,670 | - | - | - | - | 1,670 | (1) | 1,669 |
| - share of other comprehensive income of associates and joint ventures | - | - | - | 96 | - | - | - | - | 96 | - | 96 |
| - exchange differences | - | - | - | - | - | - | (9,443) | - | (9,443) | (130) | (9,573) |
| Total comprehensive income for the period | - | - | - | 5,708 | 1,069 | 205 | (9,443) | - | (2,461) | 1,259 | (1,202) |
| Shares issued under employee remuneration and share plans | 32 | 378 | - | (157) | - | - | - | - | 253 | - | 253 |
| Shares issued in lieu of dividends and amounts arising thereon | 42 | (42) | - | 598 | - | - | - | - | 598 | - | 598 |
| Dividends to shareholders | - | - | - | (4,119) | - | - | - | - | (4,119) | (280) | (4,399) |
| Capital securities issued | - | - | 5,681 | - | - | - | - | - | 5,681 | - | 5,681 |
| Cost of share-based payment arrangements | - | - | - | 399 | - | - | - | - | 399 | - | 399 |
| Other movements | - | - | - | (243) | 60 | (2) | - | - | (185) | 111 | (74) |
| At 31 December 2014 | 9,609 | 11,918 | 11,532 | 137,144 | 2,143 | 58 | (9,265) | 27,308 | 190,447 | 9,531 | 199,978 |

The accompanying notes on pages 107 to 139 form an integral part of these financial statements¹.

Footnotes to financial statements

- ¹ The tables: 'Gross loans and advances to customers by industry sector and by geographical region' (see page 61), 'Movement in impairment allowances on loans and advances to customers and banks' (see page 66), and the Composition of regulatory capital within 'Capital' (see page 94) also form an integral part of these financial statements.
- ² During March 2015, HSBC Holdings issued \$2,450m of Perpetual Subordinated Contingent Convertible Capital Securities, after issuance costs of \$8m and tax benefits of \$17m, which are classified as equity under IFRSs.
- ³ At 30 June 2015, our operations in Brazil were classified as held for sale (see Note 12). The cumulative amount of other reserves attributable to these operations were as follows: available-for-sale fair value reserve debit of \$65m, cash flow hedging reserve debit of \$29m and foreign exchange reserve debit of \$1,724m.

Notes on the Financial Statements

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1 Basis of preparation and significant accounting policies

(a) Compliance with International Financial Reporting Standards

The interim condensed consolidated financial statements of HSBC have been prepared in accordance with the Disclosure Rules and Transparency Rules of the Financial Conduct Authority and IAS 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board ('IASB') and as endorsed by the EU. These interim consolidated financial statements should be read in conjunction with the *Annual Report and Accounts 2014*.

At 30 June 2015, there were no unendorsed standards effective for the half-year to 30 June 2015 affecting these interim consolidated financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC.

Standards applied during the half-year to 30 June 2015

There were no new standards applied during the half-year to 30 June 2015. During the period, HSBC applied a number of interpretations and amendments to standards which had an insignificant effect on these interim consolidated financial statements.

(b) Use of estimates and judgements

Management believes that HSBC's critical accounting estimates and judgements are those which relate to impairment of loans and advances, goodwill impairment, the valuation of financial instruments, deferred tax assets, provisions for liabilities and interests in associates. There was no change in the current period to the critical accounting estimates and judgements applied in 2014, which are stated on pages 62 and 348 of the *Annual Report and Accounts 2014*.

(c) Composition of Group

There were no material changes in the composition of the HSBC Group in the half-year to 30 June 2015.

(d) Future accounting developments

Information on future accounting developments and their potential effect on the financial statements of HSBC are provided on page 345 of the *Annual Report and Accounts 2014*.

(e) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group and parent company have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

(f) Accounting policies

The accounting policies applied by HSBC for these interim consolidated financial statements are consistent with those described on pages 345 to 457 of the *Annual Report and Accounts 2014*, as are the methods of computation.

Notes on the Financial Statements (unaudited) (continued)

2 – Tax / 3 – Dividends / 4 – Earning per share / 5 – Segmental analysis

2 Tax

| | Half-year to | | |
|---------------------------|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Current tax | | | |
| UK corporation tax charge | 343 | 165 | (96) |
| Overseas tax ¹ | 2,071 | 1,803 | 2,078 |
| Deferred tax | 2,414 | 1,968 | 1,982 |
| | 493 | 54 | (29) |
| Tax expense | 2,907 | 2,022 | 1,953 |
| Effective tax rate | 21.3% | 16.4% | 30.8% |

1 Overseas tax included Hong Kong profits tax of \$714m (first half of 2014: \$589m; second half of 2014: \$546m). Subsidiaries in Hong Kong provided for Hong Kong profits tax at the rate of 16.5% (2014: 16.5%) on the profits for the period assessable in Hong Kong. Other overseas subsidiaries and overseas branches provided for taxation at the appropriate rates in the countries in which they operated.

Deferred taxation

Net deferred tax assets amounted to \$4.5bn at 30 June 2015 (30 June 2014: \$6.1bn; 31 December 2014: \$5.6bn), mainly relating to timing differences in the US. Net deferred tax assets have fallen since 31 December 2014 mainly because the net assets of Brazilian operations were transferred to 'Held for Sale' (see Note 12).

3 Dividends

On 3 August 2015, the Directors declared a second interim dividend in respect of the financial year ending 31 December 2015 of \$0.10 per ordinary share, a distribution of approximately \$1,954m which will be payable on 2 October 2015. No liability is recognised in the financial statements in respect of this dividend.

Dividends to shareholders of the parent company

| | 30 June 2015 | | | 30 June 2014 | | | 31 December 2014 | | |
|--|-----------------|--------------|----------------------------|-----------------|--------------|----------------------------|------------------|--------------|----------------------------|
| | Per share \$ | Total \$m | Settled in scrip \$m | Per share \$ | Total \$m | Settled in scrip \$m | Per share \$ | Total \$m | Settled in scrip \$m |
| Dividends paid on ordinary shares | | | | | | | | | |
| In respect of previous year: | | | | | | | | | |
| – fourth interim dividend | 0.20 | 3,845 | 2,011 | 0.19 | 3,582 | 1,827 | – | – | – |
| In respect of current year: | | | | | | | | | |
| – first interim dividend | 0.10 | 1,951 | 231 | 0.10 | 1,906 | 284 | – | – | – |
| – second interim dividend | – | – | – | – | – | – | 0.10 | 1,914 | 372 |
| – third interim dividend | – | – | – | – | – | – | 0.10 | 1,918 | 226 |
| Total | 0.30 | 5,796 | 2,242 | 0.29 | 5,488 | 2,111 | 0.20 | 3,832 | 598 |
| Total dividends on preference shares classified as equity (paid quarterly) | 31.00 | 45 | | 31.00 | 45 | | 31.00 | 45 | |

Total coupons on capital securities classified as equity

| | First call date | 30 June 2015 | | 30 June 2014 | | 31 December 2014 | |
|---|-----------------|--------------------|--------------|--------------------|--------------|--------------------|--------------|
| | | Per security \$ | Total \$m | Per security \$ | Total \$m | Per security \$ | Total \$m |
| Perpetual subordinated capital securities¹ | | | | | | | |
| – \$2,200m issued at 8.125% | Apr 2013 | 1.016 | 89 | 1.016 | 89 | 1.016 | 90 |
| – \$3,800m issued at 8.000% | Dec 2015 | 1.000 | 152 | 1.000 | 152 | 1.000 | 152 |
| Perpetual subordinated contingent convertible securities² | | | | | | | |
| – \$2,250m issued at 6.375% | Sep 2024 | 31.875 | 72 | – | – | – | – |
| – \$1,500m issued at 5.625% | Jan 2020 | 28.125 | 28 | – | – | – | – |
| – €1,500m issued at 5.250% | Sep 2022 | 29.396 | 42 | – | – | – | – |
| Total | | | 383 | | 241 | | 242 |

1 Discretionary coupons are paid quarterly on the perpetual subordinated capital securities.

2 Discretionary coupons are paid semi-annually on the perpetual subordinated contingent convertible securities.

On 15 July 2015, HSBC paid a further coupon on the \$2,200m subordinated capital securities of \$0.508 per security, representing a total distribution of \$45m. On 17 July 2015, HSBC paid a further coupon on the \$1,500m subordinated contingent convertible securities, representing a total distribution of \$42m. No liability is recognised in the financial statements in respect of these coupon payments.

In March 2015, HSBC issued \$2,450m of contingent convertible securities issued at 6.375% which are classified as equity under IFRSs. Discretionary coupons are paid semi-annually on these contingent convertible securities and none were declared in the first half of 2015.

4 Earnings per share

Profit attributable to ordinary shareholders of the parent company

| | Half-year to | | |
|---|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Profit attributable to shareholders of the parent company | 9,618 | 9,746 | 3,942 |
| Dividend payable on preference shares classified as equity | (45) | (45) | (45) |
| Coupon payable on capital securities classified as equity | (383) | (241) | (242) |
| Profit attributable to ordinary shareholders of the parent company | 9,190 | 9,460 | 3,655 |

Basic and diluted earnings per share

| | Half-year to 30 June 2015 | | | Half-year to 30 June 2014 | | | Half-year to 31 December 2014 | | |
|---|---------------------------|-----------------------------------|---------------------------|---------------------------|-----------------------------------|---------------------------|-------------------------------|-----------------------------------|---------------------------|
| | Profit \$m | Number of shares (millions) | Amount per share \$ | Profit \$m | Number of shares (millions) | Amount per share \$ | Profit \$m | Number of shares (millions) | Amount per share \$ |
| Basic ¹ | 9,190 | 19,249 | 0.48 | 9,460 | 18,847 | 0.50 | 3,655 | 18,960 | 0.19 |
| Effect of dilutive potential ordinary shares | | 68 | | | 101 | | | 96 | |
| Diluted¹ | 9,190 | 19,317 | 0.48 | 9,460 | 18,948 | 0.50 | 3,655 | 19,056 | 0.19 |

1 Weighted average number of ordinary shares outstanding (basic) or assuming dilution (diluted).

5 Segmental analysis

HSBC operates a matrix management structure which includes geographical regions and global businesses. HSBC considers that geographical operating segments represent the most appropriate information for users of the financial statements to best evaluate the nature and financial effects of HSBC's business activities and the economic environment in which it operates. HSBC's operating segments are Europe, Asia, Middle East and North Africa, North America and Latin America.

| | Europe \$m | Asia \$m | MENA \$m | North America \$m | Latin America \$m | Intra-HSBC items \$m | Total \$m |
|---|---------------|-------------|-------------|-------------------------|-------------------------|----------------------------|--------------|
| Net operating income¹ | | | | | | | |
| Half-year to 30 June 2015 | | | | | | | |
| Net operating income | 11,469 | 14,065 | 1,289 | 4,126 | 3,558 | (1,564) | 32,943 |
| – external | 10,974 | 13,148 | 1,279 | 3,979 | 3,563 | – | 32,943 |
| – inter-segment | 495 | 917 | 10 | 147 | (5) | (1,564) | – |
| Half-year to 30 June 2014 | | | | | | | |
| Net operating income | 10,873 | 12,107 | 1,294 | 4,067 | 4,265 | (1,439) | 31,167 |
| – external | 10,335 | 11,343 | 1,271 | 3,948 | 4,270 | – | 31,167 |
| – inter-segment | 538 | 764 | 23 | 119 | (5) | (1,439) | – |
| Half-year to 31 December 2014 | | | | | | | |
| Net operating income | 10,698 | 11,570 | 1,254 | 4,085 | 4,007 | (1,533) | 30,081 |
| – external | 10,115 | 10,728 | 1,253 | 3,989 | 3,996 | – | 30,081 |
| – inter-segment | 583 | 842 | 1 | 96 | 11 | (1,533) | – |

Profit/(loss) before tax

| Half-year to: | | | | | | | |
|---------------------|--------------|--------------|------------|------------|------------|----------|---------------|
| 30 June 2015 | 2,205 | 9,400 | 901 | 690 | 432 | – | 13,628 |
| 30 June 2014 | 2,258 | 7,894 | 989 | 825 | 374 | – | 12,340 |
| 31 December 2014 | (1,662) | 6,731 | 837 | 592 | (158) | – | 6,340 |

| | Europe \$m | Asia \$m | MENA \$m | North America \$m | Latin America \$m | Intra-HSBC items \$m | Total \$m |
|----------------------------------|---------------|-------------|-------------|-------------------------|-------------------------|----------------------------|--------------|
| Balance sheet information | | | | | | | |
| At 30 June 2015 | | | | | | | |
| Total assets | 1,236,270 | 917,489 | 61,625 | 411,601 | 104,203 | (159,475) | 2,571,713 |
| Total liabilities | 1,171,686 | 842,077 | 51,745 | 372,300 | 91,998 | (159,475) | 2,370,331 |
| At 30 June 2014 | | | | | | | |
| Total assets | 1,430,863 | 874,334 | 61,289 | 437,706 | 125,630 | (176,229) | 2,753,593 |
| Total liabilities | 1,362,091 | 807,906 | 51,619 | 398,776 | 110,708 | (176,229) | 2,554,871 |
| At 31 December 2014 | | | | | | | |
| Total assets | 1,290,926 | 878,723 | 62,417 | 436,859 | 115,354 | (150,140) | 2,634,139 |
| Total liabilities | 1,223,371 | 807,998 | 52,569 | 398,356 | 102,007 | (150,140) | 2,434,161 |

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

6 Trading assets

| | At | | |
|---|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Trading assets: | | | |
| – not subject to repledge or resale by counterparties | 246,704 | 248,929 | 247,586 |
| – which may be repledged or resold by counterparties | 36,434 | 98,177 | 56,607 |
| | 283,138 | 347,106 | 304,193 |
| Treasury and other eligible bills | 10,444 | 17,678 | 16,170 |
| Debt securities | 111,241 | 155,522 | 141,532 |
| Equity securities | 77,142 | 73,855 | 75,249 |
| Trading securities valued at fair value | 198,827 | 247,055 | 232,951 |
| Loans and advances to banks ¹ | 35,309 | 41,048 | 27,581 |
| Loans and advances to customers ¹ | 49,002 | 59,003 | 43,661 |
| | 283,138 | 347,106 | 304,193 |

1 Loans and advances to banks and customers include settlement accounts, stock borrowing, reverse repos and other amounts.

Trading securities valued at fair value¹

| | At | | |
|---|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| US Treasury and US Government agencies ² | 16,301 | 27,019 | 25,880 |
| UK Government | 11,142 | 9,364 | 9,280 |
| Hong Kong Government | 6,677 | 5,189 | 6,946 |
| Other government | 54,986 | 90,261 | 78,774 |
| Asset-backed securities ³ | 4,306 | 2,903 | 3,494 |
| Corporate debt and other securities | 28,273 | 38,464 | 33,328 |
| Equity securities | 77,142 | 73,855 | 75,249 |
| | 198,827 | 247,055 | 232,951 |

1 Included within these figures are debt securities issued by banks and other financial institutions of \$19,298m (30 June 2014: \$26,390m; 31 December 2014: \$22,399m), of which \$1,384m (30 June 2014: \$4,036m; 31 December 2014: \$2,949m) are guaranteed by various governments.

2 'US Treasury and US Government agencies' includes securities that are supported by an explicit guarantee issued by the US Government.

3 Excludes asset-backed securities included under US Treasury and US Government agencies.

Trading securities listed on a recognised exchange and unlisted

| | Treasury and other eligible bills \$m | Debt securities \$m | Equity securities \$m | Total \$m |
|------------------------|--|---------------------------|-----------------------------|----------------|
| Fair value | | | | |
| Listed ¹ | 480 | 75,031 | 76,751 | 152,262 |
| Unlisted ² | 9,964 | 36,210 | 391 | 46,565 |
| At 30 June 2015 | 10,444 | 111,241 | 77,142 | 198,827 |
| Listed ¹ | 1,394 | 99,414 | 73,163 | 173,971 |
| Unlisted ² | 16,284 | 56,108 | 692 | 73,084 |
| At 30 June 2014 | 17,678 | 155,522 | 73,855 | 247,055 |

| | Treasury and other eligible bills \$m | Debt securities \$m | Equity securities \$m | Total \$m |
|-----------------------|--|---------------------------|-----------------------------|--------------|
| Listed ¹ | 1,311 | 98,028 | 74,542 | 173,881 |
| Unlisted ² | 14,859 | 43,504 | 707 | 59,070 |
| At 31 December 2014 | 16,170 | 141,532 | 75,249 | 232,951 |

1 Included within listed investments are \$7,394m (30 June 2014: \$4,479m; 31 December 2014: \$5,956m) of securities listed in Hong Kong.

2 Unlisted treasury and other eligible bills primarily comprise treasury bills not listed on an exchange but for which there is a liquid market.

7 Fair values of financial instruments carried at fair value

The accounting policies, control framework and the hierarchy used to determine fair values at 30 June 2015 are consistent with those applied for the *Annual Report and Accounts 2014*.

Financial instruments carried at fair value and bases of valuation

| | Valuation techniques | | | Total \$m |
|--|---|---|---|--------------|
| | Quoted market price Level 1 \$m | Using observable inputs Level 2 \$m | With significant unobservable inputs Level 3 \$m | |
| Recurring fair value measurements | | | | |
| At 30 June 2015 | | | | |
| Assets | | | | |
| Trading assets | 153,912 | 123,486 | 5,740 | 283,138 |
| Financial assets designated at fair value | 20,318 | 4,377 | 473 | 25,168 |
| Derivatives | 7,932 | 285,942 | 3,068 | 296,942 |
| Financial investments: available for sale | 234,117 | 124,381 | 4,007 | 362,505 |
| Liabilities | | | | |
| Trading liabilities | 47,975 | 128,155 | 5,305 | 181,435 |
| Financial liabilities designated at fair value | 3,557 | 65,923 | 5 | 69,485 |
| Derivatives | 7,781 | 280,760 | 1,443 | 289,984 |
| At 30 June 2014 | | | | |
| Assets | | | | |
| Trading assets | 220,194 | 121,083 | 5,829 | 347,106 |
| Financial assets designated at fair value | 26,359 | 4,752 | 712 | 31,823 |
| Derivatives | 2,484 | 264,877 | 2,478 | 269,839 |
| Financial investments: available for sale | 259,077 | 132,934 | 6,443 | 398,454 |
| Liabilities | | | | |
| Trading liabilities | 102,025 | 118,430 | 7,680 | 228,135 |
| Financial liabilities designated at fair value | 4,115 | 78,853 | – | 82,968 |
| Derivatives | 2,857 | 258,776 | 1,861 | 263,494 |
| At 31 December 2014 | | | | |
| Assets | | | | |
| Trading assets | 180,446 | 117,279 | 6,468 | 304,193 |
| Financial assets designated at fair value | 23,697 | 4,614 | 726 | 29,037 |
| Derivatives | 4,366 | 337,718 | 2,924 | 345,008 |
| Financial investments: available for sale | 241,464 | 131,264 | 4,988 | 377,716 |
| Liabilities | | | | |
| Trading liabilities | 62,385 | 122,048 | 6,139 | 190,572 |
| Financial liabilities designated at fair value | 3,792 | 72,361 | – | 76,153 |
| Derivatives | 4,649 | 334,113 | 1,907 | 340,669 |

The decrease in Level 1 trading assets and liabilities during the first half of 2015 reflects a decrease in debt securities, treasury bills and other government bills/bonds. The decrease in Level 2 derivative assets and liabilities is driven by participation in 'portfolio compression' exercises and market movement. There were no material transfers between Level 1 and Level 2 during the period.

Fair value adjustments

Fair value adjustments are adopted when HSBC considers that there are additional factors that would be considered by a market participant that are not incorporated within the valuation model. HSBC classifies fair value adjustments as either 'risk-related' or 'model-related'. The majority of these adjustments relate to GB&M. Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement. For example, as models are enhanced, fair value adjustments may no longer be required. Similarly, fair value adjustments will decrease when the related positions are unwound, but this may not result in profit or loss.

Notes on the Financial Statements (unaudited) (continued)

7 – Fair values of financial instruments carried for fair value

Global Banking and Markets fair value adjustments

| Type of adjustment | At | | |
|---|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Risk-related | 1,447 | 1,419 | 1,958 |
| – bid-offer | 547 | 558 | 539 |
| – uncertainty | 68 | 363 | 357 |
| – credit valuation adjustment | 808 | 968 | 871 |
| – debit valuation adjustment | (431) | (474) | (270) |
| – funding fair value adjustment | 453 | – | 460 |
| – other | 2 | 4 | 1 |
| Model-related | 410 | 202 | 57 |
| – model limitation | 400 | 198 | 52 |
| – other | 10 | 4 | 5 |
| Inception profit (Day 1 P&L reserves) (Note 10) | 117 | 135 | 114 |
| | 1,974 | 1,756 | 2,129 |

Fair value adjustments declined by \$155m during the period (first half of 2014: \$178m decline; second half of 2014: \$373m rise). The debit valuation adjustment movement was \$161m as a result of the widening of HSBC's credit spreads (first half of 2014: \$142m decline, second half of 2014: \$204m decline). Reduced derivative counterparty exposures and narrowing of counterparty credit default swap spreads contributed to a reduction in the credit valuation adjustment of \$63m (first half of 2014: \$306m decline; second half of 2014: \$97m decline). The movement in uncertainty and model limitation categories was primarily driven by a reclassification of an adjustment relating to derivative discounting assumptions between the categories.

Funding fair value adjustment was adopted in the second half of 2014.

A description of HSBC's risk-related and model-related adjustments is provided on pages 381 and 382 of the *Annual Report and Accounts 2014*.

