

**FORM 6-K**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Report of Foreign Private Issuer**

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

**the Securities Exchange Act of 1934**

For the month of August 2018

Commission File Number: 001-14930

**HSBC Holdings plc**

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

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

Form 20-F  Form 40-F

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

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

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

Yes..... No

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

This Report on Form 6-K is hereby incorporated by reference in the following HSBC Holdings plc registration statements: Registration Statement on Form F-3 (Nos. 333-92024, 333-135007, 333-158065, 333-180288, 333-202420, 333-223191), Registration Statement on Form F-4 (No. 333-126531) and Registration Statements on Form S-8 (Nos. 333-103887, 333-104203, 333-109288, 333-113427, 333-127327, 333-143639, 333-145859, 333-155338, 333-162565, 333-170525, 333-176732, 333-183806, 333-197839, 333-220458).



# Connecting customers to opportunities

HSBC aims to be where the growth is, enabling business to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

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None of the websites referred to in this Interim Report on Form 6-K for the half year ended June 30, 2018 (the 'Form 6-K'), including where a link is provided, nor any of the information contained on such websites is incorporated by reference in the Form 6-K.

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**Inside front cover image**

Dubai financial district.

**Our photo competition winners**

This report showcases four images taken by our employees around the world. The images were selected from more than 2,100 submissions to a Group-wide photography competition. Launched in June 2017, HSBC NOW Photo is an ongoing project that encourages employees to capture and share the diverse world around them with a camera.

# Contents

## Our values

Our values define who we are as an organisation and make us distinctive.

## Dependable

We are dependable, standing firm for what is right and delivering on commitments.

## Open

We are open to different ideas and cultures, and value diverse perspectives.

## Connected

We are connected to our customers, communities, regulators and each other, caring about individuals and their progress.

## As a reminder

### Reporting currency

We use US dollars.

### Adjusted measures

We supplement our IFRS figures with adjusted measures used by management internally. These measures are highlighted with the following symbol: ◆

▶ Further explanation may be found on page 18.

In this document we use the following abbreviations to refer to reporting periods.

1H18 First half of 2018

2H17 Second half of 2017

1H17 First half of 2017

▶ For a full list of abbreviations see page 120.

Unless stated otherwise, risk-weighted assets and capital are calculated and presented on a transitional CRD IV basis as implemented by the Prudential Regulation Authority.

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## Interim Management Report

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### Cautionary statement regarding forward-looking statements

This Form 6-K contains certain forward-looking statements with respect to HSBC's financial condition, results of operations and business, including the strategic priorities and 2020 financial, investment and capital targets described herein.

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; consumer perception as to the continuing availability of credit and price competition in the market segments we serve; and deviations from the market and economic assumptions that form the basis for our ECL measurements.
- 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.
- 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; our success in addressing operational, legal and regulatory, and litigation challenges; and the other risks and uncertainties we identify in 'top and emerging risks' on pages 16 and 17.

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## 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 issued by HSBC Holdings classified as equity. The abbreviations '\$m', '\$bn' and '\$tn' represent millions, billions (thousands of millions) and trillions of US dollars, respectively.

# Highlights

Our international network, access to high-growth markets, and balance sheet strength deliver long-term value for customers and shareholders.

## Group performance

### For the half-year ended 30 June 2018

**Reported profit before tax**  
(\$bn)

|          |      |
|----------|------|
| Jun 2018 | 10.7 |
| Dec 2017 | 6.9  |
| Jun 2017 | 10.2 |

(1H17: \$10.2bn)

\$10.7bn

**Adjusted profit before tax**   
(\$bn)

|          |      |
|----------|------|
| Jun 2018 | 12.1 |
| Dec 2017 | 9.1  |
| Jun 2017 | 12.4 |

(1H17: \$12.4bn)

\$12.1bn

**Reported revenue**  
(\$bn)

|          |      |
|----------|------|
| Jun 2018 | 27.3 |
| Dec 2017 | 25.3 |
| Jun 2017 | 26.2 |

(1H17: \$26.2bn)

\$27.3bn

### At 30 June 2018

**Reported risk-weighted assets**  
(\$bn)

|          |     |
|----------|-----|
| Jun 2018 | 865 |
| Dec 2017 | 871 |
| Jun 2017 | 876 |

(31 Dec 2017: \$871bn)

\$865bn

**Common equity tier 1 ratio**  
(%)

|          |      |
|----------|------|
| Jun 2018 | 14.2 |
| Dec 2017 | 14.5 |
| Jun 2017 | 14.7 |

(31 Dec 2017: 14.5%)

14.2%

**Total assets**  
(\$bn)

|          |       |
|----------|-------|
| Jun 2018 | 2,607 |
| Dec 2017 | 2,522 |
| Jun 2017 | 2,492 |

(31 Dec 2017: \$2,522bn)

\$2,607bn

## About HSBC

More than  
**38 million**  
customers bank with us

We employ around  
**229,000**  
people around the world<sup>1</sup>

We have around  
**200,000**  
shareholders in more than  
125 countries and territories

Today, HSBC has around  
**3,800**  
offices in 66 countries  
and territories worldwide

## Strategy highlights


In June 2018, we announced the next phase of our strategy, focused on a return to growth and value creation. This builds on our position as a leading international bank with high-return transaction banking, access to high-growth markets and balance sheet strength.

**>90%**  
of global GDP, trade and  
capital flows covered by  
our footprint

**#1**  
Global transaction bank<sup>2</sup>

**#1**  
International bank in Asia<sup>3</sup>

**\$177bn**  
of total capital

 For footnotes, see page 47.

## Our global businesses

Our operating model consists of four global businesses and a Corporate Centre, supported by HSBC Operations Services and Technology, and 11 global functions, including: risk, finance, financial crime risk, legal, marketing and human resources.

### Retail Banking and Wealth Management ('RBWM')

We help close to 37 million customers across the world to manage their finances, buy their homes, and save and invest for the future. Our Insurance and Asset Management businesses support all our global businesses in meeting their customers' needs.

### Commercial Banking ('CMB')

We support approximately 1.7 million business customers in 53 countries and territories with banking products and services to help them operate and grow. Our customers range from small enterprises focused primarily on their domestic markets, through to large companies operating globally.

### Global Banking and Markets ('GB&M')

We provide financial services and products to companies, governments and institutions. Our comprehensive range of products and solutions, across capital financing, advisory and transaction banking services, can be combined and customised to meet clients' specific objectives.

### Global Private Banking ('GPB')

We help high net worth individuals and their families to grow, manage and preserve their wealth.

### Adjusted profit before tax

(1H17: \$3.4bn)

**\$3.6bn**

(1H17: \$3.6bn)

**\$4.1bn**

(1H17: \$3.5bn)

**\$3.6bn**

(1H17: \$0.1bn)

**\$0.2bn**

### Adjusted risk-weighted assets

(31 Dec 2017: \$119.5bn)

**\$124.1bn**

(31 Dec 2017: \$294.7bn)

**\$315.1bn**

(31 Dec 2017: \$295.7bn)

**\$284.5bn**

(31 Dec 2017: \$15.9bn)

**\$17.0bn**

◆ Our global businesses are presented on an adjusted basis, which is consistent with the way in which we assess their performance.

## Delivery against Group financial targets

Return on tangible equity

**9.7%**

Adjusted jaws

**-5.6%**

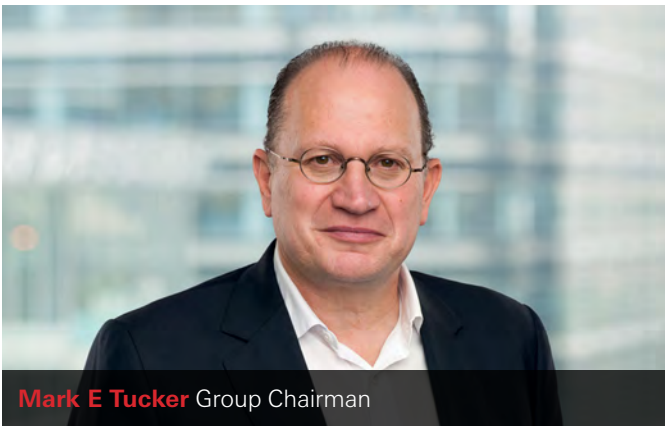
Dividends per ordinary share in respect of 1H18

**\$0.20**

▶ For further details, see page 11.

# Group Chairman's statement

At the start of the year, I spoke of the Board's focus on enhancing HSBC's performance and reputation. The Group has made a good start in both regards.



**Mark E Tucker** Group Chairman

The strength of our global businesses underlines the potential of the Group to make further revenue and market share gains, and provides room to invest in revenue growth, resilience, and technology to support our customers. These are all necessary to further strengthen HSBC's reputation among our many stakeholders.

The strategy that John Flint, the Group Chief Executive, unveiled in June is designed to unlock this potential. We have created a strategy that builds on past achievements to improve the Group's competitiveness and increase value for shareholders. It focuses on areas where HSBC is already strong, but which also hold the greatest capacity for revenue growth and value creation. This demonstrates the many competitive advantages the Group already enjoys.

Investing in the future of the business is a key pillar of the bank's strategy. No business can hope to thrive unless it anticipates and adapts to the changes around it. Technological change, in particular, will only accelerate in the coming years. Being able to invest thoughtfully and at scale at this point in the cycle will differentiate future winners from the rest of the industry.

This edge was evident in the first half of 2018. Our award-winning *PayMe* app acquired its millionth user and is now an established part of the daily lives of people and business in Hong Kong. In May, HSBC executed the first ever live trade finance transaction using scalable blockchain

technology, making an important breakthrough in an area previously rich in potential but low on delivery. In July, we announced an expansion of our use of Google Cloud technology, increasing access to some of the leading machine learning and data analytics technology in the world. These are just a few examples of how we are marrying emerging technology with the needs and expectations of our customers.

We are also investing to keep our customers safe. Both the Board and management remain unequivocally committed to safeguarding our clients and delivering industry-leading financial crime standards. This is a permanent priority for everyone at HSBC.

Our global businesses continue to benefit from the economic growth trends we identified at our 2017 Annual Results presentation. The diversity of the Group underpins our ability to manage the external environment effectively. We remain cautiously optimistic for global growth in the remainder of the year. In particular, the fundamentals of Asia remain strong despite rising concerns around the future of international trade and protectionism.

The Board has appointed Jonathan Symonds as the Deputy Group Chairman of HSBC Holdings plc. Jon already serves as the senior independent director. He takes up this new role today and steps down as Chairman of HSBC Bank plc. I am delighted that Jon has agreed to support me in this new capacity.

I am very grateful to all our people for the excellent work that they do in service of the bank, our customers and each other. Our results for the first half demonstrate that the Group has strong foundations. I have every confidence that we will build on them further.

A handwritten signature in black ink that reads "Mark E. Tucker".

**Mark E Tucker**  
Group Chairman  
6 August 2018



# Group Chief Executive's review

In June this year, I announced eight strategic priorities for the bank between now and 2020. These have two aims – to get HSBC back to growth and to create value.



**John Flint** Group Chief Executive

We will seek to achieve these aims by increasing returns from the Group's areas of strength, particularly in Asia and across our network; turning around low-return businesses of high strategic importance, particularly in the United States; investing in building a bank for the future with the customer at its centre; and making it easier for our colleagues to do their jobs.

Our first-half performance both reflected these intentions and met our expectations. We grew reported and adjusted revenue in our four global businesses relative to the same period last year, creating the room to invest at the start of this strategy phase while remaining committed to achieving full-year positive adjusted jaws.

Our investment in the first half included hiring more front-line staff in our strongest businesses and expanding our digital capabilities in core markets, both of which will improve the service we offer customers. Our first-half reported and adjusted operating expenses rose as a consequence, which contributed to a drop in adjusted profit before tax. We continued to benefit from a low credit-loss environment in the first half.

Retail Banking and Wealth Management, and Commercial Banking were again our strongest performing businesses. Both continued to gain from a positive interest rate environment, and used the benefits of past investment to grow lending and deposit balances, particularly in Asia and the UK.

Strong adjusted revenue growth in Commercial Banking was supported by our leading transaction banking capabilities. Global Liquidity and Cash Management had another excellent six months, and Global Trade and Receivables Finance made further progress in its core markets.

Adjusted revenue growth in Retail Banking and Wealth Management was underpinned by higher retail deposit balances and strong Wealth Management product sales in Hong Kong. We also grew our share of the UK mortgage market.

Global Banking and Markets had a steady first half. Strong performances from Global Liquidity and Cash Management, Securities Services and Foreign Exchange more than covered the impact of lower client activity in Rates and Credit.

Global Private Banking enjoyed a successful six months, growing adjusted revenue and attracting net new money through collaboration with our other global businesses.

HSBC UK Bank plc – our UK ring-fenced bank – commenced business on 1 July, six months ahead of the legal deadline. Ringfencing presents a major opportunity to get closer to our 14.5 million personal and business customers in the UK.

HSBC is a strong business with a number of clear commercial advantages. In particular, we are a leading international bank with a network that gives us unparalleled access to high-growth markets, particularly in Asia and the Middle East. Our aim for this next strategy phase is to build on these strengths to grow profits consistently, leading to the creation of value for shareholders. With a period of significant restructuring now behind us, and with monetary policy in the US-dollar bloc normalising, it is now time to realise the potential of the Group.



**John Flint**  
Group Chief Executive  
6 August 2018

# Our strategy

Our long-term strategy positions us to capture value from our international network, capitalising on global trends affecting the industry and our unique combination of strategic advantages.

## Strategic advantages

### Leading international bank

- More than 50% of Group client revenue connected to the network
- No. 1 global transaction bank<sup>2</sup>, gaining market share
- Recognised by customers as leading international bank

#### International client revenue<sup>4</sup> (% of total)

1H18 **52**

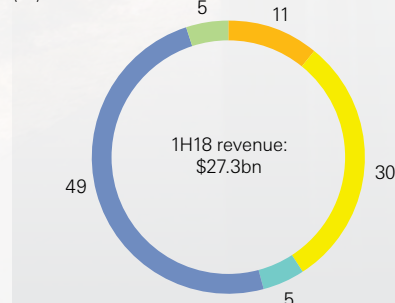
#### Transaction banking revenue<sup>4</sup> (% of total)

1H18 **30**

### Unparalleled access to high-growth markets

- Access to high-growth developing markets in Asia, the Middle East and Latin America
- Investment aligned to high-growth markets to deliver shareholder value
- Committed to enhanced customer service and investments in technology to help capture growth opportunities

#### Geographical revenue mix<sup>5</sup> (%)



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

### Balance sheet strength

- Strong capital, funding and liquidity position with diversified business model
- Conservative approach to credit risk and liquidity management
- Low earnings volatility
- Foundation for sustained dividend; strong capacity for distribution to shareholders

#### Common equity tier 1 ratio (%)

HSBC **14.2**

#### ECL as % of average gross loans and advances to customers (bps)

HSBC **8**

#### Liquidity coverage ratio (%)

HSBC **158**

▶ For footnotes, see page 47.

HSBC has entered the next phase of its strategy, focused on growth and value creation. To achieve this, eight strategic priorities have been put together with targeted outcomes by 2020. These eight priorities aim to deliver growth, turn around low-return businesses, put our customers at the centre, and empower our people.

**Strategic priorities**

**Targeted outcome by 2020**



**Deliver growth from areas of strength**

- 1 Accelerate growth from our Asian franchise
  - Build on strength in Hong Kong
  - Invest in Pearl River Delta, ASEAN, and Wealth in Asia (incl. Insurance and Asset Management)
- Be the leading bank to support drivers of global investment: China-led Belt and Road Initiative and the transition to a low-carbon economy

- High single-digit revenue growth p.a. from Asian franchise
- Market share gains in eight scale markets<sup>6</sup>
- No. 1 international bank for Belt and Road Initiative
- \$100bn in sustainable financing and investment<sup>7</sup>

- 2 Complete establishment of UK ring-fenced bank, grow mortgage market share, grow commercial customer base, and improve customer service

- Market share gains

- 3 Gain market share and deliver growth from our international network

- Mid to high single-digit revenue growth p.a. from international network
- Market share gains in Transaction Banking



**Turnaround of low-return businesses**

- 4 Turn around our US business
- 5 Improve capital efficiency; redeploy capital into higher-return businesses

- US return on tangible equity >6%
- Increase in asset productivity



**Build a bank for the future that puts the customer at the centre**

- 6 Create capacity for increasing investments in growth and technology through efficiency gains
- 7 Enhance customer centricity and customer service through investments in technology
  - Invest in digital capabilities to deliver improved customer service
  - Expand the reach of HSBC, including partnerships
  - Safeguard our customers and deliver industry-leading financial crime standards

- Positive adjusted jaws, on an annual basis, each financial year
- Improve customer satisfaction in eight scale markets<sup>8</sup>



**Empower our people**

- 8 Simplify the organisation and invest in future skills

- Improved employee engagement
- ESG rating: 'Outperformer'<sup>9</sup>

▶ For footnotes, see page 47.

# Financial overview

## Reported results

This table shows our reported results for the last three half-years, ended 30 June 2018 ('1H18'), 31 December 2017 ('2H17') and 30 June 2017 ('1H17').

Under IFRS 9, the recognition and measurement of expected credit losses differs from the approach under IAS 39. The change in expected credit losses relating to financial assets under IFRS 9 is recorded in the income statement under 'change in expected credit losses and other credit impairment charges' ('ECL'). As prior periods have not been restated, changes in impairment of financial assets in the comparative periods remain in accordance with IAS 39 and are recorded in the income statement under 'loan impairment charges and other credit risk provisions' ('LICs') and are therefore not necessarily comparable to ECL recorded for the current period.

All commentary in this Financial overview compares the 1H18 results with 1H17, unless otherwise stated.

### Reported profit before tax

Reported profit before tax of \$10.7bn was \$0.5bn or 5% higher than in 1H17, reflecting net favourable movements in significant items and favourable foreign currency translation differences, which are described in more detail on page 18. Excluding significant items and currency translation, profit before tax decreased by \$0.2bn or 2%.

### Reported revenue

Reported revenue of \$27.3bn was \$1.1bn or 4% higher. This included the favourable effects of foreign currency translation of \$0.9bn, which were partly offset by a net adverse movement in significant items of \$0.4bn. Significant items included:

- a loss on disposals, acquisitions and investment in new businesses of \$0.1bn in 1H18, mainly relating to the early redemption of subordinated debt in the US. This compared with a gain of \$0.4bn in 1H17, largely related to the disposal of our membership interest in Visa Inc.; and

| Reported results  | Half-year to       |                    |                    |
|---|--------------------|--------------------|--------------------|
|   | 30 Jun 2018<br>\$m | 30 Jun 2017<br>\$m | 31 Dec 2017<br>\$m |
| <b>Net operating income before change in expected credit losses and other credit impairment charges ('revenue')</b> | <b>27,287</b>      | 26,166             | 25,279             |
| ECL/LICs  | (407)              | (663)              | (1,106)            |
| <b>Net operating income</b>   | <b>26,880</b>      | 25,503             | 24,173             |
| Total operating expenses  | (17,549)           | (16,443)           | (18,441)           |
| <b>Operating profit</b>   | <b>9,331</b>       | 9,060              | 5,732              |
| Share of profit in associates and joint ventures  | 1,381              | 1,183              | 1,192              |
| <b>Profit before tax</b>  | <b>10,712</b>      | 10,243             | 6,924              |

- lower adverse fair value movements on financial instruments (down \$0.1bn).

Excluding significant items and the effects of foreign currency translation, revenue increased by \$0.6bn or 2%, reflecting higher revenue across all of our global businesses, partly offset by a reduction in Corporate Centre.

### Reported ECL/LICs

The reported ECL were \$0.4bn in 1H18. This mainly related to charges of \$0.5bn in RBWM, partly offset by net releases of ECL in GB&M (\$0.1bn) and Corporate Centre (\$0.1bn).

In 1H17, reported LICs of \$0.7bn mainly related to RBWM (\$0.6bn) and CMB (\$0.1bn).

The effect of foreign currency translation between the periods was minimal.

### Reported operating expenses

Reported operating expenses of \$17.5bn were \$1.1bn or 7% higher and included an adverse effect of foreign currency translation of \$0.7bn, offset by a favourable movement in significant items of \$0.8bn, which included:

- the non-recurrence of costs to achieve of \$1.7bn in 1H17; and
- customer redress programme costs of \$0.1bn in 1H18, compared with \$0.3bn in 1H17.

These were partly offset by:

- settlements and provisions in connection with legal matters of \$0.8bn in 1H18, compared with a net release of \$0.3bn in 1H17.

Excluding significant items and the favourable effects of foreign currency translation, operating expenses increased by \$1.2bn, primarily reflecting investment for growth.


### Reported income from associates and joint ventures

Reported income from associates and joint ventures of \$1.4bn increased by \$0.2bn, and included the favourable effects of foreign currency translation of \$0.1bn.

## Adjusted performance

Our reported results are prepared in accordance with IFRSs, as detailed in the Financial Statements on page 78.


We also present adjusted performance measures to align internal and external reporting, identify and quantify items management believes to be significant, and provide insight into how

management assesses period-on-period performance. Adjusted performance measures are highlighted with the following symbol: 

To derive adjusted performance, we adjust for:


– the period-on-period effects of foreign currency translation; and

– the effect of significant items that distort period-on-period comparisons, which are excluded in order to understand better the underlying trends in the business.

 For reconciliations of our reported results to an adjusted basis, including lists of significant items, see page 33.

## Adjusted results

This table shows our adjusted results for 1H18 and 1H17. These are discussed in more detail on the following pages.


| Adjusted results  | Half-year to       |                    | Movements compared with 1H17 |            |     |
|--|--------------------|--------------------|------------------------------|------------|-----|
|  | 30 Jun 2018<br>\$m | 30 Jun 2017<br>\$m | Adverse                      | Favourable | %   |
| Revenue  | 27,535             | 26,957             |                              | 578        | 2   |
| ECL/LICs   | (407)              | (657)              |                              | 250        |     |
| Total operating expenses   | (16,370)           | (15,195)           | (1,175)                      |            | (8) |
| <b>Operating profit</b>  | <b>10,758</b>      | 11,105             | (347)                        |            | (3) |
| Share of profit in associates and joint ventures   | 1,381              | 1,259              |                              | 122        | 10  |
| <b>Profit before tax</b>   | <b>12,139</b>      | 12,364             | (225)                        |            | (2) |

## Adjusted profit before tax

On an adjusted basis, profit before tax of \$12.1bn was \$0.2bn or 2% lower. Revenue increased by \$0.6bn and income from associates and joint ventures rose by \$0.1bn. In addition, ECL in 1H18 were \$0.4bn, compared with LICs of \$0.7bn in 1H17. These favourable movements were more than offset by an increase in operating expenses of \$1.2bn in 1H18, which included the ongoing impact of a number of investment programmes launched in 2H17, including investments to grow the business and investments in digital. This increase in operating expenses resulted in 1H18 adjusted jaws of negative 5.6%.

## Reconciliation of reported to adjusted profit before tax

|  | Half-year to       |                    |
|--|--------------------|--------------------|
|  | 30 Jun 2018<br>\$m | 30 Jun 2017<br>\$m |
| <b>Adjusted profit before tax</b>  | <b>12,139</b>      | 12,364             |
| <b>Currency translation</b>  |                    | (289)              |
| <b>Significant items:</b>  | <b>(1,427)</b>     | (1,832)            |
| – costs of structural reform   | (211)              | (180)              |
| – costs to achieve <sup>10</sup>   | –                  | (1,670)            |
| – customer redress programmes  | (54)               | (299)              |
| – disposals, acquisitions and investment in new businesses                                 | (145)              | 348                |
| – fair value movements on financial instruments  | (152)              | (245)              |
| – restructuring and other related costs  | (24)               | –                  |
| – settlements and provisions in connection with legal and regulatory matters <sup>11</sup> | (841)              | 322                |
| – currency translation on significant items  |                    | (108)              |
| <b>Reported profit before tax</b>  | <b>10,712</b>      | 10,243             |

 For footnotes, see page 47.

## Adjusted performance continued

| Adjusted revenue ▶ | Half-year to       |                    | Variance<br>\$m | %        |
|--------------------|--------------------|--------------------|-----------------|----------|
|                    | 30 Jun 2018<br>\$m | 30 Jun 2017<br>\$m |                 |          |
| RBWM               | 11,065             | 10,283             | 782             | 8        |
| CMB                | 7,439              | 6,622              | 817             | 12       |
| GB&M               | 8,265              | 8,192              | 73              | 1        |
| GPB                | 929                | 874                | 55              | 6        |
| Corporate Centre   | (163)              | 986                | (1,149)         | (117)    |
| <b>Total</b>       | <b>27,535</b>      | <b>26,957</b>      | <b>578</b>      | <b>2</b> |

### Adjusted revenue ▶

Adjusted revenue of \$27.5bn was \$0.6bn or 2% higher, reflecting growth in all of our global businesses, partly offset by a reduction in Corporate Centre.

- In RBWM, revenue increased by \$0.8bn or 8%, with growth in both Retail Banking and Wealth Management. In Retail Banking, revenue grew in current accounts, savings and deposits, reflecting wider margins and balance growth, primarily in Hong Kong, partly offset by lower personal lending revenue. In Wealth Management, revenue also increased mainly from investment distribution, primarily in Hong Kong reflecting increased investor confidence. This was partly offset by lower life insurance manufacturing revenue, largely from a net adverse movement in market impacts.
- In CMB, revenue increased by \$0.8bn or 12%, notably in Global Liquidity and Cash Management ('GLCM'), as we benefited from wider deposit margins and higher balances, primarily in Hong Kong and the US. In addition, revenue increased in Credit and Lending ('C&L'), notably in the UK, North America and Latin America as lending growth more than offset narrower margins.
- In GB&M, revenue was \$0.1bn or 1% higher. Strong growth in GLCM and Securities Services reflected interest rate rises and deposit balance growth, primarily in Asia. Revenue also increased in Principal Investments, from the revaluation of certain investments. These increases were partly offset by lower revenue in Global Markets as Rates and Credit revenue fell due to narrower margins and lower activity in emerging markets, partly offset by an increase in Foreign Exchange revenue.

- In GBP, revenue was \$0.1bn or 6% higher, mainly in Hong Kong from higher deposit revenue as we benefited from wider margins, and from higher investment revenue, reflecting increased client activity.
- In Corporate Centre, we recorded net negative revenue of \$0.2bn in 1H18, compared with revenue of \$1.0bn in 1H17. This primarily reflected lower revenue in Central Treasury due to higher adverse fair value movements relating to the hedging of our long-term debt, a reduction in Balance Sheet Management ('BSM') revenue and a loss arising from swap mark-to-market movements following a bond reclassification under IFRS 9 'Financial Instruments'. Revenue from legacy portfolios also decreased, mainly driven by losses on portfolio disposals.

### Adjusted ECL/LICs ▶

Adjusted ECL of \$0.4bn mainly related to charges in RBWM (\$0.5bn), notably in Mexico and the UK, and to a lesser extent in Hong Kong, against our unsecured lending portfolios. These charges were partly offset by net releases in Corporate Centre related to our legacy credit portfolio, as well as in GB&M, where net releases relating to a small number of clients in the US were partly offset by charges in the UK.

In 1H17, adjusted LICs of \$0.7bn mainly related to RBWM (\$0.6bn). This included LICs in Mexico reflecting our strategic growth in unsecured lending and an associated rise in delinquency, and also in the UK against unsecured lending. In CMB, LICs of \$0.1bn in 1H17 included charges in Hong Kong related to a small number of customers, partly offset by net releases across multiple sectors in the US and Canada.

### Adjusted operating expenses ▶

Adjusted operating expenses of \$16.4bn were \$1.2bn or 8% higher. This primarily reflected continued investments to grow the business (\$0.5bn), notably in RBWM and GB&M, and continued investment in digital across all global businesses (\$0.2bn), as well as an increase in variable pay (\$0.2bn).

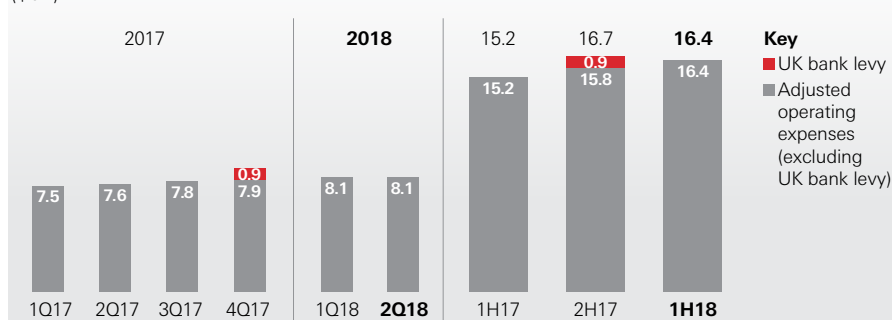
Our total investment in regulatory and compliance programmes in 1H18 was \$1.6bn, up \$0.1bn or 6%. This reflected the continued focus on our Global Standards programme to ensure that changes we have made are effective and sustainable. These costs included expenditures incurred to deliver the programmes, as well as recurring costs to maintain the activities.

The number of employees expressed in full-time equivalent staff ('FTEs') at 30 June 2018 was 229,195, an increase of 508 from 31 December 2017. This was primarily driven by investments in business growth programmes.

### Adjusted income from associates and joint ventures ▶

Adjusted income from associates and joint ventures of \$1.4bn increased by \$0.1bn, primarily reflecting higher income from Bank of Communications Co., Limited ('BoCom').

### Adjusted operating expenses (\$bn) ▶



## Balance sheet and capital

### Balance sheet strength

Total reported assets were \$2.6tn or 4% higher than at 1 January 2018 on a reported basis, and 5% higher on a constant currency basis. This reflects our continuing targeted asset growth, notably in Asia.

### Distributable reserves

The distributable reserves of HSBC Holdings at 30 June 2018 were \$36.5bn, compared with \$38.0bn at 31 December 2017. The decrease was primarily driven by distributions to shareholders of \$6.3bn, which were higher than profits generated of \$4.7bn, and certain other movements broadly offset one another, including IFRS 9 transitional adjustments, share buy-backs and fair value gains net of tax due to movements in our own credit risk.

### Capital strength

We manage our capital aiming to ensure we exceed current regulatory requirements and are well placed to meet those expected in the future. We monitor our position using capital ratios. These measure capital relative to a regulatory assessment of risks taken. We quantify how these risks relate to our business using RWAs.

Our common equity tier 1 ('CET1') ratio at 30 June 2018 was 14.2%, down from 14.5% at 31 December 2017.

### Adoption of IFRS 9 'Financial Instruments'

HSBC adopted the requirements of IFRS 9 on 1 January 2018, with the exception of the provisions relating to the presentation of gains and losses on financial liabilities designated at fair value, which were adopted from 1 January 2017. The adoption of IFRS 9 reduced our net assets at 1 January 2018 by \$1.6bn.

Further explanation of the impact of the implementation of IFRS 9 is provided in Note 1 on the Financial Statements on page 84.

## Delivery against Group financial targets

### Return on tangible equity

(%)

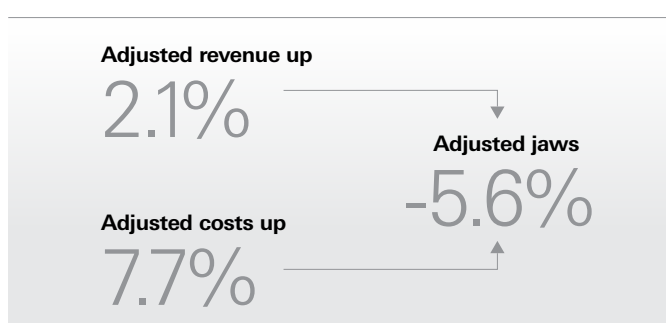
|                |     |
|----------------|-----|
| 1H18           | 9.7 |
| 2017 full-year | 6.8 |
| 1H17           | 9.9 |

### Return on tangible equity

Our target is to achieve a reported return on tangible equity ('RoTE') of more than 11% by the end of 2020. We intend to do this with a CET1 ratio of greater than 14%.

RoTE is calculated as reported profit attributable to ordinary shareholders less changes in goodwill and present value of in-force long-term insurance business, divided by average tangible shareholders' equity. A targeted reported RoTE of 11% in 2020 is broadly equivalent to a reported return on equity ('RoE') of 10%.

In the first half of 2018, we achieved a RoTE of 9.7%, compared with 9.9% in the first half of 2017.



### Adjusted jaws

Our target is to maintain positive adjusted jaws on an annual basis.

Jaws measures the difference between the rates of change in revenue and operating expenses. Positive jaws occurs when the figure for the percentage change in revenue is higher than, or less negative than, the corresponding rate for operating expenses.

We calculate adjusted jaws using adjusted revenue and adjusted operating expenses.

In 1H18, adjusted revenue increased by 2.1%, whereas our adjusted operating expenses increased by 7.7%. Adjusted jaws was therefore negative 5.6%.

### Total dividends declared in respect of the half-year

(\$m)

|          |       |
|----------|-------|
| Jun 2018 | 4,022 |
| Dec 2017 | 6,202 |
| Jun 2017 | 4,020 |

### Dividends

We plan to sustain the annual dividend in respect of the year at its current level for the foreseeable future. Growing our dividend in the future will depend on the overall profitability of the Group, delivering further release of less efficiently deployed capital and meeting regulatory capital requirements in a timely manner.

# Global businesses

We manage our products and services globally through our global businesses.

## Retail Banking and Wealth Management

RBWM serves close to 37 million customers worldwide through four main businesses: Retail Banking, Wealth Management, Asset Management, and Insurance. Our HSBC Premier and Advance propositions are aimed at mass affluent and emerging affluent customers who value international connectivity and benefit from our global reach and scale. For customers with simpler banking needs, RBWM offers a full range of products and services reflecting local requirements.

### Key events

- Continued progress with our digital transformation through the enhancement of customer journeys and product features, including the *PayMe* app in Hong Kong, which has one million users, and the *Connected Money* app in the UK, which has had 100,000 downloads since its launch in May 2018. Over 80% of global equity sales and a significant part of retail sales are made digitally.
- Delivering on unsecured lending growth, supported by new offers and marketing initiatives. Strong progress in new credit cards issuance in 1H18, notably in the UK (282,000), mainland China (221,000, including 101,000 in the PRD) and the US (135,000).

### Financial performance

Adjusted profit before tax of \$3.6bn was \$0.2bn or 7% higher, reflecting strong revenue growth, partly offset by higher operating expenses.

Adjusted revenue of \$11.1bn was \$0.8bn or 8% higher.