Fair value valuation bases

Financial instruments measured at fair value using a valuation technique with significant unobservable inputs – Level 3

| | Assets | | | | | Liabilities | | | |
|--|------------------------------|----------------------------|--------------------------------------|-------------------------|---------------|----------------------------|--------------------------------------|-------------------------|--------------|
| | Available for sale \$m | Held for trading \$m | At fair value ¹ \$m | Deriv- atives \$m | Total \$m | Held for trading \$m | At fair value ¹ \$m | Deriv- atives \$m | Total \$m |
| Private equity including strategic investments | 3,026 | 194 | 441 | – | 3,661 | 33 | – | – | 33 |
| Asset-backed securities | 736 | 577 | – | – | 1,313 | – | – | – | – |
| Loans held for securitisation | – | 35 | – | – | 35 | – | – | – | – |
| Structured notes | – | – | – | – | – | 5,272 | – | – | 5,272 |
| Derivatives with monolines | – | – | – | 189 | 189 | – | – | – | – |
| Other derivatives | – | 7 | – | 2,879 | 2,886 | – | – | 1,443 | 1,443 |
| Other portfolios | 245 | 4,927 | 32 | – | 5,204 | – | 5 | – | 5 |
| At 30 June 2015 | 4,007 | 5,740 | 473 | 3,068 | 13,288 | 5,305 | 5 | 1,443 | 6,753 |
| Private equity including strategic investments | 3,562 | 169 | 455 | – | 4,186 | – | – | – | – |
| Asset-backed securities | 2,450 | 641 | – | – | 3,091 | – | – | – | – |
| Loans held for securitisation | – | 56 | – | – | 56 | – | – | – | – |
| Structured notes | – | 2 | – | – | 2 | 7,680 | – | – | 7,680 |
| Derivatives with monolines | – | – | – | 270 | 270 | – | – | 2 | 2 |
| Other derivatives | – | – | – | 2,208 | 2,208 | – | – | 1,858 | 1,858 |
| Other portfolios | 431 | 4,961 | 257 | – | 5,649 | – | – | 1 | 1 |
| At 30 June 2014 | 6,443 | 5,829 | 712 | 2,478 | 15,462 | 7,680 | – | 1,861 | 9,541 |
| Private equity including strategic investments | 3,120 | 164 | 432 | – | 3,716 | 47 | – | – | 47 |
| Asset-backed securities | 1,462 | 616 | – | – | 2,078 | – | – | – | – |
| Loans held for securitisation | – | 39 | – | – | 39 | – | – | – | – |
| Structured notes | – | 2 | – | – | 2 | 6,092 | – | – | 6,092 |
| Derivatives with monolines | – | – | – | 239 | 239 | – | – | 1 | 1 |
| Other derivatives | – | – | – | 2,685 | 2,685 | – | – | 1,906 | 1,906 |
| Other portfolios | 406 | 5,647 | 294 | – | 6,347 | – | – | – | – |
| At 31 December 2014 | 4,988 | 6,468 | 726 | 2,924 | 15,106 | 6,139 | – | 1,907 | 8,046 |

1 Designated at fair value through profit or loss.

The basis for determining the fair value of the financial instruments in the table above is explained on page 383 of the *Annual Report and Accounts 2014*.

Movement in Level 3 financial instruments

| | Assets | | | | Liabilities | | |
|--|---------------------------|-------------------------|--|--------------------|-------------------------|--|--------------------|
| | Available for sale \$m | Held for trading \$m | Designated at fair value through profit or loss \$m | Derivatives \$m | Held for trading \$m | Designated at fair value through profit or loss \$m | Derivatives \$m |
| At 1 January 2015 | 4,988 | 6,468 | 726 | 2,924 | 6,139 | – | 1,907 |
| Total gains/(losses) recognised in profit or loss | (17) | (14) | (19) | 344 | (223) | (1) | (467) |
| – trading income/(expense) excluding net interest income | – | (14) | – | 344 | (223) | – | (467) |
| – net income/(expense) from other financial instruments designated at fair value | – | – | (19) | – | – | (1) | – |
| – gains less losses from financial investments | (29) | – | – | – | – | – | – |
| – loan impairment charges and other credit risk provisions | 12 | – | – | – | – | – | – |
| Total gains/(losses) recognised in other comprehensive income ¹ | 72 | (6) | (9) | 5 | (20) | (1) | 1 |
| – available-for-sale investments: fair value gains | 70 | – | – | – | – | – | – |
| – exchange differences | 2 | (6) | (9) | 5 | (20) | (1) | 1 |
| Purchases | 342 | 435 | 165 | – | – | 9 | – |
| New issuances | – | – | – | – | 863 | – | – |
| Sales | (420) | (1,134) | (46) | – | (10) | (2) | – |
| Settlements | (15) | (90) | (72) | 43 | (681) | – | 41 |
| Transfers out | (1,257) | (31) | (272) | (312) | (889) | – | (52) |
| Transfers in | 314 | 112 | – | 64 | 126 | – | 13 |
| At 30 June 2015 | 4,007 | 5,740 | 473 | 3,068 | 5,305 | 5 | 1,443 |
| Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 June 2015 | 13 | (6) | 17 | 444 | (24) | (1) | (459) |
| – trading income/(expense) excluding net interest income | – | (6) | – | 444 | (24) | – | (459) |
| – net income/(expense) from other financial instruments designated at fair value | – | – | 17 | – | – | (1) | – |
| – loan impairment recoveries and other credit risk provisions | 13 | – | – | – | – | – | – |
| At 1 January 2014 | 7,245 | 5,347 | 608 | 2,502 | 7,514 | – | 2,335 |
| Total gains/(losses) recognised in profit or loss | 58 | 18 | 48 | 10 | 94 | – | (248) |
| – trading income/(expense) excluding net interest income | – | 18 | – | 10 | 94 | – | (248) |
| – net income/(expense) from other financial instruments designated at fair value | – | – | 48 | – | – | – | – |
| – gains less losses from financial investments | 79 | – | – | – | – | – | – |
| – loan impairment charges and other credit risk provisions | (21) | – | – | – | – | – | – |
| Total gains/(losses) recognised in other comprehensive income ¹ | 334 | 70 | (1) | 61 | 113 | – | 83 |
| – available-for-sale investments: fair value gains | 145 | – | – | – | – | – | – |
| – cash flow hedges: fair value gains | – | – | – | – | – | – | 34 |
| – exchange differences | 189 | 70 | (1) | 61 | 113 | – | 49 |
| Purchases | 1,228 | 613 | 123 | – | (31) | – | – |
| New issuances | – | – | – | – | 1,416 | – | – |
| Sales | (741) | (210) | (40) | – | – | – | – |
| Settlements | (722) | (40) | (29) | 5 | (801) | – | (99) |
| Transfers out | (1,654) | (31) | – | (228) | (720) | – | (321) |
| Transfers in | 695 | 62 | 3 | 128 | 95 | – | 111 |
| At 30 June 2014 | 6,443 | 5,829 | 712 | 2,478 | 7,680 | – | 1,861 |

Notes on the Financial Statements (unaudited) (continued)

7 – Fair values of financial instruments carried for fair value

Movement in Level 3 financial instruments (continued)

| | Assets | | | | Liabilities | | |
|--|---------------------------|-------------------------|--|--------------------|-------------------------|--|--------------------|
| | Available for sale \$m | Held for trading \$m | Designated at fair value through profit or loss \$m | Derivatives \$m | Held for trading \$m | Designated at fair value through profit or loss \$m | Derivatives \$m |
| Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 June 2014 | (21) | 8 | 23 | 128 | 175 | – | 43 |
| – trading income excluding net interest income | – | 8 | – | 128 | 175 | – | 43 |
| – net income from other financial instruments designated at fair value | – | – | 23 | – | – | – | – |
| – loan impairment charges and other credit risk provisions | (21) | – | – | – | – | – | – |
| At 1 July 2014 | 6,443 | 5,829 | 712 | 2,478 | 7,680 | – | 1,861 |
| Total gains/(losses) recognised in profit or loss | 116 | 176 | 8 | 949 | (119) | – | 243 |
| – trading income/(expense) excluding net interest income | – | 176 | – | 949 | (119) | – | 243 |
| – net income/(expense) from other financial instruments designated at fair value | – | – | 8 | – | – | – | – |
| – gains less losses from financial investments | 119 | – | – | – | – | – | – |
| – loan impairment charges and other credit risk provisions | (3) | – | – | – | – | – | – |
| Total gains recognised in other comprehensive income ¹ | (208) | (248) | (15) | (187) | (236) | – | (29) |
| – available-for-sale investments: | | | | | | | |
| fair value gains | 63 | – | – | – | – | – | – |
| cash flow hedges: fair value losses | – | – | – | (9) | – | – | – |
| exchange differences | (271) | (248) | (15) | (178) | (236) | – | (29) |
| Purchases | 277 | 92 | 150 | – | – | – | – |
| New issuances | – | – | – | – | 651 | – | – |
| Sales | (496) | (271) | (109) | – | – | – | – |
| Settlements | (533) | (9) | (49) | 22 | (854) | – | 30 |
| Transfers out | (1,373) | (81) | – | (316) | (1,198) | – | (206) |
| Transfers in | 762 | 980 | 29 | (22) | 215 | – | 8 |
| At 31 December 2014 | 4,988 | 6,468 | 726 | 2,924 | 6,139 | – | 1,907 |
| Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 December 2014 | (3) | (7) | 23 | 818 | (297) | – | 91 |
| – trading income/(expense) excluding net interest income | – | (7) | – | 818 | (297) | – | 91 |
| – net income from other financial instruments designated at fair value | – | – | 23 | – | – | – | – |
| – loan impairment charges and other credit risk provisions | (3) | – | – | – | – | – | – |

1 Included in 'Available-for-sale investments: fair value gains/(losses)' and 'Exchange differences' in the consolidated statement of comprehensive income.

Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period. Movements in available-for-sale assets are mainly driven by sales of private equity investments and the transfer out of Level 3 of legacy credit assets following greater price certainty. Purchases and sales in trading assets reflect origination and sell-down of syndicated loans.

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

The following table shows the sensitivity of Level 3 fair values to reasonably possible alternative assumptions:

Sensitivity of fair values to reasonably possible alternative assumptions

| | Reflected in profit or loss | | Reflected in other comprehensive income | |
|--|-----------------------------|-----------------------------|---|-----------------------------|
| | Favourable changes \$m | Unfavourable changes \$m | Favourable changes \$m | Unfavourable changes \$m |
| Derivatives, trading assets and trading liabilities ¹ | 255 | (274) | - | - |
| Financial assets and liabilities designated at fair value | 41 | (42) | - | - |
| Financial investments: available for sale | 33 | (30) | 222 | (217) |
| At 30 June 2015 | 329 | (346) | 222 | (217) |
| Derivatives, trading assets and trading liabilities ¹ | 266 | (251) | - | - |
| Financial assets and liabilities designated at fair value | 35 | (60) | - | - |
| Financial investments: available for sale | - | - | 369 | (614) |
| At 30 June 2014 | 301 | (311) | 369 | (614) |
| Derivatives, trading assets and trading liabilities ¹ | 296 | (276) | - | - |
| Financial assets and liabilities designated at fair value | 37 | (47) | - | - |
| Financial investments: available for sale | 51 | (67) | 270 | (350) |
| At 31 December 2014 | 384 | (390) | 270 | (350) |

1 'Derivatives, trading assets and trading liabilities' are presented as one category to reflect the manner in which these financial instruments are risk-managed.

The reduction in the effect of both favourable and unfavourable changes during the period primarily reflects increased pricing certainty, in particular in private equity, and some reduction in Level 3 balances offset by decreased pricing certainty in derivative funding assumptions.

Sensitivity of fair values to reasonably possible alternative assumptions by Level 3 instrument type

| | Reflected in profit or loss | | Reflected in other comprehensive income | |
|--|-----------------------------|-----------------------------|---|-----------------------------|
| | Favourable changes \$m | Unfavourable changes \$m | Favourable changes \$m | Unfavourable changes \$m |
| Private equity including strategic investments | 79 | (79) | 171 | (171) |
| Asset-backed securities | 31 | (9) | 29 | (24) |
| Loans held for securitisation | 1 | (1) | - | - |
| Structured notes | 19 | (14) | - | - |
| Derivatives with monolines | 9 | (9) | - | - |
| Other derivatives | 117 | (198) | - | - |
| Other portfolios | 73 | (36) | 22 | (22) |
| At 30 June 2015 | 329 | (346) | 222 | (217) |
| Private equity including strategic investments | 41 | (78) | 224 | (481) |
| Asset-backed securities | 47 | (18) | 103 | (90) |
| Loans held for securitisation | 2 | (2) | - | - |
| Structured notes | 15 | (9) | - | - |
| Derivatives with monolines | 21 | (10) | - | - |
| Other derivatives | 141 | (156) | - | - |
| Other portfolios | 34 | (38) | 42 | (43) |
| At 30 June 2014 | 301 | (311) | 369 | (614) |
| Private equity including strategic investments | 77 | (110) | 172 | (255) |
| Asset-backed securities | 49 | (22) | 60 | (55) |
| Loans held for securitisation | 1 | (1) | - | - |
| Structured notes | 14 | (9) | - | - |
| Derivatives with monolines | 11 | (11) | - | - |
| Other derivatives | 129 | (155) | - | - |
| Other portfolios | 103 | (82) | 38 | (40) |
| At 31 December 2014 | 384 | (390) | 270 | (350) |

Favourable and unfavourable changes are determined on the basis of sensitivity analysis. The sensitivity analysis aims to measure a range of fair values consistent with the application of a 95% confidence interval. Methodologies take account of the nature of the valuation technique employed, the availability and reliability of observable proxies and historical data. When the available data is not amenable to statistical analysis, the quantification of uncertainty is judgemental, but remains guided by the 95% confidence interval.

Notes on the Financial Statements (unaudited) (continued)

7 – FVs of financial instruments carried at FV / 8 – FVs of financial instruments not carried at FV / 9 – Financial assets designated at FV

When the fair value of a financial instrument is affected by more than one unobservable assumption, the above table reflects the most favourable or the most unfavourable change from varying the assumptions individually.

Key unobservable inputs to Level 3 financial instruments and inter-relationships

The table below lists key unobservable inputs to Level 3 financial instruments, and provides the range of those inputs as at 30 June 2015. The core range of inputs is the estimated range within which 90% of the inputs fall.

There has been no change to the key unobservable inputs to Level 3 financial instruments and inter-relationships therein which are detailed on page 388 of the *Annual Report and Accounts 2014*.

Quantitative information about significant unobservable inputs in Level 3 valuations

| | Fair value | | Valuation technique | Key unobservable inputs | Full range of inputs | | Core range of inputs | |
|--|---------------|--------------|------------------------------|-------------------------|----------------------|--------|----------------------|--------|
| | Assets | Liabilities | | | Lower | Higher | Lower | Higher |
| | \$m | \$m | | | | | | |
| Private equity including strategic investments | 3,661 | 33 | See notes ³ | See notes ³ | n/a | n/a | n/a | n/a |
| Asset-backed securities | 1,313 | – | | | | | | |
| – CLO/CDO ¹ | 632 | – | Market proxy | Prepayment rate | 1% | 6% | 1% | 6% |
| – other ABSs | 681 | – | Market proxy | Bid quotes | 0 | 100 | 32 | 95 |
| | | | Market proxy | Bid quotes | 0 | 102 | 26 | 72 |
| Loans held for securitisation | 35 | – | | | | | | |
| Structured notes | – | 5,272 | | | | | | |
| – equity-linked notes | – | 4,283 | Model – option model | Equity volatility | 11% | 78% | 19% | 40% |
| | | | Model – option model | Equity correlation | 35% | 91% | 43% | 79% |
| – fund-linked notes | – | 390 | Model – option model | Fund volatility | 6% | 8% | 6% | 8% |
| – FX-linked notes | – | 282 | Model – option model | FX volatility | 1% | 27% | 6% | 15% |
| – other | – | 317 | | | | | | |
| | | | Model – discounted cash flow | | | | | |
| Derivatives with monolines | 189 | – | | Credit spread | 4% | 4% | 4% | 4% |
| Other derivatives | 2,886 | 1,443 | | | | | | |
| Interest rate derivatives: | | | Model – discounted cash flow | | | | | |
| – securitisation swaps | 733 | 649 | | Prepayment rate | 0% | 58% | 5% | 56% |
| – long-dated swaptions | 1,404 | 160 | Model – option model | IR volatility | 4% | 58% | 18% | 40% |
| – other | 285 | 70 | | | | | | |
| FX derivatives: | | | Model – option model | | | | | |
| – FX options | 153 | 124 | | FX volatility | 0% | 27% | 6% | 12% |
| – other | 16 | 4 | | | | | | |
| Equity derivatives: | | | Model – option model | | | | | |
| – long-dated single stock options | 170 | 227 | | Equity volatility | 10% | 70% | 18% | 45% |
| – other | 35 | 146 | | | | | | |
| Credit derivatives: | | | | | | | | |
| – other | 90 | 63 | | | | | | |
| Other portfolios | 5,204 | 5 | | | | | | |
| – structured certificates | 4,416 | – | Model – discounted cash flow | Credit volatility | 2% | 4% | 2% | 4% |
| – EM corporate debt | 248 | – | Market proxy | Credit spread | 4% | 4% | 4% | 4% |
| | | | Market proxy | Bid quotes | 76 | 136 | 104 | 133 |
| Other ² | 540 | 5 | | | | | | |
| At 30 June 2015 | 13,288 | 6,753 | | | | | | |

1 Collateralised loan obligation/collateralised debt obligation.

2 'Other' includes a range of smaller asset holdings.

3 See notes on page 388 of the Annual Report and Accounts 2014.

8 Fair values of financial instruments not carried at fair value

The basis for measuring the fair values of loans and advances to banks and customers, financial investments, deposits by banks, customer accounts, debt securities in issue and subordinated liabilities is explained on page 391 of the *Annual Report and Accounts 2014*.

Fair values of financial instruments which are not carried at fair value on the balance sheet

| | At 30 June 2015 | | At 30 June 2014 | | At 31 December 2014 | |
|---|------------------------|-------------------|------------------------|-------------------|------------------------|-------------------|
| | Carrying amount \$m | Fair value \$m | Carrying amount \$m | Fair value \$m | Carrying Amount \$m | Fair value \$m |
| Assets | | | | | | |
| Loans and advances to banks | 109,405 | 109,411 | 127,387 | 127,421 | 112,149 | 112,133 |
| Loans and advances to customers | 953,985 | 953,388 | 1,047,241 | 1,040,666 | 974,660 | 972,837 |
| Reverse repurchase agreements – non-trading | 149,384 | 149,406 | 198,301 | 198,287 | 161,713 | 161,723 |
| Financial investments: | | | | | | |
| – debt securities | 42,177 | 43,367 | 25,256 | 26,196 | 37,751 | 39,163 |
| Liabilities | | | | | | |
| Deposits by banks | 71,140 | 71,128 | 92,764 | 92,758 | 77,426 | 77,398 |
| Customer accounts | 1,335,800 | 1,336,068 | 1,415,705 | 1,415,732 | 1,350,642 | 1,350,595 |
| Repurchase agreements – non-trading | 81,506 | 81,506 | 165,506 | 165,506 | 107,432 | 107,432 |
| Debt securities in issue | 102,656 | 103,160 | 96,397 | 97,536 | 95,947 | 96,403 |
| Subordinated liabilities | 24,781 | 27,045 | 28,052 | 31,084 | 26,664 | 30,054 |

Other financial instruments not carried at fair value are typically short-term in nature and reprice to current market rates frequently. Accordingly, their carrying amount is a reasonable approximation of fair value.

9 Financial assets designated at fair value

| | At | | |
|---|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Financial assets designated at fair value: | | | |
| – not subject to repledge or resale by counterparties | 25,168 | 31,523 | 28,357 |
| – which may be repledged or resold by counterparties | – | 300 | 680 |
| | 25,168 | 31,823 | 29,037 |
| Treasury and other eligible bills | 63 | 27 | 56 |
| Debt securities | 4,485 | 9,870 | 8,891 |
| Equity securities | 20,465 | 21,886 | 20,006 |
| Securities designated at fair value | 25,013 | 31,783 | 28,953 |
| Loans and advances to banks and customers | 155 | 40 | 84 |
| | 25,168 | 31,823 | 29,037 |

Securities designated at fair value¹

| | At | | |
|---|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| US Treasury and US Government agencies ² | 7 | 12 | 8 |
| UK Government | 127 | 153 | 140 |
| Hong Kong Government | 34 | 111 | 40 |
| Other government | 779 | 4,729 | 4,088 |
| Asset-backed securities ³ | 17 | 354 | 18 |
| Corporate debt and other securities | 3,584 | 4,538 | 4,653 |
| Equity securities | 20,465 | 21,886 | 20,006 |
| | 25,013 | 31,783 | 28,953 |

1 Included within these figures are debt securities issued by banks and other financial institutions of \$1,545m (30 June 2014: \$1,587m; 31 December 2014: \$1,388m), of which \$102m (30 June 2014: \$31m; 31 December 2014: \$24m) are guaranteed by various governments.

2 'US Treasury and US Government agencies' includes securities that are supported by an explicit guarantee issued by the US Government.

3 Excludes asset-backed securities included under US Treasury and US Government agencies.

Securities listed on a recognised exchange and unlisted

| | Treasury and other eligible bills \$m | Debt Securities \$m | Equity securities \$m | Total \$m |
|----------------------------|--|---------------------------|-----------------------------|---------------|
| Fair value | | | | |
| Listed ¹ | – | 2,473 | 13,071 | 15,544 |
| Unlisted | 63 | 2,012 | 7,394 | 9,469 |
| At 30 June 2015 | 63 | 4,485 | 20,465 | 25,013 |
| Listed ¹ | – | 2,706 | 15,902 | 18,608 |
| Unlisted | 27 | 7,164 | 5,984 | 13,175 |
| At 30 June 2014 | 27 | 9,870 | 21,886 | 31,783 |
| Listed ¹ | 5 | 2,731 | 13,837 | 16,573 |
| Unlisted | 51 | 6,160 | 6,169 | 12,380 |
| At 31 December 2014 | 56 | 8,891 | 20,006 | 28,953 |

1 Included within listed securities are \$1,593m (30 June 2014: \$1,337m; 31 December 2014: \$1,361m) of investments listed on a recognised exchange in Hong Kong.

10 Derivatives

Fair values of derivatives by product contract type held by HSBC

| | Assets | | | Liabilities | | |
|----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | Trading \$m | Hedging \$m | Total \$m | Trading \$m | Hedging \$m | Total \$m |
| Foreign exchange | 89,992 | 1,302 | 91,294 | 90,812 | 775 | 91,587 |
| Interest rate | 322,112 | 1,628 | 323,740 | 312,496 | 3,417 | 315,913 |
| Equities | 12,243 | – | 12,243 | 12,985 | – | 12,985 |
| Credit | 7,130 | – | 7,130 | 7,327 | – | 7,327 |
| Commodity and other | 2,702 | – | 2,702 | 2,339 | – | 2,339 |
| Gross total fair values | 434,179 | 2,930 | 437,109 | 425,959 | 4,192 | 430,151 |
| Offset | | | (140,167) | | | (140,167) |
| At 30 June 2015 | | | 296,942 | | | 289,984 |
| Foreign exchange | 56,756 | 1,993 | 58,749 | 54,999 | 500 | 55,499 |
| Interest rate | 426,714 | 2,097 | 428,811 | 417,705 | 4,715 | 422,420 |
| Equities | 10,993 | – | 10,993 | 13,808 | – | 13,808 |
| Credit | 7,944 | – | 7,944 | 8,146 | – | 8,146 |
| Commodity and other | 1,285 | – | 1,285 | 1,564 | – | 1,564 |
| Gross total fair values | 503,692 | 4,090 | 507,782 | 496,222 | 5,215 | 501,437 |
| Offset | | | (237,943) | | | (237,943) |
| At 30 June 2014 | | | 269,839 | | | 263,494 |
| Foreign exchange | 95,584 | 1,728 | 97,312 | 95,187 | 572 | 95,759 |
| Interest rate | 471,379 | 1,864 | 473,243 | 463,456 | 4,696 | 468,152 |
| Equities | 11,694 | – | 11,694 | 13,654 | – | 13,654 |
| Credit | 9,340 | – | 9,340 | 10,061 | – | 10,061 |
| Commodity and other | 3,884 | – | 3,884 | 3,508 | – | 3,508 |
| Gross total fair values | 591,881 | 3,592 | 595,473 | 585,866 | 5,268 | 591,134 |
| Offset | | | (250,465) | | | (250,465) |
| At 31 December 2014 | | | 345,008 | | | 340,669 |

Derivative assets decreased during the first half of 2015, primarily driven by a decrease in the fair value of interest rate derivatives as yield curves in major currencies steepened, and from 'portfolio compression' exercises. This resulted in the decrease in gross fair values and a corresponding decrease in the offset amount.

Trading derivatives

The notional contract amounts of derivatives held for trading purposes indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk. The 20% decline in the notional amounts of HSBC's derivative contracts during the first half of 2015 was primarily driven by interest rate derivatives, reflecting participation in industry-wide 'portfolio compression' exercises.

Notional contract amounts of derivatives held for trading purposes by product type

| | At | | |
|---------------------|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Foreign exchange | 5,982,764 | 5,560,351 | 5,548,075 |
| Interest rate | 15,991,209 | 27,069,408 | 22,047,278 |
| Equities | 592,453 | 593,532 | 568,932 |
| Credit | 485,268 | 615,765 | 550,197 |
| Commodity and other | 82,138 | 88,297 | 77,565 |
| | 23,133,832 | 33,927,353 | 28,792,047 |

Credit derivatives

The notional contract amount of credit derivatives of \$485bn (30 June 2014: \$616bn; 31 December 2014: \$550bn) consisted of protection bought of \$245bn (30 June 2014: \$306bn; 31 December 2014: \$272bn) and protection sold of \$240bn (30 June 2014: \$310bn; 31 December 2014: \$278bn).

HSBC manages the credit risk arising on buying and selling credit derivative protection by including the related credit exposures within its overall credit limit structure for the relevant counterparty. The trading of credit derivatives is restricted to a small number of offices within the major centres which have the control infrastructure and market skills to manage effectively the credit risk inherent in the products.

Derivatives valued using models with unobservable inputs

The difference between the fair value at initial recognition (the transaction price) and the value that would have been derived had valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is as follows:

Unamortised balance of derivatives valued using models with significant unobservable inputs

| | Half-year to | | |
|---|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Unamortised balance at beginning of period | 114 | 167 | 135 |
| Deferral on new transactions | 118 | 74 | 103 |
| Recognised in the income statement during the period: | (115) | (112) | (122) |
| – amortisation | (69) | (56) | (58) |
| – subsequent to unobservable inputs becoming observable | (1) | (7) | (6) |
| – maturity or termination, or offsetting derivative | (45) | (49) | (58) |
| Exchange differences | – | 6 | (2) |
| Unamortised balance at end of period¹ | 117 | 135 | 114 |

¹ This amount is yet to be recognised in the consolidated income statement.

The fair value at initial recognition is the transaction price. The transaction price may be viewed as the combination of a model price and a margin. In subsequent periods, the model price reflects changes in market conditions. The unamortised balance reflects that component of the margin that has yet to be recognised in the income statement.

Hedge accounting derivatives

The notional contract amounts of derivatives held for hedge accounting purposes indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Notional contract amounts of derivatives held for hedging purposes by product type

| | At 30 June 2015 | | At 30 June 2014 | | At 31 December 2014 | |
|------------------|------------------|-------------------|------------------|-------------------|---------------------|-------------------|
| | Cash flow hedges | Fair value hedges | Cash flow hedges | Fair value hedges | Cash flow hedges | Fair value hedges |
| | \$m | \$m | \$m | \$m | \$m | \$m |
| Foreign exchange | 24,611 | 128 | 25,456 | 97 | 25,340 | – |
| Interest rate | 118,599 | 88,994 | 220,089 | 101,784 | 190,902 | 90,338 |
| | 143,210 | 89,122 | 245,545 | 101,881 | 216,242 | 90,338 |

11 Financial investments

| | At | | |
|---|----------------|----------------|------------------|
| | 30 June 2015 | 30 June 2014 | 31 December 2014 |
| | \$m | \$m | \$m |
| Financial investments: | | | |
| – not subject to repledge or resale by counterparties | 392,367 | 409,500 | 380,419 |
| – which may be repledged or resold by counterparties | 12,315 | 14,210 | 35,048 |
| | 404,682 | 423,710 | 415,467 |

Carrying amounts and fair values of financial investments

| | At 30 June 2015 | | At 30 June 2014 | | At 31 December 2014 | |
|-----------------------------------|-----------------|----------------|-----------------|----------------|---------------------|----------------|
| | Carrying amount | Fair value | Carrying amount | Fair value | Carrying amount | Fair value |
| | \$m | \$m | \$m | \$m | \$m | \$m |
| Treasury and other eligible bills | 92,390 | 92,390 | 78,177 | 78,177 | 81,517 | 81,517 |
| – available for sale | 92,390 | 92,390 | 78,177 | 78,177 | 81,517 | 81,517 |
| Debt securities | 306,508 | 307,699 | 336,807 | 337,747 | 323,256 | 324,668 |
| – available for sale | 264,331 | 264,332 | 311,551 | 311,551 | 285,505 | 285,505 |
| – held to maturity | 42,177 | 43,367 | 25,256 | 26,196 | 37,751 | 39,163 |
| Equity securities | 5,784 | 5,784 | 8,726 | 8,726 | 10,694 | 10,694 |
| – available for sale | 5,784 | 5,784 | 8,726 | 8,726 | 10,694 | 10,694 |
| | 404,682 | 405,873 | 423,710 | 424,650 | 415,467 | 416,879 |

Financial investments at amortised cost and fair value

| | Amortised cost ¹ | Fair value ² |
|---|-----------------------------|-------------------------|
| | \$m | \$m |
| US Treasury | 37,187 | 37,485 |
| US Government agencies ³ | 22,954 | 22,897 |
| US Government sponsored entities ³ | 9,909 | 10,232 |
| UK Government | 21,473 | 21,793 |
| Hong Kong Government | 50,804 | 50,813 |
| Other government | 146,758 | 149,117 |
| Asset-backed securities ⁴ | 16,642 | 15,972 |
| Corporate debt and other securities | 90,356 | 91,780 |
| Equities | 4,261 | 5,784 |
| At 30 June 2015 | 400,344 | 405,873 |
| US Treasury | 37,378 | 37,900 |
| US Government agencies ³ | 17,393 | 17,326 |
| US Government sponsored entities ³ | 5,087 | 5,407 |
| UK Government | 29,941 | 30,189 |
| Hong Kong Government | 50,187 | 50,191 |
| Other government | 160,023 | 163,796 |
| Asset-backed securities ⁴ | 24,574 | 22,665 |
| Corporate debt and other securities | 85,864 | 88,448 |
| Equities | 7,876 | 8,728 |
| At 30 June 2014 | 418,323 | 424,650 |

Financial investments at amortised cost and fair value (continued)

| | Amortised cost ¹ \$m | Fair value ² \$m |
|---|---------------------------------------|-----------------------------------|
| US Treasury | 33,931 | 34,745 |
| US Government agencies ³ | 18,326 | 18,516 |
| US Government sponsored entities ³ | 9,339 | 9,761 |
| UK Government | 28,680 | 29,758 |
| Hong Kong Government | 43,573 | 43,574 |
| Other government | 159,846 | 163,402 |
| Asset-backed securities ⁴ | 20,911 | 19,177 |
| Corporate debt and other securities | 84,387 | 87,252 |
| Equities | 7,421 | 10,694 |
| At 31 December 2014 | 406,414 | 416,879 |

1 Represents the amortised cost or cost basis of the financial investment.

2 Included within these figures are debt securities issued by banks and other financial institutions of \$67bn (30 June 2014: \$56bn; 31 December 2014: \$54bn), of which \$18bn (30 June 2014: \$11bn; 31 December 2014: \$9bn) were guaranteed by various governments. The fair value of the debt securities issued by banks and other financial institutions at 30 June 2015 was \$67bn (30 June 2014: \$57bn; 31 December 2014: \$54bn).

3 'US Government agencies' and 'sponsored entities' include securities that are supported by an explicit guarantee issued by the US Government.

4 Excludes asset-backed securities included under US Government agencies and sponsored entities.

Financial investments listed and unlisted

| | Treasury and other eligible bills available for sale \$m | Debt securities available for sale \$m | Debt securities held to maturity \$m | Equity securities available for sale \$m | Total \$m |
|----------------------------|---|--|--|--|----------------|
| Carrying amount | | | | | |
| Listed ¹ | 5,609 | 159,707 | 8,117 | 898 | 174,331 |
| Unlisted ² | 86,781 | 104,624 | 34,060 | 4,886 | 230,351 |
| At 30 June 2015 | 92,390 | 264,331 | 42,177 | 5,784 | 404,682 |
| Listed ¹ | 4,219 | 160,719 | 6,325 | 3,892 | 175,155 |
| Unlisted ² | 73,958 | 150,832 | 18,931 | 4,834 | 248,555 |
| At 30 June 2014 | 78,177 | 311,551 | 25,256 | 8,726 | 423,710 |
| Listed ¹ | 4,101 | 168,879 | 6,037 | 5,928 | 184,945 |
| Unlisted ² | 77,416 | 116,626 | 31,714 | 4,766 | 230,522 |
| At 31 December 2014 | 81,517 | 285,505 | 37,751 | 10,694 | 415,467 |

1 The fair value of listed held-to-maturity debt securities at 30 June 2015 was \$8bn (30 June 2014: \$7bn; 31 December 2014: \$6bn). Included within listed investments were \$5bn (30 June 2014: \$4bn; 31 December 2014: \$4bn) of investments listed on a recognised exchange in Hong Kong.

2 Unlisted treasury and other eligible bills available for sale primarily comprise treasury bills not listed on an exchange but for which there is a liquid market.

Maturities of investments in debt securities at their carrying amount

| | 1 year or less \$m | 5 years or less but over 1 year \$m | 10 years or less but over 5 years \$m | Over 10 years \$m | Total \$m |
|----------------------------|--------------------------|--|--|-------------------------|----------------|
| Available for sale | 61,158 | 127,281 | 35,291 | 40,601 | 264,331 |
| Held to maturity | 1,862 | 10,886 | 7,797 | 21,632 | 42,177 |
| At 30 June 2015 | 63,020 | 138,167 | 43,088 | 62,233 | 306,508 |
| Available for sale | 69,692 | 144,859 | 52,676 | 44,324 | 311,551 |
| Held to maturity | 2,055 | 8,811 | 7,003 | 7,387 | 25,256 |
| At 30 June 2014 | 71,747 | 153,670 | 59,679 | 51,711 | 336,807 |
| Available for sale | 68,344 | 134,815 | 44,938 | 37,408 | 285,505 |
| Held to maturity | 1,396 | 9,622 | 7,087 | 19,646 | 37,751 |
| At 31 December 2014 | 69,740 | 144,437 | 52,025 | 57,054 | 323,256 |

12 Assets held for sale and liabilities of disposal groups held for sale

| | At | | |
|--|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Disposal groups | 60,513 | 9,620 | 6,883 |
| Non-current assets held for sale | 416 | 628 | 764 |
| Total assets held for sale | 60,929 | 10,248 | 7,647 |
| Liabilities of disposal groups held for sale | 53,226 | 12,361 | 6,934 |

Disposal groups**Brazil**

In the first half of 2015, we announced the plan to sell our operations in Brazil. At 30 June 2015, the sale was considered highly probable and therefore the assets and liabilities of the disposal group were classified as held for sale. The disposal group includes the assets and liabilities expected to be sold plus allocated goodwill as set out in the table below.

The disposal group is measured at its carrying amount at 30 June 2015 which is lower than its fair value less cost to sell. The carrying amount includes a \$1.3bn deferred tax asset (see Note 2) and \$1.3bn of allocated goodwill (see Note 20). The assets and liabilities of the disposal group have been reclassified from their individual lines in the consolidated balance sheet and are presented in separate 'Held for sale' lines at 30 June 2015. There is no change to the comparative balance sheet presentation and there is no separate presentation in the income statement.

The planned sale gives rise to a deferred tax liability of \$0.2bn (recorded in deferred tax liabilities in the Group's consolidated balance sheet). At 30 June 2015, there were no other significant accounting implications in respect of the planned sale although this may evolve as it progresses. The disposal group represents a foreign operation and when the disposal completes the cumulative amount of associated exchange differences previously recognised in other comprehensive income will be reclassified to the income statement. At 30 June 2015, there was a cumulative loss of \$1.7bn in the Group's foreign exchange reserve attributable to the Brazilian operations.

Other

During 2014, we entered into an agreement to sell our pensions business in the UK. This represents the Other disposal group in the table below.

In the first half of 2015, we also announced the plan to sell our operations in Turkey. At 30 June 2015, the planned sale was not considered highly probable and therefore the operations were not classified as held for sale.

The major classes of assets and associated liabilities of disposal groups held for sale are as follows:

| | At 30 June 2015 | | |
|--|-----------------|--------------|--------------|
| | Brazil \$m | Other \$m | Total \$m |
| Assets of disposal groups held for sale | | | |
| Trading assets | 1,887 | – | 1,887 |
| Fair value of financial assets designated at fair value | 4,130 | 6,187 | 10,317 |
| Loans and advances to banks | 4,193 | – | 4,193 |
| Loans and advances to customers | 20,827 | – | 20,827 |
| Reverse repurchase agreements | 6,142 | – | 6,142 |
| Financial investments | 8,073 | – | 8,073 |
| Goodwill and intangible assets | 1,847 | 134 | 1,981 |
| Deferred tax asset | 1,273 | – | 1,273 |
| Prepayments, accrued income and other assets | 5,167 | 653 | 5,820 |
| Total assets | 53,539 | 6,974 | 60,513 |
| Liabilities of disposal groups held for sale | | | |
| Deposits by banks | 2,212 | – | 2,212 |
| Customer accounts | 19,432 | – | 19,432 |
| Debt securities in issue | 10,790 | – | 10,790 |
| Liabilities under insurance contracts | 4,462 | 2,972 | 7,434 |
| Accruals, deferred income and other liabilities | 9,380 | 3,978 | 13,358 |
| Total liabilities | 46,276 | 6,950 | 53,226 |
| Expected date of completion | 2016 | Q3 2015 | |
| Operating segment | Latin America | Europe | |
| Fair value of selected financial instruments which are not carried at fair value on the balance sheet | | | |
| Loans and advances to banks and customers | 24,675 | – | 24,675 |
| Customer accounts | 19,401 | – | 19,401 |

13 Assets charged as security for liabilities and collateral accepted as security for assets

Information on financial assets pledged as security for liabilities and collateral accepted as security for assets is disclosed on pages 401 and 402 of the *Annual Report and Accounts 2014*. There was no material change in the amount of assets charged as security for liabilities and collateral accepted as security for assets at 30 June 2015.

14 Interests in associates and joint ventures

At 30 June 2015, the carrying amount of HSBC's interests in associates and joint ventures was \$18.7bn (30 June 2014: \$17.5bn; 31 December 2014: \$18.2bn).

Principal associates of HSBC

| | At 30 June 2015 | | At 30 June 2014 | | At 31 December 2014 | |
|-------------------------------------|------------------------|--------------------------------|------------------------|--------------------------------|------------------------|--------------------------------|
| | Carrying amount \$m | Fair value ¹ \$m | Carrying amount \$m | Fair value ¹ \$m | Carrying amount \$m | Fair value ¹ \$m |
| Listed | | | | | | |
| Bank of Communications Co., Limited | 15,021 | 14,715 | 14,113 | 9,757 | 14,590 | 13,140 |
| The Saudi British Bank | 2,905 | 5,312 | 2,579 | 5,205 | 2,811 | 6,220 |
| | 17,926 | 20,027 | 16,692 | 14,962 | 17,401 | 19,360 |

1 Principal associates are listed on recognised stock exchanges. The fair values are based on the quoted market prices of the shares held (Level 1 in the fair value hierarchy).

Bank of Communications Co., Limited

Impairment testing

As at 30 June 2015, the fair value of HSBC's investment in Bank of Communications Co., Limited ('BoCom') had been below the carrying amount for approximately 38 months, apart from a short period in 2013 and briefly during the first half of 2015. As a result, we performed an impairment test on the carrying amount of the investment in BoCom. The test confirmed that there was no impairment as at 30 June 2015.

| | At 30 June 2015 | | | At 30 June 2014 | | | At 31 December 2014 | | |
|-------|-----------------|------------------------|--------------------|-----------------|------------------------|--------------------|---------------------|------------------------|--------------------|
| | VIU \$bn | Carrying value \$bn | Fair value \$bn | VIU \$bn | Carrying value \$bn | Fair value \$bn | VIU \$bn | Carrying value \$bn | Fair value \$bn |
| BoCom | 16.5 | 15.0 | 14.7 | 14.6 | 14.1 | 9.8 | 15.7 | 14.6 | 13.1 |

Basis of recoverable amount

The impairment test was performed by comparing the recoverable amount of BoCom, determined by a value-in-use ('VIU') calculation, with its carrying amount. The VIU calculation uses discounted cash flow projections based on management's estimates of earnings. Cash flows beyond the short to medium-term are then extrapolated in perpetuity using a long-term growth rate. An imputed capital maintenance charge ('CMC') is included to meet the expected regulatory capital requirements, and calculated as a deduction from forecast cash flows. The principal inputs to the CMC calculation include estimates of asset growth, the ratio of risk-weighted assets to total assets, and the expected regulatory capital requirements. Management judgement is required in estimating the future cash flows of BoCom.

Key assumptions in VIU calculation

Long-term growth rate: the growth rate used was 5% (30 June 2014: 5%; 31 December 2014: 5%) for periods after 2018 and does not exceed forecast GDP growth in mainland China.

Long-term asset growth rate: the growth rate used was 4% (30 June 2014: 4%; 31 December 2014: 4%) for periods after 2018 and this is the rate of growth required for an assumed 5% long-term growth rate in profit.

Discount rate: the discount rate of 13% (30 June 2014: 13%; 31 December 2014: 13%) is derived from a range of values obtained by applying a Capital Asset Pricing Model ('CAPM') calculation for BoCom, using market data. Management supplements this by comparing the rates derived from the CAPM with discount rates available from external sources, and HSBC's discount rate for evaluating investments in mainland China. The discount rate used was within the range of 10.1% to 14.3% (30 June 2014: 11.2% to 15.3%; 31 December 2014: 11.4% to 14.2%) indicated by the CAPM and external sources.

Loan impairment charge as a percentage of customer advances: the ratio used ranges from 0.73% to 1% (30 June 2014: 0.63% to 1%; 31 December 2014: 0.73% to 1%) in the short- to medium-term. The long-term ratio was assumed to revert to a historical rate of 0.65% (30 June 2014: 0.65%; 31 December 2014: 0.65%). The rates were within the medium-term range forecasts of 0.54% to 1.02% (30 June 2014: 0.52% to 1.11%; 31 December 2014: 0.51% to 1.08%) disclosed by external analysts.

Notes on the Financial Statements (unaudited) (continued)

14 – Interests in associates and joint ventures liabilities / 15 – Trading liabilities / 16 – Maturity analysis of assets and liabilities

Risk-weighted assets as a percentage of total assets: the ratio used ranges from 70% to 72% (30 June 2014: 70.2% throughout; 31 December 2014: 70% to 72%) in the short- to medium-term. The long-term ratio reverts to a rate of 70% (30 June 2014: 70.2%; 31 December 2014: 70%).

Cost-income ratio: the ratio used was 41% (30 June 2014: ranged from 40.8% to 43.0%; 31 December 2014: ranged from 40.0% to 42.4%) in the short- to medium-term. The ratios were within the short- to medium-term range forecasts of 37.5% to 43.5% (30 June 2014: 39.8% to 44.3%; 31 December 2014: 37.2% to 44.5%) disclosed by external analysts.

Sensitivity analyses were performed on each key assumption to ascertain the impact of reasonably possible changes in assumptions. The following changes to each key assumption on its own used in the VIU calculation would be necessary to reduce headroom to nil:

| Key assumption | Changes to key assumption to reduce headroom to nil |
|---|---|
| • Long-term growth rate | • Decrease by 56 basis points |
| • Long-term asset growth rate | • Increase by 56 basis points |
| • Discount rate | • Increase by 72 basis points |
| • Loan impairment charge as a percentage of customer advances | • Increase by 12 basis points |
| • Risk-weighted assets as a percentage of total assets | • Increase by 4.4% |
| • Cost-income ratio | • Increase by 2.5% |

15 Trading liabilities

| | At | | |
|---|------------------------|------------------------|----------------------------|
| | 30 June 2015 \$m | 30 June 2014 \$m | 31 December 2014 \$m |
| Deposits by banks | 45,900 | 47,901 | 41,453 |
| Customer accounts ¹ | 52,384 | 67,077 | 50,600 |
| Other debt securities in issue | 33,957 | 35,071 | 33,602 |
| Other liabilities – net short positions in securities | 49,194 | 78,086 | 64,917 |
| | 181,435 | 228,135 | 190,572 |

1 Structured deposits placed at HSBC Bank USA and HSBC Trust Company (Delaware) National Association are insured by the Federal Deposit Insurance Corporation (FDIC), a US government agency, up to \$250,000 per depositor.

At 30 June 2015, the cumulative amount of change in fair value attributable to changes in credit risk was a gain of \$16m (30 June 2014: loss of \$123m; 31 December 2014: loss of \$79m).