In Retail Banking, the increase reflected:

- Higher current accounts, savings and deposits, up \$0.8bn due to wider margins and balance growth, mainly in Hong Kong.
- Lower personal lending revenue, which reduced by \$0.2bn, despite growth in total lending balances of \$27bn, or 8% compared with 1H17.

| Management view of adjusted revenue ◀                               | Half-year to       |                    |                    | 1H18 vs 1H17 |             |
|---|--------------------|--------------------|--------------------|--------------|-------------|
|   | 30 Jun 2018<br>\$m | 30 Jun 2017<br>\$m | 31 Dec 2017<br>\$m | \$m          | %           |
| <b>Retail Banking</b>   | <b>7,413</b>       | 6,756              | 6,894              | <b>657</b>   | <b>10</b>   |
| Current accounts, savings and deposits                              | <b>3,889</b>       | 3,072              | 3,311              | <b>817</b>   | <b>27</b>   |
| Personal lending  | <b>3,524</b>       | 3,684              | 3,583              | <b>(160)</b> | <b>(4)</b>  |
| – mortgages   | <b>1,095</b>       | 1,209              | 1,199              | <b>(114)</b> | <b>(9)</b>  |
| – credit cards  | <b>1,451</b>       | 1,512              | 1,412              | <b>(61)</b>  | <b>(4)</b>  |
| – other personal lending <sup>12</sup>                              | <b>978</b>         | 963                | 972                | <b>15</b>    | <b>2</b>    |
| <b>Wealth Management</b>  | <b>3,380</b>       | 3,278              | 2,991              | <b>102</b>   | <b>3</b>    |
| – investment distribution <sup>13</sup>                             | <b>1,907</b>       | 1,628              | 1,678              | <b>279</b>   | <b>17</b>   |
| – life insurance manufacturing                                      | <b>919</b>         | 1,117              | 766                | <b>(198)</b> | <b>(18)</b> |
| – asset management  | <b>554</b>         | 533                | 547                | <b>21</b>    | <b>4</b>    |
| Other <sup>14</sup>   | <b>272</b>         | 249                | 395                | <b>23</b>    | <b>9</b>    |
| <b>Net operating income<sup>15</sup></b>                            | <b>11,065</b>      | 10,283             | 10,280             | <b>782</b>   | <b>8</b>    |
| Adjusted RoRWA (%) <sup>16</sup>                                    | <b>6.0</b>         | 6.0                | 5.3                |              |             |
| RoTE excluding significant items and UK bank levy (%) <sup>17</sup> | <b>21.3</b>        | 22.6               | 21.6               |              |             |

◀ For footnotes, see page 47.

This reflected the effects of mortgage margin compression from higher funding costs, mainly in the UK, Hong Kong, mainland China and the US. Lower credit cards revenue reflected margin compression in Turkey and policy tightening in Mexico and the UAE.

Wealth Management was up from:

- Higher investment distribution revenue, up \$0.3bn, reflecting higher sales of retail securities and mutual funds, notably in Hong Kong, following increased investor confidence.
- Life insurance manufacturing generated growth in annualised new business premiums (up 22%), which was more than offset by net adverse market impacts of \$0.3bn. Therefore, total life insurance manufacturing revenue decreased by \$0.2bn.

Adjusted ECL were \$0.5bn in 1H18 mainly related to charges in Mexico, the UK and Hong Kong, notably against unsecured lending. These new allowances broadly

offset write-offs, and the credit quality of our loan portfolio remained stable.

In 1H17, adjusted LICs of \$0.6bn were notably related to charges in Mexico, the UK and Hong Kong against unsecured lending balances.

Adjusted operating expenses of \$6.9bn increased by \$0.6bn or 9%, driven by investments in digital capabilities and marketing to help deliver improved customer services, and investments to grow the business, particularly in the UK, Hong Kong, mainland China (including PRD) and the US. In addition, staff numbers increased as we invested in front-line growth and technology initiatives, including in Hong Kong and the PRD.

### Adjusted profit before tax (\$bn) ▶

| Half-year to |            |
|--------------|------------|
| Jun 2018     | <b>3.6</b> |
| Dec 2017     | 3.1        |
| Jun 2017     | 3.4        |



The 'Management view of adjusted revenue' tables provide a breakdown of revenue by major products, and reflect the basis on which revenue performance of each business is assessed and managed.

Commentary is on an adjusted basis, which is consistent with how we assess the performance of our global businesses. ▶

## Commercial Banking

CMB serves approximately 1.7 million customers in 53 countries and territories. Our customers range from small enterprises focused primarily on their domestic markets through to corporates operating globally. We support customers with tailored financial products and services to allow them to operate efficiently and grow.

Services provided include working capital, term loans, payment services and international trade facilitation, as well as expertise in mergers and acquisitions, and access to financial markets.

### Key events

- Corporate customer value from our international subsidiary banking proposition grew 18%\* compared with 1H17, demonstrating the value of our global network.
- We further strengthened our leadership position in GLCM through investment in our digital capabilities, including mobile facial recognition technology, and collaboration with PayPal to help companies manage their liquidity and payments in real time.
- We continue to embrace new technologies in Global Trade and Receivables Finance ('GTRF'), demonstrated through the completion of four live trades on the *we.trade* blockchain platform, the world's first commercially scalable Distributed Ledger Technology platform for open account trade.

### Financial performance

Adjusted profit before tax of \$4.1bn was \$0.5bn or 15% higher, reflecting higher revenue and low levels of ECL. This was partly offset by an increase in operating expenses.

Adjusted revenue of \$7.4bn was \$0.8bn or 12% higher, mainly driven by increases in GLCM and C&L. Revenue also increased in Markets products, Insurance and Investments, notably in Asia, and in GTRF.

| Management view of adjusted revenue ▶                                | Half-year to       |                    |                    | 1H18 vs 1H17 |           |
|--|--------------------|--------------------|--------------------|--------------|-----------|
|  | 30 Jun 2018<br>\$m | 30 Jun 2017<br>\$m | 31 Dec 2017<br>\$m | \$m          | %         |
| Global Trade and Receivables Finance                                 | 943                | 925                | 910                | 18           | 2         |
| Credit and Lending   | 2,672              | 2,545              | 2,594              | 127          | 5         |
| Global Liquidity and Cash Management                                 | 2,793              | 2,336              | 2,480              | 457          | 20        |
| Markets products, Insurance and Investments, and Other <sup>18</sup> | 1,031              | 816                | 899                | 215          | 26        |
| <b>Net operating income<sup>15</sup></b>                             | <b>7,439</b>       | 6,622              | 6,883              | <b>817</b>   | <b>12</b> |
| Adjusted RoRWA (%) <sup>16</sup>                                     | 2.7                | 2.5                | 2.3                |              |           |
| RoTE excluding significant items and UK bank levy (%) <sup>17</sup>  | 15.1               | 14.8               | 14.0               |              |           |

▶ For footnotes, see page 47.

- In GLCM, revenue increased by \$0.5bn or 20%, primarily in Hong Kong and the US, mainly reflecting wider margins and increased balances, with notable growth in Asia, North America and Europe.
- In C&L, revenue was \$0.1bn or 5% higher. Revenue grew in the UK, North America and Latin America as lending growth more than offset narrower margins. Revenue also grew in Asia, as balance growth in Hong Kong more than offset the effects of margin compression, in part reflecting competitive pressures.
- In GTRF, revenue was \$18m or 2% higher, driven by balance sheet growth in the UK and Asia, mainly in mainland China. This was partly offset by a reduction in revenue in the Middle East and North Africa ('MENA'), reflecting the effects of managed customer exits in the UAE.

Adjusted ECL were \$55m in 1H18, as charges in MENA, Latin America and Europe were partly offset by releases in North America and Hong Kong. In 1H17, net adjusted LICs of \$109m related to charges in Hong Kong, across various sectors, partly offset by net releases in North America and the UK.

Adjusted operating expenses were \$0.3bn or 11% higher. This reflected increases in: staff costs, including higher variable pay; our continued investment in digital capabilities; regulatory programme and compliance costs; and inflation.

\*Analysis relates to corporate client income, which includes total income from GB&M products, including Foreign Exchange and Debt Capital Markets. This measure differs from reported revenue in that it excludes Business Banking and Other and internal cost of funds.

### Adjusted profit before tax (\$bn) ▶

Half-year to

|          |     |
|----------|-----|
| Jun 2018 | 4.1 |
| Dec 2017 | 3.4 |
| Jun 2017 | 3.6 |

## Global Banking and Markets

GB&M serves approximately 4,100 clients in more than 50 countries and territories. It supports major government, corporate and institutional clients worldwide.

Our product specialists continue to deliver a comprehensive range of transaction banking, financing, advisory, capital markets and risk management services.

### Key events

– Leading the way with the digitisation of Trade Finance by completing the first transaction using blockchain Distributed Ledger Technology in the banking industry.


– We acted as green structuring adviser on a \$1.25bn green sukuk bond for the Republic of Indonesia, the first ever international offering of green securities by an Asian sovereign.

### Financial performance

Adjusted profit before tax of \$3.6bn was \$25m or 1% higher, reflecting increased revenue and a net ECL release in 1H18, compared with LICs in 1H17. This was partly offset by higher operating expenses as we continued to invest in the business.

Adjusted revenue of \$8.3bn was \$0.1bn or 1% higher, and included a net favourable movement of \$54m on credit and funding valuation adjustments. This reflected:

- Strong GLCM revenue growth of \$0.2bn, or 19%, across all regions, mainly in Asia, from continued momentum since 2017, benefiting from higher average balances since 1H17 (up 7%) and higher interest rates.
- Double-digit revenue growth in Securities Services (up \$0.1bn) reflected growth of over 10% in both assets under custody and assets under administration since 1H17, primarily in Asia as we continued to win new business. The increase in revenue was also from higher interest rates, which more than offset margin compression.
- Principal Investments revenue increased by \$0.1bn, reflecting the revaluation of certain investments.

| Management view of adjusted revenue  | Half-year to       |                    |                    | 1H18 vs 1H17 |          |
|---|--------------------|--------------------|--------------------|--------------|----------|
|   | 30 Jun 2018<br>\$m | 30 Jun 2017<br>\$m | 31 Dec 2017<br>\$m | \$m          | %        |
| Global Markets  | 3,474              | 3,907              | 3,026              | (433)        | (11)     |
| – Equities  | 705                | 697                | 604                | 8            | 1        |
| – FICC  | 2,769              | 3,210              | 2,422              | (441)        | (14)     |
| Foreign Exchange  | 1,552              | 1,398              | 1,234              | 154          | 11       |
| Rates   | 795                | 1,215              | 847                | (420)        | (35)     |
| Credit  | 422                | 597                | 341                | (175)        | (29)     |
| Global Banking  | 2,060              | 2,036              | 1,883              | 24           | 1        |
| Global Liquidity and Cash Management  | 1,274              | 1,070              | 1,166              | 204          | 19       |
| Securities Services   | 981                | 876                | 923                | 105          | 12       |
| Global Trade and Receivables Finance  | 360                | 370                | 346                | (10)         | (3)      |
| Principal Investments   | 171                | 83                 | 246                | 88           | >100     |
| Credit and funding valuation adjustments <sup>19</sup>  | (44)               | (98)               | (170)              | 54           | (55)     |
| Other <sup>20</sup>   | (11)               | (52)               | (34)               | 41           | (79)     |
| <b>Net operating income<sup>15</sup></b>  | <b>8,265</b>       | <b>8,192</b>       | <b>7,386</b>       | <b>73</b>    | <b>1</b> |
| Adjusted RoRWA (%) <sup>16</sup>  | 2.5                | 2.4                | 1.6                |              |          |
| RoTE excluding significant items and UK bank levy (%) <sup>17</sup>   | 12.3               | 12.5               | 10.6               |              |          |

 For footnotes, see page 47.

– Global Banking revenue was \$24m or 1% higher, as Leveraged and Acquisition Finance continued to perform well, with notable client wins, and favourable movements in Credit and Lending portfolio hedges. We grew our market share in Debt Capital Markets ('DCM'), but this was more than offset by lower corporate issuances. Despite lower lending revenue, overall performance was positive, reflecting growth in fee business.


– Global Markets revenue decreased by \$0.4bn. In Fixed Income, Rates and Credit revenue fell by \$0.4bn and \$0.2bn respectively, as a result of narrower margins and lower activity in emerging markets. By contrast, Foreign Exchange revenue grew by \$0.2bn or 11%, with increased client volumes, continuing to build on a strong performance in 2017.

Net ECL releases in 1H18 of \$97m related to a small number of clients in the US, notably in the oil and gas sector.

These were partly offset by charges in the UK against exposures in the retail and construction sectors.

In 1H17, adjusted LICs of \$40m were primarily in the US. This reflected net charges against specific clients, notably in the oil and gas, and mining sectors.

Adjusted operating expenses of \$4.8bn were \$0.2bn or 4% higher, driven by higher volume-related transaction costs and investments to grow the business, notably in Securities Services and Global Markets, and in HSBC Qianhai Securities, our Chinese joint venture. These increases more than offset the benefit of cost-saving initiatives.

| Adjusted profit before tax (\$bn)  |     |
|---|-----|
| Half-year to  |     |
| Jun 2018  | 3.6 |
| Dec 2017  | 2.4 |
| Jun 2017  | 3.5 |

## Global Private Banking

GPB serves high net worth individuals and families, including those with international banking needs.

We provide a full range of private banking services, including Investment Management, which includes advisory and brokerage services, and Private Wealth Solutions, which comprises trusts and estate planning, to protect and preserve wealth for future generations.

### Key events

- Net new money inflows of \$9bn in key markets targeted for growth, of which more than 60% was from collaboration with our other global businesses. Net new money inflows were mainly in Hong Kong, the UK and Channel Islands, Switzerland and the US.
- Continued momentum in discretionary and advisory mandates, with strong growth in 1H18, mainly in Switzerland, Hong Kong, Germany and the US.

| Management view of adjusted revenue <span style="color: red;">▶</span> | Half-year to       |                    |                    | 1H18 vs 1H17 |          |
|--|--------------------|--------------------|--------------------|--------------|----------|
|  | 30 Jun 2018<br>\$m | 30 Jun 2017<br>\$m | 31 Dec 2017<br>\$m | \$m          | %        |
| Investment revenue   | 386                | 362                | 339                | 24           | 7        |
| Lending  | 200                | 193                | 202                | 7            | 4        |
| Deposit  | 244                | 194                | 211                | 50           | 26       |
| Other  | 99                 | 125                | 114                | (26)         | (21)     |
| <b>Net operating income<sup>15</sup></b>                               | <b>929</b>         | 874                | 866                | <b>55</b>    | <b>6</b> |
| Adjusted RoRWA (%) <sup>16</sup>                                       | 2.3                | 1.8                | 1.9                |              |          |
| RoTE excluding significant items and UK bank levy (%) <sup>17</sup>    | 11.2               | 6.5                | 7.1                |              |          |

▶ For footnotes, see page 47.

### Financial performance

Adjusted profit before tax of \$0.2bn was \$46m or 32% higher, driven by revenue growth.

Adjusted revenue of \$0.9bn increased by \$55m or 6%, mainly in Hong Kong from higher deposit revenue as margins widened following interest rate rises, and from higher investment revenue due to increased client activity.

Adjusted operating expenses of \$0.7bn were broadly stable, as higher variable pay was broadly offset by lower costs following the wind-down of our operations in Monaco.

**Adjusted profit before tax (\$m)** ▶  
Half-year to

|          |     |
|----------|-----|
| Jun 2018 | 190 |
| Dec 2017 | 152 |
| Jun 2017 | 144 |

## Corporate Centre

Corporate Centre comprises Central Treasury, including BSM, our legacy businesses, interests in our associates and joint ventures, central stewardship costs and the UK bank levy.

### Financial performance

Adjusted profit before tax of \$0.6bn was \$1.1bn or 63% lower, mainly reflecting a reduction in revenue.

Net negative revenue of \$0.2bn, compared with revenue of \$1.0bn in 1H17, reflected lower revenue in Central Treasury (down \$0.7bn), and from legacy portfolios (down \$0.2bn) following losses related to portfolio disposals. Other income also decreased (down \$0.2bn), mainly driven by a change in allocation of liquidity costs in anticipation of a change in regulatory environment, lower revaluation gains of investment properties and the non-recurrence of a 1H17 gain on the disposal of our operations in Lebanon.

Central Treasury revenue decreased due to:

- lower BSM revenue (down \$0.2bn), mainly as a result of de-risking activities

| Management view of adjusted revenue <span style="color: red;">▶</span> | Half-year to       |                    |                    | 1H18 vs 1H17   |                  |
|--|--------------------|--------------------|--------------------|----------------|------------------|
|  | 30 Jun 2018<br>\$m | 30 Jun 2017<br>\$m | 31 Dec 2017<br>\$m | \$m            | %                |
| Central Treasury <sup>21</sup>   | 78                 | 776                | 556                | (698)          | (90)             |
| Legacy portfolios  | (88)               | 136                | (127)              | (224)          | >(100)           |
| – US run-off portfolio   | 20                 | 75                 | (36)               | (55)           | (73)             |
| – legacy credit  | (108)              | 61                 | (91)               | (169)          | >(100)           |
| Other <sup>22</sup>  | (153)              | 74                 | (106)              | (227)          | >(100)           |
| <b>Net operating income<sup>15</sup></b>                               | <b>(163)</b>       | 986                | 323                | <b>(1,149)</b> | <b>&gt;(100)</b> |

▶ For footnotes, see page 47.

- undertaken during 2017 in anticipation of interest rate rises, lower reinvestment yields and lower disposal gains;
- higher adverse fair value movements (\$0.2bn), relating to the economic hedging of interest rate and exchange rate risk on our long-term debt with long-term derivatives;
- a loss arising from adverse swap mark-to-market movements following a bond reclassification under IFRS 9 'Financial Instruments' (\$0.2bn); and
- higher interest expense on our debt (up \$0.1bn), driven by both higher issuances and the higher average

cost of debt issued to meet regulatory requirements.

ECL releases of \$0.1bn in 1H18 and prior year net LICs releases were both primarily related to our legacy credit portfolio.

Adjusted operating expenses of \$0.7bn rose by \$0.1bn or 9% due to a higher UK bank levy and higher local taxes and regulatory costs.

Adjusted income from associates rose by \$0.1bn or 7%.

# Risk overview

We actively manage risk to protect and enable the business.

## Managing risk

HSBC has maintained a conservative and consistent approach to risk throughout its history, helping to ensure we protect customers' funds, lend responsibly and support economies. By carefully aligning our risk appetite to our strategy, we aim to deliver sustainable long-term shareholder returns.

All employees are responsible for the management of risk, with the ultimate accountability residing with the Board. We have a strong risk culture, which is embedded through clear and consistent communication and appropriate training for all employees. A comprehensive risk management framework is applied throughout the Group, with governance and corresponding risk management tools. This framework is underpinned by our risk culture and reinforced by the HSBC Values.

Our Global Risk function oversees the framework and is led by the Group Chief Risk Officer, an executive Director. It is independent from the global businesses, including our sales

and trading functions, to provide challenge, appropriate oversight and balance in risk/reward decisions.

HSBC's risk appetite defines our desired forward-looking risk profile, and informs the strategic and financial planning process. It is articulated in our risk appetite statement, which is approved by the Board. Key elements include:

- risks that we accept as part of doing business, such as credit risk and market risk;
- risks that we incur as part of doing business, such as operational risk, which are actively managed to remain below an acceptable tolerance; and
- risks for which we have zero tolerance, such as knowingly engaging in activities where foreseeable reputational risk has not been considered.

We operate a comprehensive stress testing programme to help ensure the strength and resilience of HSBC, taking part in regulators' as well as our own stress tests. In 2017, the results for HSBC as published by the Bank of England ('BoE') showed that our capital

ratios, after taking account of CRD IV restrictions and strategic management actions, exceeded the BoE's requirements. This outcome reflected our strong capital position, conservative risk appetite, diversified geographical and business mix, and strategic actions undertaken.

Internal stress tests are an important element in our risk management and capital management frameworks. They include potential adverse macroeconomic, geopolitical and operational risk events, and other potential events that are specific to HSBC. The selection of scenarios reflects our top and emerging risks identification process and our risk appetite. Stress testing analysis helps management understand the nature and extent of vulnerabilities to which the bank is exposed.

▶ Our risk management framework, and risks associated with our banking and insurance manufacturing operations, are described from pages 66 to 81 of the *Annual Report and Accounts 2017*.

## Top and emerging risks

Our top and emerging risks framework helps enable us to identify forward-looking risks so that we may take action to either prevent them materialising or limit their effect.

Top risks are those that may have a material impact on the financial results, reputation or business model of the Group in the year ahead.

Emerging risks are those that have largely unknown components and may form beyond a one-year horizon. If any of these risks were to occur, they could have a material effect on HSBC.

During 1H18, we made three changes to our top and emerging risks framework.

The thematic issue 'Impact of organisational change and regulatory

demands on employees' was renamed 'Risks associated with workforce capability, capacity and environmental factors with potential impact on growth' to better reflect the challenges facing the Group and summarise the broader focus on strategic growth capability.

The theme 'Libor replacement' has been added, as the expected replacement or changes to key interbank offered rates such as Libor with alternative benchmark rates introduces uncertainty to HSBC, its clients and the financial services industry. Discontinuation of, or changes to, benchmark rates may require amendments to agreements that refer to current benchmarked rates made by HSBC, our clients and other market

participants, as well as to our systems and processes.

'Execution risk' was removed, following the successful completion of a number of high-priority programmes during the period. The Group Change Committee retains close oversight of progress on the highest priority programmes, ensuring we achieve consistent delivery across critical initiatives.

▶ Our top and emerging risks are also summarised and discussed in more detail on pages 63 to 66 of the *Annual Report and Accounts 2017*.

▶ Our approach to identifying and monitoring top and emerging risks is described on page 69 of the *Annual Report and Accounts 2017*.

| Risk   | Trend | Mitigants  |
|--|-------|--|
| <b>Externally driven</b>   |       |  |
| Economic outlook and capital flows   | ▲     | We actively monitor our wholesale credit and trading portfolios, including undertaking stress tests, to identify sectors and clients that may come under stress due to: escalating tariffs and other trade restrictions; an economic slowdown in the eurozone and mainland China; and adverse outcomes of negotiations concerning the UK's exit from the EU.   |
| Geopolitical risk  | ▲     | We continually assess the impact of geopolitical events on our businesses and exposures, and take steps to mitigate them, where required, to help ensure we remain within our risk appetite. We have also strengthened physical security at our premises where the risk of terrorism is heightened.  |
| The credit cycle   | ▶     | We continue to undertake detailed reviews of our portfolios and are assessing proactively customers and sectors likely to come under stress as a result of geopolitical or macroeconomic events, reducing limits where appropriate.  |
| Cyber threat and unauthorised access to systems  | ▲     | We continue to strengthen our cyber control framework and implement initiatives to improve our resilience and cybersecurity capabilities, including threat detection and analysis, access control, payment systems controls, data protection and backup and recovery.  |
| Regulatory, technological and sustainability developments including conduct, with adverse impact on business model and profitability | ▶     | We engage proactively with regulators wherever possible to help ensure new regulatory requirements are effectively implemented, and work with them in relation to their investigations into historical activities. We also engage with non-governmental organisations to help ensure our policies address environmental concerns.  |
| Financial crime risk environment   | ▶     | We are on track to integrate the majority of the Global Standards programme financial crime risk core capabilities into our day-to-day operations by the end of 2018, and expect to complete the closure of the programme infrastructure in early 2019. We will continue to take further steps to refine and strengthen our defences against financial crime by applying advanced analytics and artificial intelligence. |
| Libor replacement  | ▲     | We are evaluating the impact on HSBC's products, services and processes as the industry accord evolves, with the intention of minimising disruption through appropriate mitigating actions.  |
| <b>Internally driven</b>   |       |  |
| IT systems infrastructure and resilience   | ▶     | We continue to monitor and improve service resilience across our technology infrastructure, enhancing our problem diagnosis/resolution and change execution capabilities, reducing service disruption to our customers.  |
| ● Risks associated with workforce capability, capacity and environmental factors with potential impact on growth                     | ▶     | We continue to monitor workforce capability and capacity, particularly in our strategically relevant areas, and other conduct and cultural factors that may affect our business. Understanding our capability needs for growth will be an area of focus as well as improving employee engagement and our approach to leadership succession planning.   |
| Risks arising from the receipt of services from third parties  | ▶     | We have strengthened essential governance processes and relevant policies relating to how we identify, assess, mitigate and manage risks across the range of third parties with which we do business. This includes control monitoring and assurance throughout the third-party lifecycle.   |
| Enhanced model risk management expectations  | ▲     | We have strengthened our model risk management framework by establishing an independent second line of defence Model Risk Management sub-function, and we continue to enhance our existing policy and standards in order to address evolving regulatory, external and internal requirements.   |
| Data management  | ▲     | We continue to improve our insights, consistency of data aggregation, reporting and decisions through ongoing enhancement of our data governance, data quality, data privacy and architecture framework.   |

- ▲ Risk heightened during 2018
- ▶ Risk remained at the same level as 2017
- Thematic risk renamed during 1H18

### Financial summary

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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 78.

To measure our performance we also use non-GAAP financial measures, including those derived from our reported results that eliminate factors that distort period-on-period comparisons. The 'adjusted performance' measure used throughout this report is described below, and where others are used they are described. All non-GAAP financial measures are reconciled to the closest reported financial measure.

The global business segmental results on pages 31 to 37 are presented on an adjusted basis in accordance with IFRS 8 'Operating Segments' as detailed in 'Basis of preparation' on page 31.

#### Adjusted performance

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

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

#### Significant items

'Significant items' refers collectively to the items that management and investors would ordinarily identify and consider separately to understand better the underlying trends in the business.

The tables on pages 34 to 37 and pages 41 to 43 detail the effects of significant items on each of our global business segments and geographical regions in 1H18, and 1H17 and 2H17.

#### Foreign currency translation differences

Foreign currency translation differences reflect the movements of the US dollar against most major currencies during 2018. We exclude them to derive constant currency data, allowing us to assess balance sheet and income statement performance on a like-for-like basis and better understand the underlying trends in the business.

#### Foreign currency translation differences

Foreign currency translation differences for the half-year to 30 June 2018 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 2017 and 31 December 2017 at the average rates of exchange for the half-year to 30 June 2018; and
- the balance sheets at 30 June 2017 and 31 December 2017 at the prevailing rates of exchange on 30 June 2018.

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 has been translated at the appropriate exchange rates applied in the current period on the basis described above.

#### Changes from 1 January 2018

##### IFRS 9

HSBC adopted the requirements of IFRS 9 'Financial Instruments' on 1 January 2018, with the exception of the provisions relating to the presentation of gains and losses on financial liabilities designated at fair value, which were adopted on 1 January 2017. The impact of transitioning to IFRS 9 at 1 January 2018 on the consolidated financial statements of HSBC was a decrease in net assets of \$1.6bn, arising from:

- a decrease of \$2.2bn from additional impairment allowances;
- a decrease of \$0.9bn from our associates reducing their net assets;
- an increase of \$1.1bn from the remeasurement of financial assets and liabilities as a consequence of classification changes, mainly from revoking fair value accounting designations for certain long-dated issued debt instruments; and
- an increase in net deferred tax assets of \$0.4bn.

The effect of IFRS 9 on the carrying value of investments in associates has been updated from the effect disclosed in our *Annual Report and Accounts 2017* and in our *Report on Transition to IFRS 9 'Financial Instruments' 1 January 2018* as a result of those entities publicly reporting their expected transition impacts. This resulted in a further decrease in net assets of \$0.6bn, net of tax.

Refer to 'Standards applied during the half-year to 30 June 2018' on page 84 and Note 14 'Effect of reclassification upon adoption of IFRS 9' for further detail. A *Report on Transition to IFRS 9 'Financial Instruments'* detailing the impact of the initial application was issued on 27 February 2018.

##### Income statement presentation

The classification and measurement requirements under IFRS 9, which was adopted from 1 January 2018, are based on an entity's assessment of both the business model for managing the assets and the contractual cash flow characteristics of the assets. The standard contains a classification for items measured mandatorily at fair value through profit or loss as a residual category. Given its residual nature, the presentation of the income statement has been updated to present separately items in this category which are of a dissimilar nature or function, in line with IAS 1 'Presentation of Financial Statements' requirements. Comparative data has been re-presented. There is no net impact on total operating income.

Prior to 2018, foreign exchange exposure on some financial instruments designated at fair value was presented in the same line in the income statement as the underlying fair value movement on these instruments. In 2018 we have grouped the presentation of the entire effect of foreign exchange exposure in profit or loss and presented it within 'net income from financial

instruments held for trading or managed on a fair value basis'. Comparative data has been re-presented. There is no net impact on total operating income and the impact on 'changes in fair value of long-term debt and related derivatives' is \$(276)m in 1H17 and \$(241)m in 2H17.

## Summary consolidated income statement

|  | Footnotes | Half-year to          |                       |                       |
|--|-----------|-----------------------|-----------------------|-----------------------|
|  |           | 30 Jun<br>2018<br>\$m | 30 Jun<br>2017<br>\$m | 31 Dec<br>2017<br>\$m |
| Net interest income  |           | 15,100                | 13,777                | 14,399                |
| Net fee income   |           | 6,767                 | 6,491                 | 6,320                 |
| Net income from financial instruments held for trading or managed on a fair value basis  |           | 4,883                 | 4,232                 | 4,194                 |
| Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss |           | (222)                 | 1,499                 | 1,337                 |
| Changes in fair value of long-term debt and related derivatives  |           | (126)                 | 204                   | (49)                  |
| Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss   |           | 345                   | N/A                   | N/A                   |
| Gains less losses from financial investments   |           | 124                   | 691                   | 459                   |
| Dividend income  |           | 41                    | 49                    | 57                    |
| Net insurance premium income   |           | 5,776                 | 4,811                 | 4,968                 |
| Other operating income/(expense)   |           | 359                   | 526                   | (189)                 |
| <b>Total operating income</b>  |           | <b>33,047</b>         | <b>32,280</b>         | <b>31,496</b>         |
| Net insurance claims and benefits paid and movement in liabilities to policyholders  |           | (5,760)               | (6,114)               | (6,217)               |
| <b>Net operating income before change in expected credit losses and other credit impairment charges</b>  | 15        | <b>27,287</b>         | 26,166                | 25,279                |
| Change in expected credit losses and other credit impairment charges   |           | (407)                 | N/A                   | N/A                   |
| Loan impairment charges and other credit risk provisions   |           | N/A                   | (663)                 | (1,106)               |
| <b>Net operating income</b>  |           | <b>26,880</b>         | 25,503                | 24,173                |
| Total operating expenses   |           | (17,549)              | (16,443)              | (18,441)              |
| <b>Operating profit</b>  |           | <b>9,331</b>          | 9,060                 | 5,732                 |
| Share of profit in associates and joint ventures   |           | 1,381                 | 1,183                 | 1,192                 |
| <b>Profit before tax</b>   |           | <b>10,712</b>         | 10,243                | 6,924                 |
| Tax expense  |           | (2,296)               | (2,195)               | (3,093)               |
| <b>Profit for the period</b>   |           | <b>8,416</b>          | 8,048                 | 3,831                 |
| Attributable to:   |           |                       |                       |                       |
| – ordinary shareholders of the parent company  |           | 7,173                 | 6,999                 | 2,684                 |
| – preference shareholders of the parent company  |           | 45                    | 45                    | 45                    |
| – other equity holders   |           | 530                   | 466                   | 559                   |
| – non-controlling interests  |           | 668                   | 538                   | 543                   |
| <b>Profit for the period</b>   |           | <b>8,416</b>          | 8,048                 | 3,831                 |
|  |           | \$                    | \$                    | \$                    |
| Basic earnings per share   |           | 0.36                  | 0.35                  | 0.13                  |
| Diluted earnings per share   |           | 0.36                  | 0.35                  | 0.13                  |
| Dividend per ordinary share (declared in the period)   |           | 0.31                  | 0.31                  | 0.20                  |
|  |           | %                     | %                     | %                     |
| Post-tax return on average total assets  |           | 0.6                   | 0.7                   | 0.3                   |
| Return on average risk-weighted assets   | 23        | 2.5                   | 2.4                   | 1.6                   |
| Return on average ordinary shareholders' equity (annualised)   |           | 8.7                   | 8.8                   | 5.9                   |
| Return on average tangible equity (annualised)   | 17        | 9.7                   | 9.9                   | 6.8                   |
| Average foreign exchange translation rates to \$:  |           |                       |                       |                       |
| \$1: £   |           | 0.727                 | 0.795                 | 0.759                 |
| \$1: €   |           | 0.827                 | 0.924                 | 0.851                 |

For footnotes, see page 47.

## Financial summary

### Group performance by income and expense item

For further financial performance data for each global business and geographical region, see pages 31 to 37, and 39 to 43, respectively.

#### Net interest income

|                                 | Footnotes | Half-year to     |               |               |
|---------------------------------|-----------|------------------|---------------|---------------|
|                                 |           | 30 Jun 2018      | 30 Jun 2017   | 31 Dec 2017   |
|                                 |           | \$m              | \$m           | \$m           |
| Interest income                 |           | 23,422           | 19,727        | 21,268        |
| Interest expense                |           | (8,322)          | (5,950)       | (6,869)       |
| <b>Net interest income</b>      | 24        | <b>15,100</b>    | <b>13,777</b> | <b>14,399</b> |
| Average interest-earning assets |           | <b>1,839,603</b> | 1,690,585     | 1,761,076     |
|                                 |           | %                | %             | %             |
| Gross interest yield            | 25        | <b>2.57</b>      | 2.35          | 2.40          |
| Less: cost of funds             |           | <b>(1.07)</b>    | (0.84)        | (0.92)        |
| Net interest spread             | 26        | <b>1.50</b>      | 1.51          | 1.48          |
| Net interest margin             | 27        | <b>1.66</b>      | 1.64          | 1.62          |

For footnotes, see page 47.

In 1H18, our net interest margin was 1.66%, compared with 1.64% in 1H17, including the effects of customer redress programmes and foreign currency translation.

#### Summary of interest income by type of asset

|  | Footnotes | Half-year to     |                 |             |                 |                 |       |                 |                 |       |
|--|-----------|------------------|-----------------|-------------|-----------------|-----------------|-------|-----------------|-----------------|-------|
|  |           | 30 Jun 2018      |                 |             | 30 Jun 2017     |                 |       | 31 Dec 2017     |                 |       |
|  |           | Average balance  | Interest income | Yield       | Average balance | Interest income | Yield | Average balance | Interest income | Yield |
|  |           | \$m              | \$m             | %           | \$m             | \$m             | %     | \$m             | \$m             | %     |
| Short-term funds and loans and advances to banks                                     |           | 240,804          | 1,116           | 0.93        | 225,031         | 923             | 0.83  | 247,040         | 1,107           | 0.89  |
| Loans and advances to customers  |           | 966,481          | 16,036          | 3.35        | 870,652         | 13,955          | 3.23  | 933,261         | 14,796          | 3.15  |
| Reverse repurchase agreements – non-trading  |           | 198,154          | 1,589           | 1.62        | 170,984         | 949             | 1.12  | 176,491         | 1,242           | 1.40  |
| Financial investments  |           | 385,907          | 4,220           | 2.21        | 403,043         | 3,637           | 1.82  | 376,787         | 3,803           | 2.00  |
| Other interest-earning assets  |           | 48,257           | 461             | 1.93        | 20,875          | 263             | 2.53  | 27,497          | 320             | 2.31  |
| <b>Total interest-earning assets</b>   |           | <b>1,839,603</b> | <b>23,422</b>   | <b>2.57</b> | 1,690,585       | 19,727          | 2.35  | 1,761,076       | 21,268          | 2.40  |
| Trading assets and financial assets designated or mandatorily measured at fair value | 28, 29    | 201,696          | 2,775           | 2.77        | N/A             | N/A             | N/A   | N/A             | N/A             | N/A   |
| Trading assets and financial assets designated at fair value                         |           | N/A              | N/A             | N/A         | 181,316         | 1,972           | 2.19  | 191,943         | 2,273           | 2.35  |
| Expected credit losses provision   |           | (7,739)          |                 |             | N/A             | N/A             | N/A   | N/A             | N/A             | N/A   |
| Impairment allowance   |           | N/A              | N/A             | N/A         | (8,099)         |                 |       | (7,587)         |                 |       |
| Non-interest-earning assets  |           | 617,148          |                 |             | 623,410         |                 |       | 610,076         |                 |       |
| <b>Total</b>   |           | <b>2,650,708</b> | <b>26,197</b>   | <b>1.99</b> | 2,487,212       | 21,699          | 1.76  | 2,555,508       | 23,541          | 1.83  |

For footnotes, see page 47.