16 Maturity analysis of assets and liabilities

HSBC

Maturity analysis of assets and liabilities

| | Due not more than 1 month \$m | Due over 1 month but not more than 3 months \$m | Due over 3 months but not more than 6 months \$m | Due over 6 months but not more than 9 months \$m | Due over 9 months but not more than 1 year \$m | Due over 1 year but not more than 2 years \$m | Due over 2 years but not more than 5 years \$m | Due over 5 years \$m | Total \$m |
|--|--|---|--|--|--|---|--|----------------------------|------------------|
| Financial assets | | | | | | | | | |
| Cash and balances at central banks | 144,324 | – | – | – | – | – | – | – | 144,324 |
| Items in the course of collection from other banks | 10,190 | – | – | – | – | – | – | – | 10,190 |
| Hong Kong Government certificates of indebtedness | 28,104 | – | – | – | – | – | – | – | 28,104 |
| Trading assets | 282,483 | – | – | – | – | 147 | 508 | – | 283,138 |
| Financial assets designated at fair value | 383 | 182 | 164 | 232 | 214 | 743 | 2,944 | 20,306 | 25,168 |
| Derivatives | 294,171 | 84 | 22 | 296 | 240 | 624 | 856 | 649 | 296,942 |
| Loans and advances to banks | 74,112 | 16,136 | 4,272 | 2,882 | 2,117 | 6,145 | 2,047 | 1,694 | 109,405 |
| Loans and advances to customers | 192,308 | 73,948 | 51,291 | 36,703 | 37,713 | 83,083 | 198,247 | 280,692 | 953,985 |
| Reverse repurchase agreements – non-trading | 102,041 | 24,539 | 10,795 | 6,659 | 1,599 | 2,521 | 1,230 | – | 149,384 |
| Financial investments | 32,486 | 52,871 | 35,737 | 18,669 | 16,588 | 41,709 | 97,837 | 108,785 | 404,682 |
| Assets held for sale | 17,846 | 4,378 | 3,501 | 1,883 | 2,852 | 6,682 | 6,553 | 11,489 | 55,184 |
| Accrued income and other financial assets | 12,008 | 7,151 | 1,757 | 390 | 275 | 469 | 421 | 2,435 | 24,906 |
| Total financial assets | 1,190,456 | 179,289 | 107,539 | 67,714 | 61,598 | 142,123 | 310,643 | 426,050 | 2,485,412 |
| Non-financial assets | – | – | – | – | – | – | – | 86,301 | 86,301 |
| Total assets at 30 June 2015 | 1,190,456 | 179,289 | 107,539 | 67,714 | 61,598 | 142,123 | 310,643 | 512,351 | 2,571,713 |
| Financial liabilities | | | | | | | | | |
| Hong Kong currency notes in circulation | 28,104 | – | – | – | – | – | – | – | 28,104 |
| Deposits by banks | 62,588 | 2,961 | 871 | 468 | 150 | 739 | 3,286 | 77 | 71,140 |
| Customer accounts | 1,217,805 | 57,511 | 25,235 | 11,448 | 10,972 | 7,933 | 4,565 | 331 | 1,335,800 |
| Repurchase agreements – non-trading | 64,910 | 11,795 | 2,861 | 601 | 339 | – | 500 | 500 | 81,506 |
| Items in the course of transmission to other banks | 12,711 | – | – | – | – | – | – | – | 12,711 |
| Trading liabilities | 146,612 | 1,523 | 2,597 | 2,572 | 1,505 | 6,051 | 10,098 | 10,477 | 181,435 |
| Financial liabilities designated at fair value | 101 | 899 | 1,309 | 3,864 | 3,082 | 5,590 | 12,937 | 41,703 | 69,485 |
| Derivatives | 286,128 | 81 | 33 | 27 | 420 | 574 | 1,143 | 1,578 | 289,984 |
| Debt securities in issue | 16,235 | 13,703 | 19,315 | 11,725 | 7,924 | 8,421 | 19,782 | 5,551 | 102,656 |
| Liabilities of disposal groups held for sale | 26,188 | 1,827 | 4,731 | 2,071 | 1,802 | 1,995 | 3,088 | 8,248 | 49,950 |
| Accruals and other financial liabilities | 20,451 | 6,467 | 2,343 | 1,424 | 1,115 | 816 | 1,229 | 888 | 34,733 |
| Subordinated liabilities | – | 2 | 1,557 | 402 | – | 69 | 3,194 | 19,557 | 24,781 |
| Total financial liabilities | 1,881,833 | 96,769 | 60,852 | 34,602 | 27,309 | 32,188 | 59,822 | 88,910 | 2,282,285 |
| Non-financial liabilities | – | – | – | – | – | – | – | 88,046 | 88,046 |
| Total liabilities at 30 June 2015 | 1,881,833 | 96,769 | 60,852 | 34,602 | 27,309 | 32,188 | 59,822 | 176,956 | 2,370,331 |

| | Due not more than 1 month \$m | Due over 1 month but not more than 3 months \$m | Due over 3 months but not more than 6 months \$m | Due over 6 months but not more than 9 months \$m | Due over 9 months but not more than 1 year \$m | Due over 1 year but not more than 2 years \$m | Due over 2 years but not more than 5 years \$m | Due over 5 years \$m | Total \$m |
|--|--|---|--|--|--|---|--|----------------------------|------------------|
| Financial assets | | | | | | | | | |
| Cash and balances at central banks | 132,137 | – | – | – | – | – | – | – | 132,137 |
| Items in the course of collection from other banks | 8,144 | – | – | – | – | – | – | – | 8,144 |
| Hong Kong Government certificates of indebtedness | 26,640 | – | – | – | – | – | – | – | 26,640 |
| Trading assets | 345,144 | 1,025 | 100 | – | – | – | 837 | – | 347,106 |
| Financial assets designated at fair value | 863 | 346 | 469 | 646 | 289 | 1,361 | 3,740 | 24,109 | 31,823 |
| Derivatives | 265,816 | 345 | 551 | 82 | 309 | 669 | 1,120 | 947 | 269,839 |
| Loans and advances to banks | 86,341 | 20,506 | 3,958 | 1,908 | 2,517 | 6,734 | 3,390 | 2,033 | 127,387 |
| Loans and advances to customers | 252,285 | 81,682 | 54,901 | 30,874 | 35,921 | 96,919 | 189,032 | 305,627 | 1,047,241 |
| Reverse repurchase agreements – non-trading | 138,214 | 41,593 | 7,387 | 5,034 | 4,190 | 363 | 1,520 | – | 198,301 |
| Financial investments | 30,651 | 43,087 | 33,722 | 20,295 | 21,715 | 43,448 | 111,847 | 118,945 | 423,710 |
| Assets held for sale | 1,600 | 199 | 72 | 106 | 47 | 115 | 210 | 6,598 | 8,947 |
| Accrued income and other financial assets | 18,184 | 7,671 | 2,549 | 1,305 | 299 | 702 | 853 | 3,652 | 35,215 |
| Total financial assets | 1,306,019 | 196,454 | 103,709 | 60,250 | 65,287 | 150,311 | 312,549 | 461,911 | 2,656,490 |
| Non-financial assets | – | – | – | – | – | – | – | 97,103 | 97,103 |
| Total assets at 30 June 2014 | 1,306,019 | 196,454 | 103,709 | 60,250 | 65,287 | 150,311 | 312,549 | 559,014 | 2,753,593 |
| Financial liabilities | | | | | | | | | |
| Hong Kong currency notes in circulation | 26,640 | – | – | – | – | – | – | – | 26,640 |
| Deposits by banks ¹ | 83,467 | 3,888 | 1,613 | 346 | 323 | 850 | 1,801 | 476 | 92,764 |
| Customer accounts ¹ | 1,269,487 | 62,090 | 29,768 | 14,215 | 20,194 | 14,620 | 5,065 | 266 | 1,415,705 |
| Repurchase agreements – non-trading | 126,600 | 23,791 | 7,603 | 2,239 | 4,523 | – | – | 750 | 165,506 |
| Items in the course of transmission to other banks | 9,936 | – | – | – | – | – | – | – | 9,936 |
| Trading liabilities | 189,446 | 1,304 | 3,763 | 3,713 | 2,752 | 6,879 | 9,396 | 10,882 | 228,135 |
| Financial liabilities designated at fair value | 2,648 | 973 | 9 | 2,135 | 4,291 | 9,211 | 18,622 | 45,079 | 82,968 |
| Derivatives | 258,655 | 40 | 78 | 41 | 92 | 698 | 1,650 | 2,240 | 263,494 |
| Debt securities in issue | 16,560 | 9,767 | 10,576 | 9,592 | 6,417 | 18,854 | 19,081 | 5,550 | 96,397 |
| Liabilities of disposal groups held for sale | 7,894 | 227 | 49 | 66 | 116 | 225 | 585 | 3,158 | 12,320 |
| Accruals and other financial liabilities | 23,412 | 8,366 | 3,086 | 1,939 | 1,416 | 1,661 | 1,632 | 1,075 | 42,587 |
| Subordinated liabilities | 16 | 114 | 26 | 183 | – | 308 | 4,006 | 23,399 | 28,052 |
| Total financial liabilities | 2,014,761 | 110,560 | 56,571 | 34,469 | 40,124 | 53,306 | 61,838 | 92,875 | 2,464,504 |
| Non-financial liabilities | – | – | – | – | – | – | – | 90,367 | 90,367 |
| Total liabilities at 30 June 2014 | 2,014,761 | 110,560 | 56,571 | 34,469 | 40,124 | 53,306 | 61,838 | 183,242 | 2,554,871 |

Maturity analysis of assets and liabilities (continued)

| | Due not more than 1 month \$m | Due over 1 month but not more than 3 months \$m | Due over 3 months but not more than 6 months \$m | Due over 6 months but not more than 9 months \$m | Due over 9 months but not more than 1 year \$m | Due over 1 year but not more than 2 years \$m | Due over 2 years but not more than 5 years \$m | Due over 5 years \$m | Total \$m |
|--|--|---|--|--|--|---|--|----------------------------|------------------|
| Financial assets | | | | | | | | | |
| Cash and balances at central banks | 129,957 | – | – | – | – | – | – | – | 129,957 |
| Items in the course of collection from other banks | 4,927 | – | – | – | – | – | – | – | 4,927 |
| Hong Kong Government certificates of indebtedness | 27,674 | – | – | – | – | – | – | – | 27,674 |
| Trading assets | 303,463 | – | – | – | – | – | 730 | – | 304,193 |
| Financial assets designated at fair value | 244 | 399 | 417 | 346 | 208 | 1,825 | 4,634 | 20,964 | 29,037 |
| Derivatives | 341,558 | 56 | 463 | 220 | 32 | 1,003 | 1,033 | 643 | 345,008 |
| Loans and advances to banks | 73,758 | 17,649 | 5,682 | 1,934 | 1,850 | 7,371 | 1,981 | 1,924 | 112,149 |
| Loans and advances to customers | 203,130 | 76,236 | 55,018 | 35,347 | 37,674 | 91,300 | 187,728 | 288,227 | 974,660 |
| Reverse repurchase agreements – non-trading | 116,002 | 30,490 | 9,076 | 2,230 | 582 | 868 | 2,465 | – | 161,713 |
| Financial investments | 28,237 | 50,445 | 41,503 | 14,577 | 17,011 | 48,392 | 96,891 | 118,411 | 415,467 |
| Assets held for sale | 114 | 186 | 13 | 18 | 10 | 41 | 126 | 6,224 | 6,732 |
| Accrued income and other financial assets | 17,756 | 7,386 | 2,402 | 587 | 317 | 707 | 1,156 | 3,579 | 33,890 |
| Total financial assets | 1,246,820 | 182,847 | 114,574 | 55,259 | 57,684 | 151,507 | 296,744 | 439,972 | 2,545,407 |
| Non-financial assets | – | – | – | – | – | – | – | 88,732 | 88,732 |
| Total assets at 31 December 2014 | 1,246,820 | 182,847 | 114,574 | 55,259 | 57,684 | 151,507 | 296,744 | 528,704 | 2,634,139 |
| Financial liabilities | | | | | | | | | |
| Hong Kong currency notes in circulation | 27,674 | – | – | – | – | – | – | – | 27,674 |
| Deposits by banks | 66,829 | 2,890 | 2,539 | 511 | 810 | 621 | 2,963 | 263 | 77,426 |
| Customer accounts | 1,216,574 | 57,127 | 32,925 | 15,023 | 13,586 | 9,278 | 5,819 | 310 | 1,350,642 |
| Repurchase agreements – non-trading | 95,243 | 5,029 | 4,054 | 1,392 | 714 | – | – | 1,000 | 107,432 |
| Items in the course of transmission to other banks | 5,990 | – | – | – | – | – | – | – | 5,990 |
| Trading liabilities | 155,604 | 2,041 | 2,636 | 1,439 | 2,918 | 5,744 | 9,603 | 10,587 | 190,572 |
| Financial liabilities designated at fair value | 981 | 912 | 4,264 | 972 | 1,557 | 8,500 | 15,037 | 43,930 | 76,153 |
| Derivatives | 335,802 | 23 | 86 | 223 | 54 | 621 | 1,121 | 2,739 | 340,669 |
| Debt securities in issue | 14,741 | 15,424 | 13,027 | 7,854 | 6,050 | 14,209 | 19,481 | 5,161 | 95,947 |
| Liabilities of disposal groups held for sale | 191 | 28 | 56 | 55 | 63 | 213 | 551 | 2,837 | 3,994 |
| Accruals and other financial liabilities | 20,893 | 9,170 | 3,013 | 1,166 | 1,757 | 1,355 | 1,674 | 818 | 39,846 |
| Subordinated liabilities | – | 150 | – | 3 | 167 | 113 | 3,607 | 22,624 | 26,664 |
| Total financial liabilities | 1,940,522 | 92,794 | 62,600 | 28,638 | 27,676 | 40,654 | 59,856 | 90,269 | 2,343,009 |
| Non-financial liabilities | – | – | – | – | – | – | – | 91,152 | 91,152 |
| Total liabilities at 31 December 2014 | 1,940,522 | 92,794 | 62,600 | 28,638 | 27,676 | 40,654 | 59,856 | 181,421 | 2,434,161 |

17 Provisions

| | Restructuring costs | Contractual commitments | Legal proceedings and regulatory matters | Customer remediation | Other provisions | Total |
|--|---------------------|-------------------------|--|----------------------|------------------|--------------|
| | \$m | \$m | \$m | \$m | \$m | \$m |
| At 1 January 2015 | 197 | 234 | 2,184 | 1,831 | 552 | 4,998 |
| Additional provisions/increase in provisions | 92 | 35 | 1,432 | 155 | 45 | 1,759 |
| Provisions utilised | (47) | (1) | (145) | (450) | (71) | (714) |
| Amounts reversed | (13) | (10) | (86) | (13) | (50) | (172) |
| Unwinding of discounts | – | – | 24 | 4 | – | 28 |
| Exchange differences and other movements | (34) | (89) | (441) | (173) | (37) | (774) |
| At 30 June 2015 | 195 | 169 | 2,968 | 1,354 | 439 | 5,125 |
| At 1 January 2014 | 271 | 177 | 1,832 | 2,382 | 555 | 5,217 |
| Additional provisions/increase in provisions | 51 | 38 | 188 | 299 | 67 | 643 |
| Provisions utilised | (77) | (1) | (214) | (1,085) | (51) | (1,428) |
| Amounts reversed | (20) | (14) | (157) | (64) | (46) | (301) |
| Unwinding of discounts | – | – | 22 | 3 | 3 | 28 |
| Exchange differences and other movements | 1 | (6) | 94 | 37 | (2) | 124 |
| At 30 June 2014 | 226 | 194 | 1,765 | 1,572 | 526 | 4,283 |
| At 1 July 2014 | 226 | 194 | 1,765 | 1,572 | 526 | 4,283 |
| Additional provisions/increase in provisions | 96 | 98 | 1,564 | 1,141 | 87 | 2,986 |
| Provisions utilised | (66) | (1) | (895) | (684) | (61) | (1,707) |
| Amounts reversed | (23) | (32) | (124) | (120) | (20) | (319) |
| Unwinding of discounts | – | 1 | 21 | 7 | 8 | 37 |
| Exchange differences and other movements | (36) | (26) | (147) | (85) | 12 | (282) |
| At 31 December 2014 | 197 | 234 | 2,184 | 1,831 | 552 | 4,998 |

Further details of ‘Legal proceedings and regulatory matters’ are set out in Note 19. Legal proceedings include civil court, arbitration or tribunal proceedings brought against HSBC companies (whether by way of claim or counterclaim) or civil disputes that may, if not settled, result in court, arbitration or tribunal proceedings. Regulatory matters refer to investigations, reviews and other actions carried out by, or in response to the actions of, regulators or law enforcement agencies in connection with alleged wrongdoing by HSBC.

‘Customer remediation’ refers to activities (root cause analysis, customer contact, case reviews, decision making and redress calculations) carried out by HSBC to compensate customers for losses or damages associated with a failure to comply with regulations or to treat customers fairly. Customer remediation is often initiated by HSBC in response to customer complaints and/or industry developments in sales practices, and is not necessarily initiated by regulatory action.

Payment Protection Insurance

At 30 June 2015, a provision of \$903m (30 June 2014: \$759m; 31 December 2014: \$1,079m) was held relating to the estimated liability for redress in respect of the possible mis-selling of payment protection insurance (‘PPI’) policies in previous years. An increase in provisions of \$91m was recognised during the half-year to 30 June 2015, primarily reflecting higher expected levels of inbound complaints by claims management companies compared with previous forecasts.

The estimated liability for redress is calculated on the basis of the total premiums paid by the customer plus simple interest of 8% per annum (or the rate inherent in the related loan product where higher). The basis for calculating the redress liability is the same for single premium and regular premium policies. Future estimated redress levels are based on historically observed redress per policy.

A total of 5.4m PPI policies have been sold by HSBC since 2000 which generated estimated gross written premiums of approximately \$4.9bn and revenues of approximately \$4.0bn at first half of 2015 average exchange rates. At 30 June 2015, the estimated total complaints expected to be received were 2.0m, representing 36% of total policies sold. It is estimated that contact will be made with regard to 2.3m policies, representing 43% of total policies sold. This estimate includes inbound complaints as well as HSBC’s proactive contact exercise on certain policies (‘outbound contact’).

The following table details the cumulative number of complaints received at 30 June 2015 and the number of claims expected in the future:

| | Cumulative to 30 June 2015 | Future expected |
|--|----------------------------|-----------------|
| Inbound complaints ¹ (000s of policies) | 1,293 | 300 |
| Outbound contact (000s of policies) | 571 | 167 |
| Response rate to outbound contact | 51% | 51% |
| Average uphold rate per claim ² | 73% | 73% |
| Average redress per claim (\$) | 2,595 | 2,604 |

1 Excludes invalid claims where the complainant has not held a PPI policy.

2 Claims include inbound and responses to outbound contact.

The main assumptions involved in calculating the redress liability are the volume of inbound complaints, the projected period of inbound complaints, the decay rate of complaint volumes, the population identified as systemically mis-sold and the number of policies per customer complaint. The main assumptions are likely to evolve over time as root cause analysis continues, more experience is available regarding customer initiated complaint volumes received, and we handle responses to our ongoing outbound contact.

A 100,000 increase/decrease in the total inbound complaints would increase/decrease the redress provision by approximately \$194m. Each 1% increase/decrease in the response rate to our outbound contact exercise would increase/decrease the redress provision by approximately \$13m.

A 2014 decision of the UK Supreme Court (Plevin) held that, judged on its own facts, non-disclosure of the amount of commissions payable in connection with the sale of PPI to a customer created an unfair relationship under the provisions of the UK Consumer Credit Act ('CCA'). The FCA is considering whether additional rules and/or guidance are required to deal with the effect of the Plevin decision on complaints about PPI, and the Financial Ombudsman Service is reviewing the implications for complaints referred to it. HSBC is assessing any possible consequences of the case on its historical sales of PPI; at 30 June 2015 no adjustment to the PPI provision had been recorded in relation to the matter.

In addition to these factors and assumptions, the extent of the required redress will also depend on the facts and circumstances of each individual customer's case. For these reasons, there is currently a high degree of uncertainty as to the eventual costs of redress.

Interest rate derivatives

At 30 June 2015, a provision of \$210m (30 June 2014: \$317m; 31 December 2014: \$312m) was held relating to the estimated liability for redress in respect of the possible mis-selling of interest rate derivatives in the UK. The provision relates to the estimated redress payable to customers in respect of historical payments under derivative contracts, the expected write-off by the bank of open derivative contract balances and the estimated project costs. There was no increase to the provision recorded in the period (30 June 2014: \$38m; 31 December 2014: \$250m).

UK Consumer Credit Act

HSBC has undertaken a review of compliance with the fixed-sum unsecured loan agreement requirements of the CCA. \$334m was recorded within 'Accruals, deferred income and other liabilities' for the repayment of interest to customers (30 June 2014: \$367m; 31 December 2014: \$379m), primarily where annual statements did not remind them of their right to partially prepay the loan, notwithstanding that the customer loan documentation did refer to this right. The cumulative liability to date was \$588m (30 June 2014: \$339m; 31 December 2014: \$591m), of which payments of \$245m (30 June 2014: nil; 31 December 2014: \$212m) were made to customers. There is some uncertainty as to whether other technical requirements of the CCA have been met.

Brazilian labour, civil and fiscal claims

Brazilian labour, civil and fiscal litigation provisions were \$451m (30 June 2014: \$404m; 31 December 2014: \$501m) as at 30 June 2015. Of these provisions, \$207m (30 June 2014: \$256m; 31 December 2014: \$246m) was in respect of labour and overtime litigation claims brought by past employees against HSBC operations in Brazil following their departure from the bank. The main assumptions involved in estimating the liability are the expected number of departing employees, individual salary levels and the facts and circumstances of each individual case. These provisions form part of the Brazilian disposal group and were classified as 'held for sale' at 30 June 2015 (see Note 12).

18 Contingent liabilities, contractual commitments and guarantees

| | 30 June 2015 \$m | At | |
|---|------------------------|------------------------|----------------------------|
| | | 30 June 2014 \$m | 31 December 2014 \$m |
| Guarantees and contingent liabilities | | | |
| Guarantees | 88,103 | 87,800 | 86,385 |
| Other contingent liabilities | 297 | 394 | 346 |
| | 88,400 | 88,194 | 86,731 |
| Commitments | | | |
| Documentary credits and short-term trade-related transactions | 11,720 | 12,986 | 12,082 |
| Forward asset purchases and forward deposits placed | 1,174 | 2,353 | 823 |
| Undrawn formal standby facilities, credit lines and other commitments to lend | 637,558 | 626,729 | 638,475 |
| | 650,452 | 642,068 | 651,380 |

The above table discloses the nominal principal amounts of commitments, guarantees and other contingent liabilities. Contingent liabilities arising from legal proceedings, regulatory and other matters against the Group are disclosed in Note 19. Nominal principal amounts represent the amounts at risk should contracts be fully drawn upon and clients default. As a significant proportion of guarantees and commitments is expected to expire without being drawn upon, the total of the nominal principal amounts is not indicative of future liquidity requirements.

Capital commitments

In addition to the commitments disclosed above, at 30 June 2015 HSBC had \$468m (30 June 2014: \$513m; 31 December 2014: \$656m) of capital commitments contracted but not provided for and \$174m (30 June 2014: \$232m; 31 December 2014: \$101m) of capital commitments authorised but not contracted for.

19 Legal proceedings and regulatory matters

HSBC is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, HSBC considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 29 of the *Annual Report and Accounts 2014*. While the outcome of legal proceedings and regulatory matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters as at 30 June 2015 (see Note 17). Where an individual provision is material, the fact that a provision has been made is stated and quantified, except to the extent doing so would be seriously prejudicial. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

Securities litigation

As a result of an August 2002 restatement of previously reported consolidated financial statements and other corporate events, including the 2002 settlement with 46 states and the District of Columbia relating to real estate lending practices, Household International, Inc. ('Household International') and certain former officers were named as defendants in a class action lawsuit, *Jaffe v. Household International, Inc., et al.*, filed in August 2002 in the US District Court for the Northern District of Illinois (the 'Illinois District Court'). The complaint asserted claims under the US Securities Exchange Act and alleged that the defendants knowingly or recklessly made false and misleading statements of material fact relating to Household International's Consumer Lending operations, including collections, sales and lending practices, some of which ultimately led to the 2002 state settlement agreement, and facts relating to accounting practices evidenced by the restatement. Ultimately, a class was certified on behalf of all persons who acquired and disposed of Household International common stock between July 1999 and October 2002.

A jury trial concluded in April 2009, which was decided partly in favour of the plaintiffs. Various legal challenges to the verdict were raised in post-trial briefing.

In December 2011, following the submission of claim forms by class members, the court-appointed claims administrator to the Illinois District Court reported that the total number of claims that generated an allowed loss was 45,921, and that the aggregate amount of these claims was approximately \$2.2bn. The defendants filed legal challenges regarding the presumption of reliance as to the class and compliance with the claim form requirements, which the Illinois District Court, in September 2012, rejected for the most part. The Illinois District Court directed further proceedings before a court-appointed Special Master to address certain claims submission issues.

In October 2013, the Illinois District Court denied the defendants' additional post-trial motions for judgement as a matter of law or, in the alternative, for a new trial, and granted plaintiffs' motions for a partial final judgement and awarded pre-judgement interest at the prime rate, compounded annually. Subsequently, in October 2013, the Illinois District Court entered a partial final judgement against the defendants in the amount of approximately \$2.5bn (including pre-judgement interest).

In addition to the partial judgement that has been entered, there also remain approximately \$625m in claims, prior to imposition of pre-judgement interest, that still are subject to objections that have not yet been ruled upon by the Illinois District Court.

The defendants filed a Notice of Appeal of the partial final judgement, and oral argument was heard by the US Court of Appeals for the Seventh Circuit (the 'Court of Appeals') in May 2014. In May 2015, the Court of Appeals issued a decision reversing the partial final judgement of the Illinois District Court and remanding the case for a new trial on loss causation, which ultimately will entail a reassessment of the quantum of damages. In July 2015, the Court of Appeals denied plaintiffs' petition for a panel rehearing of the decision of the Court of Appeals.

The timing and ultimate resolution of this matter remains highly uncertain, and given the complexity and uncertainties associated with a new trial on loss causation and a reassessment of the quantification of damages, there continues to be a wide range of possible outcomes. Depending on whether and to what extent the plaintiffs are able to demonstrate loss causation, the amount of damages, based upon the claims included in the reversed partial final judgement, and other pending claims and the application of pre-judgement interest on all pending claims, may lie in a range from a relatively insignificant amount to an amount up to or exceeding \$3.6bn. A provision has been recognised based on management's best estimate of probable outflows, but the amount of such provision is not disclosed as it would prejudice seriously the position of HSBC in the resolution of this matter.

Bernard L. Madoff Investment Securities LLC

Bernard L. Madoff ('Madoff') was arrested in December 2008, and ultimately pleaded guilty to running a Ponzi scheme. He has acknowledged, in essence, that while purporting to invest his customers' money in securities, he in fact never invested in

securities and used other customers' money to fulfil requests to return investments. His firm, Bernard L. Madoff Investment Securities LLC ('Madoff Securities'), is being liquidated in the US by a trustee (the 'Trustee').

Various non-US HSBC companies provided custodial, administration and similar services to a number of funds incorporated outside the US whose assets were invested with Madoff Securities. Based on information provided by Madoff Securities, as at 30 November 2008, the purported aggregate value of these funds was \$8.4bn, an amount that includes fictitious profits reported by Madoff. Based on information available to HSBC, we have estimated that the funds' actual transfers to Madoff Securities minus their actual withdrawals from Madoff Securities during the time that HSBC serviced the funds totalled approximately \$4bn. Various HSBC companies have been named as defendants in lawsuits arising out of Madoff Securities' fraud.

US/UK litigation: The Trustee has brought suits against various HSBC companies in the US Bankruptcy Court and in the English High Court. The Trustee's US actions included common law claims, alleging that HSBC aided and abetted Madoff's fraud and breach of fiduciary duty. Those claims were dismissed on grounds of lack of standing. The Trustee's remaining US claims seek recovery of prepetition transfers pursuant to US bankruptcy law. The amount of these remaining claims has not been pleaded or determined as against HSBC.

Alpha Prime Fund Ltd ('Alpha Prime') and Senator Fund SPC ('Senator'), co-defendants in the Trustee's US actions, have brought cross-claims against HSBC. These funds have also sued HSBC in Luxembourg (discussed below).

The Trustee's English action seeks recovery of unspecified transfers from Madoff Securities to or through HSBC. HSBC has not yet been served with the Trustee's English action. The Trustee's deadline for serving the claim has been extended through the third quarter of 2015.

Fairfield Sentry Limited, Fairfield Sigma Limited and Fairfield Lambda Limited (collectively, 'Fairfield'), funds whose assets were invested with Madoff Securities, commenced multiple suits in the US and the British Virgin Islands (the 'BVI') against fund shareholders, including various HSBC companies that acted as nominees for HSBC clients, seeking restitution of payments made in connection with share redemptions. The US actions brought by Fairfield are stayed pending the outcome of the Fairfield cases in the BVI (discussed below).

In September 2013, the US Court of Appeals for the Second Circuit ('Court of Appeals') affirmed the dismissal of purported class action claims against HSBC and others brought by investors in three Madoff-invested funds on grounds of *forum non conveniens*. The plaintiffs filed petitions for certiorari to the US Supreme Court which were denied in March 2015. In May 2015, plaintiffs filed a motion asking the Court of Appeals to restore their class action claims on the basis of an alleged change of law governing the claims. In June 2015, the Court of Appeals denied plaintiffs' motion.

In December 2014, three new Madoff-related actions were filed in the US. The first is a purported class action brought in New York federal court by direct investors in Madoff Securities who were holding their investments as of December 2008, asserting various common law claims and seeking to recover damages lost to Madoff Securities' fraud on account of HSBC's purported knowledge and alleged furtherance of the fraud. This matter has been stayed pending the outcome of a similar case not involving HSBC. The other two actions were filed by SPV Optimal SUS Ltd ('SPV OSUS'), the purported assignee of the Madoff Securities-invested company, Optimal Strategic US Equity Ltd. One of these actions was filed in New York state court and the other in New York federal court. In January 2015, SPV OSUS dismissed its federal lawsuit against HSBC. The state court action against HSBC remains pending.

In May 2015, a new action was filed in New York federal court by two investors in Hermes International Fund Limited ('Hermes') asserting various common law claims against HSBC and seeking to recover damages lost to Madoff Securities' fraud. A preliminary conference is scheduled to take place in October 2015.

BVI litigation: Beginning in October 2009, the Fairfield funds, whose assets were directly or indirectly invested with Madoff Securities, commenced multiple suits in the BVI against numerous fund shareholders, including various HSBC companies that acted as nominees for clients of HSBC's private banking business and other clients who invested in the Fairfield funds. The Fairfield funds are seeking restitution of redemption payments made by the funds to defendants on the grounds that they were mistakenly based on inflated net asset values. In April 2014, the UK Privy Council issued a ruling on two preliminary issues in favour of other defendants in the BVI actions, and issued its order in October 2014. A motion was brought by other defendants before the BVI court challenging the Fairfield liquidator's authorisation to pursue its claims in the US. That motion was heard in March 2015 and judgement is pending.

Bermuda litigation: In January 2009, Kingate Global Fund Limited and Kingate Euro Fund Limited (collectively, 'Kingate'), funds whose assets were directly or indirectly invested with Madoff Securities, commenced an action in Bermuda against HSBC Bank Bermuda Limited for recovery of funds held in Kingate's accounts, fees and dividends. This action is currently pending, but is not expected to move forward until there is a resolution as to the Trustee's separate US actions against Kingate and HSBC Bank Bermuda Limited.

Thema Fund Limited ('Thema') and Hermes, funds invested with Madoff Securities, each also brought three actions in Bermuda in 2009. The first set of actions were brought against HSBC Institutional Trust Services (Bermuda) Limited and seek recovery of funds in frozen accounts held at HSBC. The second set of actions asserts liability against HSBC Institutional Trust Services (Bermuda) Limited in relation to claims for mistake, recovery of fees and damages for breach of contract. The third set of actions seeks return of fees from HSBC Bank Bermuda Limited and HSBC Securities Services (Bermuda). There has been little

progress in these actions for several years, although in January 2015, Thema and Hermes served notice of intent to proceed in respect of the second set of actions referred to above. A hearing has not yet been scheduled.

Cayman Islands litigation: In February 2013, Primeo Fund, a Cayman Islands-based fund invested in Madoff Securities, brought an action against the fund administrator, Bank of Bermuda (Cayman), and the fund custodian, HSBC Securities Services (Luxembourg) ('HSSL'), alleging breaches of contract. Primeo Fund claims damages from defendants to compensate it for alleged losses, including loss of profit and any liability to the Trustee. Trial is scheduled to begin in November 2016.

Luxembourg litigation: In April 2009, Herald Fund SPC ('Herald') (in official liquidation since July 2013) commenced action against HSSL before the Luxembourg District Court seeking restitution of all cash and securities Herald purportedly lost because of Madoff Securities' fraud, or in the alternative, money damages in the same amount. In March 2013, the Luxembourg District Court dismissed Herald's restitution claim for the return of the securities. Herald's restitution claim for return of the cash and claim for money damages were reserved. Herald appealed this judgement in May 2013. In May 2015, the Luxembourg Court of Appeal held that Herald must pay security for costs before its claim can be pursued on appeal. Herald filed a request for correction of material errors with respect to the amount of the security, to which HSSL has responded. The parties are awaiting a hearing on Herald's request. Proceedings on the reserved restitution claim were suspended pending resolution of the appeal.

In October 2009, Alpha Prime commenced an action against HSSL before the Luxembourg District Court, alleging breach of contract and negligence in the appointment of Madoff Securities as a sub-custodian of Alpha Prime's assets. Alpha Prime was ordered to provide a judicial bond. Alpha Prime requested a stay of these proceedings pending its negotiations with the Trustee in the US proceedings. The matter has been temporarily suspended at Alpha Prime's request. The parties are awaiting the next hearing date.

In March 2010, Herald (Lux) SICAV ('Herald (Lux)') (in official liquidation since April 2009) commenced an action against HSSL before the Luxembourg District Court seeking restitution of securities, or the cash equivalent, or money damages in the alternative. Herald (Lux) has also requested the restitution of fees paid to HSSL as custodian and service agent of the fund. The next preliminary hearing is scheduled to take place in September 2015.

In December 2014, Senator commenced an action against HSSL before the Luxembourg District Court, seeking the restitution of securities held as of the latest net asset value statement from November 2008, or in the alternative, money damages. The matter has been temporarily suspended at Senator's request. The parties are awaiting the next hearing date.

In April 2015, Senator commenced an action against the Luxembourg branch of HSBC Bank plc before the Luxembourg District Court asserting identical claims to those asserted in Senator's action against HSSL. This action is at an early stage.

HSSL has been sued in various actions by shareholders in the Primeo Select Fund, Herald, Herald (Lux), and Hermes. These actions are in different stages, most of which have been dismissed, suspended or postponed.

Ireland litigation: In November 2013, Defender Limited, a fund invested with Madoff securities, commenced an action against HSBC Institutional Trust Services (Ireland) Limited ('HTIE'), alleging breach of the custodian agreement and claiming damages and indemnification for claims against Defender Limited for fund losses. The action also includes four non-HSBC parties, who served as directors and investment managers to Defender Limited. This matter is ongoing.

In July 2013 and December 2013, settlements were reached in respect of claims filed against HTIE in the Irish High Court by Thema International Fund plc ('Thema International') and Alternative Advantage Plc ('AA'), respectively. Two actions by individual Thema International shareholders against HTIE and Thema International remain active. A hearing on preliminary matters relating to the plaintiffs' entitlement to bring the actions is scheduled to take place in December 2015.

In December 2014, a new proceeding against HTIE and HSBC Securities Services (Ireland) Limited was brought by SPV OSUS, alleging breach of the custodian agreement and claiming damages and indemnification for fund losses.

There are many factors that may affect the range of possible outcomes, and the resulting financial impact, of the various Madoff-related proceedings described above, including but not limited to the multiple jurisdictions in which the proceedings have been brought and the number of different plaintiffs and defendants in such proceedings. Based upon the information currently available, management's estimate of possible aggregate damages that might arise as a result of all claims in the various Madoff-related proceedings is up to or exceeding \$800m. Due to uncertainties and limitations of this estimate, the ultimate damages could differ significantly from this amount.

US mortgage-related investigations

In April 2011, following completion of a broad horizontal review of industry residential mortgage foreclosure practices, HSBC Bank USA N.A. ('HSBC Bank USA') entered into a consent cease-and-desist order with the Office of the Comptroller of the Currency (the 'OCC'). HSBC Finance Corporation ('HSBC Finance') and HSBC North America Holdings Inc. ('HNAH') also entered into a similar consent order with the Federal Reserve Board (the 'FRB') (together with the OCC order, the 'Servicing Consent Orders'). The Servicing Consent Orders require prescribed actions to address the deficiencies noted in the joint examination and described in the consent orders. HSBC Bank USA, HSBC Finance and HNAH continue to work with the OCC and the FRB to align their processes with the requirements of the consent orders and are implementing operational changes as required. In June 2015, HSBC Bank USA entered into an amendment to the OCC order ('Amended OCC Order') setting forth, inter alia, that HSBC Bank USA is not yet in compliance with all requirements of the OCC order and imposing business restrictions related to

residential mortgage servicing. The business restrictions, which include a prohibition against the bulk acquisition of residential mortgage servicing or residential mortgage servicing rights and a requirement to seek OCC supervisory non-objection to outsource any residential mortgage servicing activities that are not already outsourced as of the date of the Amended OCC Order, will remain in place until the OCC order is terminated. A failure to satisfy all requirements of the OCC order may result in a variety of regulatory consequences for HSBC Bank USA, including the imposition of civil money penalties.

Pursuant to the Servicing Consent Orders, an independent consultant was retained to conduct an independent review of foreclosures pending or completed between January 2009 and December 2010 (the 'Independent Foreclosure Review') to determine if any borrower was financially injured as a result of an error in the foreclosure process. In February 2013, HSBC Bank USA entered into an agreement with the OCC, and HSBC Finance and HNAH entered into an agreement with the FRB (together, the 'IFR Settlement Agreements'), pursuant to which the Independent Foreclosure Review was replaced by a broader framework under which HSBC and 12 other participating servicers agreed to provide, in the aggregate, over \$9.3bn in cash payments and other assistance to help eligible borrowers. Pursuant to the IFR Settlement Agreements, HNAH made a cash payment of \$96m into a fund used to make payments to borrowers that were in active foreclosure during 2009 and 2010, and in addition, is providing other assistance (e.g. loan modifications) to help eligible borrowers. Borrowers who receive compensation will not be required to execute a release or waiver of rights and will not be precluded from pursuing litigation concerning foreclosure or other mortgage servicing practices. For participating servicers, including HSBC Bank USA and HSBC Finance, fulfilment of the terms of the IFR Settlement Agreements will satisfy the Independent Foreclosure Review requirements of the Servicing Consent Orders, including the wind-down of the Independent Foreclosure Review.

The Servicing Consent Orders do not preclude additional enforcement actions against HSBC Bank USA, HSBC Finance or HNAH by bank regulatory, governmental or law enforcement agencies, such as the US Department of Justice (the 'DoJ') or state Attorneys General, which could include the imposition of civil money penalties and other sanctions relating to the activities that are the subject of the Servicing Consent Orders. Pursuant to the IFR Settlement Agreement with the OCC, however, the OCC has agreed that it will not assess civil money penalties or initiate any further enforcement action with respect to past mortgage servicing and foreclosure-related practices addressed in the Servicing Consent Orders, provided the terms of the IFR Settlement Agreements are fulfilled. The OCC's agreement not to assess civil money penalties is further conditioned on HNAH making payments or providing borrower assistance pursuant to any agreement that may be entered into with the DoJ in connection with the servicing of residential mortgage loans. The FRB has agreed that any assessment of civil money penalties by the FRB will reflect a number of adjustments, including amounts expended in consumer relief and payments made pursuant to any agreement that may be entered into with the DoJ in connection with the servicing of residential mortgage loans. The IFR Settlement Agreements do not preclude private litigation concerning these practices.

Separate from the Servicing Consent Orders and the settlements related to the Independent Foreclosure Review discussed above, in February 2012, five of the largest US mortgage servicers (not including any HSBC companies) reached a settlement with the DoJ, the US Department of Housing and Urban Development and state Attorneys General of 49 states with respect to foreclosure and other mortgage servicing practices. Following the February 2012 settlement, these government agencies initiated discussions with other mortgage industry servicers, including HSBC, HSBC Bank USA, HSBC Finance and HNAH, and discussions have been held with US bank regulators and other governmental agencies regarding a potential resolution. Any such settlement, however, may not completely preclude other enforcement actions by state or federal agencies, bank regulators or law enforcement bodies related to foreclosure and other mortgage servicing practices including, but not limited to, matters relating to the securitisation of mortgages for investors. These practices have in the past resulted in private litigation, and such a settlement would not preclude further private litigation concerning these practices.

US mortgage securitisation activity and litigation

HSBC Bank USA has been involved as a sponsor/seller of loans used to facilitate whole loan securitisations underwritten by HSBC Securities (USA) Inc. ('HSI'). From 2005 to 2007, HSBC Bank USA purchased and sold \$24bn of such loans to HSI which were subsequently securitised and sold by HSI to third parties. The outstanding principal balance on these loans was approximately \$5.5bn as at 30 June 2015.

Participants in the US mortgage securitisation market that purchased and repackaged whole loans have been the subject of lawsuits and governmental and regulatory investigations and inquiries, which have been directed at groups within the US mortgage market such as servicers, originators, underwriters, trustees or sponsors of securitisations, and at particular participants within these groups. As the industry's residential mortgage foreclosure issues continue, HSBC Bank USA has taken title to an increasing number of foreclosed homes as trustee on behalf of various securitisation trusts. As nominal record owner of these properties, HSBC Bank USA has been sued by municipalities and tenants alleging various violations of law, including laws regarding property upkeep and tenants' rights. While HSBC believes and continues to maintain that the obligations at issue and any related liabilities are properly those of the servicer of each trust, HSBC continues to receive significant adverse publicity in connection with these and similar matters, including foreclosures that are serviced by others in the name of 'HSBC, as trustee'.

Between June and December 2014, a number of lawsuits were filed in state and federal court in New York against HSBC Bank USA as trustee of over 250 mortgage securitisation trusts. These lawsuits are brought derivatively on behalf of the trusts by a class of investors including, amongst others, BlackRock and PIMCO funds. Similar lawsuits were filed simultaneously against other non-HSBC financial institutions that served as mortgage securitisation pool trustees. The complaints against HSBC Bank

USA allege that the trusts have sustained losses in collateral value of over \$34bn. The lawsuits seek unspecified damages resulting from alleged breaches of the US Trust Indenture Act, breach of fiduciary duties, negligence, breach of contract and breach of the common law duty of trust. HSBC filed a motion to dismiss three of these lawsuits in January 2015, which was unsuccessful.

Various HSBC companies have also been named as defendants in a number of actions in connection with residential mortgage-backed securities ('RMBS') offerings, which generally allege that the offering documents for securities issued by securitisation trusts contained material misstatements and omissions, including statements regarding the underwriting standards governing the underlying mortgage loans. In June 2015, HSBC's motion to dismiss in one of these actions was granted in its entirety.

HSBC Bank USA, HSBC Finance and Decision One Mortgage Company LLC (an indirect subsidiary of HSBC Finance) have been named as defendants in various mortgage loan repurchase actions brought by trustees of securitisation trusts. In the aggregate, these actions seek to have the HSBC defendants repurchase mortgage loans, or pay compensatory damages in lieu of repurchase totalling at least \$1bn. Motions to dismiss have been filed in two of these actions. In respect of one of these actions, the motion to dismiss was denied and a trial is scheduled to take place in February 2016. The other motion to dismiss remains pending. In addition to actions brought by trustees of securitisation trusts, HSBC Bank USA and Decision One Mortgage Company LLC have been named as defendants in two separate actions filed by Residential Funding Company LLC ('RFC'), a mortgage loan purchase counterparty. These actions seek unspecified damages in relation to alleged losses suffered by RFC as a result of approximately 25,000 mortgage loans purchased from HSBC between 1986-2007. These actions are at an early stage.

Since 2010, various HSBC entities have received subpoenas and requests for information from US authorities seeking the production of documents and information regarding HSBC's involvement, and the involvement of its affiliates, in particular private-label RMBS transactions as an issuer, sponsor, underwriter, depositor, trustee, custodian or servicer. HSBC continues to cooperate with these US authorities. In November 2014, HNAH, on behalf of itself and various subsidiaries including, but not limited to, HSBC Bank USA, HASCO, HSI, HSI Asset Loan Obligation, HSBC Mortgage Corporation (USA), HSBC Finance and Decision One Mortgage Company LLC, received a subpoena from the US Attorney's Office for the District of Colorado, pursuant to the Financial Industry Reform, Recovery and Enforcement Act, concerning the origination, financing, purchase, securitisation and servicing of subprime and non-subprime residential mortgages. This matter is at an early stage and HSBC is cooperating fully.

HSBC expects the focus on mortgage securitisations to continue. As a result, HSBC companies may be subject to additional claims, litigation and governmental or regulatory scrutiny relating to its participation in the US mortgage securitisation market, either as a member of a group or individually.

There are many factors that may affect the range of possible outcomes, and the resulting financial impact, of these private lawsuits. Any liabilities that might arise as a result of the claims in these actions could, however, be significant.