#### Summary of interest expense by type of liability and equity

|  | Footnotes | Half-year to     |                  |             |                 |                  |       |                 |                  |       |
|--|-----------|------------------|------------------|-------------|-----------------|------------------|-------|-----------------|------------------|-------|
|  |           | 30 Jun 2018      |                  |             | 30 Jun 2017     |                  |       | 31 Dec 2017     |                  |       |
|  |           | Average balance  | Interest expense | Cost        | Average balance | Interest expense | Cost  | Average balance | Interest expense | Cost  |
|  |           | \$m              | \$m              | %           | \$m             | \$m              | %     | \$m             | \$m              | %     |
| Deposits by banks  | 30        | 45,142           | 226              | 1.01        | 45,288          | 227              | 1.01  | 49,353          | 224              | 0.90  |
| Financial liabilities designated at fair value – own debt issued                                   | 31        | 55,056           | 685              | 2.51        | 60,505          | 609              | 2.03  | 60,626          | 652              | 2.13  |
| Customer accounts  | 32        | 1,138,617        | 3,463            | 0.61        | 1,071,352       | 2,514            | 0.47  | 1,118,104       | 2,891            | 0.51  |
| Repurchase agreements – non-trading  |           | 159,293          | 1,488            | 1.88        | 134,184         | 674              | 1.01  | 138,899         | 991              | 1.42  |
| Debt securities in issue   |           | 124,847          | 1,969            | 3.18        | 108,540         | 1,511            | 2.81  | 108,812         | 1,619            | 2.95  |
| Other interest-bearing liabilities   |           | 48,649           | 491              | 2.04        | 7,345           | 415              | 11.42 | 6,678           | 492              | 14.59 |
| <b>Total interest-bearing liabilities</b>  |           | <b>1,571,604</b> | <b>8,322</b>     | <b>1.07</b> | 1,427,214       | 5,950            | 0.84  | 1,482,472       | 6,869            | 0.92  |
| Trading liabilities and financial liabilities designated at fair value (excluding own debt issued) | 31, 33    | 140,485          | 1,804            | 2.59        | 147,168         | 1,094            | 1.50  | 160,276         | 1,231            | 1.52  |
| Non-interest bearing current accounts  |           | 211,839          |                  |             | 190,644         |                  |       | 203,459         |                  |       |
| Total equity and other non-interest bearing liabilities  |           | 726,780          |                  |             | 722,186         |                  |       | 709,301         |                  |       |
| <b>Total</b>   |           | <b>2,650,708</b> | <b>10,126</b>    | <b>0.77</b> | 2,487,212       | 7,044            | 0.57  | 2,555,508       | 8,100            | 0.63  |

For footnotes, see page 47.



## Significant items and currency translation

|   | Half-year to          |                       |                       |
|---|-----------------------|-----------------------|-----------------------|
|   | 30 Jun<br>2018<br>\$m | 30 Jun<br>2017<br>\$m | 31 Dec<br>2017<br>\$m |
| Significant items                           | <b>46</b>             | –                     | (111)                 |
| – customer redress programmes               | <b>46</b>             | –                     | (108)                 |
| – currency translation on significant items |                       | –                     | (3)                   |
| Currency translation                        |                       | (367)                 | (70)                  |
| <b>Total</b>                                | <b>46</b>             | <b>(367)</b>          | <b>(181)</b>          |

Reported net interest income for 1H18 was \$15.1bn, an increase of \$1.3bn or 10% compared with 1H17. This included the favourable effects of a release related to customer redress programmes and foreign currency translation of \$0.4bn.

Excluding these, net interest income increased by \$0.9bn, mainly in Asia, notably in Hong Kong and mainland China, partly offset by a fall in Europe, notably in the UK.

Net interest margin of 1.66% increased by 3 basis points ('bps') compared with 2017, including the effects of customer redress programmes and foreign currency translation, which contributed to an increase of 1bp. Net interest margin, excluding the effects of customer redress programmes and foreign currency translation, increased by 2bps. This reflected higher yields on customer lending, notably in Asia driven by rate rises in Hong Kong, together with higher yields on surplus liquidity in most regions. These were partly offset by higher customer account costs, notably in Asia driven by rate rises in Hong Kong, and higher Group debt costs.

Compared with 1H17, net interest margin increased by 2bps, including the effects of customer redress programmes and foreign currency translation.

### Interest income

Interest income increased by \$3.7bn compared with 1H17 and includes the favourable effects of a release related to customer redress programmes and foreign currency translation of \$0.6bn. Excluding these, interest income increased by \$3.1bn, driven by higher income from loans and advances to customers, surplus liquidity and reverse repurchase agreements.

Interest income on loans and advances to customers was \$2.1bn higher. The increase arose in:

- Asia, from higher balances and yields in term lending, notably in Hong Kong; and
- Latin America, from higher balances and yields in term lending, notably in Mexico driven by interest rate rises.

## Net fee income

|                             | Half-year to          |                       |                       |
|-----------------------------|-----------------------|-----------------------|-----------------------|
|                             | 30 Jun<br>2018<br>\$m | 30 Jun<br>2017<br>\$m | 31 Dec<br>2017<br>\$m |
| Account services            | <b>1,156</b>          | 1,123                 | 1,121                 |
| Funds under management      | <b>1,149</b>          | 1,061                 | 1,127                 |
| Cards                       | <b>965</b>            | 930                   | 1,064                 |
| Credit facilities           | <b>897</b>            | 873                   | 845                   |
| Broking income              | <b>710</b>            | 564                   | 627                   |
| Unit trusts                 | <b>613</b>            | 516                   | 494                   |
| Underwriting                | <b>431</b>            | 485                   | 344                   |
| Global custody              | <b>378</b>            | 326                   | 366                   |
| Imports/exports             | <b>362</b>            | 379                   | 357                   |
| Remittances                 | <b>361</b>            | 372                   | 387                   |
| Insurance agency commission | <b>233</b>            | 209                   | 201                   |
| Other                       | <b>1,214</b>          | 1,068                 | 1,014                 |
| <b>Fee income</b>           | <b>8,469</b>          | 7,906                 | 7,947                 |
| Less: fee expense           | <b>(1,702)</b>        | (1,415)               | (1,627)               |
| <b>Net fee income</b>       | <b>6,767</b>          | 6,491                 | 6,320                 |

These increases were partly offset by decreases in North America, primarily resulting from the completed run-off of our US Consumer and Mortgage Lending ('CML') portfolio, although yields in term lending increased.

Interest income on surplus liquidity was \$0.8bn higher, primarily in Asia and North America, following central bank rate rises.

Interest income on reverse repurchase agreements was \$0.6bn higher, driven by higher yields in North America and balance growth in Europe. This increase was more than offset by an increase in the cost of repurchase agreements.

### Interest expense

Reported interest expense increased by \$2.4bn compared with 1H17, including the adverse effects of a release relating to customer redress programmes and foreign currency translation of \$0.1bn. Excluding these, interest expense increased by \$2.2bn. This was mainly as a result of the increased cost of customer accounts, repurchase agreements and Group debt.

Interest expense on customer accounts increased by \$0.9bn, as average balances grew in most regions, mainly in:

- Asia, notably in Hong Kong, reflecting balance growth and the effect of rate rises;
- Europe, as a result of the effect of rate rises in the UK and balance growth; and
- Latin America, notably in Mexico, reflecting increases in central bank rates.

Interest expense on repurchase agreements rose by \$0.8bn, reflecting higher costs in North America as the US yield curve steepened and higher yields in Europe from a portfolio shift towards longer tenor repos.

Interest expense on debt issued rose by \$0.5bn, reflecting a rise in the cost of debt, and an increase in average balances from new debt issued by HSBC Holdings to meet regulatory requirements.

## Financial summary

### Significant items and currency translation

|                      | Half-year to          |                       |                       |
|----------------------|-----------------------|-----------------------|-----------------------|
|                      | 30 Jun<br>2018<br>\$m | 30 Jun<br>2017<br>\$m | 31 Dec<br>2017<br>\$m |
| Significant items    | –                     | –                     | –                     |
| Currency translation | –                     | (214)                 | (54)                  |
| <b>Total</b>         | <b>–</b>              | <b>(214)</b>          | <b>(54)</b>           |

Net fee income increased by \$0.3bn compared with 1H17. This included the effect of foreign currency translation which increased net fee income by \$0.2bn.

Excluding the effect of foreign currency translation, net fee income increased by \$0.1bn, reflecting increases in fee income from broking and unit trusts in RBWM, partly offset by lower underwriting fees and corporate finance (disclosed within 'Other' in table above) in GB&M.

Fee income from broking and unit trusts increased by \$0.2bn and from funds under management increased by \$0.1bn, notably in Hong Kong, from increased investor confidence.

Fee income from cards also increased, mainly in Asia due to increased customer activity, partly offset by the reclassification from cards to interbank and clearing fees mentioned below.

Other fee income increased due in part to an increase in interbank and clearing fees in the UK and Mexico, following the reclassification of interchange fee income from cards with effect from 1 January 2018.

These increases were partly offset by lower fee income from underwriting and corporate finance, as a result of lower issuances in DCM and reduced client activity.

In addition, fee expense increased by \$0.3bn, in part from cards due to increased customer activity in Asia.

### Net income from financial instruments measured at fair value through profit and loss

|   | Footnotes | Half-year to          |                       |                       |
|---|-----------|-----------------------|-----------------------|-----------------------|
|   |           | 30 Jun<br>2018<br>\$m | 30 Jun<br>2017<br>\$m | 31 Dec<br>2017<br>\$m |
| Trading activities  | 34        | 5,190                 | 4,157                 | 3,974                 |
| Other trading income – hedge ineffectiveness  |           | (17)                  | 36                    | (38)                  |
| – on cash flow hedges   |           | (8)                   | 4                     | (10)                  |
| – on fair value hedges  |           | (9)                   | 32                    | (28)                  |
| Fair value movement on non-qualifying hedges  |           | (210)                 | 10                    | 96                    |
| Other instruments designated and managed on a fair value basis and related derivatives  |           | (80)                  | 29                    | 162                   |
| <b>Net income from financial instruments held for trading or managed on a fair value basis</b>  |           | <b>4,883</b>          | <b>4,232</b>          | <b>4,194</b>          |
| Financial assets held to meet liabilities under insurance and investment contracts  |           | (240)                 | 1,709                 | 1,502                 |
| Liabilities to customers under investment contracts   |           | 18                    | (210)                 | (165)                 |
| <b>Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss</b> |           | <b>(222)</b>          | <b>1,499</b>          | <b>1,337</b>          |
| Changes in fair value of long-term debt and related derivatives   | 34        | (126)                 | 204                   | (49)                  |
| Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss  |           | 345                   | N/A                   | N/A                   |
| <b>Net income from financial instruments measured at fair value through profit or loss</b>  |           | <b>4,880</b>          | <b>5,935</b>          | <b>5,482</b>          |

For footnote, see page 47.

### Significant items and currency translation

|  | Half-year to          |                       |                       |
|--|-----------------------|-----------------------|-----------------------|
|  | 30 Jun<br>2018<br>\$m | 30 Jun<br>2017<br>\$m | 31 Dec<br>2017<br>\$m |
| Significant items  | (160)                 | (259)                 | (3)                   |
| – disposals, acquisitions and investment in new businesses | (8)                   | –                     | –                     |
| – fair value movement on financial instruments             | (152)                 | (245)                 | –                     |
| – currency translation on significant items                | –                     | (14)                  | (3)                   |
| Currency translation                                       | –                     | (249)                 | (83)                  |
| <b>Total</b>   | <b>(160)</b>          | <b>(508)</b>          | <b>(86)</b>           |

Net income from financial instruments measured at fair value of \$4.9bn was \$1.1bn lower than in 1H17, and included a favourable effect of foreign currency translation, and significant items relating to favourable fair value movements on financial instruments, including non-qualifying hedges and debit valuation adjustments. The reduction reflected the following:

- **Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss** decreased by \$1.7bn due to adverse fair value movements of \$0.2bn, compared with a favourable movement of \$1.5bn in 1H17. This reflected gains in 1H17 in Asia, notably in Hong Kong and Singapore from favourable performance in equities and unit trusts, compared

with less favourable conditions in 1H18. In France, revenue fell from a reversal of gains in 1H17 on investment contracts.

- Net income arising from financial assets held to meet liabilities under insurance and investment contracts results in a corresponding movement in liabilities to customers, reflecting the extent to which they participate in the investment performance of the associated asset portfolio. These offsetting movements are recorded in 'Net income/(expense) arising from liabilities to customers under investment contracts' and 'Net insurance claims and benefits paid and movement in liabilities to policyholders'.
- **Changes in fair value of long-term debt and related derivatives** reflected an adverse movement of \$0.1bn in 1H18, compared with a favourable movement of \$0.2bn in 1H17.

These movements were driven by changes in interest rates between the periods, notably in USD and GBP.

These reductions were partly offset by:

- **Net income from financial instruments held for trading or managed on a fair value basis**, which increased by \$0.7bn, driven by favourable foreign currency translation (\$0.2bn), and by higher revenue from trading activities, partly offset by an adverse impact of (\$0.1bn) of significant items, including fair value movements on non-qualifying hedges. Revenue from trading activities increased, due to a number of accounting reclassifications under IFRS 9, partly offset in GB&M:
  - a change in accounting treatment on 1 January 2018 of issued debt securities, which resulted in the change in fair value movements relating to changes in credit spreads on structured liabilities being reported in other comprehensive income. This compared with an expense of \$0.3bn recognised in trading activities in 2017;
  - a reclassification on 1 January 2018 of stock lending and borrowing instruments in Hong Kong from 'amortised cost' to 'held for trading'. This resulted in the income relating to these instruments no longer being recognised in net interest income, and instead being recognised in trading activities. See Note 14 on the Financial Statements for further details;

- a reclassification of a net expense related to structured notes to Other instruments designated and managed on a fair value basis and related derivatives; and
- a favourable foreign exchange revaluation in mainland China on capital denominated in USD, as a result of strengthening of the USD against the RMB.

These increases were partly offset by:

- a decrease in revenue from trading activities in GB&M. This was primarily in Europe, as our Global Markets business experienced lower client activity in Europe, notably in Rates, partly offset by an increase in the US from higher metals and emerging markets trading activity.
- **Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss** is a new revenue category under IFRS 9 and recorded revenue of \$0.3bn in 1H18. This revenue was mainly in the UK, reflecting gains on debt securities, as well as gains in GB&M on disposal of investments and fair value movements on underlying equities.

The majority of our financial liabilities designated at fair value are fixed-rate, long-term debt issuances, and are managed in conjunction with interest rate swaps as part of our interest rate management strategy. These liabilities are discussed further on page 44 of the *Annual Report and Accounts 2017*.

## Gains less losses from financial investments

|   | Half-year to          |                       |                       |
|---|-----------------------|-----------------------|-----------------------|
|   | 30 Jun<br>2018<br>\$m | 30 Jun<br>2017<br>\$m | 31 Dec<br>2017<br>\$m |
| Net gains from disposal                             | 124                   | 712                   | 536                   |
| – debt securities                                   | 114                   | 287                   | 116                   |
| – equity securities                                 | N/A                   | 419                   | 419                   |
| – other financial investments                       | 10                    | 6                     | 1                     |
| Impairment of available-for-sale equity securities  | N/A                   | (21)                  | (77)                  |
| <b>Gains less losses from financial investments</b> | <b>124</b>            | <b>691</b>            | <b>459</b>            |

## Significant items and currency translation

|  | Half-year to          |                       |                       |
|--|-----------------------|-----------------------|-----------------------|
|  | 30 Jun<br>2018<br>\$m | 30 Jun<br>2017<br>\$m | 31 Dec<br>2017<br>\$m |
| Significant items  | –                     | 312                   | 122                   |
| – disposals, acquisitions and investment in new businesses | –                     | 312                   | 122                   |
| – currency translation on significant items                | –                     | –                     | –                     |
| Currency translation                                       | –                     | (22)                  | (6)                   |
| <b>Total</b>   | <b>–</b>              | <b>290</b>            | <b>116</b>            |

Gains less losses from financial investments of \$0.1bn decreased by \$0.6bn compared with 1H17. This was partly due to the non-recurrence of the gain on disposal of our membership interest in Visa Inc. in the US of \$0.3bn, a significant item in 1H17.

The remaining decrease was mainly in Corporate Centre, which included net losses related to disposals in legacy credit, and lower gains on the disposal of available-for-sale assets in Balance Sheet Management, notably in Europe and Asia. We also recorded lower disposal gains in GB&M in France and the UK.

## Net insurance premium income

|                                     | Half-year to          |                       |                       |
|-------------------------------------|-----------------------|-----------------------|-----------------------|
|                                     | 30 Jun<br>2018<br>\$m | 30 Jun<br>2017<br>\$m | 31 Dec<br>2017<br>\$m |
| Gross insurance premium income      | 6,078                 | 5,551                 | 5,251                 |
| Reinsurance premiums                | (302)                 | (740)                 | (283)                 |
| <b>Net insurance premium income</b> | <b>5,776</b>          | <b>4,811</b>          | <b>4,968</b>          |

## Financial summary

### Significant items and currency translation

|                      | Half-year to |              |             |
|----------------------|--------------|--------------|-------------|
|                      | 30 Jun       | 30 Jun       | 31 Dec      |
|                      | 2018         | 2017         | 2017        |
|                      | \$m          | \$m          | \$m         |
| Significant items    | –            | –            | –           |
| Currency translation | –            | (126)        | (30)        |
| <b>Total</b>         | <b>–</b>     | <b>(126)</b> | <b>(30)</b> |

Net insurance premium income of \$5.8bn was \$1.0bn higher compared with 1H17, and included the effects of currency translation.

This was driven by higher new business volumes, particularly in Hong Kong and France, and lower reinsurance ceded in Hong Kong.

### Other operating income

|   | Half-year to |            |              |
|---|--------------|------------|--------------|
|   | 30 Jun       | 30 Jun     | 31 Dec       |
|   | 2018         | 2017       | 2017         |
|   | \$m          | \$m        | \$m          |
| Rent received   | 84           | 87         | 84           |
| Gains/(losses) recognised on assets held for sale   | (30)         | 131        | 83           |
| Gains on investment properties  | 23           | 27         | 21           |
| Gains on disposal of property, plant and equipment, intangible assets and non-financial investments | 6            | 1          | 45           |
| Change in present value of in-force long-term insurance business                                    | 363          | 151        | (127)        |
| Other   | (87)         | 129        | (295)        |
| <b>Other operating income/(expense)</b>   | <b>359</b>   | <b>526</b> | <b>(189)</b> |

### Significant items and currency translation

|  | Half-year to |             |              |
|--|--------------|-------------|--------------|
|  | 30 Jun       | 30 Jun      | 31 Dec       |
|  | 2018         | 2017        | 2017         |
|  | \$m          | \$m         | \$m          |
| Significant items  | (134)        | 52          | (205)        |
| – disposals, acquisitions and investment in new businesses | (134)        | 46          | (206)        |
| – currency translation on significant items                | –            | 6           | 1            |
| Currency translation                                       | –            | (90)        | (46)         |
| <b>Total</b>   | <b>(134)</b> | <b>(38)</b> | <b>(251)</b> |

Other operating income of \$0.4bn fell by \$0.2bn compared with 1H17. We recorded net losses on assets held for sale in 1H18, compared with net gains in 1H17. The movement largely related to 1H17 gains on the disposal of our holding in VocaLink and of our operations in Lebanon.

In Other, we recorded losses on the early redemption of subordinated debt linked to the US run-off portfolio (\$0.1bn), and net losses related to asset sales in legacy credit. This was partly offset by a small gain on financial guarantees in relation to asset-backed securities.

These decreases were partly offset by a \$0.2bn increase from favourable movements in the present value of in-force ('PVIF') long-term insurance business, driven by the future sharing of investment returns with policyholders, primarily in Hong Kong, and an increase in the value of new business, partly offset by adverse movements from changes in assumptions on investment returns and updates to lapse rate assumptions, primarily in Hong Kong.

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

|                        | Half-year to |              |              |
|------------------------|--------------|--------------|--------------|
|                        | 30 Jun       | 30 Jun       | 31 Dec       |
|                        | 2018         | 2017         | 2017         |
|                        | \$m          | \$m          | \$m          |
| Gross                  | 5,879        | 6,795        | 6,413        |
| Less reinsurers' share | (119)        | (681)        | (196)        |
| <b>Net total</b>       | <b>5,760</b> | <b>6,114</b> | <b>6,217</b> |

### Significant items and currency translation

|                      | Half-year to |              |             |
|----------------------|--------------|--------------|-------------|
|                      | 30 Jun       | 30 Jun       | 31 Dec      |
|                      | 2018         | 2017         | 2017        |
|                      | \$m          | \$m          | \$m         |
| Significant items    | –            | –            | –           |
| Currency translation | –            | (169)        | (27)        |
| <b>Total</b>         | <b>–</b>     | <b>(169)</b> | <b>(27)</b> |

Net insurance claims and benefits paid and movement in liabilities to policyholders of \$5.8bn were \$0.4bn lower compared with 1H17, and included the effects of currency translation.

This was primarily due to lower returns on financial assets supporting policyholders where the policyholder is subject to part or all of the investment risk, reflecting weaker equity market performance in Hong Kong and France compared with 1H17.

These decreases were partly offset by the impact of higher policy surrender payments, higher net premium income and lower reinsurance ceded in Hong Kong.

The gains or losses recognised on the financial assets measured at fair value that are held to support these insurance contract liabilities are reported in 'Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss' on page 22.

## Change in expected credit losses and other credit impairment charges/Loan impairment charges and other credit risk provisions<sup>35</sup>

|  | Half-year to          |                       |                       |
|--|-----------------------|-----------------------|-----------------------|
|  | 30 Jun<br>2018<br>\$m | 30 Jun<br>2017<br>\$m | 31 Dec<br>2017<br>\$m |
| Loans and advances to banks and customers  | 508                   | 779                   | 1,213                 |
| – new allowances net of allowance releases   | 769                   | 1,065                 | 1,571                 |
| – recoveries of amounts previously written off   | (261)                 | (286)                 | (358)                 |
| Loan commitments and guarantees  | (7)                   | (53)                  | 3                     |
| Other financial assets   | (5)                   | 6                     | 11                    |
| Debt instruments measured at fair value through other comprehensive income   | (89)                  | N/A                   | N/A                   |
| Available-for-sale debt securities   | N/A                   | (69)                  | (121)                 |
| <b>Change in expected credit losses and other credit impairment charges/Loan impairment charges and other credit risk provisions</b> | <b>407</b>            | <b>663</b>            | <b>1,106</b>          |

For footnotes, see page 47.

## Significant items and currency translation

|                      | Half-year to          |                       |                       |
|----------------------|-----------------------|-----------------------|-----------------------|
|                      | 30 Jun<br>2018<br>\$m | 30 Jun<br>2017<br>\$m | 31 Dec<br>2017<br>\$m |
| Significant items    | –                     | –                     | –                     |
| Currency translation | –                     | 6                     | (7)                   |
| <b>Total</b>         | <b>–</b>              | <b>6</b>              | <b>(7)</b>            |

Changes in expected credit losses and other credit impairment charges ('ECL') of \$0.4bn in 1H18 remained at low levels, and reflected charges in RBWM and CMB, partly offset by net releases in GB&M and Corporate Centre.

In 1H17, loan impairment charges and other credit risk provisions ('LICs') of \$0.7bn were primarily in RBWM and CMB. The effects of currency translation between the periods were minimal.

### First half of 2018

In 1H18, ECL in RBWM of \$0.5bn primarily comprised new allowances in Mexico (\$0.2bn), the UK (\$0.1bn) and Hong Kong (\$0.1bn) and mainly related to unsecured lending balances. The overall allowance for ECL remained broadly unchanged compared with 1 January 2018, as these new allowances broadly offset releases, mainly from write-offs.

In CMB, ECL charges of \$0.1bn were mainly in MENA (\$0.1bn), reflecting challenging economic conditions in the region, which resulted in charges against a small number of clients across multiple sectors in Turkey, the UAE and Qatar. There were also smaller charges in Mexico and France related to specific exposures. These increases were partly offset by releases of \$0.1bn in the US and Canada relating to specific customers in various sectors.

In GB&M, a net ECL release of \$0.1bn was driven by the US (\$0.2bn) relating to a small number of clients, notably within the

oil and gas sector. These releases were partly offset by charges against two large corporate exposures in the UK in the retail and construction sectors.

In Corporate Centre, a net ECL release of \$90m related to Legacy Credit in the UK following disposals in the portfolio.

### First half of 2017

In 1H17, LICs in RBWM were \$0.6bn, of which the largest portion of the charge was in Mexico (\$0.2bn), reflecting our strategic growth in unsecured lending, together with an associated rise in delinquency, and in the UK (\$0.1bn), primarily against our unsecured lending exposure. LICs in RBWM also included charges in Asia (\$0.1bn), mainly in Hong Kong and Malaysia, and in MENA (\$0.1bn).

In CMB, LICs of \$0.1bn were driven by an increase in allowances in Hong Kong (\$0.2bn), related to a small number of clients in a number of sectors, partly offset by releases in the US and Canada, notably in the oil and gas sector, as well as in the UK related to an exposure in the construction sector.

In GB&M, LICs of \$41m were primarily in Hong Kong against a small number of specific customers in various sectors, partly offset by releases in the US, notably in the mining sector.

In Corporate Centre, a net LICs release of \$53m was mainly related to our legacy credit portfolio in the UK.

## Operating expenses

### Operating expenses by category

|  | Half-year to          |                       |                       |
|--|-----------------------|-----------------------|-----------------------|
|  | 30 Jun<br>2018<br>\$m | 30 Jun<br>2017<br>\$m | 31 Dec<br>2017<br>\$m |
| Employee compensation and benefits                             | 8,836                 | 8,680                 | 8,635                 |
| Premises and equipment (excluding depreciation and impairment) | 1,733                 | 1,711                 | 1,819                 |
| General and administrative expenses                            | 6,034                 | 5,189                 | 6,988                 |
| <b>Administrative expenses</b>                                 | <b>16,603</b>         | <b>15,580</b>         | <b>17,442</b>         |
| Depreciation and impairment of property, plant and equipment   | 568                   | 567                   | 599                   |
| Amortisation and impairment of intangible assets               | 378                   | 296                   | 400                   |
| <b>Operating expenses</b>                                      | <b>17,549</b>         | <b>16,443</b>         | <b>18,441</b>         |

### Staff numbers (full-time equivalents)

|                                      | At             |                |                |
|--------------------------------------|----------------|----------------|----------------|
|                                      | 30 Jun<br>2018 | 30 Jun<br>2017 | 31 Dec<br>2017 |
| Retail Banking and Wealth Management | 129,999        | 127,469        | 129,402        |
| Commercial Banking                   | 43,529         | 44,659         | 44,871         |
| Global Banking and Markets           | 47,298         | 46,270         | 45,725         |
| Global Private Banking               | 6,922          | 8,069          | 7,250          |
| Corporate Centre                     | 1,447          | 6,490          | 1,439          |
| <b>Total staff numbers</b>           | <b>229,195</b> | <b>232,957</b> | <b>228,687</b> |

### Significant items and currency translation

|  | Half-year to          |                       |                       |
|--|-----------------------|-----------------------|-----------------------|
|  | 30 Jun<br>2018<br>\$m | 30 Jun<br>2017<br>\$m | 31 Dec<br>2017<br>\$m |
| Significant items  | 1,179                 | 1,938                 | 1,928                 |
| – costs to achieve   | –                     | 1,670                 | 1,332                 |
| – costs of structural reform   | 211                   | 180                   | 240                   |
| – customer redress programmes  | 100                   | 299                   | 356                   |
| – disposals, acquisitions and investment in new businesses                   | 3                     | 10                    | 43                    |
| – gain on partial settlement of pension obligation                           | –                     | –                     | (188)                 |
| – restructuring and other related costs                                      | 24                    | –                     | –                     |
| – settlements and provisions in connection with legal and regulatory matters | 841                   | (322)                 | 124                   |
| – currency translation on significant items                                  | –                     | 101                   | 21                    |
| Currency translation   | –                     | (690)                 | (217)                 |
| <b>Total</b>   | <b>1,179</b>          | <b>1,248</b>          | <b>1,711</b>          |

Reported operating expenses of \$17.5bn were \$1.1bn or 7% higher than in 1H17. This included a reduction in significant items of \$0.8bn, which was broadly offset by adverse currency translation. Significant items comprised:

- the non-recurrence of costs to achieve of \$1.7bn in 1H17; and
- customer redress programme costs of \$0.1bn in 1H18, compared with \$0.3bn in 1H17.

These were partly offset by:

- settlements and provisions in connection with legal matters of \$0.8bn in 1H18, compared with a net release of \$0.3bn in 1H17.

Excluding significant items and currency translation, operating expenses of \$16.4bn were \$1.2bn or 8% higher than in 1H17. The increase primarily reflected investments to grow the business (\$0.5bn), notably in RBWM and GB&M, and in digital capabilities across all of our global businesses (\$0.2bn), as well as an increase in variable pay (\$0.2bn). The impact of our cost-saving efficiencies more than offset inflation and investment in regulatory programmes and compliance.

We have maintained our momentum to grow the business, including:

- in RBWM, investment in digital capabilities and marketing to help deliver improved customer services and investments to grow the business, including front-line sales capacity and technology, mainly in the UK, Hong Kong, cards in China (including the Pearl River Delta), and in the US as part of the US turnaround strategy;
- in GB&M, notably in Securities Services and Global Markets, and in HSBC Qianhai Securities, our Chinese joint venture; and
- in CMB, enhanced propositions in HSBCnet, Trade Transaction Tracker and Digital Business Banking in Hong Kong.

Our total investment in regulatory programmes and compliance was \$1.6bn, up \$0.1bn or 6% from 1H17. This reflected the continued focus on our Global Standards programme to help ensure that the changes that we have made are effective and sustainable. These costs included spend incurred to deliver the programmes, as well as recurring costs to maintain the activities.

The number of employees expressed in FTEs at 30 June 2018 was 229,195, an increase of 508 since 31 December 2017. This was primarily driven by investments in business growth programmes.

## Share of profit in associates and joint ventures

|   | Half-year to          |                       |                       |
|---|-----------------------|-----------------------|-----------------------|
|   | 30 Jun<br>2018<br>\$m | 30 Jun<br>2017<br>\$m | 31 Dec<br>2017<br>\$m |
| Share of profit in associates                           | 1,371                 | 1,173                 | 1,176                 |
| – Bank of Communications Co., Limited                   | 1,072                 | 938                   | 925                   |
| – The Saudi British Bank                                | 264                   | 231                   | 191                   |
| – other   | 35                    | 4                     | 60                    |
| Share of profit in joint ventures                       | 10                    | 10                    | 16                    |
| <b>Share of profit in associates and joint ventures</b> | <b>1,381</b>          | <b>1,183</b>          | <b>1,192</b>          |

Our share of profit in associates and joint ventures was \$1.4bn in 1H18, an increase of \$0.2bn or 17% and included favourable effects of foreign currency translation movements of \$0.1bn. The remaining increase mainly reflected an increase in our share of profit from Bank of Communications Co., Limited ('BoCom').

We recorded a higher share of profit from Barrowgate Limited, partly as 1H17 included property revaluation losses. We also recognised a higher share of income from The Saudi British Bank ('SABB'), reflecting improved performance.

At 30 June 2018, 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 9 on the Financial Statements for further details).

In future periods, the value in use may increase or decrease depending on the effect of changes to model inputs. It is expected that the carrying amount will increase due to retained profits earned by BoCom. At the point where the carrying amount exceeds the value in use, HSBC will determine whether an impairment exists. If so, we would continue to recognise our share of BoCom's profit or loss, but the carrying amount would be reduced to equal the value in use, with a corresponding reduction in income, unless the market value has increased to a level above the carrying amount.

## Tax expense

|                         | Half-year to          |                       |                       |
|-------------------------|-----------------------|-----------------------|-----------------------|
|                         | 30 Jun<br>2018<br>\$m | 30 Jun<br>2017<br>\$m | 31 Dec<br>2017<br>\$m |
| Profit before tax       | 10,712                | 10,243                | 6,924                 |
| Tax expense             | (2,296)               | (2,195)               | (3,093)               |
| <b>Profit after tax</b> | <b>8,416</b>          | <b>8,048</b>          | <b>3,831</b>          |
| Effective tax rate      | 21.4%                 | 21.4%                 | 44.7%                 |

The effective tax rate for 1H18 of 21.4% was in line with the 21.4% in 1H17 and lower than the 44.7% for 2H17, principally due to the impact of US tax reform in 2H17 that did not recur in 1H18.

### Summary consolidated balance sheet

|   | At                    |                                    |                       |
|---|-----------------------|------------------------------------|-----------------------|
|   | 30 Jun<br>2018<br>\$m | 1 Jan<br>2018 <sup>36</sup><br>\$m | 31 Dec<br>2017<br>\$m |
| <b>Assets</b>   |                       |                                    |                       |
| Cash and balances at central banks  | 189,842               | 180,621                            | 180,624               |
| Trading assets  | 247,892               | 254,410                            | 287,995               |
| Financial assets designated and otherwise mandatorily measured at fair value through profit or loss | 40,678                | 39,746                             | N/A                   |
| Financial assets designated at fair value   | N/A                   | N/A                                | 29,464                |
| Derivatives   | 227,972               | 219,818                            | 219,818               |
| Loans and advances to banks   | 83,924                | 82,559                             | 90,393                |
| Loans and advances to customers   | 973,443               | 949,737                            | 962,964               |
| Reverse repurchase agreements – non-trading   | 208,104               | 201,553                            | 201,553               |
| Financial investments   | 386,436               | 383,499                            | 389,076               |
| Other assets  | 249,023               | 206,487                            | 159,884               |
| <b>Total assets</b>   | <b>2,607,314</b>      | <b>2,518,430</b>                   | <b>2,521,771</b>      |
| <b>Liabilities and equity</b>   |                       |                                    |                       |
| <b>Liabilities</b>  |                       |                                    |                       |
| Deposits by banks   | 64,792                | 64,492                             | 69,922                |
| Customer accounts   | 1,356,307             | 1,360,227                          | 1,364,462             |
| Repurchase agreements – non-trading   | 158,295               | 130,002                            | 130,002               |
| Trading liabilities   | 83,845                | 80,864                             | 184,361               |
| Financial liabilities designated at fair value  | 151,985               | 144,006                            | 94,429                |
| Derivatives   | 222,961               | 216,821                            | 216,821               |
| Debt securities in issue  | 81,708                | 66,536                             | 64,546                |
| Liabilities under insurance contracts   | 86,918                | 85,598                             | 85,667                |
| Other liabilities   | 209,209               | 173,660                            | 113,690               |
| <b>Total liabilities</b>  | <b>2,416,020</b>      | <b>2,322,206</b>                   | <b>2,323,900</b>      |
| <b>Equity</b>   |                       |                                    |                       |
| Total shareholders' equity  | 183,607               | 188,644                            | 190,250               |
| Non-controlling interests   | 7,687                 | 7,580                              | 7,621                 |
| <b>Total equity</b>   | <b>191,294</b>        | <b>196,224</b>                     | <b>197,871</b>        |
| <b>Total liabilities and equity</b>   | <b>2,607,314</b>      | <b>2,518,430</b>                   | <b>2,521,771</b>      |

For footnote, see page 47.