Anti-money laundering and sanctions-related matters

In October 2010, HSBC Bank USA entered into a consent cease-and-desist order with the OCC, and HNAH entered into a consent cease-and-desist order with the FRB (the 'Orders'). These Orders required improvements to establish an effective compliance risk management programme across HSBC's US businesses, including risk management related to US Bank Secrecy Act (the 'BSA') and anti-money laundering ('AML') compliance. Steps continue to be taken to address the requirements of the Orders.

In December 2012, HSBC Holdings, HNAH and HSBC Bank USA entered into agreements with US and UK government agencies regarding past inadequate compliance with the BSA, AML and sanctions laws. Among those agreements, HSBC Holdings and HSBC Bank USA entered into a five-year deferred prosecution agreement with the DoJ, the US Attorney's Office for the Eastern District of New York, and the US Attorney's Office for the Northern District of West Virginia (the 'US DPA'); HSBC Holdings entered into a two-year deferred prosecution agreement with the New York County District Attorney (the 'DANY DPA'); and HSBC Holdings consented to a cease-and-desist order and HSBC Holdings and HNAH consented to a civil money penalty order with the FRB. In addition, HSBC Bank USA entered into a civil money penalty order with a bureau of the US Treasury Department known as the Financial Crimes Enforcement Network ('FinCEN') and a separate civil money penalty order with the OCC. HSBC Holdings also entered into an agreement with the Office of Foreign Assets Control ('OFAC') regarding historical transactions involving parties subject to OFAC sanctions and an undertaking with the UK FCA to comply with certain forward-looking AML and sanctions-related obligations.

Under these agreements, HSBC Holdings and HSBC Bank USA made payments totalling \$1.9bn to US authorities and are continuing to comply with ongoing obligations. In July 2013, the US District Court for the Eastern District of New York approved the US DPA and retained authority to oversee implementation of that agreement. Under the agreements with the DoJ, FCA, and FRB, an independent monitor (who is, for FCA purposes, a 'skilled person' under Section 166 of the Financial Services and Markets Act) is evaluating and regularly assessing the effectiveness of HSBC's AML and sanctions compliance function and HSBC's progress in implementing its remedial obligations under the agreements.

HSBC Holdings has fulfilled all of the requirements imposed by the DANY DPA, which expired by its terms at the end of the two-year period of that agreement in December 2014. If HSBC Holdings and HSBC Bank USA fulfil all of the requirements imposed by the US DPA, the DoJ charges against those entities will be dismissed at the end of the five-year period of that

agreement. The DoJ may prosecute HSBC Holdings or HSBC Bank USA in relation to any matters that are the subject of the US DPA if HSBC Holdings or HSBC Bank USA breaches the terms of the US DPA.

HSBC Bank USA also entered into a separate consent order with the OCC, requiring it to correct the circumstances and conditions as noted in the OCC's then most recent report of examination, and imposing certain restrictions on HSBC Bank USA directly or indirectly acquiring control of, or holding an interest in, any new financial subsidiary, or commencing a new activity in its existing financial subsidiary, unless it receives prior approval from the OCC. HSBC Bank USA also entered into a separate consent order with the OCC requiring it to adopt an enterprise-wide compliance programme.

These settlements with US and UK authorities have led to private litigation, and do not preclude further private litigation related to HSBC's compliance with applicable BSA, AML and sanctions laws or other regulatory or law enforcement actions for BSA, AML, sanctions or other matters not covered by the various agreements.

In May 2014, a shareholder derivative action was filed by a shareholder of HSBC Holdings purportedly on behalf of HSBC Holdings, HSBC Bank USA, HNAH and HSBC USA Inc. (the 'Nominal Corporate Defendants') in New York State Supreme Court against certain current and former directors and officers of those HSBC companies (the 'Individual Defendants'). The complaint alleges that the Individual Defendants breached their fiduciary duties to the Nominal Corporate Defendants and caused a waste of corporate assets by allegedly permitting and/or causing the conduct underlying the US DPA. Plaintiff filed an amended complaint in February 2015. In March 2015, the Nominal Corporate Defendants moved to dismiss the action, and the Individual Defendants who had been served also responded to the complaint. The motion was fully briefed in May 2015. Oral argument is scheduled to take place in August 2015.

In July 2014, a claim was filed in the Ontario Superior Court of Justice against HSBC Holdings and a former employee purportedly on behalf of a class of persons who purchased HSBC common shares and American Depository Shares between July 2006 and July 2012. The complaint, which seeks monetary damages of up to CA\$20bn, alleges that the defendants made statutory and common law misrepresentations in documents released by HSBC Holdings and its wholly owned subsidiary, HSBC Bank Canada, relating to HSBC's compliance with BSA, AML, sanctions and other laws.

In November 2014, a complaint was filed in the US District Court for the Eastern District of New York on behalf of representatives of US persons killed or injured in Iraq between April 2004 and November 2011. The complaint was filed against HSBC Holdings, HSBC Bank plc, HSBC Bank USA and HSBC Bank Middle East, as well as other non-HSBC banks and the Islamic Republic of Iran (together, the 'Defendants'). The plaintiffs allege that defendants conspired to violate the US Anti-Terrorism Act, by altering or falsifying payment messages involving Iran, Iranian parties and Iranian banks for transactions processed through the US. Plaintiffs filed an amended complaint in April 2015. Defendants filed a motion to dismiss in May 2015. The motion will be fully briefed in August 2015.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of these private lawsuits, including the timing or any possible impact on HSBC, which could be significant.

Tax-related investigations

HSBC continues to cooperate in ongoing investigations by the DoJ and the US Internal Revenue Service regarding whether certain HSBC companies and employees acted appropriately in relation to certain customers who had US tax reporting obligations. In connection with these investigations, HSBC Private Bank (Suisse) SA ('HSBC Swiss Private Bank'), with due regard for Swiss law, has produced records and other documents to the DoJ. In August 2013, the DoJ informed HSBC Swiss Private Bank that it was not eligible for the 'Program for Non-Prosecution Agreements or Non-Target Letters for Swiss Banks' since a formal investigation had previously been authorised. The DoJ has requested additional information from HSBC Swiss Private Bank and other Swiss banks regarding the transfer of assets to and from US person-related accounts and employees who serviced those accounts. HSBC Swiss Private Bank is preparing this data, in a manner consistent with Swiss law.

Other HSBC companies have received subpoenas and requests for information from US and other authorities, including with respect to US-based clients of an HSBC company in India.

In addition, various tax administration, regulatory and law enforcement authorities around the world, including in Belgium, France, Argentina and India, are conducting investigations and reviews of HSBC Swiss Private Bank in connection with allegations of tax evasion or tax fraud, money laundering and unlawful cross-border banking solicitation. HSBC Swiss Private Bank has been placed under formal criminal examination by magistrates in both Belgium and France. In February 2015, HSBC was informed that the French magistrates are of the view that they have completed their investigation with respect to HSBC Swiss Private Bank and have referred the matter to the public prosecutor for a recommendation on any potential charges to be brought, whilst reserving the right to continue investigating other conduct at HSBC. In April 2015, HSBC Holdings was informed that it has been placed under formal criminal investigation by the French magistrates in connection with the conduct of HSBC Swiss Private Bank in 2006 and 2007 for alleged tax offences, and a €1bn bail was imposed. HSBC Holdings appealed the magistrates' decision and, in June 2015, bail was reduced to €100m. The ultimate financial impact could differ significantly from the bail amount of €100m. In Argentina, in November 2014, the Argentine tax authority filed a complaint alleging an unlawful association between HSBC Swiss Private Bank, HSBC Bank Argentina, HSBC Bank USA and certain current and former HSBC officers, which allegedly enabled HSBC customers to evade Argentine tax obligations. In February 2015, a public prosecutor in Switzerland commenced an investigation of HSBC Swiss Private Bank, and the Indian tax authority issued a

summons and request for information to an HSBC company in India. In June 2015, the public prosecutor's investigation in Switzerland was closed.

With respect to each of these ongoing matters, HSBC is cooperating with the relevant authorities. There are many factors that may affect the range of outcomes, and the resulting financial impact, of these investigations and reviews, which could be significant.

In light of the recent media attention regarding these matters, it is possible that other tax administration, regulatory or law enforcement authorities will also initiate or enlarge similar investigations or regulatory proceedings.

London interbank offered rates, European interbank offered rates and other benchmark interest rate investigations and litigation

Various regulators and competition and law enforcement authorities around the world, including in the UK, the US, the EU, Switzerland and elsewhere, are conducting investigations and reviews related to certain past submissions made by panel banks and the processes for making submissions in connection with the setting of London interbank offered rates ('Libor'), European interbank offered rates ('Euribor') and other benchmark interest rates. As certain HSBC companies are members of such panels, HSBC has been the subject of regulatory demands for information and is cooperating with those investigations and reviews.

In December 2013, the European Commission (the 'Commission') announced that it had imposed fines on eight financial institutions under its cartel settlement procedure for their participation in illegal activity related to euro interest rate derivatives and/or yen interest rate derivatives. Although HSBC was not one of the financial institutions fined, the Commission announced that it had opened proceedings against HSBC in connection with its Euribor-related investigation of euro interest rate derivatives only. This investigation will continue under the standard Commission cartel procedure. In May 2014, HSBC received a Statement of Objections from the Commission, alleging anti-competitive practices in connection with the pricing of euro interest rate derivatives. The Statement of Objections sets out the Commission's preliminary views and does not prejudice the final outcome of its investigation. HSBC responded to the Commission's Statement of Objections in March 2015. The hearing before the Commission took place in June 2015.

In addition, HSBC and other US dollar Libor panel banks have been named as defendants in a number of private lawsuits filed in the US with respect to the setting of US dollar Libor. The complaints assert claims under various US laws, including US antitrust and racketeering laws, the US Commodity Exchange Act ('CEA'), and state law. The lawsuits include individual and putative class actions, most of which have been transferred and/or consolidated for pre-trial purposes before the New York District Court.

In March 2013, the New York District Court overseeing the consolidated proceedings related to US dollar Libor issued a decision in the six oldest actions, dismissing the plaintiffs' federal and state antitrust claims, racketeering claims, and unjust enrichment claims in their entirety, but allowing certain of their CEA claims that were not barred by the applicable statute of limitations to proceed. Some of those plaintiffs appealed the New York District Court's decision to the US Court of Appeals for the Second Circuit, which later dismissed those appeals. In January 2015, the US Supreme Court reversed the Court of Appeals' decision and remanded the case to the Court of Appeals for consideration of the merits of the plaintiffs' appeal. Briefing is ongoing in the Court of Appeals.

Other plaintiffs sought to file amended complaints in the New York District Court to assert additional allegations. In June 2014, the New York District Court issued a decision that, amongst other things, denied the plaintiffs' request for leave to amend their complaints to assert additional theories of Libor manipulation against HSBC and certain non-HSBC banks, but granted leave to assert such manipulation claims against two other banks; and granted defendants' motion to dismiss certain additional claims under the CEA as barred by the applicable statute of limitations. Proceedings with respect to all other actions in the consolidated proceedings were stayed pending this decision. The stay was lifted in September 2014. Amended complaints were filed in previously stayed non-class actions in October 2014; and amended complaints were filed in several of the previously stayed class actions in November 2014. Motions to dismiss were filed in November 2014 and January 2015, respectively, and remain pending.

Separately, HSBC and other panel banks have also been named as defendants in a putative class action filed in the New York District Court on behalf of persons who transacted in euroyen futures and options contracts related to the euroyen Tokyo interbank offered rate ('Tibor'). The complaint alleges, amongst other things, misconduct related to euroyen Tibor, although HSBC is not a member of the Japanese Bankers Association's euroyen Tibor panel, as well as Japanese yen Libor, in violation of US antitrust laws, the CEA, and state law. In March 2014, the New York District Court issued an opinion dismissing the plaintiffs' claims under US antitrust law and state law, but sustaining their claims under the CEA. In June 2014, the plaintiffs moved for leave to file a third amended complaint. That motion was denied in March 2015, except insofar as it granted leave to add certain defendants not affiliated with HSBC and reserving on the question of whether the California State Teachers Retirement System may be added as a plaintiff.

In November 2013, HSBC and other panel banks were also named as defendants in a putative class action filed in the New York District Court on behalf of persons who transacted in euro futures contracts and other financial instruments related to Euribor. The complaint alleges, amongst other things, misconduct related to Euribor in violation of US antitrust laws, the CEA and state law. The plaintiffs filed a second and later third amended complaint in May 2014 and October 2014. The court previously

stayed proceedings until May 2015. The court has set a deadline for plaintiffs to file a fourth amended complaint in August 2015, and for defendants to respond in September 2015.

In September and October 2014, HSBC Bank plc and other panel banks were named as defendants in a number of putative class actions that were filed and consolidated in the New York District Court on behalf of persons who transacted in interest rate derivative transactions or purchased or sold financial instruments that were either tied to US dollar International Swaps and Derivatives Association fix ('ISDAfix') rates or were executed shortly before, during, or after the time of the daily ISDAfix setting window. The complaint alleges, amongst other things, misconduct related to these activities in violation of US antitrust laws, the CEA and state law. In October 2014, the plaintiffs filed a consolidated amended complaint, and in February 2015, plaintiffs filed a second consolidated amended complaint replacing HSBC Bank plc with HSBC Bank USA. A motion to dismiss that complaint was filed in April 2015 and remains pending.

There are many factors that may affect the range of possible outcomes, and the resulting financial impact, of these private lawsuits. Based upon the information currently available, it is possible that any liabilities that might arise as a result of the claims in these actions could be significant.

Foreign exchange rate investigations and litigation

Various regulators and competition and law enforcement authorities around the world, including in the US, the EU, Brazil, South Korea and elsewhere, are conducting investigations and reviews into a number of firms, including HSBC, related to trading on the foreign exchange markets. These include a criminal investigation in the US, as well as investigations by the civil competition authorities in the EU, Brazil and South Korea.

HSBC has been cooperating with these ongoing investigations. In May 2015, the DOJ resolved its ongoing investigations against five non-HSBC financial institutions, resulting in four pleading guilty to a criminal charge for collusive efforts to influence foreign exchange benchmark rates and agreeing to pay criminal fines of more than \$2.5bn. Additional penalties were imposed by the Board of Governors of the FRB at the same time. HSBC was not a party to these resolutions, and investigations into HSBC by the DOJ, FRB and other authorities around the world continue.

In addition, in late 2013 and early 2014, HSBC Holdings, HSBC Bank plc, HNAH and HSBC Bank USA were named as defendants, amongst other banks, in various putative class actions filed in the New York District Court. In March 2014, the plaintiffs filed a consolidated amended complaint alleging, amongst other things, that defendants conspired to manipulate the WM/ Reuters foreign exchange benchmark rates by sharing customers' confidential order flow information, thereby injuring plaintiffs and others by forcing them to pay artificial and non-competitive prices for products based on these foreign currency rates ('the Consolidated Action'). Separate putative class actions were also brought on behalf of non-US plaintiffs (the 'Foreign Actions'). Defendants moved to dismiss all actions. In January 2015, the court denied defendants' motion to dismiss as to the Consolidated Action, but granted defendants' motion to dismiss as to the Foreign Actions. Five additional putative class actions were subsequently filed in the New York District Court making similar allegations on behalf of persons who engaged in foreign exchange futures transactions on a US exchange. An additional putative class action was filed in the New York District Court making similar allegations on behalf of ERISA plan participants, and one was filed in California District Court that is similar to the Consolidated Action. HSBC has not yet responded to the new actions.

As at 30 June 2015, HSBC has recognised a provision in the amount of \$1.3bn in respect of these ongoing investigations and other actions. There are many factors that may affect the range of outcomes, and the resulting financial impact, of these matters. Due to uncertainties and limitations of these estimates, the ultimate penalties could differ significantly from the amount provided.

Precious metals fix-related litigation and investigations

Since March 2014, numerous putative class actions have been filed in the US District Courts for the Southern District of New York, the District of New Jersey and the Northern District of California naming HSBC Bank USA, HSBC Bank plc, HSI and other members of The London Gold Market Fixing Limited as defendants. The complaints allege that, from January 2004 to the present, defendants conspired to manipulate the price of gold and gold derivatives during the afternoon London gold fix in order to reap profits on proprietary trades. These actions have been assigned to and consolidated in the New York District Court. An amended consolidated class action complaint was filed in December 2014, and defendants filed a consolidated response in February 2015. A second consolidated amended complaint was filed in March 2015. Defendants filed a consolidated response in April 2015.

Since July 2014, putative class actions were filed in the US District Court for the Southern District of New York and the Eastern District of New York naming HSBC Holdings, HNAH, HSBC Bank USA, HSBC USA Inc. and other members of The London Silver Market Fixing Ltd as defendants. The complaints allege that, from January 2007 to the present, defendants conspired to manipulate the price of physical silver and silver derivatives for their collective benefit in violation of US antitrust laws and the CEA. These actions have been assigned to and consolidated in the New York District Court. An amended consolidated class action complaint was filed in January 2015, and defendants filed a consolidated response in March 2015. Plaintiffs filed a second amended complaint in April 2015. Defendants' consolidated response was filed in May 2015.

Between late 2014 and early 2015, numerous putative class actions were filed in the New York District Court naming HSBC Bank USA and other members of The London Platinum and Palladium Fixing Company Limited as defendants. The

complaints allege that, from January 2007 to the present, defendants conspired to manipulate the price of physical Platinum Group Metals ('PGM') and PGM-based financial products for their collective benefit in violation of US antitrust laws and the CEA. An amended consolidated class action complaint was filed in April 2015. Defendants' consolidated response was filed in June 2015.

Various regulators and competition and law enforcement authorities in the US and the EU are conducting investigations and reviews related to HSBC's precious metals operations. In November 2014, the DoJ issued a document request to HSBC Holdings, seeking the voluntary production of certain documents relating to a criminal antitrust investigation that the DoJ is conducting in relation to precious metals. In January 2015, the CFTC issued a subpoena to HSBC Bank USA, seeking the production of certain documents related to HSBC Bank USA's precious metals trading operations. In April 2015, the European Commission issued a request for information seeking certain information related to HSBC's precious metals operations. HSBC is cooperating with the authorities.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of these matters, including the timing or any possible impact on HSBC, which could be significant.

Credit default swap regulatory investigation and litigation

In July 2013, HSBC received a Statement of Objections from the Commission relating to its ongoing investigation of alleged anti-competitive activity by a number of market participants in the credit derivatives market between 2006 and 2009. The Statement of Objections sets out the Commission's preliminary views and does not prejudge the final outcome of its investigation. HSBC has submitted a response and attended an oral hearing in May 2014. Following the oral hearing, the Commission decided to conduct a further investigation phase before deciding whether or how to proceed with the case. HSBC is cooperating with this further investigation. There are many factors that may affect the range of possible outcomes, and the resulting financial impact, of this matter. The amounts of any fines and/or penalties, however, could be significant.

In addition, HSBC Bank USA, HSBC Holdings and HSBC Bank plc have been named as defendants, amongst others, in numerous putative class actions filed in the New York District Court and the Illinois District Court. These class actions allege that the defendants, which include ISDA, Markit and several other financial institutions, conspired to restrain trade in violation of US antitrust laws by, amongst other things, restricting access to credit default swap pricing exchanges and blocking new entrants into the exchange market, with the purpose and effect of artificially inflating the bid/ask spread paid to buy and sell credit default swaps in the US. The plaintiffs in these suits purport to represent a class of all persons who purchased credit default swaps from or sold credit default swaps to defendants primarily in the US.

In October 2013, these cases were consolidated in the New York District Court. An amended consolidated complaint was filed in January 2014, naming HSBC Bank USA and HSBC Bank plc as defendants, amongst other non-HSBC defendants. Following the filing of defendants' initial motions to dismiss in March 2014, plaintiffs filed a second amended consolidated complaint, which defendants also moved to dismiss. In September 2014, the court granted in part and denied in part the defendants' motion to dismiss. Discovery is in process.

There are many factors that may affect the range of possible outcomes, and the resulting financial impact, of these private lawsuits. Any liabilities that might arise as a result of the claims in these actions could, however, be significant.

Economic plans: HSBC Bank Brasil S.A.

In the mid-1980s and early 1990s, certain economic plans were introduced by the government of Brazil to reduce escalating inflation. The implementation of these plans adversely impacted savings account holders, thousands of which consequently commenced legal proceedings against financial institutions in Brazil, including HSBC Bank Brasil S.A. ('HSBC Brazil'), alleging, amongst other things, that savings account balances were adjusted by a different price index than that contractually agreed, which caused them a loss of income. Certain of these cases have reached the Brazilian Supreme Court (the 'Supreme Court'). The Supreme Court has suspended all cases pending before lower courts until it delivers a final judgement on the constitutionality of the changes resulting from the economic plans. It is anticipated that the outcome of the Supreme Court's final judgement will set a precedent for all cases pending before the lower courts. Separately, the Brazilian Superior Civil Court (the 'Superior Civil Court') is considering matters relating to, amongst other things, contractual and punitive interest rates to be applied to calculate any loss of income.

There is a high degree of uncertainty as to the terms on which the proceedings in the Supreme Court and Superior Civil Court will be resolved and the timing of such resolutions, including the amount of losses that HSBC Brazil may be liable to pay in the event of an unfavourable judgement. Such losses may lie in a range from a relatively insignificant amount to an amount up to \$700m, although the upper end of this range is considered unlikely.

Regulatory review of consumer 'enhancement services products'

HSBC Finance, through its legacy Cards and Retail Services business, offered or participated in the marketing, distribution, or servicing of products, such as identity theft protection and credit monitoring products, that were ancillary to the provision of credit to the consumer. HSBC Finance ceased offering these products by May 2012. The offering and administration of these and other enhancement services products, such as debt protection products, has been the subject of enforcement actions against other institutions by regulators, including the Consumer Financial Protection Bureau, the OCC, and the Federal Deposit

Insurance Corporation. Such enforcement actions have resulted in orders to pay restitution to customers and the assessment of penalties in substantial amounts. We have made restitution to certain customers in connection with certain enhancement services products, and we continue to cooperate with our regulators in connection with their ongoing review. In light of the actions that regulators have taken in relation to other non-HSBC credit card issuers regarding their enhancement services products, one or more regulators may order us to pay additional restitution to customers and/or impose civil money penalties or other relief arising from the prior offering and administration of such enhancement services products by HSBC Finance. There is a high degree of uncertainty as to the terms on which this matter will be resolved and the timing of such resolution, including the amount of any additional remediation which may lie in a range from zero to an amount up to \$500m.

20 Goodwill impairment

As described on page 407 of the *Annual Report and Accounts 2014*, we test goodwill for impairment as at 1 July each year and whenever there is an indication that goodwill may be impaired. At 30 June 2015, we reviewed the inputs used in our most recent impairment test in the light of current economic and market conditions and there was no indication of goodwill impairment.