### Selected financial information

|  | At                    |                       |
|--|-----------------------|-----------------------|
|  | 30 Jun<br>2018<br>\$m | 31 Dec<br>2017<br>\$m |
| Called up share capital  | 10,159                | 10,160                |
| Capital resources  | 176,610               | 182,383               |
| Undated subordinated loan capital                                    | 1,969                 | 1,969                 |
| Preferred securities and dated subordinated loan capital             | 35,673                | 42,147                |
| Risk-weighted assets   | 865,467               | 871,337               |
| <b>Financial statistics</b>  |                       |                       |
| Loans and advances to customers as a percentage of customer accounts | 71.8                  | 70.6                  |
| Average total shareholders' equity to average total assets           | 7.16                  | 7.33                  |
| Net asset value per ordinary share at period end (\$)                | 8.10                  | 8.35                  |
| Number of \$0.50 ordinary shares in issue (millions)                 | 19,963                | 20,321                |
| Closing foreign exchange translation rates to \$:                    |                       |                       |
| \$1: £   | 0.760                 | 0.740                 |
| \$1: €   | 0.859                 | 0.834                 |

A more detailed consolidated balance sheet is contained in the Financial Statements on page 80.

### Balance sheet commentary compared with 1 January 2018

The effect of transitioning to IFRS 9 'Financial Instruments' on 1 January 2018 was a reduction in our total assets of \$3.3bn from 31 December 2017, and the reclassification of certain items within the balance sheet. The commentary that follows compares our balance sheet at 30 June 2018 with that at 1 January 2018.

At 30 June 2018 our total assets were \$2.6tn, an increase of \$89bn or 4% on a reported basis and \$134bn or 5% on a constant currency basis.

We increased our balance sheet by targeting lending growth, notably in Asia, which grew by \$30bn or 7% on a constant

currency basis, as we continued to focus on loan growth in the region.

Our ratio of customer advances to customer accounts was 72%, up from 70% at 1 January 2018, reflecting targeted lending growth. Loans and advances to customers increased on a reported basis by \$24bn, and customer accounts decreased by \$4bn. These changes included adverse currency translation of \$19bn on loans and advances to customers, and \$24bn on customer accounts.

Excluding the effects of currency translation, loans and advances to customers increased by \$43bn or 5%, and customer accounts increased by \$20bn or 2%.



## Assets

Cash and balances at central banks increased by \$9bn or 5%, reflecting the redeployment of our commercial surplus in the US to maximise returns.

Trading assets decreased by \$7bn or 3%, reflecting lower equity security holdings, notably in the UK. This was partly offset by increased debt securities held in the US.

Reverse repurchase agreements – non-trading increased by \$7bn or 3%, notably in the UK and France, mainly driven by customer demand in our Markets business. This was partly offset by a reduction in the US reflecting the redeployment of our commercial surplus.

Derivative assets increased by \$8bn or 4%, primarily in the UK reflecting revaluation movements as a result of changes in exchange rates, partly offset by adverse movements in yield curves in France. The increase in derivative assets was partly offset by an increase in derivative liabilities.

Other assets grew by \$43bn or 21%, primarily due to an increase in settlement accounts in the UK, the US and Hong Kong from higher trading activity compared with the seasonal reduction in December 2017. We also saw cash collateral increase, reflecting higher derivative balances.

## Loans and advances

Loans and advances to customers increased by \$24bn on a reported basis compared with 1 January 2018, notably in Asia. This included an adverse effect of foreign currency translation of \$19bn.

Excluding the effects of currency translation, loans and advances to customers increased by \$43bn or 5%. This growth was primarily in Asia (up \$30bn) in GB&M (up \$11bn) and CMB (up \$11bn), reflecting higher term lending in Hong Kong from our continued strategic focus on loan growth in the region, as well as an increase in customer demand. In RBWM, we continued to increase lending, primarily in Hong Kong (up \$6bn) reflecting our strategy to maintain our leading position in mortgages and loans in Hong Kong.

Customer lending increased in Europe by \$8bn, notably in UK mortgages (up \$4bn), reflecting our focus on broker-originated mortgages. We also grew balances in CMB in the UK by \$4bn driven by higher term lending and overdraft balances, primarily to mid-market and large corporate clients.

In North America, loans and advances to customers increased by \$1bn, primarily from increased lending to both existing and new clients in Canada, partly offset by higher maturities in GB&M in the US.

## Liabilities

Repurchase agreements – non-trading increased by \$28bn or 22%, primarily in the UK and the US, mainly driven by an increased use of repurchase agreements for funding in our Markets business.

Financial liabilities designated at fair value increased by \$8bn or 6%, driven by debt issuances in France and Taiwan, an increase in equity-linked notes and commercial deposits in Hong Kong, and favourable fair value movements on debt securities in the UK resulting from exchange rate movements.

Derivative liabilities increased by \$6bn or 3%, which is consistent with the increase in derivative assets, since the underlying risk is broadly matched.

Debt securities in issue increased by \$15bn or 23%, reflecting an increase in commercial paper, primarily USD denominated. In addition, there was an increase in senior MREL issuances in the period.

Other liabilities increased by \$36bn or 20%, primarily due to an increase in settlement accounts in the UK and the US from higher seasonal trading activity compared with December.

## Customer accounts

Customer accounts decreased by \$4bn on a reported basis, and included the adverse effect of foreign currency translation of

\$24bn. Excluding this, customer accounts increased by \$20bn or 2%. This growth was notably in Europe (up \$16bn) in GB&M (up \$12bn), primarily reflecting higher GLCM deposits as we priced competitively to facilitate higher stable funding. The increase in RBWM balances (up \$3bn) was driven by the UK, primarily in current accounts.

In Asia, we grew customer accounts by \$8bn, notably in RBWM (up \$4bn) and also in GB&M (up \$3bn) reflecting higher customer inflows. This was partly offset by a managed reduction of balances in GBP (down \$1bn), reflecting active redeployment of client deposits to maximise their returns.

Customer accounts growth was partly offset in North America (down \$4bn), notably in the US, reflecting a reduction in RBWM following repricing of a portfolio of savings accounts, and in Corporate Centre from lower time deposits. In addition, customer accounts fell in Canada in CMB and GB&M due to the effect of US tax reform and resulting repatriation of balances to the US, and seasonal reductions.

## Equity

Total shareholders' equity decreased by \$5bn or 3% compared with 1 January 2018. The effects of profits generated in the period were more than offset by an increase in accumulated foreign exchange losses, the dividends paid to shareholders, the effects of the \$2.0bn share buy-back announced in May 2018 and the redemption of Tier 1 instruments.

## Customer accounts by country

|                                     | At               |             |
|-------------------------------------|------------------|-------------|
|                                     | 30 Jun 2018      | 31 Dec 2017 |
|                                     | \$m              | \$m         |
| <b>Europe</b>                       | <b>507,066</b>   | 505,182     |
| – UK                                | 404,129          | 401,733     |
| – France                            | 43,057           | 45,833      |
| – Germany                           | 20,500           | 17,355      |
| – Switzerland                       | 8,477            | 7,936       |
| – other                             | 30,903           | 32,325      |
| <b>Asia</b>                         | <b>656,620</b>   | 657,395     |
| – Hong Kong                         | 477,728          | 477,104     |
| – Mainland China                    | 42,100           | 45,991      |
| – Singapore                         | 40,592           | 41,144      |
| – Australia                         | 20,231           | 20,212      |
| – Taiwan                            | 15,835           | 13,459      |
| – Malaysia                          | 14,113           | 14,027      |
| – India                             | 12,915           | 13,228      |
| – Indonesia                         | 4,169            | 4,211       |
| – other                             | 28,937           | 28,019      |
| <b>Middle East and North Africa</b> | <b>34,207</b>    | 34,658      |
| – United Arab Emirates              | 16,215           | 16,602      |
| – Egypt                             | 3,983            | 3,912       |
| – Turkey                            | 3,502            | 3,772       |
| – other                             | 10,507           | 10,372      |
| <b>North America</b>                | <b>135,736</b>   | 143,432     |
| – US                                | 84,541           | 89,887      |
| – Canada                            | 43,313           | 45,510      |
| – other                             | 7,882            | 8,035       |
| <b>Latin America</b>                | <b>22,678</b>    | 23,795      |
| – Mexico                            | 17,784           | 17,809      |
| – other                             | 4,894            | 5,986       |
| <b>At end of period</b>             | <b>1,356,307</b> | 1,364,462   |

## Risk-weighted assets

Risk-weighted assets totalled \$865.5bn at 30 June 2018, a \$5.8bn decrease in the first half of the year that includes a reduction of \$13.9bn due to foreign currency translation differences. The \$8.1bn increase (excluding foreign currency translation differences) was mainly due to an increase in asset size of \$10.5bn and changes in asset quality of \$3.7bn, less decreases due to model updates of \$5.3bn.

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

|   | Half-year ended 30 Jun | Year ended 31 Dec |      |      |      |      |
|---|------------------------|-------------------|------|------|------|------|
|   | 2018                   | 2017              | 2016 | 2015 | 2014 | 2013 |
| <b>Ratios of earnings to fixed charges</b>                                |                        |                   |      |      |      |      |
| Excluding interest on deposits  | <b>2.54</b>            | 2.76              | 1.79 | 3.68 | 3.39 | 3.84 |
| Including interest on deposits  | <b>1.91</b>            | 2.00              | 1.37 | 2.00 | 1.86 | 2.09 |
| <b>Ratios of earnings to fixed charges and preference share dividends</b> |                        |                   |      |      |      |      |
| Excluding interest on deposits  | <b>2.22</b>            | 2.26              | 1.31 | 3.05 | 3.07 | 3.50 |
| Including interest on deposits  | <b>1.76</b>            | 1.77              | 1.17 | 1.85 | 1.79 | 2.01 |

**Computation of ratios of earnings to combined fixed charges (and preference share dividends)**

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

|  | Footnotes    | Half-year ended 30 Jun | Year ended 31 Dec |         |         |         |         |
|--|--------------|------------------------|-------------------|---------|---------|---------|---------|
|  |              | 2018                   | 2017              | 2016    | 2015    | 2014    | 2013    |
|  |              | \$m                    | \$m               | \$m     | \$m     | \$m     | \$m     |
| Profit before tax                                  |              | <b>10,712</b>          | 17,167            | 7,112   | 18,867  | 18,680  | 22,565  |
| Dividends received from associates                 |              | <b>126</b>             | 740               | 751     | 879     | 757     | 694     |
| Share of profit in associates and joint ventures   |              | <b>(1,381)</b>         | (2,375)           | (2,354) | (2,556) | (2,532) | (2,325) |
| <b>Fixed charges</b>                               |              | <b>10,359</b>          | 15,594            | 15,063  | 17,250  | 19,667  | 19,238  |
| – interest on deposits                             |              | <b>4,200</b>           | 6,790             | 8,127   | 10,846  | 12,581  | 11,874  |
| – rental expense and other charges                 | <sup>1</sup> | <b>6,159</b>           | 8,804             | 6,936   | 6,404   | 7,086   | 7,364   |
| <b>Earnings</b>                                    | <sup>2</sup> |                        |                   |         |         |         |         |
| Excluding interest on deposits                     |              | <b>15,616</b>          | 24,336            | 12,445  | 23,594  | 23,991  | 28,298  |
| Including interest on deposits                     |              | <b>19,816</b>          | 31,126            | 20,572  | 34,440  | 36,572  | 40,172  |
| <b>Preference share dividends</b>                  | <sup>3</sup> | <b>892</b>             | 1,964             | 2,563   | 1,334   | 728     | 726     |
| <b>Combined fixed charges and preference share</b> |              |                        |                   |         |         |         |         |
| Excluding interest on deposits                     |              | <b>7,050</b>           | 10,768            | 9,499   | 7,738   | 7,814   | 8,090   |
| Including interest on deposits                     |              | <b>11,250</b>          | 17,558            | 17,626  | 18,584  | 20,395  | 19,964  |

<sup>1</sup> Includes an estimate of the interest in rental expense, charges incurred in respect of subordinated liabilities and interest on preference shares.

<sup>2</sup> Includes profit before tax, dividends received from associates and fixed charges, less share of profit in associates and joint ventures.

<sup>3</sup> Dividends on preference shares and other equity instruments.

## Global businesses

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### Summary

The Group Chief Executive and the rest of the Group Management Board ('GMB') review operating activity on a number of bases, including by global business and geographical region. Global businesses are our reportable segments under IFRS 8 'Operating segments'.

#### Basis of preparation

Global business results are assessed by the Chief Operating Decision Maker on the basis of adjusted performance that removes the effects of significant items and currency translation from reported results. We therefore present these results on an adjusted basis. 1H17 and 2H17 adjusted performance information is presented on a constant currency basis as described on page 18.

As required by IFRS 8, reconciliations of the total adjusted global business results of the Group reported results are presented on page 34.

Supplementary reconciliations from reported to adjusted results by global business are presented on pages 33 to 36 for information purposes.

Global business performance is also assessed using Return on Tangible Equity ('ROTE') excluding significant items and the UK bank levy. A reconciliation of global business ROTE excluding significant items and the UK bank levy to the Group's ROTE is provided in the Reconciliations of non-GAAP financial measures 30 June 2018.

Our operations are closely integrated and, accordingly, the presentation of data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and global functions to the extent that they can be meaningfully attributed to operational business lines and geographical regions. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity. Costs that are not allocated to global businesses are included in Corporate Centre.

Where relevant, income and expense amounts presented include the results of inter-segment funding along with inter-company and inter-business line transactions. All such transactions are undertaken on arm's length terms. The intra-Group elimination items for the global businesses are presented in Corporate Centre.

The expense of the UK bank levy is included in the Europe geographical region as HSBC regards the levy as a cost of being headquartered in the UK. For the purposes of the presentation by global business, the cost of the levy is included in Corporate Centre.

The results of geographical regions are presented on a reported basis.

Geographical information is classified by the location of the principal operations of the subsidiary or, for The Hongkong and Shanghai Banking Corporation, HSBC Bank plc, HSBC Bank Middle East and HSBC Bank USA, by the location of the branch responsible for reporting the results or providing funding.

*A description of the global businesses is provided in the Overview section, pages 3 and 12 to 15.*

## Analysis of adjusted results by global business

### HSBC adjusted profit before tax and balance sheet data

|   | Half-year to 30 Jun 2018                      |                       |                                  |                              |                     |           |
|---|---|-----------------------|----------------------------------|------------------------------|---------------------|-----------|
|   | Retail<br>Banking and<br>Wealth<br>Management | Commercial<br>Banking | Global<br>Banking and<br>Markets | Global<br>Private<br>Banking | Corporate<br>Centre | Total     |
|   | \$m   | \$m                   | \$m                              | \$m                          | \$m                 | \$m       |
| <i>Footnote</i>   |   |                       |                                  |                              |                     |           |
| <b>Net operating income/(expense) before change in expected credit losses and other credit impairment charges</b> | 11,065  | 7,439                 | 8,265                            | 929                          | (163)               | 27,535    |
| – external  | 9,092   | 7,319                 | 9,498                            | 800                          | 826                 | 27,535    |
| – inter-segment   | 1,973   | 120                   | (1,233)                          | 129                          | (989)               | –         |
| <i>of which: net interest income/(expense)</i>  | 7,661   | 5,189                 | 2,489                            | 446                          | (731)               | 15,054    |
| Change in expected credit losses and other credit impairment charges  | (543)   | (55)                  | 97                               | 4                            | 90                  | (407)     |
| <b>Net operating income</b>   | 10,522  | 7,384                 | 8,362                            | 933                          | (73)                | 27,128    |
| Total operating expenses  | (6,909)                                       | (3,273)               | (4,794)                          | (743)                        | (651)               | (16,370)  |
| <b>Operating profit/(loss)</b>  | 3,613   | 4,111                 | 3,568                            | 190                          | (724)               | 10,758    |
| Share of profit/(loss) in associates and joint ventures   | 17  | –                     | –                                | –                            | 1,364               | 1,381     |
| <b>Adjusted profit before tax</b>   | 3,630   | 4,111                 | 3,568                            | 190                          | 640                 | 12,139    |
|   | %   | %                     | %                                | %                            | %                   | %         |
| Share of HSBC's adjusted profit before tax  | 29.9  | 33.9                  | 29.4                             | 1.6                          | 5.2                 | 100.0     |
| Adjusted cost efficiency ratio  | 62.4  | 44.0                  | 58.0                             | 80.0                         | (399.4)             | 59.5      |
| <b>Adjusted balance sheet data</b>  | \$m   | \$m                   | \$m                              | \$m                          | \$m                 | \$m       |
| Loans and advances to customers (net)   | 351,114                                       | 329,300               | 250,058                          | 40,902                       | 2,069               | 973,443   |
| Interests in associates and joint ventures  | 391   | –                     | –                                | –                            | 22,181              | 22,572    |
| Total external assets   | 474,507                                       | 363,939               | 1,054,181                        | 46,133                       | 668,554             | 2,607,314 |
| Customer accounts   | 635,598                                       | 355,650               | 291,711                          | 63,593                       | 9,755               | 1,356,307 |
| Adjusted risk-weighted assets   | 124,059                                       | 315,064               | 284,553                          | 16,984                       | 122,158             | 862,818   |

## Global businesses

### HSBC adjusted profit before tax and balance sheet data (continued)

|  | Half-year to 30 Jun 2017 |   |                       |                                  |                              |                     | Total<br>\$m |
|--|--------------------------|---|-----------------------|----------------------------------|------------------------------|---------------------|--------------|
|  | Footnote                 | Retail<br>Banking and<br>Wealth<br>Management | Commercial<br>Banking | Global<br>Banking and<br>Markets | Global<br>Private<br>Banking | Corporate<br>Centre |              |
|  |                          | \$m   | \$m                   | \$m                              | \$m                          | \$m                 |              |
| Net operating income before loan impairment charges and other credit risk provisions | 15                       | 10,283  | 6,622                 | 8,192                            | 874                          | 986                 | 26,957       |
| – external   |                          | 8,825   | 6,679                 | 8,727                            | 733                          | 1,993               | 26,957       |
| – inter-segment  |                          | 1,458   | (57)                  | (535)                            | 141                          | (1,007)             | —            |
| <i>of which: net interest income</i>   |                          | 6,920   | 4,423                 | 2,307                            | 407                          | 103                 | 14,160       |
| Loan impairment (charges)/recoveries and other credit risk provisions                |                          | (565)   | (109)                 | (40)                             | (1)                          | 58                  | (657)        |
| Net operating income   |                          | 9,718   | 6,513                 | 8,152                            | 873                          | 1,044               | 26,300       |
| Total operating expenses   |                          | (6,311)                                       | (2,949)               | (4,609)                          | (729)                        | (597)               | (15,195)     |
| Operating profit   |                          | 3,407   | 3,564                 | 3,543                            | 144                          | 447                 | 11,105       |
| Share of profit/(loss) in associates and joint ventures                              |                          | (10)  | —                     | —                                | —                            | 1,269               | 1,259        |
| Adjusted profit before tax   |                          | 3,397   | 3,564                 | 3,543                            | 144                          | 1,716               | 12,364       |
|  |                          | %   | %                     | %                                | %                            | %                   | %            |
| Share of HSBC's adjusted profit before tax   |                          | 27.5  | 28.8                  | 28.7                             | 1.2                          | 13.8                | 100.0        |
| Adjusted cost efficiency ratio   |                          | 61.4  | 44.5                  | 56.3                             | 83.4                         | 60.5                | 56.4         |
| Adjusted balance sheet data  |                          | \$m   | \$m                   | \$m                              | \$m                          | \$m                 | \$m          |
| Loans and advances to customers (net)  |                          | 324,604                                       | 304,204               | 244,144                          | 38,436                       | 7,753               | 919,141      |
| Interests in associates and joint ventures   |                          | 378   | —                     | —                                | —                            | 20,929              | 21,307       |
| Total external assets  |                          | 440,751                                       | 331,670               | 1,030,547                        | 44,769                       | 648,313             | 2,496,050    |
| Customer accounts  |                          | 618,263                                       | 341,681               | 268,447                          | 68,214                       | 14,778              | 1,311,383    |
| Adjusted risk-weighted assets  |                          | 115,676                                       | 287,965               | 305,511                          | 16,455                       | 142,497             | 868,104      |

|  | Half-year to 31 Dec 2017 |   |                       |                                  |                              |                     | Total<br>\$m |
|--|--------------------------|---|-----------------------|----------------------------------|------------------------------|---------------------|--------------|
|  | Footnote                 | Retail<br>Banking and<br>Wealth<br>Management | Commercial<br>Banking | Global<br>Banking and<br>Markets | Global<br>Private<br>Banking | Corporate<br>Centre |              |
|  |                          | \$m   | \$m                   | \$m                              | \$m                          | \$m                 |              |
| Net operating income/(expense) before loan impairment charges and other credit risk provisions | 15                       | 10,280  | 6,883                 | 7,386                            | 866                          | 323                 | 25,738       |
| – external   |                          | 8,487   | 6,978                 | 8,126                            | 734                          | 1,413               | 25,738       |
| – inter-segment  |                          | 1,793   | (95)                  | (740)                            | 132                          | (1,090)             | —            |
| <i>of which: net interest income/(expense)</i>   |                          | 7,249   | 4,814                 | 2,655                            | 428                          | (583)               | 14,563       |
| Loan impairment (charges)/recoveries and other credit risk provisions                          |                          | (415)   | (382)                 | (432)                            | (16)                         | 132                 | (1,113)      |
| Net operating income   |                          | 9,865   | 6,501                 | 6,954                            | 850                          | 455                 | 24,625       |
| Total operating expenses   |                          | (6,755)                                       | (3,128)               | (4,567)                          | (698)                        | (1,582)             | (16,730)     |
| Operating profit/(loss)  |                          | 3,110   | 3,373                 | 2,387                            | 152                          | (1,127)             | 7,895        |
| Share of profit in associates and joint ventures   |                          | 27  | —                     | —                                | —                            | 1,203               | 1,230        |
| Adjusted profit before tax   |                          | 3,137   | 3,373                 | 2,387                            | 152                          | 76                  | 9,125        |
|  |                          | %   | %                     | %                                | %                            | %                   | %            |
| Share of HSBC's adjusted profit before tax   |                          | 34.4  | 37.0                  | 26.2                             | 1.7                          | 0.7                 | 100.0        |
| Adjusted cost efficiency ratio   |                          | 65.7  | 45.4                  | 61.8                             | 80.6                         | 489.8               | 65.0         |
| Adjusted balance sheet data  |                          | \$m   | \$m                   | \$m                              | \$m                          | \$m                 | \$m          |
| Loans and advances to customers (net)  |                          | 338,511                                       | 310,087               | 247,805                          | 39,763                       | 7,379               | 943,545      |
| Interests in associates and joint ventures   |                          | 363   | —                     | —                                | —                            | 22,121              | 22,484       |
| Total external assets  |                          | 458,384                                       | 341,091               | 962,267                          | 45,330                       | 670,727             | 2,477,799    |
| Customer accounts  |                          | 628,854                                       | 356,542               | 277,751                          | 65,446                       | 11,070              | 1,339,663    |
| Adjusted risk-weighted assets  |                          | 119,548                                       | 294,714               | 295,670                          | 15,893                       | 129,133             | 854,958      |

For footnote, see page 47.

## Reconciliation of reported and adjusted items

### Adjusted results reconciliation

|  | Footnote | Half-year to  |                   |               |             |                      |                   |          |             |                      |                   |          |
|--|----------|---------------|-------------------|---------------|-------------|----------------------|-------------------|----------|-------------|----------------------|-------------------|----------|
|  |          | 30 Jun 2018   |                   |               | 30 Jun 2017 |                      |                   |          | 31 Dec 2017 |                      |                   |          |
|  |          | Adjusted      | Significant items | Reported      | Adjusted    | Currency translation | Significant items | Reported | Adjusted    | Currency translation | Significant items | Reported |
|  | \$m      | \$m           | \$m               | \$m           | \$m         | \$m                  | \$m               | \$m      | \$m         | \$m                  | \$m               |          |
| Revenue  | 15       | 27,535        | (248)             | 27,287        | 26,957      | (897)                | 106               | 26,166   | 25,738      | (261)                | (198)             | 25,279   |
| ECL  |          | (407)         | —                 | (407)         | N/A         | N/A                  | N/A               | N/A      | N/A         | N/A                  | N/A               | N/A      |
| LICs   |          | N/A           | N/A               | N/A           | (657)       | (6)                  | —                 | (663)    | (1,113)     | 7                    | —                 | (1,106)  |
| Operating expenses                               |          | (16,370)      | (1,179)           | (17,549)      | (15,195)    | 690                  | (1,938)           | (16,443) | (16,730)    | 217                  | (1,928)           | (18,441) |
| Share of profit in associates and joint ventures |          | 1,381         | —                 | 1,381         | 1,259       | (76)                 | —                 | 1,183    | 1,230       | (38)                 | —                 | 1,192    |
| <b>Profit/(loss) before tax</b>                  |          | <b>12,139</b> | <b>(1,427)</b>    | <b>10,712</b> | 12,364      | (289)                | (1,832)           | 10,243   | 9,125       | (75)                 | (2,126)           | 6,924    |

For footnote, see page 47.

### Adjusted balance sheet reconciliation

|  | At                    |             |                      |           |
|--|-----------------------|-------------|----------------------|-----------|
|  | 30 Jun 2018           | 31 Dec 2017 |                      |           |
|  | Reported and Adjusted | Adjusted    | Currency translation | Reported  |
|  | \$m                   | \$m         | \$m                  | \$m       |
| Loans and advances to customers (net)      | 973,443               | 943,545     | 19,419               | 962,964   |
| Interests in associates and joint ventures | 22,572                | 22,484      | 260                  | 22,744    |
| Total external assets                      | 2,607,314             | 2,477,799   | 43,972               | 2,521,771 |
| Customer accounts                          | 1,356,307             | 1,339,663   | 24,799               | 1,364,462 |

### Adjusted profit reconciliation

|  | Footnote | Half-year to  |             |             |
|--|----------|---------------|-------------|-------------|
|  |          | 30 Jun 2018   | 30 Jun 2017 | 31 Dec 2017 |
|  |          | \$m           | \$m         | \$m         |
| <b>Adjusted profit before tax</b>  |          | <b>12,139</b> | 12,364      | 9,125       |
| Significant items  |          | (1,427)       | (1,832)     | (2,126)     |
| – customer redress programmes  |          | (54)          | (299)       | (464)       |
| – disposals, acquisitions and investment in new businesses                   |          | (145)         | 348         | (127)       |
| – fair value movements on financial instruments                              | 37       | (152)         | (245)       | —           |
| – costs to achieve   |          | —             | (1,670)     | (1,332)     |
| – costs of structural reform   |          | (211)         | (180)       | (240)       |
| – gain on partial settlement of pension obligation                           |          | —             | —           | 188         |
| – restructuring and other related costs                                      |          | (24)          | —           | —           |
| – settlements and provisions in connection with legal and regulatory matters |          | (841)         | 322         | (124)       |
| – currency translation on significant items                                  |          | —             | (108)       | (27)        |
| Currency translation   |          | —             | (289)       | (75)        |
| <b>Reported profit before tax</b>  |          | <b>10,712</b> | 10,243      | 6,924       |

For footnote, see page 47.

**Reconciliation of reported and adjusted items – global businesses**

Supplementary analysis of significant items by global business is presented below.

|  | Half-year to 30 Jun 2018             |                    |                            |                        |                  |           |
|--|--------------------------------------|--------------------|----------------------------|------------------------|------------------|-----------|
|  | Retail Banking and Wealth Management | Commercial Banking | Global Banking and Markets | Global Private Banking | Corporate Centre | Total     |
|  | \$m                                  | \$m                | \$m                        | \$m                    | \$m              | \$m       |
| <b>Revenue</b>   | <i>Footnotes</i> 15                  |                    |                            |                        |                  |           |
| Reported   | 11,058                               | 7,485              | 8,330                      | 929                    | (515)            | 27,287    |
| Significant items  | 7                                    | (46)               | (65)                       | –                      | 352              | 248       |
| – customer redress programmes  | –                                    | (46)               | –                          | –                      | –                | (46)      |
| – disposals, acquisitions and investment in new businesses                   | 7                                    | –                  | –                          | –                      | 135              | 142       |
| – fair value movements on financial instruments                              | –                                    | –                  | (65)                       | –                      | 217              | 152       |
| Adjusted   | 11,065                               | 7,439              | 8,265                      | 929                    | (163)            | 27,535    |
| <b>ECL</b>   |                                      |                    |                            |                        |                  |           |
| Reported   | (543)                                | (55)               | 97                         | 4                      | 90               | (407)     |
| Adjusted   | (543)                                | (55)               | 97                         | 4                      | 90               | (407)     |
| <b>Operating expenses</b>  |                                      |                    |                            |                        |                  |           |
| Reported   | (7,020)                              | (3,281)            | (4,702)                    | (787)                  | (1,759)          | (17,549)  |
| Significant items  | 111                                  | 8                  | (92)                       | 44                     | 1,108            | 1,179     |
| – costs of structural reform   | 1                                    | 2                  | 16                         | –                      | 192              | 211       |
| – customer redress programmes  | 94                                   | 6                  | –                          | –                      | –                | 100       |
| – disposals, acquisitions and investment in new businesses                   | –                                    | –                  | –                          | 3                      | –                | 3         |
| – restructuring and other related costs                                      | –                                    | –                  | –                          | –                      | 24               | 24        |
| – settlements and provisions in connection with legal and regulatory matters | 16                                   | –                  | (108)                      | 41                     | 892              | 841       |
| Adjusted   | (6,909)                              | (3,273)            | (4,794)                    | (743)                  | (651)            | (16,370)  |
| <b>Share of profit in associates and joint ventures</b>                      |                                      |                    |                            |                        |                  |           |
| Reported   | 17                                   | –                  | –                          | –                      | 1,364            | 1,381     |
| Adjusted   | 17                                   | –                  | –                          | –                      | 1,364            | 1,381     |
| <b>Profit before tax</b>   |                                      |                    |                            |                        |                  |           |
| Reported   | 3,512                                | 4,149              | 3,725                      | 146                    | (820)            | 10,712    |
| Significant items  | 118                                  | (38)               | (157)                      | 44                     | 1,460            | 1,427     |
| – revenue  | 7                                    | (46)               | (65)                       | –                      | 352              | 248       |
| – operating expenses   | 111                                  | 8                  | (92)                       | 44                     | 1,108            | 1,179     |
| Adjusted   | 3,630                                | 4,111              | 3,568                      | 190                    | 640              | 12,139    |
| <b>Loans and advances to customers (net)</b>                                 |                                      |                    |                            |                        |                  |           |
| Reported   | 351,114                              | 329,300            | 250,058                    | 40,902                 | 2,069            | 973,443   |
| Adjusted   | 351,114                              | 329,300            | 250,058                    | 40,902                 | 2,069            | 973,443   |
| <b>Customer accounts</b>   |                                      |                    |                            |                        |                  |           |
| Reported   | 635,598                              | 355,650            | 291,711                    | 63,593                 | 9,755            | 1,356,307 |
| Adjusted   | 635,598                              | 355,650            | 291,711                    | 63,593                 | 9,755            | 1,356,307 |

For footnotes, see page 47.

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

|  | Half-year to 30 Jun 2017 |  |                              |   |                                     |                            | Total<br>\$m |
|--|--------------------------|--|------------------------------|---|-------------------------------------|----------------------------|--------------|
|  | Footnotes                | Retail<br>Banking and<br>Wealth<br>Management<br>\$m | Commercial<br>Banking<br>\$m | Global<br>Banking and<br>Markets<br>\$m | Global<br>Private<br>Banking<br>\$m | Corporate<br>Centre<br>\$m |              |
| Revenue  | 15                       |  |                              |   |                                     |                            |              |
| Reported   |                          | 10,282   | 6,407                        | 7,548                                   | 858                                 | 1,071                      | 26,166       |
| Currency translation   |                          | 240  | 215                          | 355                                     | 29                                  | 58                         | 897          |
| Significant items  |                          | (239)  | —                            | 289                                     | (13)                                | (143)                      | (106)        |
| – disposals, acquisitions and investment in new businesses                   |                          | (239)  | —                            | —                                       | (12)                                | (107)                      | (358)        |
| – fair value movement on financial instruments                               | 37                       | —  | —                            | 275                                     | —                                   | (30)                       | 245          |
| – currency translation on significant items                                  |                          | —  | —                            | 14                                      | (1)                                 | (6)                        | 7            |
| Adjusted   |                          | 10,283   | 6,622                        | 8,192                                   | 874                                 | 986                        | 26,957       |
| LICs   |                          |  |                              |   |                                     |                            |              |
| Reported   |                          | (556)  | (118)                        | (41)                                    | (1)                                 | 53                         | (663)        |
| Currency translation   |                          | (9)  | 9                            | 1                                       | —                                   | 5                          | 6            |
| Adjusted   |                          | (565)  | (109)                        | (40)                                    | (1)                                 | 58                         | (657)        |
| Operating expenses   |                          |  |                              |   |                                     |                            |              |
| Reported   |                          | (6,617)  | (2,858)                      | (4,155)                                 | (704)                               | (2,109)                    | (16,443)     |
| Currency translation   |                          | (228)  | (103)                        | (213)                                   | (27)                                | (119)                      | (690)        |
| Significant items  |                          | 534  | 12                           | (241)                                   | 2                                   | 1,631                      | 1,938        |
| – costs of structural reform   |                          | —  | —                            | 1                                       | —                                   | 179                        | 180          |
| – costs to achieve   |                          | 197  | 12                           | 97                                      | 2                                   | 1,362                      | 1,670        |
| – customer redress programmes  |                          | 299  | —                            | —                                       | —                                   | —                          | 299          |
| – disposals, acquisitions and investment in new businesses                   |                          | —  | —                            | —                                       | —                                   | 10                         | 10           |
| – settlements and provisions in connection with legal and regulatory matters |                          | —  | —                            | (322)                                   | —                                   | —                          | (322)        |
| – currency translation on significant items                                  |                          | 38   | —                            | (17)                                    | —                                   | 80                         | 101          |
| Adjusted   |                          | (6,311)  | (2,949)                      | (4,609)                                 | (729)                               | (597)                      | (15,195)     |
| Share of profit in associates and joint ventures                             |                          |  |                              |   |                                     |                            |              |
| Reported   |                          | (11)   | —                            | —                                       | —                                   | 1,194                      | 1,183        |
| Currency translation   |                          | 1  | —                            | —                                       | —                                   | 75                         | 76           |
| Adjusted   |                          | (10)   | —                            | —                                       | —                                   | 1,269                      | 1,259        |
| Profit before tax  |                          |  |                              |   |                                     |                            |              |
| Reported   |                          | 3,098  | 3,431                        | 3,352                                   | 153                                 | 209                        | 10,243       |
| Currency translation   |                          | 4  | 121                          | 143                                     | 2                                   | 19                         | 289          |
| Significant items  |                          | 295  | 12                           | 48                                      | (11)                                | 1,488                      | 1,832        |
| – revenue  |                          | (239)  | —                            | 289                                     | (13)                                | (143)                      | (106)        |
| – operating expenses   |                          | 534  | 12                           | (241)                                   | 2                                   | 1,631                      | 1,938        |
| Adjusted   |                          | 3,397  | 3,564                        | 3,543                                   | 144                                 | 1,716                      | 12,364       |
| Loans and advances to customers (net)  |                          |  |                              |   |                                     |                            |              |
| Reported   |                          | 324,464  | 305,018                      | 243,989                                 | 38,601                              | 7,766                      | 919,838      |
| Currency translation   |                          | 140  | (814)                        | 155                                     | (165)                               | (13)                       | (697)        |
| Adjusted   |                          | 324,604  | 304,204                      | 244,144                                 | 38,436                              | 7,753                      | 919,141      |
| Customer accounts  |                          |  |                              |   |                                     |                            |              |
| Reported   |                          | 619,858  | 341,596                      | 267,274                                 | 68,226                              | 15,004                     | 1,311,958    |
| Currency translation   |                          | (1,595)  | 85                           | 1,173                                   | (12)                                | (226)                      | (575)        |
| Adjusted   |                          | 618,263  | 341,681                      | 268,447                                 | 68,214                              | 14,778                     | 1,311,383    |

For footnotes, see page 47.

## Global businesses

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

|  | Half-year to 31 Dec 2017 |   |                       |                                  |                              |                     | Total<br>\$m |
|--|--------------------------|---|-----------------------|----------------------------------|------------------------------|---------------------|--------------|
|  |                          | Retail<br>Banking and<br>Wealth<br>Management | Commercial<br>Banking | Global<br>Banking and<br>Markets | Global<br>Private<br>Banking | Corporate<br>Centre |              |
|  | Footnotes                | \$m   | \$m                   | \$m                              | \$m                          | \$m                 |              |
| Revenue  | 15                       |   |                       |                                  |                              |                     |              |
| Reported   |                          | 10,237  | 6,713                 | 7,069                            | 865                          | 395                 | 25,279       |
| Currency translation   |                          | 36  | 64                    | 114                              | 10                           | 37                  | 261          |
| Significant items  |                          | 7   | 106                   | 203                              | (9)                          | (109)               | 198          |
| – customer redress programmes  |                          | 3   | 103                   | 2                                | –                            | –                   | 108          |
| – disposals, acquisitions and investment in new businesses                   |                          | 4   | –                     | 99                               | (8)                          | (11)                | 84           |
| – fair value movements on financial instruments                              | 37                       | –   | –                     | 98                               | –                            | (98)                | –            |
| – currency translation on significant items                                  |                          | –   | 3                     | 4                                | (1)                          | –                   | 6            |
| Adjusted   |                          | 10,280  | 6,883                 | 7,386                            | 866                          | 323                 | 25,738       |
| LICs   |                          |   |                       |                                  |                              |                     |              |
| Reported   |                          | (424)   | (378)                 | (418)                            | (15)                         | 129                 | (1,106)      |
| Currency translation   |                          | 9   | (4)                   | (14)                             | (1)                          | 3                   | (7)          |
| Adjusted   |                          | (415)   | (382)                 | (432)                            | (16)                         | 132                 | (1,113)      |
| Operating expenses   |                          |   |                       |                                  |                              |                     |              |
| Reported   |                          | (7,117)                                       | (3,143)               | (4,568)                          | (882)                        | (2,731)             | (18,441)     |
| Currency translation   |                          | (39)  | (28)                  | (69)                             | (10)                         | (71)                | (217)        |
| Significant items  |                          | 401   | 43                    | 70                               | 194                          | 1,220               | 1,928        |
| – costs of structural reform   |                          | 6   | 3                     | 7                                | –                            | 224                 | 240          |
| – costs to achieve   |                          | 73  | 32                    | 143                              | 1                            | 1,083               | 1,332        |
| – customer redress programmes  |                          | 338   | 16                    | 2                                | –                            | –                   | 356          |
| – disposals, acquisitions and investment in new businesses                   |                          | –   | –                     | –                                | 31                           | 12                  | 43           |
| – gain on partial settlement of pension obligation                           |                          | (26)  | (9)                   | (9)                              | (3)                          | (141)               | (188)        |
| – settlements and provisions in connection with legal and regulatory matters |                          | –   | –                     | (54)                             | 164                          | 14                  | 124          |
| – currency translation on significant items                                  |                          | 10  | 1                     | (19)                             | 1                            | 28                  | 21           |
| Adjusted   |                          | (6,755)                                       | (3,128)               | (4,567)                          | (698)                        | (1,582)             | (16,730)     |
| Share of profit in associates and joint ventures                             |                          |   |                       |                                  |                              |                     |              |
| Reported   |                          | 29  | –                     | –                                | –                            | 1,163               | 1,192        |
| Currency translation   |                          | (2)   | –                     | –                                | –                            | 40                  | 38           |
| Adjusted   |                          | 27  | –                     | –                                | –                            | 1,203               | 1,230        |
| Profit before tax  |                          |   |                       |                                  |                              |                     |              |
| Reported   |                          | 2,725   | 3,192                 | 2,083                            | (32)                         | (1,044)             | 6,924        |
| Currency translation   |                          | 4   | 32                    | 31                               | (1)                          | 9                   | 75           |
| Significant items  |                          | 408   | 149                   | 273                              | 185                          | 1,111               | 2,126        |
| – revenue  |                          | 7   | 106                   | 203                              | (9)                          | (109)               | 198          |
| – operating expenses   |                          | 401   | 43                    | 70                               | 194                          | 1,220               | 1,928        |
| Adjusted   |                          | 3,137   | 3,373                 | 2,387                            | 152                          | 76                  | 9,125        |
| Loans and advances to customers (net)  |                          |   |                       |                                  |                              |                     |              |
| Reported   |                          | 346,148                                       | 316,533               | 252,474                          | 40,326                       | 7,483               | 962,964      |
| Currency translation   |                          | (7,637)                                       | (6,446)               | (4,669)                          | (563)                        | (104)               | (19,419)     |
| Adjusted   |                          | 338,511                                       | 310,087               | 247,805                          | 39,763                       | 7,379               | 943,545      |
| Customer accounts  |                          |   |                       |                                  |                              |                     |              |
| Reported   |                          | 639,592                                       | 362,908               | 283,943                          | 66,512                       | 11,507              | 1,364,462    |
| Currency translation   |                          | (10,738)                                      | (6,366)               | (6,192)                          | (1,066)                      | (437)               | (24,799)     |
| Adjusted   |                          | 628,854                                       | 356,542               | 277,751                          | 65,446                       | 11,070              | 1,339,663    |

For footnotes, see page 47.



## Reconciliation of reported and adjusted risk-weighted assets

|                             | At 30 Jun 2018                       |                    |                            |                        |                  |              |
|-----------------------------|--------------------------------------|--------------------|----------------------------|------------------------|------------------|--------------|
|                             | Retail Banking and Wealth Management | Commercial Banking | Global Banking and Markets | Global Private Banking | Corporate Centre | Total        |
|                             | \$bn                                 | \$bn               | \$bn                       | \$bn                   | \$bn             | \$bn         |
| <b>Risk-weighted assets</b> |                                      |                    |                            |                        |                  |              |
| Reported                    | 124.1                                | 315.1              | 284.5                      | 17.0                   | 124.8            | 865.5        |
| Disposals                   | –                                    | –                  | –                          | –                      | (2.7)            | (2.7)        |
| – Brazil operations         | –                                    | –                  | –                          | –                      | (2.7)            | (2.7)        |
| <b>Adjusted</b>             | <b>124.1</b>                         | <b>315.1</b>       | <b>284.5</b>               | <b>17.0</b>            | <b>122.1</b>     | <b>862.8</b> |
|                             | At 30 Jun 2017                       |                    |                            |                        |                  |              |
| Risk-weighted assets        |                                      |                    |                            |                        |                  |              |
| Reported                    | 116.6                                | 289.2              | 306.1                      | 16.4                   | 147.8            | 876.1        |
| Currency translation        | (0.9)                                | (1.2)              | (0.6)                      | –                      | (0.1)            | (2.8)        |
| Disposals                   | –                                    | –                  | –                          | –                      | (5.2)            | (5.2)        |
| – Brazil operations         | –                                    | –                  | –                          | –                      | (5.2)            | (5.2)        |
| <b>Adjusted</b>             | <b>115.7</b>                         | <b>288.0</b>       | <b>305.5</b>               | <b>16.4</b>            | <b>142.5</b>     | <b>868.1</b> |
|                             | At 31 Dec 2017                       |                    |                            |                        |                  |              |
| Risk-weighted assets        |                                      |                    |                            |                        |                  |              |
| Reported                    | 121.5                                | 301.0              | 299.3                      | 16.0                   | 133.5            | 871.3        |
| Currency translation        | (2.0)                                | (6.3)              | (3.6)                      | (0.1)                  | (1.6)            | (13.6)       |
| Disposals                   | –                                    | –                  | –                          | –                      | (2.7)            | (2.7)        |
| – Brazil operations         | –                                    | –                  | –                          | –                      | (2.7)            | (2.7)        |
| <b>Adjusted</b>             | <b>119.5</b>                         | <b>294.7</b>       | <b>295.7</b>               | <b>15.9</b>            | <b>129.2</b>     | <b>855.0</b> |

## Supplementary tables for RBWM and GPB

A breakdown of RBWM by business unit is presented below to reflect the basis of how the revenue performance of the business units is assessed and managed.

For GPB, a key measure of business performance is client assets, which is also presented below.

### RBWM – summary (adjusted basis)

|  | Footnote | Consists of   |                    |                         |                  |
|--|----------|---------------|--------------------|-------------------------|------------------|
|  |          | Total RBWM    | Banking operations | Insurance manufacturing | Asset management |
|  |          | \$m           | \$m                | \$m                     | \$m              |
| Half-year to 30 Jun 2018   |          |               |                    |                         |                  |
| Net operating income before change in expected credit losses and other credit impairment charges | 15       | 11,065        | 9,523              | 988                     | 554              |
| – net interest income  |          | 7,661         | 6,653              | 1,008                   | –                |
| – net fee income/(expense)   |          | 2,795         | 2,548              | (307)                   | 554              |
| – other income   |          | 609           | 322                | 287                     | –                |
| ECL  |          | (543)         | (543)              | –                       | –                |
| <b>Net operating income</b>  |          | <b>10,522</b> | <b>8,980</b>       | <b>988</b>              | <b>554</b>       |
| Total operating expenses   |          | (6,909)       | (6,326)            | (220)                   | (363)            |
| <b>Operating profit</b>  |          | <b>3,613</b>  | <b>2,654</b>       | <b>768</b>              | <b>191</b>       |
| Share of profit in associates and joint ventures   |          | 17            | –                  | 17                      | –                |
| <b>Profit before tax</b>   |          | <b>3,630</b>  | <b>2,654</b>       | <b>785</b>              | <b>191</b>       |
| Half-year to 30 Jun 2017   |          |               |                    |                         |                  |
| Net operating income before loan impairment charges and other credit risk provisions             | 15       | 10,283        | 8,584              | 1,165                   | 534              |
| – net interest income  |          | 6,920         | 5,938              | 982                     | –                |
| – net fee income/(expense)   |          | 2,577         | 2,338              | (269)                   | 508              |
| – other income   |          | 786           | 308                | 452                     | 26               |
| LICs   |          | (565)         | (565)              | –                       | –                |
| <b>Net operating income</b>  |          | <b>9,718</b>  | <b>8,019</b>       | <b>1,165</b>            | <b>534</b>       |
| Total operating expenses   |          | (6,311)       | (5,748)            | (207)                   | (356)            |
| <b>Operating profit</b>  |          | <b>3,407</b>  | <b>2,271</b>       | <b>958</b>              | <b>178</b>       |
| Share of profit in associates and joint ventures   |          | (10)          | 1                  | (11)                    | –                |
| <b>Profit before tax</b>   |          | <b>3,397</b>  | <b>2,272</b>       | <b>947</b>              | <b>178</b>       |

**RBWM – summary (adjusted basis) (continued)**

| Half-year to 31 Dec 2017   |    |         |         |       |       |
|--|----|---------|---------|-------|-------|
| Net operating income before loan impairment charges and other credit risk provisions | 15 | 10,280  | 8,926   | 813   | 541   |
| – net interest income  |    | 7,249   | 6,212   | 1,037 | –     |
| – net fee income/(expense)   |    | 2,654   | 2,367   | (231) | 518   |
| – other income   |    | 377     | 347     | 7     | 23    |
| LICs   |    | (415)   | (415)   | –     | –     |
| Net operating income   |    | 9,865   | 8,511   | 813   | 541   |
| Total operating expenses   |    | (6,755) | (6,202) | (199) | (354) |
| Operating profit   |    | 3,110   | 2,309   | 614   | 187   |
| Share of profit in associates and joint ventures                                     |    | 27      | 5       | 22    | –     |
| Profit before tax  |    | 3,137   | 2,314   | 636   | 187   |

For footnote, see page 47.

Insurance manufacturing for RBWM excluded other global businesses which contributed net operating income of \$144m (1H17: \$120m; 2H17: \$77m) and profit before tax of \$119m (1H17: \$92m; 2H17: \$50m) to overall insurance manufacturing. In 1H18 insurance manufacturing net operating income for RBWM included \$919m within Wealth Management (1H17: \$1,117m; 2H17: \$759m) and \$69m within other products (1H17: \$48m; 2H17: \$54m).

In total, insurance manufacturing generated \$1,828m of annualised new business premiums (1H17: \$1,493m; 2H17: \$1,235m) of which \$1,767m (1H17: \$1,448m; 2H17: \$1,220m) related to RBWM.

Distribution of insurance products by HSBC channels contributed \$597m of net fee income (1H17: \$557m; 2H17: \$482m) of which RBWM channels earned \$517m (1H17: \$480m; 2H17: \$434m). Of this total income, \$367m (1H17: \$344m; 2H17: \$288m) was in respect of HSBC manufactured products and a corresponding fee expense is therefore recognised within insurance manufacturing.

**GPB – reported client assets<sup>38</sup>**

|                                       | Footnote | Half-year to |             |             |
|---------------------------------------|----------|--------------|-------------|-------------|
|                                       |          | 30 Jun 2018  | 30 Jun 2017 | 31 Dec 2017 |
|                                       |          | \$bn         | \$bn        | \$bn        |
| Opening balance                       |          | 330          | 298         | 316         |
| Net new money                         |          | 6            | 1           | (1)         |
| – of which: areas targeted for growth |          | 9            | 8           | 7           |
| Value change                          |          | (3)          | 12          | 9           |
| Disposals                             |          | –            | (9)         | (1)         |
| Exchange and other                    |          | (3)          | 14          | 7           |
| <b>Closing balance</b>                | 39       | <b>330</b>   | <b>316</b>  | <b>330</b>  |

For footnote, see page 47.

**GPB – reported client assets by geography**

|                        | At          |             |             |
|------------------------|-------------|-------------|-------------|
|                        | 30 Jun 2018 | 30 Jun 2017 | 31 Dec 2017 |
|                        | \$bn        | \$bn        | \$bn        |
| Europe                 | 161         | 155         | 161         |
| Asia                   | 131         | 119         | 130         |
| North America          | 38          | 42          | 39          |
| <b>Closing balance</b> | <b>330</b>  | <b>316</b>  | <b>330</b>  |

**Funds under management**

|                               | At          |             |             |
|-------------------------------|-------------|-------------|-------------|
|                               | 30 Jun 2018 | 30 Jun 2017 | 31 Dec 2017 |
|                               | \$bn        | \$bn        | \$bn        |
| Global Asset Management       | 456         | 440         | 462         |
| Global Private Banking        | 262         | 243         | 258         |
| Affiliates                    | 4           | 4           | 4           |
| Other                         | 224         | 202         | 219         |
| <b>Funds under management</b> | <b>946</b>  | <b>889</b>  | <b>943</b>  |

|                         | Half-year to |             |             |
|-------------------------|--------------|-------------|-------------|
|                         | 30 Jun 2018  | 30 Jun 2017 | 31 Dec 2017 |
|                         | \$bn         | \$bn        | \$bn        |
| At beginning of period  | 943          | 831         | 889         |
| Net new money           | 11           | (6)         | 8           |
| Value change            | 6            | 39          | 38          |
| Exchange and other      | (14)         | 25          | 8           |
| <b>At end of period</b> | <b>946</b>   | <b>889</b>  | <b>943</b>  |

## Geographical regions

|  |             |
|--|-------------|
|  | <b>Page</b> |
| Analysis of reported results by geographical regions                 | <b>39</b>   |
| Reconciliation of reported and adjusted items – geographical regions | <b>41</b>   |
| Analysis by country  | <b>44</b>   |

### Analysis of reported results by geographical regions

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

|  | Footnotes | Half-year to 30 Jun 2018 |               |              |               |               |                  | Total         |
|--|-----------|--------------------------|---------------|--------------|---------------|---------------|------------------|---------------|
|  |           | Europe                   | Asia          | MENA         | North America | Latin America | Intra-HSBC items |               |
|  |           | \$m                      | \$m           | \$m          | \$m           | \$m           | \$m              | \$m           |
| Net interest income  |           | 3,527                    | 7,821         | 864          | 1,747         | 1,039         | 102              | 15,100        |
| Net fee income   |           | 2,110                    | 3,139         | 320          | 930           | 268           | –                | 6,767         |
| Net income from financial instruments held for trading or managed on a fair value basis  |           | 1,926                    | 1,981         | 147          | 456           | 384           | (11)             | 4,883         |
| Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss |           | (141)                    | (79)          | –            | –             | (2)           | –                | (222)         |
| Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss   |           | 424                      | (16)          | (1)          | 19            | 10            | (91)             | 345           |
| Other income/(expense)   | 40        | 1,025                    | 1,666         | 26           | 260           | (103)         | (2,460)          | 414           |
| <b>Net operating income before change in expected credit losses and other credit impairment charges</b>  | 15        | <b>8,871</b>             | <b>14,512</b> | <b>1,356</b> | <b>3,412</b>  | <b>1,596</b>  | <b>(2,460)</b>   | <b>27,287</b> |
| Change in expected credit losses and other credit impairment charges/(recoveries)  |           | (187)                    | (116)         | (103)        | 234           | (235)         | –                | (407)         |
| <b>Net operating income</b>  |           | <b>8,684</b>             | <b>14,396</b> | <b>1,253</b> | <b>3,646</b>  | <b>1,361</b>  | <b>(2,460)</b>   | <b>26,880</b> |
| Total operating expenses   |           | (8,592)                  | (6,110)       | (686)        | (3,604)       | (1,017)       | 2,460            | (17,549)      |
| <b>Operating profit</b>  |           | <b>92</b>                | <b>8,286</b>  | <b>567</b>   | <b>42</b>     | <b>344</b>    | <b>–</b>         | <b>9,331</b>  |
| Share of profit in associates and joint ventures   |           | 18                       | 1,094         | 269          | –             | –             | –                | 1,381         |
| <b>Profit before tax</b>   |           | <b>110</b>               | <b>9,380</b>  | <b>836</b>   | <b>42</b>     | <b>344</b>    | <b>–</b>         | <b>10,712</b> |
|  |           | %                        | %             | %            | %             | %             |                  | %             |
| Share of HSBC's profit before tax  |           | 1.0                      | 87.6          | 7.8          | 0.4           | 3.2           |                  | 100.0         |
| Cost efficiency ratio  |           | 96.9                     | 42.1          | 50.6         | 105.6         | 63.7          |                  | 64.3          |
| <b>Balance sheet data</b>  |           | <b>\$m</b>               | <b>\$m</b>    | <b>\$m</b>   | <b>\$m</b>    | <b>\$m</b>    | <b>\$m</b>       | <b>\$m</b>    |
| Loans and advances to customers (net)  |           | 374,264                  | 445,692       | 29,106       | 104,361       | 20,020        | –                | 973,443       |
| Total assets   |           | 1,198,988                | 1,042,326     | 57,336       | 417,317       | 48,201        | (156,854)        | 2,607,314     |
| Customer accounts  |           | 507,066                  | 656,620       | 34,207       | 135,736       | 22,678        | –                | 1,356,307     |
| Risk-weighted assets   | 41        | 301,253                  | 363,977       | 58,043       | 132,970       | 36,991        | –                | 865,467       |
|  |           | Half-year to 30 Jun 2017 |               |              |               |               |                  |               |
| Net interest income  |           | 3,470                    | 6,765         | 858          | 1,770         | 1,010         | (96)             | 13,777        |
| Net fee income   |           | 2,175                    | 2,819         | 316          | 929           | 252           | –                | 6,491         |
| Net income from financial instruments held for trading or managed on a fair value basis  |           | 2,010                    | 1,517         | 118          | 274           | 217           | 96               | 4,232         |
| Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss           |           | 401                      | 1,070         | –            | –             | 28            | –                | 1,499         |
| Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss   |           | N/A                      | N/A           | N/A          | N/A           | N/A           | N/A              | N/A           |
| Other income   | 40        | 847                      | 615           | 70           | 523           | 42            | (1,930)          | 167           |
| Net operating income before loan impairment charges and other credit risk provisions   | 15        | 8,903                    | 12,786        | 1,362        | 3,496         | 1,549         | (1,930)          | 26,166        |
| Loan impairment charges and other credit risk provisions   |           | 19                       | (448)         | (122)        | 137           | (249)         | –                | (663)         |
| <b>Net operating income</b>  |           | <b>8,922</b>             | <b>12,338</b> | <b>1,240</b> | <b>3,633</b>  | <b>1,300</b>  | <b>(1,930)</b>   | <b>25,503</b> |
| Total operating expenses   |           | (8,361)                  | (5,640)       | (673)        | (2,683)       | (1,016)       | 1,930            | (16,443)      |
| <b>Operating profit</b>  |           | <b>561</b>               | <b>6,698</b>  | <b>567</b>   | <b>950</b>    | <b>284</b>    | <b>–</b>         | <b>9,060</b>  |
| Share of profit in associates and joint ventures   |           | 11                       | 932           | 237          | 3             | –             | –                | 1,183         |
| <b>Profit before tax</b>   |           | <b>572</b>               | <b>7,630</b>  | <b>804</b>   | <b>953</b>    | <b>284</b>    | <b>–</b>         | <b>10,243</b> |
|  |           | %                        | %             | %            | %             | %             |                  | %             |
| Share of HSBC's profit before tax  |           | 5.6                      | 74.5          | 7.8          | 9.3           | 2.8           |                  | 100.0         |
| Cost efficiency ratio  |           | 93.9                     | 44.1          | 49.4         | 76.7          | 65.6          |                  | 62.8          |
| <b>Balance sheet data</b>  |           | <b>\$m</b>               | <b>\$m</b>    | <b>\$m</b>   | <b>\$m</b>    | <b>\$m</b>    | <b>\$m</b>       | <b>\$m</b>    |
| Loans and advances to customers (net)  |           | 364,943                  | 400,505       | 28,489       | 105,996       | 19,905        | –                | 919,838       |
| Total assets   |           | 1,148,654                | 975,165       | 57,781       | 436,175       | 46,834        | (172,166)        | 2,492,443     |
| Customer accounts  |           | 479,079                  | 635,809       | 34,794       | 139,770       | 22,506        | –                | 1,311,958     |
| Risk-weighted assets   | 41        | 311,690                  | 347,019       | 59,329       | 137,274       | 38,641        | –                | 876,118       |

## Geographical regions

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

|  | Half-year to 31 Dec 2017 |           |        |               |               |                  |     | Total     |
|--|--------------------------|-----------|--------|---------------|---------------|------------------|-----|-----------|
|  | Europe                   | Asia      | MENA   | North America | Latin America | Intra-HSBC items |     |           |
| <i>Footnotes</i>   | \$m                      | \$m       | \$m    | \$m           | \$m           | \$m              | \$m | \$m       |
| Net interest income  | 3,500                    | 7,388     | 894    | 1,671         | 1,088         | (142)            |     | 14,399    |
| Net fee income/(expense)   | 1,986                    | 2,812     | 303    | 951           | 268           | —                |     | 6,320     |
| Net income from financial instruments held for trading or managed on a fair value basis  | 2,056                    | 1,412     | 62     | 253           | 269           | 142              |     | 4,194     |
| Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss | 368                      | 933       | —      | —             | 36            | —                |     | 1,337     |
| Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss                               | N/A                      | N/A       | N/A    | N/A           | N/A           | N/A              |     | N/A       |
| Other income/(expense)   | <sup>40</sup> 607        | 475       | 39     | 342           | 15            | (2,449)          |     | (971)     |
| Net operating income before loan impairment charges and other credit risk provisions   | <sup>15</sup> 8,517      | 13,020    | 1,298  | 3,217         | 1,676         | (2,449)          |     | 25,279    |
| Loan impairment charges and other credit risk provisions   | (677)                    | (122)     | (85)   | 52            | (274)         | —                |     | (1,106)   |
| Net operating income   | 7,840                    | 12,898    | 1,213  | 3,269         | 1,402         | (2,449)          |     | 24,173    |
| Total operating expenses   | (10,304)                 | (6,150)   | (721)  | (2,622)       | (1,093)       | 2,449            |     | (18,441)  |
| Operating profit/(loss)  | (2,464)                  | 6,748     | 492    | 647           | 309           | —                |     | 5,732     |
| Share of profit/(loss) in associates and joint ventures  | 28                       | 951       | 205    | 1             | 7             | —                |     | 1,192     |
| Profit/(loss) before tax   | (2,436)                  | 7,699     | 697    | 648           | 316           | —                |     | 6,924     |
|  | %                        | %         | %      | %             | %             |                  |     | %         |
| Share of HSBC's profit before tax  | (35.3)                   | 111.2     | 10.1   | 9.4           | 4.6           |                  |     | 100.0     |
| Cost efficiency ratio  | 121.0                    | 47.2      | 55.5   | 81.5          | 65.2          |                  |     | 72.9      |
| Balance sheet data   | \$m                      | \$m       | \$m    | \$m           | \$m           | \$m              | \$m | \$m       |
| Loans and advances to customers (net)  | 381,547                  | 425,971   | 28,050 | 107,607       | 19,789        | —                |     | 962,964   |
| Total assets   | 1,169,515                | 1,008,498 | 57,469 | 391,292       | 48,413        | (153,416)        |     | 2,521,771 |
| Customer accounts  | 505,182                  | 657,395   | 34,658 | 143,432       | 23,795        | —                |     | 1,364,462 |
| Risk-weighted assets   | <sup>41</sup> 311,612    | 357,808   | 59,196 | 131,276       | 36,372        | —                |     | 871,337   |

For footnotes, see page 47.

## Reconciliation of reported and adjusted items – geographical regions

### Reconciliation of reported results to adjusted performance – geographical regions

|  | Footnotes | Half-year to 30 Jun 2018 |                |               |                |                |                  |                |                |
|--|-----------|--------------------------|----------------|---------------|----------------|----------------|------------------|----------------|----------------|
|  |           | Europe                   | Asia           | MENA          | North America  | Latin America  | Total            | UK             | Hong Kong      |
|  |           | \$m                      | \$m            | \$m           | \$m            | \$m            | \$m              | \$m            | \$m            |
| <b>Revenue</b>   | 15        |                          |                |               |                |                |                  |                |                |
| Reported   | 42        | 8,871                    | 14,512         | 1,356         | 3,412          | 1,596          | 27,287           | 6,813          | 9,155          |
| Significant items  |           | 141                      | (20)           | (2)           | 96             | 33             | 248              | 143            | 7              |
| – customer redress programmes  |           | (46)                     | –              | –             | –              | –              | (46)             | (46)           | –              |
| – disposals, acquisitions and investment in new businesses                   |           | –                        | –              | –             | 103            | 39             | 142              | –              | –              |
| – fair value movements on financial instruments                              | 37        | 187                      | (20)           | (2)           | (7)            | (6)            | 152              | 189            | 7              |
| <b>Adjusted</b>  | 42        | <b>9,012</b>             | <b>14,492</b>  | <b>1,354</b>  | <b>3,508</b>   | <b>1,629</b>   | <b>27,535</b>    | <b>6,956</b>   | <b>9,162</b>   |
| <b>ECL</b>   |           |                          |                |               |                |                |                  |                |                |
| Reported   |           | (187)                    | (116)          | (103)         | 234            | (235)          | (407)            | (156)          | (20)           |
| <b>Adjusted</b>  |           | <b>(187)</b>             | <b>(116)</b>   | <b>(103)</b>  | <b>234</b>     | <b>(235)</b>   | <b>(407)</b>     | <b>(156)</b>   | <b>(20)</b>    |
| <b>Operating expenses</b>  |           |                          |                |               |                |                |                  |                |                |
| Reported   | 42        | (8,592)                  | (6,110)        | (686)         | (3,604)        | (1,017)        | (17,549)         | (6,768)        | (3,179)        |
| Significant items  |           | 213                      | –              | –             | 966            | –              | 1,179            | 135            | 1              |
| – costs of structural reform   |           | 209                      | 2              | –             | –              | –              | 211              | 178            | 2              |
| – customer redress programmes  |           | 100                      | –              | –             | –              | –              | 100              | 100            | –              |
| – disposals, acquisitions and investment in new businesses                   |           | 3                        | –              | –             | –              | –              | 3                | –              | –              |
| – restructuring and other related costs                                      |           | 21                       | –              | –             | 3              | –              | 24               | 21             | –              |
| – settlements and provisions in connection with legal and regulatory matters |           | (120)                    | (2)            | –             | 963            | –              | 841              | (164)          | (1)            |
| <b>Adjusted</b>  | 42        | <b>(8,379)</b>           | <b>(6,110)</b> | <b>(686)</b>  | <b>(2,638)</b> | <b>(1,017)</b> | <b>(16,370)</b>  | <b>(6,633)</b> | <b>(3,178)</b> |
| <b>Share of profit in associates and joint ventures</b>                      |           |                          |                |               |                |                |                  |                |                |
| Reported   |           | 18                       | 1,094          | 269           | –              | –              | 1,381            | 18             | 20             |
| <b>Adjusted</b>  |           | <b>18</b>                | <b>1,094</b>   | <b>269</b>    | <b>–</b>       | <b>–</b>       | <b>1,381</b>     | <b>18</b>      | <b>20</b>      |
| <b>Profit before tax</b>   |           |                          |                |               |                |                |                  |                |                |
| Reported   |           | 110                      | 9,380          | 836           | 42             | 344            | 10,712           | (93)           | 5,976          |
| Significant items  |           | 354                      | (20)           | (2)           | 1,062          | 33             | 1,427            | 278            | 8              |
| – revenue  |           | 141                      | (20)           | (2)           | 96             | 33             | 248              | 143            | 7              |
| – operating expenses   |           | 213                      | –              | –             | 966            | –              | 1,179            | 135            | 1              |
| <b>Adjusted</b>  |           | <b>464</b>               | <b>9,360</b>   | <b>834</b>    | <b>1,104</b>   | <b>377</b>     | <b>12,139</b>    | <b>185</b>     | <b>5,984</b>   |
| <b>Loans and advances to customers (net)</b>                                 |           |                          |                |               |                |                |                  |                |                |
| Reported   |           | 374,264                  | 445,692        | 29,106        | 104,361        | 20,020         | 973,443          | 290,469        | 283,265        |
| <b>Adjusted</b>  |           | <b>374,264</b>           | <b>445,692</b> | <b>29,106</b> | <b>104,361</b> | <b>20,020</b>  | <b>973,443</b>   | <b>290,469</b> | <b>283,265</b> |
| Customer accounts  |           |                          |                |               |                |                |                  |                |                |
| Reported   |           | 507,066                  | 656,620        | 34,207        | 135,736        | 22,678         | 1,356,307        | 404,129        | 477,728        |
| <b>Adjusted</b>  |           | <b>507,066</b>           | <b>656,620</b> | <b>34,207</b> | <b>135,736</b> | <b>22,678</b>  | <b>1,356,307</b> | <b>404,129</b> | <b>477,728</b> |

|  |    | Mainland China | US           | Mexico       |
|--|----|----------------|--------------|--------------|
|  |    | \$m            | \$m          | \$m          |
| <b>Revenue</b>   |    |                |              |              |
| Reported   |    | 1,458          | 2,422        | 1,109        |
| Significant items  |    | –              | 97           | (4)          |
| – disposals, acquisitions and investment in new businesses |    | –              | 103          | –            |
| – fair value movements on financial instruments            | 37 | –              | (6)          | (4)          |
| <b>Adjusted</b>  |    | <b>1,458</b>   | <b>2,519</b> | <b>1,105</b> |

For footnotes, see page 47.