At 30 June 2015, our operations in Brazil were classified as held for sale (see Note 12). The disposal group includes allocated goodwill of \$1.3bn which is included in 'Assets held for sale' in the consolidated balance sheet. Goodwill was allocated to the disposal group based on the relative value of the operations in Brazil to the cash generating units in Latin America.

21 Transactions with related parties

There were no changes in the related party transactions described in the *Annual Report and Accounts 2014* that have had a material effect on the financial position or performance of HSBC in the half-year to 30 June 2015. All related party transactions that took place in the half-year to 30 June 2015 were similar in nature to those disclosed in the *Annual Report and Accounts 2014*.

22 Events after the balance sheet date

On 31 July 2015 we entered into an agreement to sell our entire business in Brazil, comprising HSBC Bank Brasil S.A. – Banco Multiplo and HSBC Servicos e Participacoes Ltda (collectively 'HSBC Brazil'), to Banco Bradesco S.A. for an all cash consideration of US\$5.2bn. The purchase price is subject to adjustments to reflect the net asset value of the businesses at completion. The transaction is subject to regulatory approval and is expected to complete by Q2 2016.

A second interim dividend for the financial year ending 31 December 2015 was declared by the Directors on 3 August 2015, as described in Note 3.

23 Interim Report 2015 and statutory accounts

The information in this *Interim Report 2015* is unaudited and does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The *Interim Report 2015* was approved by the Board of Directors on 3 August 2015. The statutory accounts for the year ended 31 December 2014 have been delivered to the Registrar of Companies in England and Wales in accordance with section 447 of the Companies Act 2006. The Group's previous auditor, KPMG Audit Plc has reported on those accounts. Its report was unqualified; did not include a reference to any matters to which KPMG Audit Plc drew attention by way of emphasis without qualifying their report; and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Statement of Directors' Responsibilities

The Directors¹, who are required to prepare the financial statements on a going concern basis unless it is not appropriate, are satisfied that the Group has the resources to continue in business for the foreseeable future and that the financial statements continue to be prepared on a going concern basis.

The Directors confirm that to the best of their knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU;
- the *Interim Report* includes a fair review of the information required by:
 - (a) DTR 4.2.7R of the Disclosure Rules and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year ending 31 December 2015 and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
 - (b) DTR 4.2.8R of the Disclosure Rules and Transparency Rules, being (i) related party transactions that have taken place in the first six months of the financial year ending 31 December 2015 which have materially affected the financial position or performance of HSBC during that period; and (ii) any changes in the related parties transactions described in the *Annual Report and Accounts 2014* that could materially affect the financial position or performance of HSBC during the first six months of the financial year ending 31 December 2015.

On behalf of the Board

D J Flint

Group Chairman

3 August 2015

¹ Phillip Ameen*, Kathleen Casey*, Safra Catz*, Laura Cha*, Lord Evans of Weardale*, Joachim Faber*, Rona Fairhead*, Douglas Flint, Stuart Gulliver, Sam Laidlaw*, Irene Lee*, John Lipsky*, Rachel Lomax*, Iain Mackay, Heidi Miller*, Marc Moses, Sir Simon Robertson* and Jonathan Symonds*.

* Independent non-executive Director.

Independent Review Report to HSBC Holdings plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed the condensed consolidated interim financial statements, defined below, in the half-yearly financial report of HSBC Holdings plc for the six months ended 30 June 2015. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

This conclusion is to be read in the context of what we say in the remainder of this report.

What we have reviewed

The condensed consolidated interim financial statements, which are prepared by HSBC Holdings plc, comprise:

- the consolidated balance sheet as at 30 June 2015;
- the consolidated income statement and the consolidated statement of comprehensive income for the period then ended;
- the consolidated statement of cash flows for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the condensed consolidated interim financial statements.

As disclosed in Note 1, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards as adopted by the European Union. The condensed consolidated interim financial statements included in the half-yearly financial report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What a review of condensed consolidated interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

Responsibilities for the condensed consolidated interim financial statements and the review

Our responsibilities and those of the Directors^{1,2}

The half-yearly financial report, including the condensed consolidated interim financial statements, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express to the company a conclusion on the condensed consolidated interim financial statements in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

Chartered Accountants

London, United Kingdom

3 August 2015

1 The maintenance and integrity of the HSBC Holdings plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Shareholder information

1 – Directors' interests

Shareholder information

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1 Directors' interests

According to the register of Directors' interests maintained by HSBC Holdings pursuant to section 352 of the Securities and Futures Ordinance of Hong Kong, at 30 June 2015 the Directors of HSBC Holdings had the following interests, all beneficial unless otherwise stated, in the shares and loan capital of HSBC and its associates:

Directors' interests – shares and loan capital

| | At 30 June 2015 | | | | | |
|---|-------------------------|---------------------|--------------------------------|--------------------------------------|--------------------|---------------------------------|
| | At 1 January 2015 | Beneficial owner | Child under 18 or spouse | Jointly with another person | Trustee | Total interests ¹ |
| HSBC Holdings ordinary shares | | | | | | |
| Phillip Ameen ³ | – | 5,000 | – | – | – | 5,000 |
| Kathleen Casey ³ | – | 3,500 | – | – | – | 3,500 |
| Safra Catz ³ | 20,045 | 20,515 | – | – | – | 20,515 |
| Lord Evans of Weardale | 5,519 | 5,519 | – | – | – | 5,519 |
| Joachim Faber | 24,105 | 45,778 | – | – | – | 45,778 |
| Rona Fairhead | 76,524 | – | – | 77,063 | – | 77,063 |
| Douglas Flint | 400,748 | 401,121 | – | – | – | 401,121 |
| Stuart Gulliver | 2,611,188 | 2,558,148 | – | 176,885 | – | 2,735,033 |
| Sam Laidlaw | 36,768 | 35,352 | – | – | 1,416 ² | 36,768 |
| John Lipsky ³ | 15,820 | 15,820 | – | – | – | 15,820 |
| Rachel Lomax | 15,500 | 18,900 | – | – | – | 18,900 |
| Iain Mackay | 79,933 | 151,579 | – | – | – | 151,579 |
| Heidi Miller ³ | 3,575 | 3,575 | – | – | – | 3,575 |
| Marc Moses | 480,423 | 554,103 | – | – | – | 554,103 |
| Sir Simon Robertson | 22,981 | 23,522 | – | – | – | 23,522 |
| Jonathan Symonds | 20,553 | 16,314 | 4,721 | – | – | 21,035 |
| HSBC USA Inc. \$2.8575 Cumulative Preferred Shares, Series Z | | | | | | |
| Phillip Ameen | 31 | – | – | – | – | – |
| | RMBm | RMBm | RMBm | RMBm | RMBm | RMBm |
| HSBC Bank plc 2.875% Notes 2015 | | | | | | |
| Joachim Faber ⁴ | 5.1 | – | – | – | – | – |

1 Details of executive Directors' other interests in HSBC Holdings ordinary shares arising from the HSBC Holdings savings-related share option plans and the HSBC Share Plan 2011 are set out on the following pages. At 30 June 2015, the aggregate interests under the Securities and Futures Ordinance of Hong Kong in HSBC Holdings ordinary shares, including interests arising through employee share plans, were: Douglas Flint – 406,056; Stuart Gulliver – 5,679,222; Iain Mackay – 1,363,678; and Marc Moses – 2,048,335. Each Director's total interests represent less than 0.04% of the shares in issue.

2 Non-beneficial.

3 Interests in American Depositary Shares ('ADS'), which are categorised as equity derivatives under Part XV of the Securities and Futures Ordinance of Hong Kong. Each ADS represents five HSBC Holdings ordinary shares.

4 Non-beneficial interest in renminbi ('RMB')1.2m 2.875% Notes 2015.

Savings-related share option plans and the HSBC Share Plan 2011

HSBC Holdings savings-related share option plans

| | Date of award | Exercise price (£) | Exercisable | | HSBC Holdings ordinary shares | |
|-------------|---------------|--------------------|-------------------|-------------|-------------------------------|---------------------|
| | | | from ¹ | until | Held at 1 Jan 2015 | Held at 30 Jun 2015 |
| | | | Douglas Flint | 24 Apr 2012 | 4.4621 | 1 Aug 2015 |
| | 23 Sep 2014 | 5.1887 | 1 Nov 2019 | 1 May 2020 | 2,919 | 2,919 |
| Iain Mackay | 23 Sep 2014 | 5.1887 | 1 Nov 2017 | 1 May 2018 | 3,469 | 3,469 |

There are no performance criteria conditional upon which the outstanding options are exercisable and there have been no variations to the terms and conditions since the awards were made. See page 145 for more details on the HSBC Holdings savings-related share option plans. The market value per ordinary share at 30 June 2015 was £5.70. The highest and lowest market values per ordinary share during the period were £6.49 and £5.60. Market value is the mid-market price derived from the London Stock Exchange Daily Official List on the relevant date. Under the Securities and Futures Ordinance of Hong Kong, the options are categorised as unlisted physically settled equity derivatives.

1 May vest at an earlier date in certain circumstances, e.g. retirement.

Awards of Restricted Shares

HSBC Share Plan 2011

| | Date of award | Year in which awards may vest | HSBC Holdings ordinary shares | | | | | |
|-----------------|--------------------------|-------------------------------|-------------------------------|---------------------------|--------|-----------------------------|--------|---|
| | | | Awards held at 1 Jan 2015 | Awards made during period | | Awards vested during period | | Awards held at 30 Jun 2015 ¹ |
| | | | Number | Monetary value £000 | Number | Monetary value £000 | Number | Monetary value £000 |
| Stuart Gulliver | 12 Mar 2012 ² | 2013-2015 | 89,302 | – | – | 91,298 | 511 | – |
| | 11 Mar 2013 ³ | 2018 | 87,007 | – | – | – | – | 89,051 |
| | 10 Mar 2014 ⁴ | 2015-2017 | 93,101 | – | – | 31,411 | 176 | 63,772 |
| | 2 Mar 2015 ⁵ | 2015 | – | 44,677 | 260 | 44,677 | 260 | – |
| | 2 Mar 2015 ⁶ | 2016-2018 | – | 67,016 | 391 | – | – | 68,590 |
| Iain Mackay | 12 Mar 2012 ² | 2013-2015 | 44,966 | – | – | 45,972 | 257 | – |
| | 11 Mar 2013 ³ | 2018 | 60,150 | – | – | – | – | 61,563 |
| | 10 Mar 2014 ⁴ | 2015-2017 | 54,536 | – | – | 18,399 | 103 | 37,357 |
| | 2 Mar 2015 ⁵ | 2015 | – | 30,024 | 175 | 30,024 | 175 | – |
| | 2 Mar 2015 ⁶ | 2016-2018 | – | 45,037 | 263 | – | – | 46,095 |
| Marc Moses | 12 Mar 2012 ² | 2013-2015 | 46,738 | – | – | 47,784 | 268 | – |
| | 11 Mar 2013 ³ | 2018 | 58,439 | – | – | – | – | 59,812 |
| | 10 Mar 2014 ⁴ | 2015-2017 | 54,531 | – | – | 18,397 | 103 | 37,353 |
| | 2 Mar 2015 ⁵ | 2015 | – | 35,798 | 209 | 35,798 | 209 | – |
| | 2 Mar 2015 ⁶ | 2016-2018 | – | 53,698 | 313 | – | – | 54,959 |

Vesting of Restricted Share awards is normally subject to the Director remaining an employee on the vesting date. The awards may vest at an earlier date in certain circumstances. Under the Securities and Futures Ordinance of Hong Kong, interests in Restricted Share awards are categorised as the interests of a beneficial owner.

- Includes additional shares arising from scrip dividends.
- At the date of the award, 12 March 2012, the market value per share was £5.56. 50% of these deferred awards were subject to a six month retention period upon vesting. The balance of these awards vested on 12 March 2015, the third anniversary of the award, and on that date the market value per share was £5.60.
- Vesting of these awards is subject to satisfactory completion of the Deferred Prosecution Agreement with the US Department of Justice.
- At the date of the award, 10 March 2014, the market value per share was £6.16. These deferred awards are subject to a six month retention period upon vesting. 33% of the award vested on 10 March 2015, the first anniversary of the award and on that date the market value per share was £5.60. A further 33% of the award will vest on the second anniversary and the balance will vest on the third anniversary of the award.
- The non-deferred award vested immediately on 2 March 2015. The shares (net of tax) are subject to a six month retention period. At the date of vesting, the market value per share was £5.83.
- At the date of the award, 2 March 2015, the market value per share was £5.83. These deferred awards are subject to a six month retention period upon vesting. 33% of the award will vest on the first anniversary of the award, 33% of the award will vest on the second anniversary and the balance will vest on the third anniversary of the award.

Shareholder information (continued)

1 – Directors' interests / 2 – Employee share plans

Conditional awards under the Group Performance Share Plan ('GPSP')

HSBC Share Plan 2011

| | Date of award | Year in which awards may vest | HSBC Holdings ordinary shares | | | Awards held at 30 Jun 2015 ¹ |
|-----------------|-------------------------|-------------------------------|-------------------------------|--|------------------------|---|
| | | | Awards held at 1 Jan 2015 | Awards made during period ¹ | | |
| | | | | Number | Monetary value £000 | |
| Stuart Gulliver | 23 Jun 2011 | 2016 | 455,200 | – | – | 465,896 |
| | 12 Mar 2012 | 2017 | 772,331 | – | – | 790,478 |
| | 11 Mar 2013 | 2018 | 446,194 | – | – | 456,678 |
| | 10 Mar 2014 | 2019 | 620,680 | – | – | 635,264 |
| | 2 Mar 2015 ² | 2020 | – | 365,864 | 2,133 | 374,460 |
| Iain Mackay | 23 Jun 2011 | 2016 | 127,262 | – | – | 130,252 |
| | 12 Mar 2012 | 2017 | 144,168 | – | – | 147,555 |
| | 11 Mar 2013 | 2018 | 208,224 | – | – | 213,116 |
| | 10 Mar 2014 | 2019 | 363,576 | – | – | 372,119 |
| | 2 Mar 2015 ² | 2020 | – | 195,969 | 1,142 | 200,573 |
| Marc Moses | 23 Jun 2011 | 2016 | 118,158 | – | – | 120,934 |
| | 12 Mar 2012 | 2017 | 401,611 | – | – | 411,047 |
| | 11 Mar 2013 | 2018 | 232,020 | – | – | 237,472 |
| | 10 Mar 2014 | 2019 | 363,541 | – | – | 372,082 |
| | 2 Mar 2015 ² | 2020 | – | 195,969 | 1,142 | 200,573 |

The GPSP is a long-term incentive plan governed by the rules of the HSBC Share Plan 2011. Vesting of GPSP awards is normally subject to the Director remaining an employee on the vesting date. Any shares (net of tax) which the Director becomes entitled to on the vesting date are subject to a retention requirement until cessation of employment. Under the Securities and Futures Ordinance of Hong Kong, interests in awards are categorised as beneficial.

1 Includes additional shares arising from scrip dividends.

2 At the date of award, 2 March 2015, the market value per share was £5.83.

No Directors held any short position (as defined in the Securities and Futures Ordinance of Hong Kong) in the shares and loan capital of HSBC Holdings and its associated corporations. Save as stated above, none of the Directors had an interest in any shares or debentures of HSBC Holdings or any associates at the beginning or at the end of the period, and none of the Directors or members of their immediate families were awarded or exercised any right to subscribe for any shares or debentures in any HSBC corporation during the period. Since 30 June 2015, the interests of each of the following Directors have increased by the number of HSBC Holdings ordinary shares shown against their name:

Increase in Directors' interests since 30 June 2015

| Beneficial owner | HSBC Holdings ordinary shares |
|---------------------|-------------------------------|
| Safra Catz | 220 ¹ |
| Rona Fairhead | 247 ² |
| Douglas Flint | 75 ³ |
| Stuart Gulliver | 31,005 ⁴ |
| Sam Laidlaw | 372 ² |
| Iain Mackay | 14,481 ⁵ |
| Heidi Miller | 35 ¹ |
| Marc Moses | 15,738 ⁴ |
| Sir Simon Robertson | 247 ² |
| Jonathan Symonds | 220 ² |

1 Comprises interests in ADSs, which are categorised as equity derivatives under Part XV of the Securities and Futures Ordinance of Hong Kong. Each ADS represents five HSBC Holdings ordinary shares.

2 Scrip dividend.

3 Comprises the acquisition of shares in the HSBC Holdings UK Share Incentive Plan through regular monthly contributions (27 shares) and the automatic reinvestment of dividend income on shares held in the HSBC Holdings UK Share Incentive Plan (48 shares).

4 Comprises scrip dividend on Restricted Share awards and GPSP awards granted under the HSBC Share Plan 2011.

5 Comprises scrip dividend on Restricted Share awards and GPSP awards granted under the HSBC Share Plan 2011 and the automatic reinvestment of dividend income on shares held in a nominee account.

2 Employee share plans

Share options and discretionary awards of shares are granted under HSBC share plans to help align the interests of employees with those of shareholders. The following are particulars of outstanding options, including those held by employees working under employment contracts that are regarded as 'continuous contracts' for the purposes of the Hong Kong Employment Ordinance. The options were granted for nil consideration. No options have been granted to substantial shareholders, suppliers of goods or services, or in excess of the individual limit for each share plan. No options were cancelled by HSBC during the period. No discretionary share options have been granted under the HSBC Share Plan 2011, which replaced the HSBC Share Plan on 27 May 2011.

A summary for each plan of the total number of options which were granted, exercised or lapsed during the period is shown in the following tables. Particulars of options held by Directors of HSBC Holdings are set out on page 144. Further details required to be disclosed pursuant to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited are available on our website at www.hsbc.com by selecting 'Investor Relations', then 'Governance' then 'Share Plans', and on the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk. Copies may be obtained upon request from the Group Company Secretary, 8 Canada Square, London E14 5HQ.

All-employee share plans

The HSBC Holdings Savings-Related Share Option Plan and the HSBC Holdings Savings-Related Share Option Plan: International are all-employee share plans under which eligible employees have been granted options to acquire HSBC Holdings ordinary shares. There will be no further grant of options under the HSBC Holdings Savings-Related Share Option Plan: International; the final grant was in 2012. A new international all-employee share purchase plan was launched in the third quarter of 2013.

For options granted under the HSBC Holdings Savings-Related Option Plan, employees make contributions of up to £500 (or equivalent) each month over a period of three or five years which may be used within six months following the third or fifth anniversary of the commencement of the relevant savings contract, at the employee's election, to exercise the options. Alternatively, the employee may elect to have the savings, plus (where applicable) any interest or bonus, repaid in cash. In the case of redundancy, retirement including on grounds of injury or ill health, the transfer of the employing business to another party, or a change of control of the employing company, options may be exercised before completion of the relevant savings contract. In certain circumstances, the exercise period of options awarded under the all-employee share plans may be extended, for example, on the death of a participant, the executors may exercise the option up to six months beyond the normal exercise period.

Under the HSBC Holdings Savings-Related Share Option Plan and the HSBC Holdings Savings-Related Share Option Plan: International the option exercise price has been determined by reference to the average market value of the ordinary shares on the five business days immediately preceding the invitation date, then applying a discount of 20%. Where applicable, the US dollar, Hong Kong dollar and euro exercise prices were converted from the sterling exercise price at the applicable exchange rate on the working day preceding the relevant invitation date. The HSBC Holdings Savings-Related Share Option Plan will terminate on 23 May 2025 unless the Directors resolve to terminate the plans at an earlier date.

HSBC Holdings All-employee Share Option Plans

| Dates of award | | Exercise price | | Exercisable | | HSBC Holdings ordinary shares | | | | |
|---|----------------|-------------------|-------------------|---------------|---------------|-------------------------------|----------------------|------------------------|---------------------|-------------------|
| from | to | from | to | from | to | At 1 Jan 2015 | Awarded in period | Exercised in period | Lapsed in period | At 30 Jun 2015 |
| Savings-Related Share Option Plan¹ | | | | | | | | | | |
| 29 Apr 2009 | 23 Sep 2014 | (£) 3.3116 | (£) 5.4738 | 1 Aug 2014 | 1 May 2020 | 53,743,955 | – | 891,541 | 2,314,304 | 50,538,110 |
| Savings-Related Share Option Plan: International² | | | | | | | | | | |
| 29 Apr 2009 | 24 Apr 2012 | (£) 3.3116 | (£) 5.4573 | 1 Aug 2014 | 1 Feb 2018 | 3,714,447 | – | 332,465 | 220,456 | 3,161,526 |
| 29 Apr 2009 | 24 Apr 2012 | (\$) 4.8876 | (\$) 8.2094 | 1 Aug 2014 | 1 Feb 2018 | 1,867,328 | – | 153,990 | 235,089 | 1,478,249 |
| 29 Apr 2009 | 24 Apr 2012 | (€) 3.6361 | (€) 6.0657 | 1 Aug 2014 | 1 Feb 2018 | 571,502 | – | 40,543 | 36,071 | 494,888 |
| 29 Apr 2009 | 24 Apr 2012 | (HK\$) 37.8797 | (HK\$) 63.9864 | 1 Aug 2014 | 1 Feb 2018 | 6,468,782 | – | 360,839 | 140,702 | 5,967,241 |

1 The weighted average closing price of the shares immediately before the dates on which options were exercised was £6.07.

2 The weighted average closing price of the shares immediately before the dates on which options were exercised was £6.10.

Discretionary Share Option Plans

There have been no awards of discretionary share options under employee share plans since 30 September 2005.

| Date of award | Exercise price (£) | Exercisable | | HSBC Holdings ordinary shares | | | |
|--|--------------------|-------------|-------------|-------------------------------|------------------------|---------------------|-------------------|
| | | from | to | At 1 Jan 2015 | Exercised in period | Lapsed in period | At 30 Jun 2015 |
| HSBC Holdings Group Share Option Plan¹ | | | | | | | |
| 20 Apr 2005 | 7.2869 | 20 Apr 2008 | 20 Apr 2015 | 6,373,982 | – | 6,373,982 | – |
| HSBC Share Plan | | | | | | | |
| 30 Sep 2005 | 7.9911 | 30 Sep 2008 | 30 Sep 2015 | 86,046 | – | – | 86,046 |

1 The HSBC Holdings Group Share Option Plan expired on 26 May 2005. No options have been granted under the Plan since that date.

3 Notifiable interests in share capital

At 30 June 2015, HSBC Holdings had received the following notification of major holdings of voting rights pursuant to the requirements of Rule 5 of the Disclosure Rules and Transparency Rules:

- BlackRock, Inc. gave notice on 9 December 2009 that on 7 December 2009 it had the following: an indirect interest in HSBC Holdings ordinary shares of 1,142,439,457; qualifying financial instruments with 705,100 voting rights that may be acquired if the instruments are exercised or converted; and financial instruments with similar economic effect to qualifying financial instruments which refer to 234,880 voting rights, each representing 6.56%, 0.0041% and 0.0013%, respectively, of the total voting rights at that date.