## Geographical regions

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

|   | Footnotes | Half-year to 30 Jun 2017 |             |             |                         |                         |              |           |                     |
|---|-----------|--------------------------|-------------|-------------|-------------------------|-------------------------|--------------|-----------|---------------------|
|   |           | Europe<br>\$m            | Asia<br>\$m | MENA<br>\$m | North<br>America<br>\$m | Latin<br>America<br>\$m | Total<br>\$m | UK<br>\$m | Hong<br>Kong<br>\$m |
| Revenue   | 15        |                          |             |             |                         |                         |              |           |                     |
| Reported  | 42        | 8,903                    | 12,786      | 1,362       | 3,496                   | 1,549                   | 26,166       | 6,559     | 7,959               |
| Currency translation  | 42        | 910                      | 119         | (16)        | 32                      | (113)                   | 897          | 660       | (64)                |
| Significant items   |           | 3                        | 123         | 1           | (238)                   | 5                       | (106)        | (2)       | 56                  |
| – disposals, acquisitions and investment in new businesses                  |           | (90)                     | –           | –           | (268)                   | –                       | (358)        | (78)      | –                   |
| – fair value movements on financial instruments                             | 37        | 88                       | 121         | 1           | 30                      | 5                       | 245          | 71        | 56                  |
| – currency translation on significant items                                 |           | 5                        | 2           | –           | –                       | –                       | 7            | 5         | –                   |
| Adjusted  | 42        | 9,816                    | 13,028      | 1,347       | 3,290                   | 1,441                   | 26,957       | 7,217     | 7,951               |
| LICs  |           |                          |             |             |                         |                         |              |           |                     |
| Reported  |           | 19                       | (448)       | (122)       | 137                     | (249)                   | (663)        | 32        | (388)               |
| Currency translation  |           | 1                        | (1)         | –           | 3                       | 3                       | 6            | 2         | 3                   |
| Adjusted  |           | 20                       | (449)       | (122)       | 140                     | (246)                   | (657)        | 34        | (385)               |
| Operating expenses  |           |                          |             |             |                         |                         |              |           |                     |
| Reported  | 42        | (8,361)                  | (5,640)     | (673)       | (2,683)                 | (1,016)                 | (16,443)     | (6,659)   | (2,950)             |
| Currency translation  | 42        | (715)                    | (81)        | 13          | (19)                    | 77                      | (690)        | (535)     | 24                  |
| Significant items   |           | 1,327                    | 359         | 14          | 213                     | 25                      | 1,938        | 1,232     | 167                 |
| – costs of structural reform  |           | 180                      | –           | –           | –                       | –                       | 180          | 180       | –                   |
| – costs to achieve  |           | 1,072                    | 355         | 15          | 203                     | 25                      | 1,670        | 986       | 168                 |
| – customer redress programmes   |           | 299                      | –           | –           | –                       | –                       | 299          | 299       | –                   |
| – disposals, acquisitions and investment in new businesses                  |           | 2                        | –           | –           | 8                       | –                       | 10           | –         | –                   |
| – settlement and provisions in connection with legal and regulatory matters |           | (322)                    | –           | –           | –                       | –                       | (322)        | (322)     | –                   |
| – currency translation on significant items                                 |           | 96                       | 4           | (1)         | 2                       | –                       | 101          | 89        | (1)                 |
| Adjusted  | 42        | (7,749)                  | (5,362)     | (646)       | (2,489)                 | (914)                   | (15,195)     | (5,962)   | (2,759)             |
| Share of profit in associates and joint ventures                            |           |                          |             |             |                         |                         |              |           |                     |
| Reported  |           | 11                       | 932         | 237         | 3                       | –                       | 1,183        | 11        | (12)                |
| Currency translation  |           | 2                        | 74          | –           | –                       | –                       | 76           | 2         | –                   |
| Adjusted  |           | 13                       | 1,006       | 237         | 3                       | –                       | 1,259        | 13        | (12)                |
| Profit before tax   |           |                          |             |             |                         |                         |              |           |                     |
| Reported  |           | 572                      | 7,630       | 804         | 953                     | 284                     | 10,243       | (57)      | 4,609               |
| Currency translation  |           | 198                      | 111         | (3)         | 16                      | (33)                    | 289          | 129       | (37)                |
| Significant items   |           | 1,330                    | 482         | 15          | (25)                    | 30                      | 1,832        | 1,230     | 223                 |
| – revenue   |           | 3                        | 123         | 1           | (238)                   | 5                       | (106)        | (2)       | 56                  |
| – operating expenses  |           | 1,327                    | 359         | 14          | 213                     | 25                      | 1,938        | 1,232     | 167                 |
| Adjusted  |           | 2,100                    | 8,223       | 816         | 944                     | 281                     | 12,364       | 1,302     | 4,795               |
| Loans and advances to customers (net)                                       |           |                          |             |             |                         |                         |              |           |                     |
| Reported  |           | 364,943                  | 400,505     | 28,489      | 105,996                 | 19,905                  | 919,838      | 284,701   | 252,994             |
| Currency translation  |           | 4,981                    | (1,408)     | (900)       | (633)                   | (2,737)                 | (697)        | 3,998     | (1,276)             |
| Adjusted  |           | 369,924                  | 399,097     | 27,589      | 105,363                 | 17,168                  | 919,141      | 288,699   | 251,718             |
| Customer accounts   |           |                          |             |             |                         |                         |              |           |                     |
| Reported  |           | 479,079                  | 635,809     | 34,794      | 139,770                 | 22,506                  | 1,311,958    | 378,800   | 467,278             |
| Currency translation  |           | 6,283                    | (2,048)     | (813)       | (727)                   | (3,270)                 | (575)        | 5,237     | (2,358)             |
| Adjusted  |           | 485,362                  | 633,761     | 33,981      | 139,043                 | 19,236                  | 1,311,383    | 384,037   | 464,920             |

|  |    | Mainland<br>China<br>\$m | US<br>\$m | Mexico<br>\$m |
|--|----|--------------------------|-----------|---------------|
| Revenue  |    |                          |           |               |
| Reported   |    | 1,224                    | 2,626     | 1,012         |
| Currency translation                                       |    | 97                       | –         | 15            |
| Significant items  |    | 2                        | (244)     | 5             |
| – disposals, acquisitions and investment in new businesses |    | –                        | (269)     | –             |
| – fair value movements on financial instruments            | 37 | 2                        | 25        | 5             |
| – currency translation on significant items                |    | –                        | –         | –             |
| Adjusted   |    | 1,323                    | 2,382     | 1,032         |

For footnotes, see page 47.

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

| Half-year to 31 Dec 2017   |           |               |             |             |                         |                         |                          |           |                     |
|--|-----------|---------------|-------------|-------------|-------------------------|-------------------------|--------------------------|-----------|---------------------|
|  | Footnotes | Europe<br>\$m | Asia<br>\$m | MENA<br>\$m | North<br>America<br>\$m | Latin<br>America<br>\$m | Total<br>\$m             | UK<br>\$m | Hong<br>Kong<br>\$m |
| Revenue  | 15        |               |             |             |                         |                         |                          |           |                     |
| Reported   | 42        | 8,517         | 13,020      | 1,298       | 3,217                   | 1,676                   | 25,279                   | 6,363     | 8,158               |
| Currency translation   | 42        | 381           | 41          | (16)        | (10)                    | (131)                   | 261                      | 320       | (27)                |
| Significant items  |           | 73            | (1)         | —           | 145                     | (19)                    | 198                      | 67        | (107)               |
| – customer redress programmes  |           | 108           | —           | —           | —                       | —                       | 108                      | 108       | —                   |
| – disposals, acquisitions and investment in new businesses                   |           | (8)           | (27)        | —           | 138                     | (19)                    | 84                       | —         | (126)               |
| – fair value movements on financial instruments                              | 37        | (34)          | 27          | —           | 7                       | —                       | —                        | (47)      | 19                  |
| – currency translation on significant items                                  |           | 7             | (1)         | —           | —                       | —                       | 6                        | 6         | —                   |
| Adjusted   | 42        | 8,971         | 13,060      | 1,282       | 3,352                   | 1,526                   | 25,738                   | 6,750     | 8,024               |
| LICs   |           |               |             |             |                         |                         |                          |           |                     |
| Reported   |           | (677)         | (122)       | (85)        | 52                      | (274)                   | (1,106)                  | (524)     | (8)                 |
| Currency translation   |           | (22)          | (1)         | 1           | —                       | 15                      | (7)                      | (19)      | —                   |
| Adjusted   |           | (699)         | (123)       | (84)        | 52                      | (259)                   | (1,113)                  | (543)     | (8)                 |
| Operating expenses   |           |               |             |             |                         |                         |                          |           |                     |
| Reported   | 42        | (10,304)      | (6,150)     | (721)       | (2,622)                 | (1,093)                 | (18,441)                 | (8,427)   | (3,181)             |
| Currency translation   | 42        | (302)         | (32)        | 15          | 5                       | 93                      | (217)                    | (255)     | 10                  |
| Significant items  |           | 1,601         | 284         | 17          | (11)                    | 37                      | 1,928                    | 1,350     | 139                 |
| – costs of structural reform   |           | 240           | —           | —           | —                       | —                       | 240                      | 230       | —                   |
| – costs to achieve   |           | 836           | 268         | 19          | 168                     | 41                      | 1,332                    | 780       | 123                 |
| – customer redress programmes  |           | 356           | —           | —           | —                       | —                       | 356                      | 356       | —                   |
| – disposals, acquisitions and investment in new businesses                   |           | 34            | —           | —           | 9                       | —                       | 43                       | —         | —                   |
| – gain on partial settlement of pension obligation                           |           | —             | —           | —           | (188)                   | —                       | (188)                    | —         | —                   |
| – settlements and provisions in connection with legal and regulatory matters |           | 107           | 17          | —           | —                       | —                       | 124                      | (40)      | 17                  |
| – currency translation on significant items                                  |           | 28            | (1)         | (2)         | —                       | (4)                     | 21                       | 24        | (1)                 |
| Adjusted   | 42        | (9,005)       | (5,898)     | (689)       | (2,628)                 | (963)                   | (16,730)                 | (7,332)   | (3,032)             |
| Share of profit in associates and joint ventures                             |           |               |             |             |                         |                         |                          |           |                     |
| Reported   |           | 28            | 951         | 205         | 1                       | 7                       | 1,192                    | 27        | 20                  |
| Currency translation   |           | —             | 40          | —           | —                       | (2)                     | 38                       | —         | —                   |
| Adjusted   |           | 28            | 991         | 205         | 1                       | 5                       | 1,230                    | 27        | 20                  |
| Profit before tax  |           |               |             |             |                         |                         |                          |           |                     |
| Reported   |           | (2,436)       | 7,699       | 697         | 648                     | 316                     | 6,924                    | (2,561)   | 4,989               |
| Currency translation   |           | 57            | 48          | —           | (5)                     | (25)                    | 75                       | 46        | (17)                |
| Significant items  |           | 1,674         | 283         | 17          | 134                     | 18                      | 2,126                    | 1,417     | 32                  |
| – revenue  |           | 73            | (1)         | —           | 145                     | (19)                    | 198                      | 67        | (107)               |
| – operating expenses   |           | 1,601         | 284         | 17          | (11)                    | 37                      | 1,928                    | 1,350     | 139                 |
| Adjusted   |           | (705)         | 8,030       | 714         | 777                     | 309                     | 9,125                    | (1,098)   | 5,004               |
| Loans and advances to customers (net)  |           |               |             |             |                         |                         |                          |           |                     |
| Reported   |           | 381,547       | 425,971     | 28,050      | 107,607                 | 19,789                  | 962,964                  | 295,518   | 268,965             |
| Currency translation   |           | (10,183)      | (5,349)     | (726)       | (1,971)                 | (1,190)                 | (19,419)                 | (7,671)   | (1,056)             |
| Adjusted   |           | 371,364       | 420,622     | 27,324      | 105,636                 | 18,599                  | 943,545                  | 287,847   | 267,909             |
| Customer accounts  |           |               |             |             |                         |                         |                          |           |                     |
| Reported   |           | 505,182       | 657,395     | 34,658      | 143,432                 | 23,795                  | 1,364,462                | 401,733   | 477,104             |
| Currency translation   |           | (13,689)      | (6,631)     | (692)       | (2,234)                 | (1,553)                 | (24,799)                 | (10,436)  | (1,873)             |
| Adjusted   |           | 491,493       | 650,764     | 33,966      | 141,198                 | 22,242                  | 1,339,663                | 391,297   | 475,231             |
|  |           |               |             |             |                         |                         |                          |           |                     |
|  |           |               |             |             |                         |                         | Mainland<br>China<br>\$m | US<br>\$m | Mexico<br>\$m       |
| Revenue  |           |               |             |             |                         |                         |                          |           |                     |
| Reported   |           |               |             |             |                         |                         | 1,156                    | 2,250     | 1,147               |
| Currency translation   |           |               |             |             |                         |                         | 54                       | —         | (42)                |
| Significant items  |           |               |             |             |                         |                         | 98                       | 145       | —                   |
| – disposals, acquisitions and investment in new businesses                   |           |               |             |             |                         |                         | 99                       | 139       | —                   |
| – fair value movements on financial instruments                              | 37        |               |             |             |                         |                         | —                        | 6         | —                   |
| – currency translation on significant items                                  |           |               |             |             |                         |                         | (1)                      | —         | —                   |
| Adjusted   |           |               |             |             |                         |                         | 1,308                    | 2,395     | 1,105               |

For footnotes, see page 47.

## Geographical regions

### Analysis by country

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

|                                     |           | Retail<br>Banking and<br>Wealth<br>Management | Commercial<br>Banking | Global<br>Banking<br>and<br>Markets | Global Private<br>Banking | Corporate<br>Centre | Total         |
|-------------------------------------|-----------|---|-----------------------|-------------------------------------|---------------------------|---------------------|---------------|
|                                     | Footnotes | \$m   | \$m                   | \$m                                 | \$m                       | \$m                 | \$m           |
| <b>Europe</b>                       |           | <b>186</b>                                    | <b>1,261</b>          | <b>641</b>                          | <b>(61)</b>               | <b>(1,917)</b>      | <b>110</b>    |
| – UK                                | 43        | 185   | 1,082                 | 473                                 | 3                         | (1,836)             | (93)          |
| – of which: HSBC Holdings           | 44        | (314)   | (193)                 | (154)                               | (44)                      | (1,168)             | (1,873)       |
| – France                            |           | (5)   | 77                    | (15)                                | 6                         | (64)                | (1)           |
| – Germany                           |           | 8   | 39                    | 54                                  | 5                         | (5)                 | 101           |
| – Switzerland                       |           | (1)   | 2                     | –                                   | (65)                      | 18                  | (46)          |
| – other                             |           | (1)   | 61                    | 129                                 | (10)                      | (30)                | 149           |
| <b>Asia</b>                         |           | <b>3,218</b>                                  | <b>2,216</b>          | <b>2,018</b>                        | <b>198</b>                | <b>1,730</b>        | <b>9,380</b>  |
| – Hong Kong                         |           | 3,067   | 1,621                 | 915                                 | 177                       | 196                 | 5,976         |
| – Australia                         |           | 48  | 56                    | 83                                  | –                         | 31                  | 218           |
| – India                             |           | 2   | 77                    | 187                                 | –                         | 169                 | 435           |
| – Indonesia                         |           | (1)   | 36                    | 43                                  | –                         | 19                  | 97            |
| – mainland China                    |           | (68)  | 145                   | 299                                 | (2)                       | 1,175               | 1,549         |
| – Malaysia                          |           | 61  | 39                    | 93                                  | –                         | 20                  | 213           |
| – Singapore                         |           | 40  | 47                    | 116                                 | 22                        | 52                  | 277           |
| – Taiwan                            |           | 43  | 12                    | 71                                  | –                         | 19                  | 145           |
| – other                             |           | 26  | 183                   | 211                                 | 1                         | 49                  | 470           |
| <b>Middle East and North Africa</b> |           | <b>71</b>                                     | <b>70</b>             | <b>377</b>                          | <b>4</b>                  | <b>314</b>          | <b>836</b>    |
| – Egypt                             |           | 11  | 38                    | 99                                  | –                         | 20                  | 168           |
| – UAE                               |           | 60  | 33                    | 159                                 | 4                         | (2)                 | 254           |
| – Saudi Arabia                      |           | –   | –                     | –                                   | –                         | 269                 | 269           |
| – other                             |           | –   | (1)                   | 119                                 | –                         | 27                  | 145           |
| <b>North America</b>                |           | <b>(54)</b>                                   | <b>503</b>            | <b>490</b>                          | <b>5</b>                  | <b>(902)</b>        | <b>42</b>     |
| – US                                |           | (103)   | 241                   | 461                                 | 6                         | (975)               | (370)         |
| – Canada                            |           | 17  | 240                   | 67                                  | –                         | 65                  | 389           |
| – other                             |           | 32  | 22                    | (38)                                | (1)                       | 8                   | 23            |
| <b>Latin America</b>                |           | <b>91</b>                                     | <b>99</b>             | <b>199</b>                          | <b>–</b>                  | <b>(45)</b>         | <b>344</b>    |
| – Mexico                            |           | 103   | 56                    | 103                                 | –                         | 6                   | 268           |
| – other                             |           | (12)  | 43                    | 96                                  | –                         | (51)                | 76            |
| <b>Half-year to 30 Jun 2018</b>     |           | <b>3,512</b>                                  | <b>4,149</b>          | <b>3,725</b>                        | <b>146</b>                | <b>(820)</b>        | <b>10,712</b> |

|                              |    |       |       |       |      |         |         |
|------------------------------|----|-------|-------|-------|------|---------|---------|
| Europe                       |    | (68)  | 1,136 | 1,042 | (22) | (1,516) | 572     |
| – UK                         | 43 | (110) | 943   | 613   | 8    | (1,511) | (57)    |
| – of which: HSBC Holdings    | 44 | (326) | (151) | (256) | (36) | (1,063) | (1,832) |
| – France                     |    | 27    | 96    | 201   | 4    | (84)    | 244     |
| – Germany                    |    | 11    | 36    | 95    | 4    | 19      | 165     |
| – Switzerland                |    | –     | –     | –     | (39) | 1       | (38)    |
| – other                      |    | 4     | 61    | 133   | 1    | 59      | 258     |
| Asia                         |    | 2,736 | 1,585 | 1,625 | 148  | 1,536   | 7,630   |
| – Hong Kong                  |    | 2,539 | 1,092 | 648   | 129  | 201     | 4,609   |
| – Australia                  |    | 58    | 51    | 34    | –    | 17      | 160     |
| – India                      |    | 10    | 96    | 187   | –    | 167     | 460     |
| – Indonesia                  |    | (20)  | 49    | 53    | –    | 10      | 92      |
| – mainland China             |    | –     | 74    | 253   | (2)  | 996     | 1,321   |
| – Malaysia                   |    | 32    | 21    | 82    | –    | 15      | 150     |
| – Singapore                  |    | 61    | 64    | 107   | 21   | 38      | 291     |
| – Taiwan                     |    | 25    | 6     | 66    | –    | 21      | 118     |
| – other                      |    | 31    | 132   | 195   | –    | 71      | 429     |
| Middle East and North Africa |    | 87    | 114   | 291   | –    | 312     | 804     |
| – Egypt                      |    | 14    | 27    | 78    | –    | 24      | 143     |
| – UAE                        |    | 71    | 38    | 144   | –    | 38      | 291     |
| – Saudi Arabia               |    | –     | –     | –     | –    | 237     | 237     |
| – other                      |    | 2     | 49    | 69    | –    | 13      | 133     |
| North America                |    | 274   | 481   | 270   | 27   | (99)    | 953     |
| – US                         |    | 224   | 221   | 200   | 27   | (135)   | 537     |
| – Canada                     |    | 27    | 247   | 57    | –    | 24      | 355     |
| – other                      |    | 23    | 13    | 13    | –    | 12      | 61      |
| Latin America                |    | 69    | 115   | 124   | –    | (24)    | 284     |
| – Mexico                     |    | 57    | 61    | 69    | –    | (13)    | 174     |
| – other                      |    | 12    | 54    | 55    | –    | (11)    | 110     |
| Half-year to 30 Jun 2017     |    | 3,098 | 3,431 | 3,352 | 153  | 209     | 10,243  |

For footnotes, see page 47.



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

|                              | Retail<br>Banking and<br>Wealth<br>Management | Commercial<br>Banking | Global Banking<br>and Markets | Global Private<br>Banking | Corporate<br>Centre | Total   |
|------------------------------|---|-----------------------|-------------------------------|---------------------------|---------------------|---------|
| Footnote                     | \$m   | \$m                   | \$m                           | \$m                       | \$m                 | \$m     |
| Europe                       | (91)  | 763                   | (265)                         | (209)                     | (2,634)             | (2,436) |
| – UK                         | (67)  | 596                   | (421)                         | (31)                      | (2,638)             | (2,561) |
| – of which: HSBC Holdings    | 44  | (332)                 | (221)                         | (483)                     | (53)                | (1,643) |
| – France                     | (39)  | 108                   | 27                            | 1                         | (72)                | 25      |
| – Germany                    | 10  | 25                    | 46                            | 5                         | 20                  | 106     |
| – Switzerland                | (2)   | 7                     | 1                             | (153)                     | 1                   | (146)   |
| – other                      | 7   | 27                    | 82                            | (31)                      | 55                  | 140     |
| Asia                         | 2,636   | 1,809                 | 1,510                         | 137                       | 1,607               | 7,699   |
| – Hong Kong                  | 2,500   | 1,368                 | 709                           | 128                       | 284                 | 4,989   |
| – Australia                  | 64  | 50                    | 74                            | (1)                       | 18                  | 205     |
| – India                      | 11  | 63                    | 175                           | –                         | 207                 | 456     |
| – Indonesia                  | (4)   | 27                    | 45                            | –                         | 20                  | 88      |
| – mainland China             | (44)  | 87                    | 134                           | (2)                       | 992                 | 1,167   |
| – Malaysia                   | 53  | 29                    | 80                            | –                         | 13                  | 175     |
| – Singapore                  | 8   | 30                    | 95                            | 13                        | 26                  | 172     |
| – Taiwan                     | 18  | 4                     | 41                            | (1)                       | 19                  | 81      |
| – other                      | 30  | 151                   | 157                           | –                         | 28                  | 366     |
| Middle East and North Africa | 57  | 85                    | 302                           | –                         | 253                 | 697     |
| – Egypt                      | 12  | 42                    | 86                            | –                         | 22                  | 162     |
| – UAE                        | 39  | 15                    | 124                           | –                         | 10                  | 188     |
| – Saudi Arabia               | –   | –                     | –                             | –                         | 204                 | 204     |
| – other                      | 6   | 28                    | 92                            | –                         | 17                  | 143     |
| North America                | 31  | 451                   | 401                           | 40                        | (275)               | 648     |
| – US                         | (58)  | 214                   | 294                           | 39                        | (309)               | 180     |
| – Canada                     | 34  | 206                   | 75                            | –                         | 19                  | 334     |
| – other                      | 55  | 31                    | 32                            | 1                         | 15                  | 134     |
| Latin America                | 92  | 84                    | 135                           | –                         | 5                   | 316     |
| – Mexico                     | 82  | 44                    | 89                            | –                         | 1                   | 216     |
| – other                      | 10  | 40                    | 46                            | –                         | 4                   | 100     |
| Half-year to 31 Dec 2017     | 2,725   | 3,192                 | 2,083                         | (32)                      | (1,044)             | 6,924   |

For footnote, see page 47.

## Reconciliations of return on equity and return on tangible equity

### Return on equity and return on tangible equity

|  | Half-year ended 30 Jun |             | Year ended 31 Dec |
|--|------------------------|-------------|-------------------|
|  | 2018<br>\$m            | 2017<br>\$m | 2017<br>\$m       |
| <b>Profit</b>  |                        |             |                   |
| Profit attributable to the ordinary shareholders of the parent company                               | 7,173                  | 6,999       | 9,683             |
| Increase in PVIF (net of tax)  | (243)                  | (89)        | 16                |
| Profit attributable to the ordinary shareholders, excluding PVIF                                     | 6,930                  | 6,910       | 9,699             |
| Significant items (net of tax) and bank levy   | 1,362                  | 1,298       | 3,827             |
| Profit attributable to the ordinary shareholders, excluding PVIF, significant items and UK bank levy | 8,292                  | 8,208       | 13,526            |
| <b>Equity</b>  |                        |             |                   |
| Average ordinary shareholders' equity  | 165,733                | 160,725     | 163,419           |
| Effect of goodwill, PVIF and other intangibles (net of deferred tax)                                 | (22,038)               | (20,154)    | (20,721)          |
| Average tangible equity  | 143,695                | 140,571     | 142,698           |
| Fair value of own debt, DVA and other adjustments  | 2,130                  | 2,726       | 2,788             |
| Average tangible equity excluding fair value of own debt, DVA and other adjustments                  | 145,825                | 143,297     | 145,486           |
|  | %                      | %           | %                 |
| <b>Ratio</b>   |                        |             |                   |
| Return on equity   | 8.7                    | 8.8         | 5.9               |
| Return on tangible equity  | 9.7                    | 9.9         | 6.8               |
| Return on tangible equity excluding significant items and UK bank levy                               | 11.5                   | 11.6        | 9.3               |

### Return on tangible equity by global business

|   | Half-year ended 30 Jun 2018 |  |                              |   |                                     |                            |
|---|-----------------------------|--|------------------------------|---|-------------------------------------|----------------------------|
|   | Total<br>\$m                | Retail<br>Banking and<br>Wealth<br>Management<br>\$m | Commercial<br>Banking<br>\$m | Global<br>Banking and<br>Markets<br>\$m | Global<br>Private<br>Banking<br>\$m | Corporate<br>Centre<br>\$m |
| Profit attributable to ordinary shareholders, excluding PVIF, significant items and bank levy     | 8,292                       | 2,623  | 3,090                        | 2,931                                   | 190                                 | (542)                      |
| Average tangible shareholders' equity excluding fair value of own debt, DVA and other adjustments | 145,825                     | 24,809   | 41,377                       | 47,866                                  | 3,436                               | 28,337                     |
| Return on tangible equity excluding significant items and UK bank levy (%)                        | 11.5                        | 21.3   | 15.1                         | 12.3                                    | 11.2                                | (3.9)                      |
| Half-year ended 30 Jun 2017   |                             |  |                              |   |                                     |                            |
| Profit attributable to ordinary shareholders, excluding PVIF, significant items and bank levy     | 8,208                       | 2,615  | 2,634                        | 2,742                                   | 157                                 | 60                         |
| Average tangible shareholders' equity excluding fair value of own debt, DVA and other adjustments | 143,297                     | 23,312   | 36,001                       | 44,102                                  | 4,906                               | 34,976                     |
| Return on tangible equity excluding significant items and UK bank levy (%)                        | 11.6                        | 22.6   | 14.8                         | 12.5                                    | 6.5                                 | 0.3                        |
| Year ended 31 Dec 2017  |                             |  |                              |   |                                     |                            |
| Profit attributable to ordinary shareholders, excluding PVIF, significant items and bank levy     | 13,526                      | 5,159  | 5,161                        | 4,744                                   | 314                                 | (1,852)                    |
| Average tangible shareholders' equity excluding fair value of own debt, DVA and other adjustments | 145,486                     | 23,838   | 36,935                       | 44,664                                  | 4,400                               | 35,649                     |
| Return on tangible equity excluding significant items and UK bank levy (%)                        | 9.3                         | 21.6   | 14.0                         | 10.6                                    | 7.1                                 | (5.2)                      |

## Footnotes to pages 2 to 45

- 1 Full-time equivalent staff.
- 2 Based on 2017 Transaction Banking product total revenue (including Payments, Cash Management, Trade Finance, FX and Securities Services) compared with US and European peers. Source: HSBC Research.
- 3 Based on 2017 total revenue in Asia among major international and regional banks in Asia. Peers include Standard Chartered, DBS, Citi, UOB, OCBC, Maybank and CIMB. Source: Company accounts.
- 4 Revenue from international clients is derived from an allocation of adjusted revenue based on internal management information. International clients are businesses and individuals with an international presence.
- 5 Adjusted basis, geographical view; Group total and regional % composition excludes Holdings; regional % composition calculated with regional figures that include intra-Group revenues.
- 6 Eight scale markets are Hong Kong, UK, Mexico, Pearl River Delta, Singapore, Malaysia, UAE and Saudi Arabia.
- 7 Commitment by 2025; on track to deliver 2025 target (see HSBC ESG Update November 2017).
- 8 Top 3 or improvement by 2 ranks; measured by customer recommendation for RBWM and customer satisfaction for CMB among relevant competitors.
- 9 Based on Sustainabilitytics.
- 10 'Costs to achieve' comprise those specific costs relating to the achievement of the strategic actions set out in the Investor Update in June 2015. They comprise costs incurred between 1 July 2015 and 31 December 2017.
- 11 Costs relating to 'Settlements and provisions in connection with legal and regulatory matters', a significant item in 1H18 includes a 1Q18 provision in relation to the DoJ's civil claims relating to its investigation of HSBC's legacy RMBS origination and securitisation activities from 2005 to 2007. Refer to Note 12 'Legal proceedings and regulatory matters' for further details.
- 12 'Other personal lending' includes personal non-residential closed-end loans and personal overdrafts.
- 13 'Investment distribution' includes Investments, which comprises mutual funds (HSBC manufactured and third party), structured products and securities trading, and wealth insurance distribution, consisting of HSBC manufactured and third-party life, pension and investment insurance products.
- 14 'Other' mainly includes the distribution and manufacturing (where applicable) of retail and credit protection insurance.
- 15 Net operating income before change in expected credit losses and other credit impairment charges/Net operating income before loan impairment charges and other credit risk provisions, also referred to as revenue.
- 16 Adjusted return on average risk-weighted assets ('Adjusted RoRWA') is used to measure the performance of RBWM, CMB, GB&M and GPB. Adjusted RoRWA is calculated using annualised profit before tax and reported average risk-weighted assets at constant currency adjusted for the effects of significant items.
- 17 Return on average tangible equity ('RoTE') is calculated as Profit Attributable to Ordinary Shareholders (based on annualised Reported PBT, as adjusted for tax, insurance balances, certain capital securities and associates) divided by allocated Average Tangible Shareholders' Equity. In 1H18, Group RoTE on this basis was 9.7%. RoTE excluding significant items and the UK bank levy adjusts RoTE for the effects of significant items after tax, the UK bank levy and other items. This is the RoTE measure used at the global business level. In 1H18, Group RoTE excluding significant items and the UK bank levy was 11.5%. The reconciling items between Group RoTE and Group RoTE excluding significant items and the UK bank levy in 1H18 were significant items (1.83% points), the UK bank levy (0.06% points) and other items (-0.12% points). The RoTE presented for the half-year to 31 December 2017 relates to full-year 2017 performance.
- 18 'Markets products, Insurance and Investments and Other' includes revenue from Foreign Exchange, insurance manufacturing and distribution, interest rate management and global banking products.
- 19 In 1H18, GB&M included an adverse fair value movement of \$331m on the widening of credit spreads on structured liabilities (1H17: favourable fair value movement of \$197m; 2H16: adverse fair value movement of \$317m).
- 20 'Other' in GB&M includes net interest earned on free capital held in this global business not assigned to products, allocated funding costs 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 IFRS basis, the offset to these tax credits is included within 'Other'.
- 21 Central Treasury includes revenue relating to BSM of \$1.3bn (1H17: \$1.5bn; 2H17: \$1.2bn), interest expense of \$758m (1H17: \$644m; 2H17: \$617m) and adverse valuation differences on issued long-term debt and associated swaps of \$365m (1H17: gains of \$53m; 2H17: gains of \$25m). Revenue relating to BSM includes other internal allocations, including notional tax credits to reflect the economic benefit generated by certain activities which are not reflected within operating income, such as 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 IFRS basis, the offset to these tax credits is included in other Central Treasury.
- 22 Other miscellaneous items in Corporate Centre includes internal allocations relating to legacy credit.
- 23 Return on average risk-weighted assets is calculated using annualised profit before tax and reported average risk-weighted assets.
- 24 Net trading income includes the revenues of internally funded trading assets, while the related costs are reported in net interest income. In our global business results, the total cost of funding trading assets is included within Corporate Centre net trading income as an interest expense. In the statutory presentation, internal interest income and expenses are eliminated.
- 25 Gross interest yield is the average annualised interest rate earned on average interest-earning assets ('AIEA').
- 26 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.
- 27 Net interest margin is net interest income expressed as an annualised percentage of AIEA.
- 28 Interest income on trading assets is reported as 'Net income/(expense) from financial instruments held for trading or managed on a fair value basis' in the consolidated income statement.
- 29 Interest income on financial assets designated and otherwise mandatorily measured at fair value is reported as 'Net income/(expense) from financial instruments held for trading or managed on a fair value basis' in the consolidated income statement.
- 30 Including interest-bearing bank deposits only.
- 31 Interest expense on financial liabilities designated at fair value is reported as 'Net income/(expense) from financial instruments held for trading or managed on a fair value basis' in the consolidated income statement, other than interest on own debt, which is reported in 'Interest expense'.
- 32 Including interest-bearing customer accounts only.
- 33 Interest expense on trading liabilities is reported as 'Net income/(expense) from financial instruments held for trading or managed on a fair value basis' in the consolidated income statement.
- 34 Prior to 2018, foreign exchange exposure on some financial instruments designated at fair value was presented in the same line in the income statement as the underlying fair value movement on these instruments. In 2018, we have grouped the presentation of the entire effect of foreign exchange exposure in profit or loss and presented it within 'net income from financial instruments held for trading or managed on a fair value basis'. Comparative data have been re-presented. There is no net impact on total operating income and the impact on 'changes in fair value of long-term debt and related derivatives' is \$(241)m in 2H17 and \$(276)m in 1H17.
- 35 1H18 ECL are prepared on an IFRS 9 basis and 1H17/2H17 LICs are prepared on an IAS 39 basis and are not comparable.
- 36 Balances at 1 January 2018 have been prepared in accordance with accounting policies referred to on page 84; 31 December 2017 balances have not been re-presented.
- 37 Excludes items where there are substantial offsets in the income statement for the same period.
- 38 '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.
- 39 'Client assets' includes \$295bn of client assets in areas targeted for growth (1H16: \$266bn; 2H16: \$262bn).
- 40 Other income in this context comprises where applicable net income/expense from other financial instruments designated at fair value, gains less losses from financial investments, dividend income, net insurance premium income and other operating income less net insurance claims and benefits paid and movement in liabilities to policyholders.
- 41 RWAs are non-additive across geographical regions due to market risk diversification effects within the Group.
- 42 Amounts are non-additive across geographical regions and global businesses due to inter-company transactions within the Group.
- 43 UK includes results from the ultimate holding company, HSBC Holdings plc, and the separately incorporated group of service companies ('ServCo Group').
- 44 Excludes intra-Group dividend income.

## Risk

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A summary of our current policies and practices regarding the management of risk is set out in the 'Risk management' section on pages 66 to 81 of the *Annual Report and Accounts 2017*.

### Areas of special interest

During 1H18, we considered a number of areas because of the effect they may have on the Group. While these areas have been considered as part of our top and emerging risks, we have placed particular focus in this section on the UK's withdrawal from the European Union, and on HSBC's foreign exchange deferred prosecution agreement.

#### Process of UK withdrawal from the EU

The UK is due to formally leave the EU in March 2019. Before then, the UK and the EU have to finalise the Article 50 Withdrawal Agreement, which will need to be approved by their respective Parliaments. A comprehensive trade deal will not be concluded within this time frame. A period of transition until 31 December 2020 has therefore been agreed between the UK and the EU. However, there will be no legal certainty until this is enshrined in the Withdrawal Agreement, in autumn 2018 at the earliest.

Our objective in all scenarios is to continue to meet customers' needs and minimise disruption. This will require adjustments to our cross-border banking model, with affected business transferring from the UK to our existing subsidiary in France or other European subsidiaries, as appropriate.

Given the complexity of negotiations, we have put in place a robust contingency plan. It is based on a scenario whereby the UK exits the EU, without the existing passporting or regulatory equivalence framework that supports cross-border business. When negotiation positions become clearer, we will update our contingency plan.

#### Foreign exchange deferred prosecution agreement

In January 2018, HSBC Holdings entered into a three-year deferred prosecution agreement with the US Department of Justice ('DoJ') (the 'FX DPA'), regarding fraudulent conduct in connection with two particular transactions in 2010 and 2011. This concluded the DoJ's investigation into HSBC's historical foreign exchange activities. Under the terms of the FX DPA, HSBC has a number of ongoing obligations, including continuing to cooperate with authorities and implementing enhancements to its internal controls and procedures in its Global Markets business, which will be the subject of annual reports to the DoJ. In addition, HSBC agreed to pay a financial penalty and restitution.

HSBC is committed to ensuring fair outcomes for customers and to protecting the orderly and transparent operation of the markets. We have already invested significant resources and taken a number of steps to improve our policies, procedures and controls designed to promote and ensure high standards of conduct.

### Key developments in the first half of 2018

There were no material changes to the policies and practices for the management of risk, as described in the *Annual Report and Accounts 2017*, in 1H18 except for the following:

- We continued to strengthen the controls that manage our operational risks, as described on page 72 under 'Operational risk profile'.

- The Board oversight of conduct matters and whistleblowing arrangements have been transitioned to the Group Risk Committee and Group Audit Committee, respectively, following the demise of the Conduct & Values Committee during 1H18. For information on initiatives implemented in 1H18 to raise our standards in relation to the conduct of our business, see page 72 under 'Conduct of business'. For further details on whistleblowing, see page 23 of our *Environmental, Social and Governance (ESG) Update – April 2018*.
- We are on track to integrate the majority of the Global Standards programme financial crime risk core capabilities into our day-to-day operations by the end of 2018, and expect to complete the closure of the programme infrastructure in early 2019. We will continue to take steps to further refine and strengthen our defences against financial crime by applying advanced analytics and artificial intelligence. For further details on the Global Standards programme, see page 13 of the *Annual Report and Accounts 2017*.

### Credit risk profile

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

Comparative credit tables at 1 January 2018 reflecting the adoption of IFRS 9 as published in our *Report on transition to IFRS 9 'Financial Instruments' 1 January 2018* have been included where available. Comparative credit tables at 31 December 2017 from our *Interim Report 2017* which do not reflect the adoption of IFRS 9 have been disclosed separately on pages 62 to 67 as they are not directly comparable.

Refer to 'Standards applied during the half-year to 30 June 2018' on page 84 and Note 14 Effect of reclassification upon adoption of IFRS 9 for further detail.

There were no material changes to the policies and practices for the management of credit risk in 1H18.

*A summary of our current policies and practices for the management of credit risk is set out in 'Credit risk management' on page 72 of the Annual Report and Accounts 2017.*

#### Risk elements in the loan portfolio

Unless otherwise stated, the disclosure of credit risk elements in this section reflects US accounting practice and classifications. The purpose of the disclosure is to present within the US disclosure framework those elements of the loan portfolios with a greater risk of loss. The three main classifications of credit risk elements presented are:

- impaired loans;
- unimpaired loans contractually more than 90 days past due as to interest or principal; and
- troubled debt restructurings not included in the above.

## Impaired loans

In the following tables, we present information on our impaired loans and advances in accordance with the classification approach described in the *Annual Report and Accounts 2017* for balances at 31 December 2017. Balances at 30 June 2018 are presented in accordance with the information about the application of IFRS 9 'Financial Instruments' set out in the *Interim Report 2018*.

A loan is impaired, and an impairment allowance is recognised, when there is objective evidence of a loss event that has an effect on the cash flows of the loan which can be reliably estimated. In accordance with IFRSs, we recognise interest income on assets after they have been written down as a result of an impairment loss.

### Unimpaired loans more than 90 days past due

Under IFRS 9 the Group determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default.

If such unlikelihood to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit default to be defined based on 180 days past due. Therefore the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans which are considered defaulted or otherwise credit-impaired. Interest income is recognised by applying the effective interest rate to the amortised cost amount, (i.e. gross carrying amount less ECL allowance).

As a financial instrument is considered impaired if contractual payments of either principal or interest are past due for more than 90 days, these amounts will be reported under impaired loans with no balance reported under unimpaired loans more than 90 days past due.

Prior to IFRS 9, examples of unimpaired loans more than 90 days past due included individually assessed mortgages that were in arrears more than 90 days where there was no other indicators of impairment, but where the value of collateral was sufficient to repay both the principal debt and all potential interest for at least one year; and short-term trade facilities past due more than 90 days for technical reasons such as delays in documentation, but where there was no concern over the creditworthiness of the counterparty.

### Troubled debt restructurings

Under US GAAP, a troubled debt restructuring ('TDR') is a loan, the terms of which have been modified for economic or legal reasons related to the borrower's financial difficulties to grant a concession to the borrower that the lender would not otherwise consider. A modification which results in a delay in payment that is considered insignificant is not regarded as a concession for the purposes of this disclosure. The SEC requires separate disclosure of any loans which meet the definition of a TDR that are not included in the previous two loan categories. Loans that have been identified as TDRs under the US guidance retain this designation until maturity or derecognition. This treatment differs from the Group's impaired loans disclosure convention under IFRSs under which a loan may return to unimpaired status after demonstrating a significant reduction in the risk of non-payment of future cash flows. As a result, reported TDRs include those loans that have returned to unimpaired status under the Group's disclosure convention for renegotiated loans.

The balance of TDRs not included as impaired loans at 30 June 2018 was \$2.2bn, \$0.7bn lower than at

31 December 2017. Under the Group's IFRS 9 methodology financial instruments (except for renegotiated loans) are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment. Wholesale renegotiated loans will continue to be in stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period and there are no other indicators of impairment. For loans that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis. Retail renegotiated loans are deemed to remain credit impaired until repayment or derecognition.

### Potential problem loans

Potential problem loans are loans where information on possible credit problems among borrowers causes management to seriously doubt their ability to comply with the loan repayment terms.

Under IFRS 9, an assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. Any financial instrument deemed to have suffered a significant increase in credit risk is transferred from stage 1 to stage 2.

The assessment explicitly or implicitly compares the risk of default occurring at the reporting date with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability weighted and, to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL.

The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale. However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. Financial instruments classified as stage 2 and greater than 30 days past due are considered to have a higher risk of containing potential problem loans.

### Analysis of risk elements in the loan portfolio by geographical region

The analysis below sets out the amount of risk elements in loan portfolios included within loans and advances to customers and banks in the consolidated balance sheet, trading loans classified as in default and assets obtained by taking possession of security.

The table excludes the amount of risk elements in loan portfolios classified as 'assets held for sale' in the consolidated balance sheet.

## Risk

### Risk elements in the loan portfolio by geographical region

|  | At             |                |
|--|----------------|----------------|
|  | At 30 Jun 2018 | At 31 Dec 2017 |
|  | \$m            | \$m            |
| <b>Impaired loans</b>  | <b>14,548</b>  | 15,470         |
| – Europe   | 7,306          | 8,042          |
| – Asia   | 2,530          | 2,249          |
| – Middle East and North Africa   | 2,232          | 1,949          |
| – North America  | 1,867          | 2,606          |
| – Latin America  | 613            | 624            |
| <b>Unimpaired loans contractually more than 90 days past due as to principal or interest</b> | <b>–</b>       | 24             |
| – Europe   | –              | –              |
| – Asia   | –              | –              |
| – Middle East and North Africa   | –              | 24             |
| – North America  | –              | –              |
| – Latin America  | –              | –              |
| <b>Troubled debt restructurings (not included in the classifications above)</b>              | <b>2,187</b>   | 2,879          |
| – Europe   | 1,392          | 1,890          |
| – Asia   | 86             | 273            |
| – Middle East and North Africa   | 474            | 459            |
| – North America  | 194            | 174            |
| – Latin America  | 41             | 83             |
| <b>Trading loans classified as in default</b>  | <b>–</b>       | 56             |
| – Europe   | –              | 56             |
| – Asia   | –              | –              |
| – Middle East and North Africa   | –              | –              |
| – North America  | –              | –              |
| – Latin America  | –              | –              |
| <b>Risk elements on loans</b>  | <b>16,735</b>  | 18,429         |
| – Europe   | 8,698          | 9,988          |
| – Asia   | 2,616          | 2,522          |
| – Middle East and North Africa   | 2,706          | 2,432          |
| – North America  | 2,061          | 2,780          |
| – Latin America  | 654            | 707            |
| <b>Assets held for resale</b>  | <b>87</b>      | 94             |
| – Europe   | 11             | 14             |
| – Asia   | 59             | 51             |
| – Middle East and North Africa   | –              | –              |
| – North America  | 12             | 11             |
| – Latin America  | 5              | 18             |
| <b>Total risk elements</b>   | <b>16,822</b>  | 18,523         |
| – Europe   | 8,709          | 10,002         |
| – Asia   | 2,675          | 2,573          |
| – Middle East and North Africa   | 2,706          | 2,432          |
| – North America  | 2,073          | 2,791          |
| – Latin America  | 659            | 725            |
|  | %              | %              |
| Loan impairment allowances as a percentage of risk elements on loans                         | 52.3           | 40.6           |

### Credit risk in the first half of 2018

IFRS 9 gross loans and advances to customers of \$982.2bn have increased from \$959.1bn at 1 January 2018; this increase includes adverse foreign exchange movements of \$19.3bn. Loans and advances to banks of \$83.9bn have increased from \$82.6bn at 1 January 2018; this includes adverse foreign exchange movements of \$1.6bn. Personal and wholesale lending movements are disclosed on pages 59 to 60.

The income statement 'change in expected credit losses and other credit impairment charges' for the period were \$0.4bn.

Income statement movements are analysed further on page 25.

## Summary of credit risk

The disclosure below presents the gross carrying/nominal amount of financial instruments to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL. Due to the forward-looking nature of IFRS 9, the scope of financial instruments on which ECL are recognised is greater than the scope of IAS 39.

The following tables analyse loans by industry sector and represent the concentration of exposures on which credit risk is managed.

The IFRS 9 allowance for ECL has decreased from \$10.2bn at 1 January 2018 to \$9.5bn at 30 June 2018; this decrease includes favourable foreign exchange movements of \$0.4bn.

The IFRS 9 allowance for ECL at 30 June 2018 comprises \$8.8bn in respect of assets held at amortised cost, \$0.5bn in respect of loan commitments and financial guarantees, and \$0.2bn in respect of debt instruments measured at fair value through other comprehensive income ('FVOCI').

### Summary of financial instruments to which the impairment requirements in IFRS 9 are applied

|  | At 30 Jun 2018                    |   | At 1 Jan 2018                     |   |
|--|-----------------------------------|---|-----------------------------------|---|
|  | Gross carrying/<br>nominal amount | Allowance for<br>ECL                      | Gross carrying/<br>nominal amount | Allowance for<br>ECL <sup>1</sup>         |
|  | \$m                               | \$m                                       | \$m                               | \$m                                       |
| Loans and advances to customers at amortised cost                          | 982,178                           | (8,735)                                   | 959,080                           | (9,343)                                   |
| – personal   | 382,927                           | (2,895)                                   | 375,069                           | (3,047)                                   |
| – corporate and commercial   | 538,982                           | (5,561)                                   | 520,137                           | (6,053)                                   |
| – non-bank financial institutions  | 60,269                            | (279)                                     | 63,874                            | (243)                                     |
| Loans and advances to banks at amortised cost                              | 83,939                            | (15)                                      | 82,582                            | (23)                                      |
| Other financial assets measured at amortised cost                          | 613,129                           | (56)                                      | 557,864                           | (114)                                     |
| – cash and balances at central banks                                       | 189,845                           | (3)                                       | 180,624                           | (3)                                       |
| – items in the course of collection from other banks                       | 8,081                             | –   | 6,628                             | –   |
| – Hong Kong Government certificates of indebtedness                        | 35,754                            | –   | 34,186                            | –   |
| – reverse repurchase agreements – non-trading                              | 208,104                           | –   | 201,553                           | –   |
| – financial investments  | 62,772                            | (16)                                      | 59,539                            | (16)                                      |
| – prepayments, accrued income and other assets                             | 108,573                           | (37)                                      | 75,334                            | (95)                                      |
| <b>Total gross carrying amount on balance sheet</b>                        | <b>1,679,246</b>                  | <b>(8,806)</b>                            | <b>1,599,526</b>                  | <b>(9,480)</b>                            |
| Loans and other credit related commitment                                  | 523,015                           | (319)                                     | 501,361                           | (376)                                     |
| – personal   | 203,854                           | (9)                                       | 196,093                           | (14)                                      |
| – corporate and commercial   | 259,319                           | (301)                                     | 262,391                           | (355)                                     |
| – financial  | 59,842                            | (9)                                       | 42,877                            | (7)                                       |
| Financial guarantee and similar contracts                                  | 91,103                            | (205)                                     | 89,382                            | (161)                                     |
| – personal   | 1,003                             | (3)                                       | 791                               | (4)                                       |
| – corporate and commercial   | 76,384                            | (198)                                     | 78,102                            | (153)                                     |
| – financial  | 13,716                            | (4)                                       | 10,489                            | (4)                                       |
| <b>Total nominal amount off balance sheet</b>                              | <b>614,118</b>                    | <b>(524)</b>                              | <b>590,743</b>                    | <b>(537)</b>                              |
|  | <b>2,293,364</b>                  | <b>(9,330)</b>                            | <b>2,190,269</b>                  | <b>(10,017)</b>                           |
|  |                                   |   |                                   |   |
|  | Fair value                        | Memorandum allowance for ECL <sup>4</sup> | Fair value                        | Memorandum allowance for ECL <sup>4</sup> |
|  | \$m                               | \$m                                       | \$m                               | \$m                                       |
| Debt instruments measured at fair value through other comprehensive income | 321,940                           | (152)                                     | 322,163                           | (184)                                     |

For footnotes, see page 74.

The following table provides an overview of the Group's credit risk by stage and industry, and the associated ECL coverage. The financial assets recorded in each stage have the following characteristics:

Stage 1: Unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised.

Stage 2: A significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised.

Stage 3: Objective evidence of impairment, and are therefore considered to be in default or otherwise credit-impaired on which a lifetime ECL is recognised.

POCI: Purchased or originated at a deep discount that reflects the incurred credit losses on which a lifetime ECL is recognised.

## Risk

### Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 30 June 2018

|   | Gross carrying/nominal amount <sup>3</sup> |               |               |                   | Allowance for ECL |                |                |                |                   | ECL coverage % |            |            |             |                   |            |
|---|--|---------------|---------------|-------------------|-------------------|----------------|----------------|----------------|-------------------|----------------|------------|------------|-------------|-------------------|------------|
|   | Stage 1                                    | Stage 2       | Stage 3       | POCI <sup>5</sup> | Total             | Stage 1        | Stage 2        | Stage 3        | POCI <sup>5</sup> | Total          | Stage 1    | Stage 2    | Stage 3     | POCI <sup>5</sup> | Total      |
|   | \$m  | \$m           | \$m           | \$m               | \$m               | \$m            | \$m            | \$m            | \$m               | \$m            | %          | %          | %           | %                 | %          |
| Loans and advances to customers at amortised cost | 898,871                                    | 68,775        | 14,218        | 314               | 982,178           | (1,284)        | (2,005)        | (5,320)        | (126)             | (8,735)        | 0.1        | 2.9        | 37.4        | 40.1              | 0.9        |
| – personal  | 361,909                                    | 16,519        | 4,499         | –                 | 382,927           | (585)          | (1,148)        | (1,162)        | –                 | (2,895)        | 0.2        | 6.9        | 25.8        | –                 | 0.8        |
| – corporate and commercial                        | 480,550                                    | 48,673        | 9,445         | 314               | 538,982           | (655)          | (812)          | (3,968)        | (126)             | (5,561)        | 0.1        | 1.7        | 42.0        | 40.1              | 1.0        |
| – non-bank financial institutions                 | 56,412                                     | 3,583         | 274           | –                 | 60,269            | (44)           | (45)           | (190)          | –                 | (279)          | 0.1        | 1.3        | 69.3        | –                 | 0.5        |
| Loans and advances to banks at amortised cost     | 83,588                                     | 335           | 16            | –                 | 83,939            | (11)           | (2)            | (2)            | –                 | (15)           | –          | 0.6        | 12.5        | –                 | –          |
| Other financial assets measured at amortised cost | 611,524                                    | 1,525         | 79            | 1                 | 613,129           | (27)           | (4)            | (25)           | –                 | (56)           | –          | 0.3        | 31.6        | –                 | –          |
| Loan and other credit-related commitments         | 504,160                                    | 18,231        | 613           | 11                | 523,015           | (119)          | (134)          | (66)           | –                 | (319)          | –          | 0.7        | 10.8        | –                 | 0.1        |
| – personal  | 201,751                                    | 1,869         | 234           | –                 | 203,854           | (9)            | –              | –              | –                 | (9)            | –          | –          | –           | –                 | –          |
| – corporate and commercial                        | 243,401                                    | 15,528        | 379           | 11                | 259,319           | (101)          | (134)          | (66)           | –                 | (301)          | –          | 0.9        | 17.4        | –                 | 0.1        |
| – financial                                       | 59,008                                     | 834           | –             | –                 | 59,842            | (9)            | –              | –              | –                 | (9)            | –          | –          | –           | –                 | –          |
| Financial guarantee and similar contracts         | 81,186                                     | 9,136         | 762           | 19                | 91,103            | (48)           | (62)           | (95)           | –                 | (205)          | 0.1        | 0.7        | 12.5        | –                 | 0.2        |
| – personal  | 993  | 5             | 5             | –                 | 1,003             | (1)            | –              | (2)            | –                 | (3)            | 0.1        | –          | 40.0        | –                 | 0.3        |
| – corporate and commercial                        | 66,899                                     | 8,715         | 751           | 19                | 76,384            | (43)           | (62)           | (93)           | –                 | (198)          | 0.1        | 0.7        | 12.4        | –                 | 0.3        |
| – financial                                       | 13,294                                     | 416           | 6             | –                 | 13,716            | (4)            | –              | –              | –                 | (4)            | –          | –          | –           | –                 | –          |
| <b>At 30 Jun 2018</b>                             | <b>2,179,329</b>                           | <b>98,002</b> | <b>15,688</b> | <b>345</b>        | <b>2,293,364</b>  | <b>(1,489)</b> | <b>(2,207)</b> | <b>(5,508)</b> | <b>(126)</b>      | <b>(9,330)</b> | <b>0.1</b> | <b>2.3</b> | <b>35.1</b> | <b>36.5</b>       | <b>0.4</b> |

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when they are 30 days past due and are transferred from stage 1 to stage 2. The disclosure below presents the ageing of stage 2

financial assets by those less than 30 and greater than 30 days past due and therefore presents those financial assets classified as stage 2 due to ageing (30 days past due) and those identified at an earlier stage (less than 30 days past due).

### Stage 2 days past due analysis at 30 June 2018

|   | Gross carrying amount |  |   | Allowance for ECL |  |   | ECL coverage % |  |   |
|---|-----------------------|--|---|-------------------|--|---|----------------|--|---|
|   | Stage 2               | Of which:<br>1 to 29<br>DPD <sup>6</sup> | Of which:<br>30 and ><br>DPD <sup>6</sup> | Stage 2           | Of which:<br>1 to 29<br>DPD <sup>6</sup> | Of which:<br>30 and ><br>DPD <sup>6</sup> | Stage 2        | Of which:<br>1 to 29<br>DPD <sup>6</sup> | Of which:<br>30 and ><br>DPD <sup>6</sup> |
|   | \$m                   | \$m                                      | \$m                                       | \$m               | \$m                                      | \$m                                       | %              | %  | %   |
| Loans and advances to customers at amortised cost | 68,775                | 2,816                                    | 1,905                                     | (2,005)           | (202)                                    | (245)                                     | 2.9            | 7.2                                      | 12.9                                      |
| – personal  | 16,519                | 2,027                                    | 1,239                                     | (1,148)           | (173)                                    | (213)                                     | 6.9            | 8.5                                      | 17.2                                      |
| – corporate and commercial                        | 48,673                | 758                                      | 665                                       | (812)             | (29)                                     | (32)                                      | 1.7            | 3.8                                      | 4.8                                       |
| – non-bank financial institutions                 | 3,583                 | 31                                       | 1   | (45)              | –  | –   | 1.3            | –  | –   |
| Loans and advances to banks at amortised cost     | 335                   | 1  | 17  | (2)               | –  | –   | 0.6            | –  | –   |
| Other financial assets measured at amortised cost | 1,525                 | 13                                       | 12  | (4)               | –  | –   | 0.3            | –  | –   |

For footnotes, see page 74.



**Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 1 January 2018 (continued)**

|   | Gross carrying/nominal amount <sup>3</sup> |         |         |                   |           | Allowance for ECL |         |         |                   |          | ECL coverage % |         |         |                   |       |
|---|--|---------|---------|-------------------|-----------|-------------------|---------|---------|-------------------|----------|----------------|---------|---------|-------------------|-------|
|   | Stage 1                                    | Stage 2 | Stage 3 | POCI <sup>5</sup> | Total     | Stage 1           | Stage 2 | Stage 3 | POCI <sup>5</sup> | Total    | Stage 1        | Stage 2 | Stage 3 | POCI <sup>5</sup> | Total |
|   | \$m  | \$m     | \$m     | \$m               | \$m       | \$m               | \$m     | \$m     | \$m               | \$m      | %              | %       | %       | %                 | %     |
| Loans and advances to customers at amortised cost | 871,566                                    | 72,658  | 13,882  | 974               | 959,080   | (1,309)           | (2,201) | (5,591) | (242)             | (9,343)  | 0.2            | 3.0     | 40.3    | 24.8              | 1.0   |
| – personal  | 354,305                                    | 16,354  | 4,410   | –                 | 375,069   | (581)             | (1,156) | (1,310) | –                 | (3,047)  | 0.2            | 7.1     | 29.7    | –                 | 0.8   |
| – corporate and commercial                        | 456,837                                    | 53,262  | 9,064   | 974               | 520,137   | (701)             | (1,037) | (4,073) | (242)             | (6,053)  | 0.2            | 1.9     | 44.9    | 24.8              | 1.2   |
| – non-bank financial institutions                 | 60,424                                     | 3,042   | 408     | –                 | 63,874    | (27)              | (8)     | (208)   | –                 | (243)    | –              | 0.3     | 51.0    | –                 | 0.4   |
| Loans and advances to banks at amortised cost     | 81,027                                     | 1,540   | 15      | –                 | 82,582    | (17)              | (4)     | (2)     | –                 | (23)     | –              | 0.3     | 13.3    | –                 | –     |
| Other financial assets measured at amortised cost | 556,185                                    | 1,517   | 155     | 7                 | 557,864   | (28)              | (4)     | (82)    | –                 | (114)    | –              | 0.3     | 52.9    | –                 | –     |
| Loan and other credit related commitments         | 475,986                                    | 24,330  | 999     | 46                | 501,361   | (126)             | (183)   | (67)    | –                 | (376)    | –              | 0.8     | 6.7     | –                 | 0.1   |
| – personal  | 194,320                                    | 1,314   | 459     | –                 | 196,093   | (13)              | (1)     | –       | –                 | (14)     | –              | 0.1     | –       | –                 | –     |
| – corporate and commercial                        | 240,854                                    | 20,951  | 540     | 46                | 262,391   | (108)             | (180)   | (67)    | –                 | (355)    | –              | 0.9     | 12.4    | –                 | 0.1   |
| – financial                                       | 40,812                                     | 2,065   | –       | –                 | 42,877    | (5)               | (2)     | –       | –                 | (7)      | –              | 0.1     | –       | –                 | –     |
| Financial guarantee and similar contracts         | 77,921                                     | 11,014  | 413     | 34                | 89,382    | (36)              | (47)    | (78)    | –                 | (161)    | –              | 0.4     | 18.9    | –                 | 0.2   |
| – personal  | 768  | 18      | 5       | –                 | 791       | –                 | (2)     | (2)     | –                 | (4)      | –              | 11.1    | 40.0    | –                 | 0.5   |
| – corporate and commercial                        | 67,596                                     | 10,064  | 408     | 34                | 78,102    | (35)              | (44)    | (74)    | –                 | (153)    | 0.1            | 0.4     | 18.1    | –                 | 0.2   |
| – financial                                       | 9,557                                      | 932     | –       | –                 | 10,489    | (1)               | (1)     | (2)     | –                 | (4)      | –              | 0.1     | –       | –                 | –     |
| At 1 Jan 2018                                     | 2,062,685                                  | 111,059 | 15,464  | 1,061             | 2,190,269 | (1,516)           | (2,439) | (5,820) | (242)             | (10,017) | 0.1            | 2.2     | 37.6    | 22.8              | 0.5   |

**Stage 2 days past due analysis at 1 January 2018**

|   | Gross carrying amount |                          |                           | Allowance for ECL |                          |                           | ECL coverage % |                          |                           |
|---|-----------------------|--------------------------|---------------------------|-------------------|--------------------------|---------------------------|----------------|--------------------------|---------------------------|
|   | Stage 2               | Of which:                | Of which:                 | Stage 2           | Of which:                | Of which:                 | Stage 2        | Of which:                | Of which:                 |
|   | \$m                   | 1 to 29 DPD <sup>6</sup> | 30 and > DPD <sup>6</sup> | \$m               | 1 to 29 DPD <sup>6</sup> | 30 and > DPD <sup>6</sup> | %              | 1 to 29 DPD <sup>6</sup> | 30 and > DPD <sup>6</sup> |
| Loans and advances to customers at amortised cost | 72,658                | 2,393                    | 2,447                     | (2,201)           | (261)                    | (261)                     | 3.0            | 10.9                     | 10.7                      |
| – personal  | 16,354                | 1,683                    | 1,428                     | (1,156)           | (218)                    | (230)                     | 7.1            | 13.0                     | 16.1                      |
| – corporate and commercial                        | 53,262                | 684                      | 977                       | (1,037)           | (42)                     | (31)                      | 1.9            | 6.1                      | 3.2                       |
| – non-bank financial institutions                 | 3,042                 | 26                       | 42                        | (8)               | (1)                      | –                         | 0.3            | 3.8                      | –                         |
| Loans and advances to banks at amortised cost     | 1,540                 | 7                        | 66                        | (4)               | (2)                      | –                         | 0.3            | 28.6                     | –                         |
| Other financial assets measured at amortised cost | 1,517                 | 133                      | 46                        | (4)               | –                        | (1)                       | 0.3            | –                        | 2.2                       |

For footnotes, see page 74.

**Measurement uncertainty and sensitivity analysis of ECL**

The recognition and measurement of expected credit losses ('ECL') is highly complex and involves the use of significant judgement and estimation. This includes the formulation and incorporation of multiple forward-looking economic conditions into ECL to meet the measurement objective of IFRS 9.

**Methodology**

For most portfolios, HSBC has adopted the use of three economic scenarios, representative of our view of forecast economic conditions, sufficient to calculate unbiased ECL. They represent a 'most likely outcome' (the Central scenario) and two, less likely, 'outer' scenarios, referred to as the 'Upside' and 'Downside' scenarios. Each outer scenario is consistent with a probability of 10%, while the Central scenario is assigned the remaining 80%. This weighting scheme is deemed appropriate for the computation of unbiased ECL. Key scenario assumptions are set using the average of forecasts from external economists, helping to ensure

the IFRS 9 scenarios are unbiased and maximise the use of independent information.

For the Central scenario, HSBC sets key assumptions – such as GDP growth, inflation, unemployment and policy interest rates – using either the average of external forecasts (commonly referred to as consensus forecasts) for most economies or market prices. An external provider's global macro model, conditioned to follow the consensus forecasts, projects the other paths required as inputs to credit models. This external provider model is subject to HSBC's risk governance framework, with oversight by a specialist internal unit.

The Upside and Downside scenarios are designed to be cyclical, in that GDP growth, inflation and unemployment usually revert back to the Central scenario after the first three years for major economies. We determine the maximum divergence of GDP growth from the Central scenario using the 10th and the 90th percentile of the entire distribution of forecast outcomes for major economies. Using externally available forecast distributions helps ensure independence in scenario construction. While key economic variables are set with reference to external distributional

## Risk

forecasts, we also align the overall narrative of the scenarios to the macroeconomic risks described in HSBC's top and emerging risks. This ensures that scenarios remain consistent with the more qualitative assessment of risks captured in top and emerging risks. We project additional variable paths using the external provider's global macro model.

The Central, Upside and Downside scenarios, selected with reference to external forecast distributions using the above approach, are termed the 'Consensus Economic Scenarios'.

To generate the three scenarios, the following are applied:

- Economic risk assessment – We develop a shortlist of the upside and downside economic and political risks most relevant to HSBC and the IFRS 9 measurement objective. These include local and global economic and political risks which together affect economies that materially matter to HSBC, namely the UK, eurozone, Hong Kong, China and the US. We compile this list by monitoring developments in the global economy, by reference to HSBC's top and emerging risks, and by consulting external and internal subject matter experts.
- Scenario generation – For the Central scenario, we obtain a pre-defined set of economic forecasts from the average taken from the consensus forecast survey of professional forecasters. Paths for the two outer scenarios are benchmarked to the Central scenario and reflect the economic risk assessment. Scenario probabilities reflect management judgement and are informed by data analysis of past recessions, transitions in and out of recession, and the current economic outlook. The key assumptions made, and the accompanying paths, represent our 'best estimate' of a scenario at a specified probability. Suitable narratives are developed for the Central scenario and the paths of the two outer scenarios.
- Variable enrichment – We expand each scenario through enrichment of variables. This includes the production of more than 400 variables that are required to calculate ECL. The external provider expands these scenarios by using as inputs the agreed scenario narratives and the variables aligned to these narratives. Scenarios, once expanded, continue to be benchmarked to the latest events and information. Late-breaking events could lead to the revision of scenarios to reflect management judgement.

The Upside and Downside scenarios are generated at year-end and are only updated during the year if economic conditions change significantly. The Central scenario is generated every quarter. In quarters where only the Central scenario is updated, Wholesale outer scenarios are adjusted such that the relationship between the Central scenario and outer scenarios in the quarter is consistent with that observed at the last full scenario generation. In Retail, three scenarios are run annually to establish the effect of non-linearity for each portfolio. This effect is then applied in each quarter with the understanding that the non-linearity of response to economic conditions should not change, unless a significant change in economic conditions occurs.

HSBC recognises that the Consensus Economic Scenario approach, using three scenarios, will be insufficient in certain

economic environments. Additional analysis may be requested at management's discretion, including the production of extra scenarios. We anticipate there will be only limited instances when the standard approach will not apply. But we had occasion to invoke this additional step at 1 January 2018, due to the specific uncertainties facing the UK economy, resulting in the recognition of additional ECL, a 'management overlay' for economic uncertainty. At 30 June 2018, the UK economy continued to face similar levels of uncertainty and, accordingly, the management overlay has been retained. Details on the management overlay are on page 52.

### Central scenario

HSBC's Central scenario is characterised by steady growth over the forecast period 2018–2023. Global GDP growth is expected to be 3% on average over the period which is marginally higher than the average growth rate over 2011–2016. GDP growth rate is forecast at 3.2% in 2018 and 3.1% in 2019. The elevated growth rates through 2018–19 are considered temporary in nature, and global growth reverts to a trend rate of 2.9% by the third year of the five-year projection. Across the key markets, we note that:

- Expected average rates of growth over the 2018–2023 period are lower than those experienced in the recent past for the UK, China, Canada and the UAE. For the UK, this forecast reflects current views on the UK's exit from the EU, while for China, this suggests rebalancing at a pace in line with expectations.
- The US, Hong Kong and Mexico are expected to display similar average rates of GDP growth over the forecast period to recent historical experience. Above-trend growth is expected in the US and Hong Kong in 2018, supported by cyclical factors.
- French GDP forecasts are stronger for the forecast period compared with recent history. Supportive factors include the recent cyclical upswing, longer-term expectations of reform and eurozone recovery.

Inflation is expected to be higher in 2018 across most of our key markets compared with 2017, but is expected to converge back towards central bank targets with varying speed over the projection period. As a consequence, US and eurozone central banks are expected to raise rates very gradually. Similarly, in the UK, the Bank of England is expected to raise interest rates slowly. Policy interest rates in advanced economies are expected to remain below their historical long-term averages over the five-year forecast horizon.

Unemployment rates displayed considerable positive cyclical momentum in 2017 across our key markets and such momentum is expected to continue to underpin labour market performance in the forecast period. Central scenario forecasts of the unemployment rate are stable and, for some markets, at historical lows.

Stabilisation of oil prices in 2017, helped by the Organization of Petroleum Exporting Countries' output cuts and a fall in inventory, has enabled a stronger price outlook to develop. Despite this, Central scenario oil price forecasts remain range-bound between \$60–\$62 per barrel over the forecast period.

### Central scenario (average 3Q18–2Q23)

|                        | UK  | France | Hong Kong | Mainland China | UAE | US  | Canada | Mexico |
|------------------------|-----|--------|-----------|----------------|-----|-----|--------|--------|
| GDP growth rate (%)    | 1.7 | 1.6    | 2.7       | 6.0            | 3.3 | 2.1 | 1.8    | 2.5    |
| Inflation (%)          | 2.1 | 1.6    | 2.4       | 2.5            | 2.9 | 2.0 | 1.9    | 3.6    |
| Unemployment (%)       | 4.8 | 7.7    | 3.2       | 4.0            | 4.2 | 4.0 | 6.1    | 3.8    |
| House price growth (%) | 2.9 | 2.8    | 4.1       | 5.6            | 3.9 | 3.4 | 3.1    | 5.7    |

### Upside scenario

Globally, real GDP growth rises in the first two years of the Upside scenario before converging to the Central scenario. Improved confidence, accommodative monetary policy, fiscal expansion

across major economies, including tax reform in the US, and diminished political risk are the key themes that support the Upside scenario.

### Upside scenario (average 2018-2022)

|                        | UK  | France | Hong Kong | Mainland China | UAE | US  | Canada | Mexico |
|------------------------|-----|--------|-----------|----------------|-----|-----|--------|--------|
| GDP growth rate (%)    | 2.5 | 1.9    | 2.8       | 6.0            | 4.0 | 2.7 | 2.2    | 3.2    |
| Inflation (%)          | 2.5 | 1.8    | 2.9       | 2.7            | 3.3 | 2.4 | 2.2    | 3.9    |
| Unemployment (%)       | 4.8 | 8.3    | 3.2       | 3.7            | 3.6 | 4.1 | 6.1    | 3.6    |
| House price growth (%) | 4.0 | 4.6    | 4.0       | 6.9            | 7.7 | 4.9 | 4.3    | 6.8    |

The Upside scenario was generated for the adoption of IFRS 9 on 1 Jan 2018

### Downside scenario

Globally, real GDP growth declines for two years in the Downside scenario before recovering to the Central scenario. House price growth either stalls or contracts, and equity markets correct abruptly. The global slowdown in demand drives commodity

prices lower and inflation falls. Central banks remain accommodative. This is consistent with the risk themes of rising protectionism, central bank policy uncertainty, mainland China choosing to rebalance at a faster pace, and an absence of fiscal support.

### Downside scenario (average 2018-2022)

|                        | UK  | France | Hong Kong | Mainland China | UAE | US  | Canada | Mexico |
|------------------------|-----|--------|-----------|----------------|-----|-----|--------|--------|
| GDP growth rate (%)    | 1.2 | 1.1    | 2.0       | 5.5            | 3.0 | 1.3 | 1.6    | 2.1    |
| Inflation (%)          | 1.8 | 1.2    | 2.2       | 2.0            | 2.6 | 1.8 | 1.9    | 3.1    |
| Unemployment (%)       | 5.6 | 9.0    | 3.8       | 4.2            | 4.6 | 5.1 | 6.7    | 4.5    |
| House price growth (%) | 0.9 | 0.8    | 1.7       | 3.0            | 4.5 | 1.1 | 0.6    | 5.4    |

The Downside scenario was generated for the adoption of IFRS 9 on 1 Jan 2018

### How economic scenarios are reflected in the wholesale calculation of ECL

HSBC has developed a globally consistent methodology for the application of forward economic guidance ('FEG') in the calculation of ECL. This involves the incorporation of FEG into the estimation of the term structure of probability of default ('PD') and loss given default ('LGD'). For PDs, we consider the correlation of FEG to default rates for a particular industry in a country. For LGD calculations, we consider the correlation of FEG to collateral values and realisation rates for a particular country and industry. PDs and LGDs are estimated for the entire term structure of each instrument.