At 30 June 2015, according to the register maintained by HSBC Holdings pursuant to section 336 of the Securities and Futures Ordinance of Hong Kong:

- JPMorgan Chase & Co. gave notice on 3 June 2015 that on 29 May 2015 it had the following interests in HSBC Holdings ordinary shares: a long position of 987,976,822 shares; a short position of 132,712,484 shares; and a lending pool of 634,037,110 shares, each representing 5.06%, 0.68% and 3.24%, respectively, of the ordinary shares in issue at that date; and
- BlackRock, Inc. gave notice on 21 May 2015 that on 20 May 2015 it had the following interests in HSBC Holdings ordinary shares: a long position of 1,256,860,007 shares and a short position of 754,653 shares, each representing 6.44% and 0.00%, respectively, of the ordinary shares in issue at that date.

4 Dealings in HSBC Holdings listed securities

Except for dealings as intermediaries by HSBC Bank plc which is a member of a European Economic Area ('EEA') exchange and The Hongkong and Shanghai Banking Corporation Limited which has direct access to a EEA exchange, neither HSBC Holdings nor any of its subsidiaries purchased, sold or redeemed any of its securities listed on the Stock Exchange of Hong Kong Limited during the six months to 30 June 2015.

5 First interim dividend for 2015

The first interim dividend for 2015 of \$0.10 per ordinary share was paid on 8 July 2015.

6 Second interim dividend for 2015

On 3 August 2015, the Directors declared a second interim dividend for 2015 of \$0.10 per ordinary share. The second interim dividend will be payable on 2 October 2015 to holders of record on 14 August 2015 on the Principal Register in the United Kingdom, Hong Kong and Bermuda Overseas Branch registers. The dividend will be payable in cash, US dollars, sterling or Hong Kong dollars, or a combination of these currencies, at the forward exchange rates quoted by HSBC Bank plc in London at or about 11.00am on 21 September 2015. A scrip dividend will also be offered. Particulars of these arrangements will be sent to shareholders on or about 26 August 2015 and elections must be received by 17 September 2015.

The dividend will be payable on ordinary shares held through Euroclear France, the settlement and central depository system for Euronext Paris, on 2 October 2015 to the holders of record on 14 August 2015. The dividend will be payable by Euroclear France in cash, in euros, at the forward exchange rate quoted by HSBC France on 21 September 2015, or as a scrip dividend. Particulars of these arrangements will be announced through Euronext Paris on 5 August 2015, 20 August 2015 and 21 September 2015.

The dividend will be payable on ADSs, each of which represents five ordinary shares, on 2 October 2015 to holders of record on 14 August 2015. The dividend of \$0.50 per ADS will be payable by the depository in cash, in US dollars or as a scrip dividend of new ADSs. Elections must be received by the depository on or before 11 September 2015. Alternatively, the cash dividend may be invested in additional ADSs for participants in the dividend reinvestment plan operated by the depository.

Ordinary shares will be quoted ex-dividend in London, Hong Kong, Paris and Bermuda on 13 August 2015. The ADSs will be quoted ex-dividend in New York on 12 August 2015.

Any person who has acquired ordinary shares registered on the Principal Register in the United Kingdom, the Hong Kong Overseas Branch register or the Bermuda Overseas Branch register but who has not lodged the share transfer with the Principal Registrar, the Hong Kong or Bermuda Branch Registrar should do so before 4.00pm local time on 14 August 2015 in order to receive the dividend.

Ordinary shares may not be removed to or from the Principal Register in the United Kingdom, the Hong Kong Overseas Branch register or the Bermuda Overseas Branch register on 14 August 2015. Any person wishing to remove ordinary shares to or from each register must do so before 4.00pm local time on 13 August 2015.

Transfers of ADSs must be lodged with the depositary by 12 noon on 14 August 2015 in order to receive the dividend.

7 Proposed interim dividends for 2015

The Board has adopted a policy of paying quarterly dividends on the ordinary shares, under which it is intended to have a pattern of three equal interim dividends with a variable fourth interim dividend. The timetables for dividends payable on the ordinary shares in respect of 2015 that have not yet been declared are proposed as follows:

| | Third interim dividend for 2015 | Fourth interim dividend for 2015 |
|--|---------------------------------|----------------------------------|
| Announcement | 5 October 2015 | 22 February 2016 |
| ADSs quoted ex-dividend in New York | 21 October 2015 | 2 March 2016 |
| Shares quoted ex-dividend in London, Hong Kong, Paris and Bermuda | 22 October 2015 | 3 March 2016 |
| Record date in London, Hong Kong, New York, Paris and Bermuda ¹ | 23 October 2015 | 4 March 2016 |
| Payment date | 3 December 2015 | 20 April 2016 |

¹ Removals to and from the Overseas Branch Register of shareholders in Hong Kong will not be permitted on these dates.

8 Earnings Release

An *Earnings Release* for the three-month period ending 30 September 2015 is expected to be issued on 2 November 2015.

9 Final results

The results for the year to 31 December 2015 are expected to be announced on 22 February 2016.

10 Corporate governance

HSBC is committed to high standards of corporate governance.

Throughout the six months to 30 June 2015, HSBC Holdings has complied with the applicable code provisions of: (i) The UK Corporate Governance Code issued by the Financial Reporting Council in September 2014 and (ii) the Hong Kong Corporate Governance Code set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, save that the Group Risk Committee is responsible for the oversight of internal control (other than internal controls over financial reporting) and risk management systems (Hong Kong Corporate Governance Code provision C.3.3 paragraphs (f), (g) and (h)). In the absence of the Group Risk Committee, these matters would be the responsibility of the Group Audit Committee. The UK Corporate Governance Code is available at www.frc.org.uk and the Hong Kong Corporate Governance Code is available at www.hkex.com.hk.

The Board of HSBC Holdings has adopted a code of conduct for transactions in HSBC Group securities by Directors. The code of conduct complies with The Model Code in the Listing Rules of the Financial Conduct Authority and with The Model Code for Securities Transactions by Directors of Listed Issuers ('Hong Kong Model Code') set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, save that The Stock Exchange of Hong Kong Limited has granted certain waivers from strict compliance with the Hong Kong Model Code. The waivers granted by The Stock Exchange of Hong Kong Limited primarily take into account accepted practices in the UK, particularly in respect of employee share plans. Following a specific enquiry, each Director has confirmed that he or she has complied with the code of conduct for transactions in HSBC Group securities throughout the period. All Directors are routinely reminded of their obligations under the code of conduct for transactions in HSBC Group securities.

There have been no material changes to the information disclosed in the *Annual Report and Accounts 2014* in respect of the number and remuneration of employees, remuneration policies, bonus and share option plans and training schemes.

11 Changes in Directors’ details

Changes in Directors’ details since the date of the *Annual Report and Accounts 2014* which are required to be disclosed pursuant to Rule 13.51(2) and Rule 13.51B(1) of the Hong Kong Listing Rules, are set out below.

Kathleen Casey

Director of Penn State Milton S. Hershey Medical Center since 1 July 2015.
Chairman of Penn State Health since 1 March 2015.

Laura Cha

A member of the International Advisory Board of Sotheby’s since 15 April 2015.

Lord Evans of Weardale

Member of the Advisory Board of Fluid IT Ltd since 1 June 2015.
Non-executive director of Ark Data Centres Ltd since 1 July 2015.
Non-executive director of the UK National Crime Agency until 13 March 2015.
Senior Advisor at Accenture until 6 June 2015.

Douglas Flint

Member of the Financial Services Trade and Investment Board until 20 July 2015.

Sam Laidlaw

Chairman of the National Centre for Universities and Business since 26 March 2015.

Heidi Miller

Independent Director of SRS Acquiom since 15 June 2015.

Sir Simon Robertson

Member of the International Advisory Board of Brown Advisory Ltd since 7 May 2015.
Director of Immodulon Therapeutics Limited since 20 May 2015.
Trustee of the Eden Trust until 31 March 2015.

12 Going concern basis

As mentioned in Note 1 Basis of preparation on page 107, the financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group and parent company have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources. Further information relevant to the assessment is provided elsewhere in this *Interim Report 2015*.

In particular, HSBC’s principal activities, business and operating models, strategic direction and top and emerging risks are addressed in the ‘Overview’ section; a financial summary, including a review of the consolidated income statement and consolidated balance sheet, is provided in the ‘Interim Management Report’ section; HSBC’s objectives, policies and processes for managing credit, liquidity and market risk are described in the ‘Risk’ section of the *Annual Report and Accounts 2014*; and HSBC’s approach to capital management and allocation is described in the ‘Capital’ section of the *Annual Report and Accounts 2014*.

13 Telephone and online share dealing service

For shareholders on the Principal Register who are resident in the UK, with a UK postal address, and who hold an HSBC Bank plc personal current account, the HSBC InvestDirect share dealing service is available for buying and selling HSBC Holdings ordinary shares. Details are available from: HSBC InvestDirect, Forum 1, Parkway, Whiteley, PO15 7PA, UK telephone: 03456 080848, overseas telephone: +44 (0) 1226 261090, web: www.hsbc.co.uk/shares.

14 Stock symbols

HSBC Holdings plc ordinary shares trade under the following stock symbols:

| | |
|--------------------------------|---------|
| London Stock Exchange | HSBA |
| Hong Kong Stock Exchange | 5 |
| New York Stock Exchange (ADSs) | HSBC |
| Euronext Paris | HSB |
| Bermuda Stock Exchange | HSBC.BH |

15 Copies of the *Interim Report 2015* and shareholder enquiries and communications

Further copies of the *Interim Report 2015* may be obtained from Global Communications, HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom; from Communications (Asia), The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong; or from Global Publishing Services, HSBC – North America, SC1 Level, 452 Fifth Avenue, New York, NY 10018, USA. The *Interim Report 2015* may also be downloaded from the HSBC website, www.hsbc.com.

Shareholders may at any time choose to receive corporate communications in printed form or to receive notifications of their availability on HSBC's website. To receive future notifications of the availability of a corporate communication on HSBC's website by email, or to revoke or amend an instruction to receive such notifications by email, go to www.hsbc.com/ecomms. If you provide an email address to receive electronic communications from HSBC, we will also send notifications of your dividend entitlements by email. If you received a notification of the availability of this document on HSBC's website and would like to receive a printed copy of it or, if you would like to receive future corporate communications in printed form, please write or send an email (quoting your shareholder reference number) to the appropriate Registrar at the address given below. Printed copies will be provided without charge.

Any enquiries relating to your shareholdings on the share register, for example transfers of shares, change of name or address, lost share certificates or dividend cheques, should be sent to the Registrar at the address given below. The Registrar offers an online facility, Investor Centre, which enables shareholders to manage their shareholding electronically.

| Principal Register | Hong Kong Overseas Branch Register | Bermuda Overseas Branch Register |
|---|---|--|
| Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS99 6ZZ United Kingdom | Computershare Hong Kong Investor Services Limited Rooms 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Hong Kong | Investor Relations Team HSBC Bank Bermuda Limited 6 Front Street Hamilton HM 11 Bermuda |
| Telephone: +44 (0) 370 702 0137 Email via website: www.investorcentre.co.uk/contactus Investor Centre: www.investorcentre.co.uk | Telephone: +852 2862 8555 Email: hsbc.ecom@computershare.com.hk Investor Centre: www.investorcentre.com/hk | Telephone: +1 441 299 6737 Email: hbbm.shareholder.services@hsbc.bm Investor Centre: www.investorcentre.co.uk/bm |

Any enquiries relating to ADSs should be sent to the depositary at:

BNY Mellon Shareowner Services
PO Box 30170
College Station, TX 77842-3170
USA

Overnight correspondence should be sent to:
BNY Mellon Shareowner Services
211 Quality Circle, Suite 210
College Station, TX 77845
USA

Telephone (US): +1 877 283 5786
Telephone (international): +1 201 680 6825
Email: shrrelations@cpushareownerservices.com
Website: www.mybnymdr.com

Any enquiries relating to shares held through Euroclear France, the settlement and central depository system for NYSE Euronext Paris, should be sent to the paying agent:

HSBC France
103, avenue des Champs Elysées
75419 Paris Cedex 08
France

Telephone: +33 1 40 70 22 56
Email: ost-agence-des-titres-hsbc-reims.hbfr-do@hsbc.fr
Website: www.hsbc.fr

A Chinese translation of this and future documents may be obtained on request from the Registrar. Please also contact the Registrar if you have received a Chinese translation of this document and do not wish to receive such translations in future.

Persons whose shares are held on their behalf by another person may have been nominated to receive communications from HSBC pursuant to section 146 of the UK Companies Act 2006 ('nominated person'). The main point of contact for a nominated person remains the registered shareholder (for example your stockbroker, investment manager, custodian or other person who manages the investment on your behalf). Any changes or queries relating to a nominated person's personal details and holding (including any administration thereof) must continue to be directed to the registered shareholder and not HSBC's Registrar. The only exception is where HSBC, in exercising one of its powers under the UK Companies Act 2006, writes to nominated persons directly for a response.

中期業績報告及日後的相關文件均備有中譯本，如有需要，請向適當的股份登記處索取。股東如收到本報告的中譯本，但不希望再收取此等譯本，亦請聯絡股份登記處。

股東如已委託其他人士代為持有股份，可能會獲提名（「獲提名人士」）收取滙豐根據英國《2006年公司法》第146條的規定發出的通訊。獲提名人士之主要聯絡人仍為登記股東（例如：股票經紀、投資經理、託管商或代表閣下管理投資的其他人士）。獲提名人士的個人資料及持股量（包括任何相關管理事宜）如有任何變更或查詢，必須繼續交由登記股東而非滙豐的股份登記處辦理。除非滙豐根據英國《2006年公司法》行使其中一項權力時，直接致函獲提名人士要求回應，則屬例外。

Cautionary statement regarding forward-looking statements

The *Interim Report 2015* contains certain forward-looking statements with respect to HSBC's financial condition, results of operations and business.

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

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

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

- changes in general economic conditions in the markets in which we operate, such as continuing or deepening recessions and fluctuations in employment beyond those factored into consensus forecasts; changes in foreign exchange rates and interest rates; volatility in equity markets; lack of liquidity in wholesale funding markets; illiquidity and downward price pressure in national real estate markets; adverse changes in central banks' policies with respect to the provision of liquidity support to financial markets; heightened market concerns over sovereign creditworthiness in over-indebted countries; adverse changes in the funding
- status of public or private defined benefit pensions; and consumer perception as to the continuing availability of credit and price competition in the market segments we serve;
- changes in government policy and regulation, including the monetary, interest rate and other policies of central banks and other regulatory authorities; initiatives to change the size, scope of activities and interconnectedness of financial institutions in connection with the implementation of stricter regulation of financial institutions in key markets worldwide; revised capital and liquidity benchmarks which could serve to deleverage bank balance sheets and lower returns available from the current business model and portfolio mix; imposition of levies or taxes designed to change business mix and risk appetite; the practices, pricing or responsibilities of financial institutions serving their consumer markets; expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; changes in bankruptcy legislation in the principal markets in which we operate and the consequences thereof; general changes in government policy that may significantly influence investor decisions; extraordinary government actions as a result of current market turmoil; other unfavourable political or diplomatic developments producing social instability or legal uncertainty which in turn may affect demand for our products and services; the costs, effects and outcomes of product regulatory reviews, actions or litigation, including any additional compliance requirements; and the effects of competition in the markets where we operate including increased competition from non-bank financial services companies, including securities firms; and
- factors specific to HSBC, including our success in adequately identifying the risks we face, such as the incidence of loan losses or delinquency, and managing those risks (through account management, hedging and other techniques). Effective risk management depends on, among other things, our ability through stress testing and other techniques to prepare for events that cannot be captured by the statistical models it uses; and our success in addressing operational, legal and regulatory, and litigation challenges, notably compliance with the US DPA.

Abbreviations

| Abbreviation | Brief description |
|-----------------|--|
| 1H14 | First half of 2014 |
| 1H15 | First half of 2015 |
| A | |
| ABS | Asset-backed security |
| ADS | American Depositary Share |
| AML | Anti-money laundering |
| ARM | Adjustable-rate mortgage |
| B | |
| Basel Committee | Basel Committee on Banking Supervision |
| Basel III | Basel Committee's reforms to strengthen global capital and liquidity rules |
| BoCom | Bank of Communications Co., Limited, one of China's largest banks |
| BRRD | Bank Recovery and Resolution Directive (EU) |
| BSA | Bank Secrecy Act (US) |
| BSM | Balance Sheet Management |
| BVI | British Virgin Islands |
| C | |
| CA\$ | Canadian dollars |
| CAPM | Capital asset pricing model |
| CCB | Capital conservation buffer |
| CCyB | Countercyclical capital buffer |
| CEA | Commodity Exchange Act (US) |
| CET1 | Common equity tier 1 ratio |
| CMB | Commercial Banking, a global business |
| CML | Consumer and Mortgage Lending (US) |
| CRD | Capital Requirements Directive |
| CRS | Card and Retail Services |
| CVA | Credit valuation adjustment |
| D | |
| DANY DPA | Two-year deferred prosecution agreement with the New York County District Attorney (US) |
| DoJ | Department of Justice (US) |
| DPA | Deferred prosecution agreement (US) |
| DPF | Discretionary participation feature of insurance and investment contracts |
| E | |
| EBA | European Banking Authority |
| EU | European Union |
| Euribor | European Interbank Offered Rates |
| F | |
| FCA | Financial Conduct Authority (UK) |
| FPC | Financial Policy Committee (UK) |
| FRB | Federal Reserve Board (US) |
| G | |
| GB&M | Global Banking and Markets, a global business |
| GDP | Gross domestic product |
| GPB | Global Private Banking, a global business |
| Group | HSBC Holdings together with its subsidiary undertakings |
| G-SIB | Global systemically important bank |
| G-SII | Global systemically important institutions |
| H | |
| HNAH | HSBC North America Holdings Inc. |
| Hong Kong | Hong Kong Special Administrative Region of the People's Republic of China |
| HSBC | HSBC Holdings together with its subsidiary undertakings |
| HSBC Bank USA | HSBC Bank USA, N.A., HSBC's retail bank in the US |
| HSBC Colombia | HSBC Bank (Colombia) S.A. |
| HSBC Finance | HSBC Finance Corporation, the US consumer finance company (formerly Household International, Inc.) |
| HSBC France | HSBC's French banking subsidiary, formerly CCF S.A. |
| HSBC Holdings | HSBC Holdings plc, the parent company of HSBC |
| HSBC USA | The sub-group, HSBC USA Inc and HSBC Bank USA, consolidated for liquidity purposes |
| HSI | HSBC Securities (USA) Inc. |
| HSSE | HSBC Securities Services (Luxembourg) |
| HTIE | HSBC Institutional Trust Services (Ireland) Limited |

Abbreviation**Brief description****I**

| | |
|-----------------|---|
| IAS | International Accounting Standards |
| IASB | International Accounting Standards Board |
| IFRSs | International Financial Reporting Standards |
| Industrial Bank | Industrial Bank Co. Limited, a national joint-stock bank in mainland China in which Hang Seng Bank Limited has a shareholding |
| Investor Update | The Investor Update in June 2015 |
| IRB | Internal ratings-based |
| ISDA | International Swaps and Derivatives Association |

L

| | |
|-------|---|
| LCR | Liquidity coverage ratio |
| LFRF | Liquidity and funding risk management framework |
| LGD | Loss given default |
| Libor | London Interbank Offered Rate |
| LICs | Loan impairment charge and other credit risk provisions |
| LTV | Loan to value |

M

| | |
|-------------------|--|
| Madoff Securities | Bernard L Madoff Investment Securities LLC |
| Mainland China | People's Republic of China excluding Hong Kong and Macau |
| MBS | US mortgage-backed security |
| MENA | Middle East and North Africa |
| MREL | EU minimum requirements for own funds and eligible liabilities |

N

| | |
|------|--------------------------|
| NII | Net interest income |
| NSFR | Net stable funding ratio |

O

| | |
|------|--|
| OCC | Office of the Comptroller of the Currency (US) |
| ORMF | Operational risk management framework |

P

| | |
|---------|--|
| PBT | Profit before tax |
| PPI | Payment protection insurance product |
| PRA | Prudential Regulation Authority (UK) |
| Premier | HSBC Premier, HSBC's premium personal global banking service |
| PVIF | Present value of in-force long-term insurance business and long-term investment contracts with DPF |

Q

| | |
|-----|---------------------------|
| QIS | Quantitative impact study |
|-----|---------------------------|

R

| | |
|--------------|---|
| RBWM | Retail Banking and Wealth Management, a global business |
| Repo | Sale and repurchase transaction |
| Reverse repo | Security purchased under commitments to sell |
| RMB | Renminbi |
| RMBS | Residential mortgage-backed securities |
| RoRWA | Return on average risk-weighted assets |
| RTS | Regulatory technical standards |
| RWA | Risk-weighted assets |

S

| | |
|--------------|---|
| ServCo group | Separately incorporated group of service companies planned in response to UK ring-fencing proposals |
| SRB | Systematic risk buffer |

T

| | |
|------|-------------------------------|
| TLAC | Total loss absorbing capacity |
|------|-------------------------------|

U

| | |
|--------|---|
| UAE | United Arab Emirates |
| UK | United Kingdom |
| US | United States of America |
| US DPA | Five-year deferred prosecution agreement with the Department of Justice and others (US) |

V

| | |
|-----|---------------|
| VaR | Value at risk |
| VIU | Value in use |

Glossary

Terminology used in this interim report is consistent with that used in our *Annual Report and Accounts 2014*, where a glossary of terms can be found.

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HSBC: then and now

It is 150 years since HSBC was founded in Hong Kong to finance trade between Asia and Europe. Much has changed since then, as our cover photos demonstrate.

The top photo shows Hong Kong harbour, with the HSBC office (extreme left) a few years after it was established in 1865. The bottom image shows the harbour today, with the HSBC building sixth from left (partially hidden).

Hong Kong has been transformed both physically and economically, from trading outpost to international financial centre. HSBC has mirrored Hong Kong's rise to global prominence, growing from

a small regional trading bank into one of the world's largest banking and financial services organisations today.

HSBC's Hong Kong office is still at 1 Queen's Road Central, as it was in 1865. The current HSBC building is the fourth to occupy the site, but the values on which the bank was founded remain the same. HSBC still aims to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and helping people to fulfil their hopes and realise their ambitions.

We are proud to have served our customers with distinction for 150 years.