For stage 3 impaired loans, LGD estimates take into account independent recovery valuations provided by external consultants where available, or internal forecasts corresponding to anticipated economic conditions and individual company conditions. In estimating the ECL on impaired loans that are considered individually not to be significant, HSBC incorporates FEG via the application of a scalar. The scalar reflects the ratio of the probability-weighted outcome to the Central scenario outcome for non-stage 3 populations.

### How economic scenarios are reflected in the retail calculation of ECL

The impact of FEG on PD is modelled at a portfolio level. Historical relationships between observed default rates and macroeconomic variables are integrated into ECL by using economic response models. The impact of FEG on PD is modelled over a period equal to the remaining maturity of underlying asset(s). The impact on LGD is modelled for mortgage portfolios by forecasting future loan-to-value ('LTV') profiles for the remaining maturity of the asset, by using national-level forecasts of the house price index ('HPI') and applying the corresponding LGD expectation.

### Effect of multiple economic scenarios on ECL

The ECL recognised in the financial statements reflect the effect on expected credit losses of a range of possible outcomes, calculated on a probability-weighted basis, based on the economic scenarios described above, including management overlays where required. The probability-weighted amount is typically a higher number than would result from using only the Central (most likely) economic scenario. Expected losses typically have a non-linear relationship to the many factors which influence credit losses,

such that more favourable macroeconomic factors do not reduce defaults as much as less favourable macroeconomic factors increase defaults. The probability-weighted ECL are 3% higher than the ECL prepared using only Central scenario assumptions, reflecting the relatively stable and benign economic outlook across most markets.

### UK economic uncertainty

A management overlay of \$245m has been included in the 30 June 2018 ECL, adding to the result from the consensus economic scenarios; \$150m of this relates to Wholesale, and \$95m to Retail, to address the current economic uncertainty in the UK. This overlay was raised at transition on 1 January 2018 and reflected management's judgement that the consensus economic scenarios did not fully reflect the high degree of uncertainty in estimating the distribution of ECL for UK portfolios. Management considers that the overlay remains appropriate at 30 June 2018. At transition, in arriving at the overlay, the following risks were considered and alternative scenarios modelled to understand potential impacts:

- Alternative scenario (a) – While the Central scenario reflects current consensus forecasts, there is the potential for large forecast revisions in the coming quarters, as economic and political events unfold. The consensus Downside scenario was modelled as an alternative to the consensus Central scenario to understand the impact of a significant downward shift in consensus forecasts.
- Alternative scenario (b) – Management modelled a further downside scenario of similar severity to (but of longer duration than) the consensus Downside scenario, to reflect the risk that in a downside scenario there may be a longer-term impact on growth than that currently envisaged.
- Alternative scenario (c) – Finally, management modelled an alternative, severe downside scenario reflecting a deeper cyclical shock, resulting in a steep depreciation in sterling and an increase in inflation, with an associated monetary policy response.

The following table compares the core macroeconomic variables under the consensus Central and Upside scenarios, shown as five-year averages, to the most severe assumptions relating to the consensus and alternative scenarios:

## Risk

### UK

|  | GDP growth % | Unemployment level % |
|--|--------------|----------------------|
| Consensus upside (five-year average)                                   | 2.5          | 4.8                  |
| Consensus central (five-year average)                                  | 1.8          | 5.2                  |
| Consensus downside (central under Alternative (a)) (most severe value) | 0.1          | 6.3                  |
| Alternative (b) (most severe value)                                    | (1)          | 7.2                  |
| Alternative (c) (most severe value)                                    | (2.4)        | 8.9                  |

These scenarios were generated for the adoption of IFRS 9 on 1 Jan 2018

The management overlay adjusts the ECL calculated on the UK consensus economic scenarios to reflect the alternative scenarios described above, within the 10:80:10 weighting scheme, as follows: half the impact of Alternative scenario (a) is included, in effect giving equal weighting within the central band to consensus Central and consensus Downside assumptions. For the downside, the overlay has the effect of replacing the consensus Downside with Alternative scenario (b) but including a small risk of Alternative scenario (c).

### Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers

The disclosure below provides a reconciliation of the Group's gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees. The reconciliation excludes the movement in other financial assets measured at amortised cost and debt instruments measured at FVOCI. The 30 June 2018 gross carrying amount and allowance for ECL for these financial

instruments is presented in the 'summary of financial instruments to which the impairment requirements in IFRS 9 are applied' disclosure on page 51.

The change in ECL and other credit impairment charges recognised in the income statement of \$407m includes \$501m presented in the reconciliation below and a net release of \$94m for other financial assets measured at amortised cost and debt instruments measured at FVOCI.

The transfers of financial instruments represents the impact of stage transfers upon the gross carrying/nominal amount and associated allowance for ECL. The net remeasurement of ECL arising from stage transfers represents the increase in ECL due to these transfers. Net new lending comprises new originations, assets derecognised, further lending and repayments. The ECL impacts of changes to risk parameters is estimated at \$0.2bn (release) for stage 1, \$0.2bn (charge) for stage 2 and \$1.0bn (charge) for stage 3.

### Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees

|   | Non credit impaired           |                   |                               |                   | Credit impaired               |                   |                               |                   | Total                         |                   |
|---|-------------------------------|-------------------|-------------------------------|-------------------|-------------------------------|-------------------|-------------------------------|-------------------|-------------------------------|-------------------|
|   | Stage 1                       |                   | Stage 2                       |                   | Stage 3                       |                   | POCI                          |                   |                               |                   |
|   | Gross carrying/nominal amount | Allowance for ECL | Gross carrying/nominal amount | Allowance for ECL | Gross carrying/nominal amount | Allowance for ECL | Gross carrying/nominal amount | Allowance for ECL | Gross carrying/nominal amount | Allowance for ECL |
|   | \$m                           | \$m               | \$m                           | \$m               | \$m                           | \$m               | \$m                           | \$m               | \$m                           | \$m               |
| <b>At 1 Jan 2018</b>                                    | <b>1,506,500</b>              | <b>(1,488)</b>    | <b>109,542</b>                | <b>(2,435)</b>    | <b>15,309</b>                 | <b>(5,738)</b>    | <b>1,054</b>                  | <b>(242)</b>      | <b>1,632,405</b>              | <b>(9,903)</b>    |
| Transfers of financial instruments:                     | (2,401)                       | (430)             | (408)                         | 635               | 2,809                         | (205)             | –                             | –                 | –                             | –                 |
| – transfers from Stage 1 to Stage 2                     | (41,853)                      | 120               | 41,853                        | (120)             | –                             | –                 | –                             | –                 | –                             | –                 |
| – transfers from Stage 2 to Stage 1                     | 40,963                        | (537)             | (40,963)                      | 537               | –                             | –                 | –                             | –                 | –                             | –                 |
| – transfers to Stage 3                                  | (1,730)                       | 18                | (2,126)                       | 263               | 3,856                         | (281)             | –                             | –                 | –                             | –                 |
| – transfers from Stage 3                                | 219                           | (31)              | 828                           | (45)              | (1,047)                       | 76                | –                             | –                 | –                             | –                 |
| Net remeasurement of ECL arising from transfer of stage | –                             | 360               | –                             | (347)             | –                             | (36)              | –                             | –                 | –                             | (23)              |
| Net new lending and changes to risk parameters          | 94,406                        | 13                | (11,384)                      | (155)             | (1,000)                       | (614)             | (526)                         | 17                | 81,496                        | (739)             |
| Changes to models used for ECL calculation              | –                             | –                 | –                             | –                 | –                             | –                 | –                             | –                 | –                             | –                 |
| Assets written off                                      | –                             | –                 | –                             | –                 | (1,154)                       | 1,133             | (1)                           | 1                 | (1,155)                       | 1,134             |
| Foreign exchange and other                              | (30,700)                      | 83                | (1,273)                       | 99                | (355)                         | (23)              | (183)                         | 98                | (32,511)                      | 257               |
| <b>At 30 Jun 2018</b>                                   | <b>1,567,805</b>              | <b>(1,462)</b>    | <b>96,477</b>                 | <b>(2,203)</b>    | <b>15,609</b>                 | <b>(5,483)</b>    | <b>344</b>                    | <b>(126)</b>      | <b>1,680,235</b>              | <b>(9,274)</b>    |
| ECL income statement (charge)/release for the period    |                               | 373               |                               | (502)             |                               | (650)             |                               | 17                |                               | (762)             |
| Recoveries  |                               |                   |                               |                   |                               |                   |                               |                   |                               | 261               |
| <b>Total ECL income statement charge for the period</b> |                               |                   |                               |                   |                               |                   |                               |                   |                               | <b>(501)</b>      |

### Credit quality of financial instruments

We assess the credit quality of all financial instruments that are subject to credit risk. The credit quality of financial instruments is a point in time assessment of the probability of default of financial instruments, whereas IFRS 9 stages 1 and 2 are determined based

on relative deterioration of credit quality since initial recognition. Accordingly, for non-credit impaired financial instruments there is no direct relationship between the credit quality assessment and IFRS 9 stages 1 and 2, though typically the lower credit quality bands exhibit a higher proportion in stage 2.

### Quality classification definitions

- 'Strong' exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default.
- 'Good' exposures demonstrate a good capacity to meet financial commitments, with low default risk.
- 'Satisfactory' exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk.
- 'Sub-standard' exposures require varying degrees of special attention and default risk is of greater concern.
- 'Credit-impaired' exposures have been assessed as impaired.

The five credit quality classifications defined above each encompass a range of granular internal credit rating grades assigned to wholesale and retail lending businesses and the external ratings attributed by external agencies to debt securities, as shown in the table below. Under IAS 39 retail lending credit

quality was disclosed based on expected-loss percentages. Under IFRS 9 retail lending credit quality is now disclosed based on a 12-month probability-weighted 'PD'. The credit quality classifications for wholesale lending are unchanged and are based on internal credit risk ratings.

### Credit quality classification

| Quality classification | Debt securities and other bills | Wholesale lending      |   | Retail lending         |                                    |
|------------------------|---------------------------------|------------------------|---|------------------------|------------------------------------|
|                        | External credit rating          | Internal credit rating | 12-month Basel probability of default % | Internal credit rating | 12-month probability-weighted PD % |
| Strong                 | A- and above                    | CRR1 to CRR2           | 0.000–0.169                             | Band 1 and 2           | 0.000–0.500                        |
| Good                   | BBB+ to BBB-                    | CRR3                   | 0.170–0.740                             | Band 3                 | 0.501–1.500                        |
| Satisfactory           | BB+ to B and unrated            | CRR4 to CRR5           | 0.741–4.914                             | Band 4 and 5           | 1.501–20.000                       |
| Sub-standard           | B- to C                         | CRR6 to CRR8           | 4.915–99.999                            | Band 6                 | 20.001–99.999                      |
| Credit-impaired        | Default                         | CRR9 to CRR10          | 100.000                                 | Band 7                 | 100.000                            |

### Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation

| Footnote  | Gross carrying/notional amount |                |                |               |                 |                  | Allowance for ECL | Net              |
|---|--------------------------------|----------------|----------------|---------------|-----------------|------------------|-------------------|------------------|
|   | Strong                         | Good           | Satisfactory   | Sub-standard  | Credit impaired | Total            |                   |                  |
|   | \$m                            | \$m            | \$m            | \$m           | \$m             | \$m              | \$m               | \$m              |
| Loans and advances to customers at amortised cost | 476,789                        | 247,732        | 225,242        | 17,939        | 14,476          | 982,178          | (8,735)           | 973,443          |
| – stage 1   | 473,248                        | 232,695        | 187,698        | 5,230         | –               | 898,871          | (1,284)           | 897,587          |
| – stage 2   | 3,541                          | 15,037         | 37,514         | 12,683        | –               | 68,775           | (2,005)           | 66,770           |
| – stage 3   | –                              | –              | –              | –             | 14,218          | 14,218           | (5,320)           | 8,898            |
| – POCI  | –                              | –              | 30             | 26            | 258             | 314              | (126)             | 188              |
| Loans and advances to banks at amortised cost     | 71,844                         | 8,350          | 3,701          | 28            | 16              | 83,939           | (15)              | 83,924           |
| – stage 1   | 71,791                         | 8,188          | 3,596          | 13            | –               | 83,588           | (11)              | 83,577           |
| – stage 2   | 53                             | 162            | 105            | 15            | –               | 335              | (2)               | 333              |
| – stage 3   | –                              | –              | –              | –             | 16              | 16               | (2)               | 14               |
| – POCI  | –                              | –              | –              | –             | –               | –                | –                 | –                |
| Other financial assets measured at amortised cost | 561,643                        | 28,126         | 23,026         | 254           | 80              | 613,129          | (56)              | 613,073          |
| – stage 1   | 561,611                        | 27,737         | 22,080         | 96            | –               | 611,524          | (27)              | 611,497          |
| – stage 2   | 32                             | 389            | 946            | 158           | –               | 1,525            | (4)               | 1,521            |
| – stage 3   | –                              | –              | –              | –             | 79              | 79               | (25)              | 54               |
| – POCI  | –                              | –              | –              | –             | 1               | 1                | –                 | 1                |
| Loan and other credit-related commitments         | 302,478                        | 141,520        | 73,771         | 4,622         | 624             | 523,015          | (319)             | 522,696          |
| – stage 1   | 300,681                        | 137,817        | 64,643         | 1,019         | –               | 504,160          | (119)             | 504,041          |
| – stage 2   | 1,797                          | 3,703          | 9,128          | 3,603         | –               | 18,231           | (134)             | 18,097           |
| – stage 3   | –                              | –              | –              | –             | 613             | 613              | (66)              | 547              |
| – POCI  | –                              | –              | –              | –             | 11              | 11               | –                 | 11               |
| Financial guarantees and similar contracts        | 35,579                         | 30,601         | 21,773         | 2,369         | 781             | 91,103           | (205)             | 90,898           |
| – stage 1   | 35,067                         | 28,271         | 17,319         | 529           | –               | 81,186           | (48)              | 81,138           |
| – stage 2   | 512                            | 2,330          | 4,454          | 1,840         | –               | 9,136            | (62)              | 9,074            |
| – stage 3   | –                              | –              | –              | –             | 762             | 762              | (95)              | 667              |
| – POCI  | –                              | –              | –              | –             | 19              | 19               | –                 | 19               |
| <b>At 30 Jun 2018</b>                             | <b>1,448,333</b>               | <b>456,329</b> | <b>347,513</b> | <b>25,212</b> | <b>15,977</b>   | <b>2,293,364</b> | <b>(9,330)</b>    | <b>2,284,034</b> |
| Debt instruments at FVOCI                         |                                |                |                |               |                 |                  |                   |                  |
| Stage 1   | 296,478                        | 13,483         | 9,572          | 2,401         | –               | 321,934          | (34)              | 321,900          |
| Stage 2   | 110                            | 297            | 105            | 832           | –               | 1,344            | (107)             | 1,237            |
| Stage 3   | –                              | –              | –              | –             | 51              | 51               | (11)              | 40               |
| POCI  | –                              | –              | –              | –             | 22              | 22               | –                 | 22               |
| <b>At 30 Jun 2018</b>                             | <b>296,588</b>                 | <b>13,780</b>  | <b>9,677</b>   | <b>3,233</b>  | <b>73</b>       | <b>323,351</b>   | <b>(152)</b>      | <b>323,199</b>   |

For footnote, see page 74.

## Risk

### Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation (continued)

| Footnote  | Gross carrying/notional amount |         |              |              |                 |           | Allowance for ECL | Net       |
|---|--------------------------------|---------|--------------|--------------|-----------------|-----------|-------------------|-----------|
|   | Strong                         | Good    | Satisfactory | Sub-standard | Credit-impaired | Total     |                   |           |
|   | \$m                            | \$m     | \$m          | \$m          | \$m             | \$m       | \$m               | \$m       |
| Loans and advances to customers at amortised cost | 479,067                        | 227,146 | 220,089      | 17,922       | 14,856          | 959,080   | (9,343)           | 949,737   |
| – stage 1   | 475,881                        | 211,084 | 180,002      | 4,599        | –               | 871,566   | (1,309)           | 870,257   |
| – stage 2   | 3,186                          | 16,062  | 40,087       | 13,323       | –               | 72,658    | (2,201)           | 70,457    |
| – stage 3   | –                              | –       | –            | –            | 13,882          | 13,882    | (5,591)           | 8,291     |
| – POCI  | –                              | –       | –            | –            | 974             | 974       | (242)             | 732       |
| Loans and advances to banks at amortised cost     | 70,959                         | 7,692   | 3,890        | 26           | 15              | 82,582    | (23)              | 82,559    |
| – stage 1   | 70,024                         | 7,351   | 3,642        | 10           | –               | 81,027    | (17)              | 81,010    |
| – stage 2   | 935                            | 341     | 248          | 16           | –               | 1,540     | (4)               | 1,536     |
| – stage 3   | –                              | –       | –            | –            | 15              | 15        | (2)               | 13        |
| – POCI  | –                              | –       | –            | –            | –               | –         | –                 | –         |
| Other financial assets measured at amortised cost | 469,898                        | 47,347  | 39,595       | 862          | 162             | 557,864   | (114)             | 557,750   |
| – stage 1   | 469,691                        | 47,019  | 38,929       | 546          | –               | 556,185   | (28)              | 556,157   |
| – stage 2   | 207                            | 328     | 666          | 316          | –               | 1,517     | (4)               | 1,513     |
| – stage 3   | –                              | –       | –            | –            | 155             | 155       | (82)              | 73        |
| – POCI  | –                              | –       | –            | –            | 7               | 7         | –                 | 7         |
| Loan and other credit-related commitments         | 297,683                        | 121,508 | 74,694       | 6,431        | 1,045           | 501,361   | (376)             | 500,985   |
| – stage 1   | 294,958                        | 115,008 | 64,429       | 1,591        | –               | 475,986   | (126)             | 475,860   |
| – stage 2   | 2,725                          | 6,500   | 10,265       | 4,840        | –               | 24,330    | (183)             | 24,147    |
| – stage 3   | –                              | –       | –            | –            | 999             | 999       | (67)              | 932       |
| – POCI  | –                              | –       | –            | –            | 46              | 46        | –                 | 46        |
| Financial guarantees and similar contracts        | 35,537                         | 27,084  | 23,366       | 2,948        | 447             | 89,382    | (161)             | 89,221    |
| – stage 1   | 33,558                         | 25,009  | 18,095       | 1,259        | –               | 77,921    | (36)              | 77,885    |
| – stage 2   | 1,979                          | 2,075   | 5,271        | 1,689        | –               | 11,014    | (47)              | 10,967    |
| – stage 3   | –                              | –       | –            | –            | 413             | 413       | (78)              | 335       |
| – POCI  | –                              | –       | –            | –            | 34              | 34        | –                 | 34        |
| At 1 Jan 2018                                     | 1,353,144                      | 430,777 | 361,634      | 28,189       | 16,525          | 2,190,269 | (10,017)          | 2,180,252 |
| Debt instruments at FVOCI                         |                                |         |              |              |                 |           |                   |           |
| Stage 1   | 297,753                        | 6,678   | 12,941       | 2,450        | –               | 319,822   | (28)              | 319,794   |
| Stage 2   | 208                            | 108     | 147          | 1,826        | –               | 2,289     | (142)             | 2,147     |
| Stage 3   | –                              | –       | –            | –            | 584             | 584       | (14)              | 570       |
| POCI  | –                              | –       | –            | –            | –               | –         | –                 | –         |
| At 1 Jan 2018                                     | 297,961                        | 6,786   | 13,088       | 4,276        | 584             | 322,695   | (184)             | 322,511   |

For footnote, see page 74.

### Renegotiated loans and forbearance

The following table shows the gross carrying amounts of the Group's holdings of renegotiated loans and advances to customers by industry sector and by stages. Wholesale renegotiated loans are classified as stage 3 until there is sufficient

evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period, and there are no other indicators of impairment. Personal renegotiated loans are deemed to remain credit-impaired until repayment or derecognition.

### Renegotiated loans and advances to customers at amortised cost by stage distribution

|                                    | Stage 1      | Stage 2      | Stage 3        | POCI        | Total          |
|------------------------------------|--------------|--------------|----------------|-------------|----------------|
|                                    | \$m          | \$m          | \$m            | \$m         | \$m            |
| <b>Gross carrying amount</b>       |              |              |                |             |                |
| Personal                           | –            | –            | 2,280          | –           | 2,280          |
| – first lien residential mortgages | –            | –            | 1,677          | –           | 1,677          |
| – other personal lending           | –            | –            | 603            | –           | 603            |
| Wholesale                          | 1,096        | 1,335        | 4,499          | 219         | 7,149          |
| – corporate and commercial         | 1,077        | 1,334        | 4,274          | 219         | 6,904          |
| – non-bank financial institutions  | 19           | 1            | 225            | –           | 245            |
| <b>At 30 Jun 2018</b>              | <b>1,096</b> | <b>1,335</b> | <b>6,779</b>   | <b>219</b>  | <b>9,429</b>   |
| <b>Allowance for ECL</b>           |              |              |                |             |                |
| Personal                           | –            | –            | (394)          | –           | (394)          |
| – first lien residential mortgages | –            | –            | (198)          | –           | (198)          |
| – other personal lending           | –            | –            | (196)          | –           | (196)          |
| Wholesale                          | (11)         | (45)         | (1,561)        | (78)        | (1,695)        |
| – corporate and commercial         | (11)         | (45)         | (1,399)        | (78)        | (1,533)        |
| – non-bank financial institutions  | –            | –            | (162)          | –           | (162)          |
| <b>At 30 Jun 2018</b>              | <b>(11)</b>  | <b>(45)</b>  | <b>(1,955)</b> | <b>(78)</b> | <b>(2,089)</b> |

## Personal lending

This section provides further detail on the regions, countries and products driving the increase in personal loans and advances to customers, with the impact of foreign exchange separately identified. Additionally, Hong Kong and UK mortgage book LTV data is provided.

Further product granularity is also provided by stage, with geographical data presented for loans and advances to customers, loan and other credit-related commitments, and financial guarantee and similar contracts.

Total personal lending of \$383bn has increased by \$7.9bn from \$375bn since the Group transitioned to IFRS 9 on 1 January 2018. This increase includes adverse foreign exchange movements of \$7.9bn. Excluding foreign exchange movements, there was growth of \$15.7bn primarily driven by Asia (\$8.7bn) and Europe (\$6.2bn). The allowance for ECL attributable to personal lending, excluding off-balance sheet commitments and guarantees, has decreased slightly from 1 January 2018 to \$2.9bn from \$3.0bn. This is primarily driven by favourable foreign exchange movements and the stable credit environment.

Excluding foreign exchange movements, the total personal lending increase is primarily driven by mortgage balances, which grew by \$11bn. Mortgages in Asia grew by \$6.2bn, notably in Hong Kong

(\$4.1bn) and to a lesser extent in Australia (\$1.6bn), as a result of continued business growth initiatives and property market growth. In Europe, mortgages grew by \$3.9bn, notably in the UK (\$4.2bn), driven by stronger acquisition performance, including the expanded use of broker relationships.

The quality of both our Hong Kong and UK mortgage books remained high, with negligible defaults and impairment allowances. The average LTV ratio on new mortgage lending in Hong Kong was 49%, compared with an estimated 36% for the overall mortgage portfolio. The average LTV ratio on new lending in the UK was 63%, compared with an estimated 49% for the overall mortgage portfolio. In 2018, we aligned our global approach in relation to LTV reporting; this resulted in Hong Kong and the UK changing from a simple average to a balance weighted average. These will no longer be comparable to previously reported amounts.

Excluding foreign exchange movement, other personal lending balances have increased by \$4.7bn since 1 January 2018. Loans and overdrafts grew by \$1.9bn in Hong Kong, and \$2.6bn in the UK, Switzerland and France combined. Credit cards decreased by \$0.7bn in Hong Kong and \$0.4bn in the UK.

### Total personal lending for loans and advances to customers by stage distribution

|  | Gross carrying amount |                |                |                | Allowance for ECL |                |                |                |
|--|-----------------------|----------------|----------------|----------------|-------------------|----------------|----------------|----------------|
|  | Stage 1<br>\$m        | Stage 2<br>\$m | Stage 3<br>\$m | Total<br>\$m   | Stage 1<br>\$m    | Stage 2<br>\$m | Stage 3<br>\$m | Total<br>\$m   |
| <b>By portfolio</b>                                    |                       |                |                |                |                   |                |                |                |
| First lien residential mortgages                       | 272,106               | 8,315          | 2,931          | 283,352        | (38)              | (77)           | (457)          | (572)          |
| – of which:  |                       |                |                |                |                   |                |                |                |
| interest only (including offset)                       | 27,585                | 1,056          | 183            | 28,824         | (3)               | (16)           | (59)           | (78)           |
| affordability (including US adjustable rate mortgages) | 14,702                | 2,603          | 556            | 17,861         | (2)               | (3)            | (4)            | (9)            |
| Other personal lending                                 | 89,803                | 8,204          | 1,568          | 99,575         | (547)             | (1,071)        | (705)          | (2,323)        |
| – other  | 67,255                | 4,309          | 1,064          | 72,628         | (228)             | (387)          | (440)          | (1,055)        |
| – credit cards   | 20,109                | 3,734          | 433            | 24,276         | (315)             | (669)          | (248)          | (1,232)        |
| – second lien residential mortgages                    | 1,046                 | 120            | 66             | 1,232          | (2)               | (11)           | (13)           | (26)           |
| – motor vehicle finance                                | 1,393                 | 41             | 5              | 1,439          | (2)               | (4)            | (4)            | (10)           |
| <b>At 30 Jun 2018</b>                                  | <b>361,909</b>        | <b>16,519</b>  | <b>4,499</b>   | <b>382,927</b> | <b>(585)</b>      | <b>(1,148)</b> | <b>(1,162)</b> | <b>(2,895)</b> |
| <b>By geography</b>                                    |                       |                |                |                |                   |                |                |                |
| Europe   | 164,459               | 4,741          | 1,864          | 171,064        | (165)             | (299)          | (442)          | (906)          |
| – of which: UK   | 135,921               | 3,439          | 1,247          | 140,607        | (151)             | (267)          | (236)          | (654)          |
| Asia   | 150,290               | 5,689          | 710            | 156,689        | (183)             | (379)          | (189)          | (751)          |
| – of which: Hong Kong                                  | 100,245               | 2,898          | 180            | 103,323        | (68)              | (237)          | (39)           | (344)          |
| MENA   | 5,712                 | 388            | 435            | 6,535          | (75)              | (104)          | (273)          | (452)          |
| North America  | 36,261                | 4,687          | 1,208          | 42,156         | (28)              | (86)           | (139)          | (253)          |
| Latin America  | 5,187                 | 1,014          | 282            | 6,483          | (134)             | (280)          | (119)          | (533)          |
| <b>At 30 Jun 2018</b>                                  | <b>361,909</b>        | <b>16,519</b>  | <b>4,499</b>   | <b>382,927</b> | <b>(585)</b>      | <b>(1,148)</b> | <b>(1,162)</b> | <b>(2,895)</b> |

### Total personal lending for loans and other credit-related commitments and financial guarantee and similar contracts by stage distribution

|                       | Nominal amount |                |                |                | Allowance for ECL |                |                |              |
|-----------------------|----------------|----------------|----------------|----------------|-------------------|----------------|----------------|--------------|
|                       | Stage 1<br>\$m | Stage 2<br>\$m | Stage 3<br>\$m | Total<br>\$m   | Stage 1<br>\$m    | Stage 2<br>\$m | Stage 3<br>\$m | Total<br>\$m |
| Europe                | 54,665         | 475            | 56             | 55,196         | (7)               | –              | (2)            | (9)          |
| – of which: UK        | 52,526         | 292            | 48             | 52,866         | (4)               | –              | –              | (4)          |
| Asia                  | 126,239        | 951            | 2              | 127,192        | –                 | –              | –              | –            |
| – of which: Hong Kong | 96,329         | 413            | –              | 96,742         | –                 | –              | –              | –            |
| MENA                  | 3,524          | 68             | 59             | 3,651          | (1)               | –              | –              | (1)          |
| North America         | 14,310         | 294            | 116            | 14,720         | (1)               | –              | –              | (1)          |
| Latin America         | 4,006          | 86             | 6              | 4,098          | (1)               | –              | –              | (1)          |
| <b>At 30 Jun 2018</b> | <b>202,744</b> | <b>1,874</b>   | <b>239</b>     | <b>204,857</b> | <b>(10)</b>       | <b>–</b>       | <b>(2)</b>     | <b>(12)</b>  |

## Risk

### Wholesale lending

This sections provides further detail on the regions, countries and products driving the increase in wholesale loans and advances to customers and banks, with the impact of foreign exchange separately identified. Additional product granularity is also provided by stage with geographical data presented for loans and advances to customers and banks, loan and other credit-related commitments and financial guarantees and similar contracts.

Total wholesale lending of \$683bn has increased by \$16.6bn from \$667bn since the Group transitioned to IFRS 9 on 1 January 2018; this increase includes adverse foreign exchange movements of

\$13bn. Excluding foreign exchange movements, the total wholesale lending growth was driven by a \$29bn increase in corporate and commercial balances. The primary driver of this increase was Asia (\$20.3bn), most notably in Hong Kong (\$13bn),

Singapore (\$2.2bn) and India (\$1.7bn). Other notable increases were observed in the UK (\$4.4bn), the UAE (\$2.3bn) and Canada (\$1.3bn). The allowance for ECL attributable to wholesale lending, excluding off-balance sheet commitments and guarantees of \$5.8bn, has decreased from \$6.3bn on 1 January 2018. This is primarily driven by releases related to the Group's oil and gas sector and by favourable foreign exchange movements.

#### Total wholesale lending for loans and advances to banks and customers by stage distribution

|  | Gross carrying amount |               |              |            |                | Allowance for ECL |              |                |              |                |
|--|-----------------------|---------------|--------------|------------|----------------|-------------------|--------------|----------------|--------------|----------------|
|  | Stage 1               | Stage 2       | Stage 3      | POCI       | Total          | Stage 1           | Stage 2      | Stage 3        | POCI         | Total          |
|  | \$m                   | \$m           | \$m          | \$m        | \$m            | \$m               | \$m          | \$m            | \$m          | \$m            |
| Corporate and commercial   | 480,550               | 48,673        | 9,445        | 314        | 538,982        | (655)             | (812)        | (3,968)        | (126)        | (5,561)        |
| – agriculture, forestry and fishing                                    | 5,501                 | 1,141         | 259          | 15         | 6,916          | (12)              | (31)         | (109)          | (2)          | (154)          |
| – mining and quarrying   | 10,489                | 2,144         | 679          | 2          | 13,314         | (23)              | (85)         | (175)          | (2)          | (285)          |
| – manufacture  | 91,272                | 9,407         | 1,878        | 103        | 102,660        | (124)             | (150)        | (1,001)        | (37)         | (1,312)        |
| – electricity, gas, steam and air-conditioning supply                  | 14,051                | 1,765         | 122          | 59         | 15,997         | (15)              | (50)         | (17)           | (33)         | (115)          |
| – water supply, sewerage, waste management and remediation             | 3,111                 | 145           | 238          | –          | 3,494          | (4)               | (7)          | (15)           | –            | (26)           |
| – construction   | 14,136                | 1,370         | 1,013        | 37         | 16,556         | (27)              | (17)         | (501)          | (36)         | (581)          |
| – wholesale and retail trade, repair of motor vehicles and motorcycles | 84,947                | 13,227        | 1,871        | 42         | 100,087        | (94)              | (106)        | (873)          | (12)         | (1,085)        |
| – transportation and storage   | 24,592                | 1,671         | 421          | 41         | 26,725         | (34)              | (49)         | (87)           | (1)          | (171)          |
| – accommodation and food   | 18,076                | 2,347         | 316          | 4          | 20,743         | (41)              | (50)         | (86)           | (2)          | (179)          |
| – publishing, audiovisual and broadcasting                             | 18,711                | 1,260         | 224          | 1          | 20,196         | (47)              | (15)         | (63)           | –            | (125)          |
| – real estate  | 113,056               | 7,089         | 1,102        | 3          | 121,250        | (85)              | (66)         | (535)          | –            | (686)          |
| – professional, scientific and technical activities                    | 23,020                | 1,650         | 308          | –          | 24,978         | (30)              | (28)         | (104)          | –            | (162)          |
| – administrative and support services                                  | 22,497                | 2,107         | 456          | 3          | 25,063         | (31)              | (44)         | (146)          | (1)          | (222)          |
| – public administration and defence, compulsory social security        | 1,108                 | 227           | 8            | –          | 1,343          | –                 | (2)          | (5)            | –            | (7)            |
| – education  | 1,693                 | 240           | 18           | –          | 1,951          | (7)               | (6)          | (7)            | –            | (20)           |
| – health and care  | 5,306                 | 630           | 157          | 3          | 6,096          | (10)              | (18)         | (60)           | –            | (88)           |
| – arts, entertainment and recreation                                   | 4,794                 | 777           | 62           | –          | 5,633          | (10)              | (11)         | (33)           | –            | (54)           |
| – other services   | 14,315                | 623           | 274          | 1          | 15,213         | (56)              | (55)         | (148)          | –            | (259)          |
| – activities of households   | 151                   | 648           | –            | –          | 799            | –                 | –            | –              | –            | –              |
| – extra-territorial organisations and bodies activities                | 907                   | 4             | 39           | –          | 950            | –                 | –            | (3)            | –            | (3)            |
| – government   | 7,942                 | 121           | –            | –          | 8,063          | (5)               | (1)          | –              | –            | (6)            |
| – asset-backed securities  | 875                   | 80            | –            | –          | 955            | –                 | (21)         | –              | –            | (21)           |
| Non-bank financial institutions  | 56,412                | 3,583         | 274          | –          | 60,269         | (44)              | (45)         | (190)          | –            | (279)          |
| Loans and advances to banks  | 83,588                | 335           | 16           | –          | 83,939         | (11)              | (2)          | (2)            | –            | (15)           |
| <b>At 30 Jun 2018</b>  | <b>620,550</b>        | <b>52,591</b> | <b>9,735</b> | <b>314</b> | <b>683,190</b> | <b>(710)</b>      | <b>(859)</b> | <b>(4,160)</b> | <b>(126)</b> | <b>(5,855)</b> |
| <b>By geography</b>  |                       |               |              |            |                |                   |              |                |              |                |
| Europe   | 195,378               | 19,734        | 5,338        | 106        | 220,556        | (381)             | (531)        | (1,902)        | (49)         | (2,863)        |
| – of which: UK   | 137,939               | 15,627        | 3,896        | 15         | 157,477        | (307)             | (470)        | (1,213)        | (2)          | (1,992)        |
| Asia   | 326,286               | 19,312        | 1,721        | 100        | 347,419        | (163)             | (99)         | (957)          | (27)         | (1,246)        |
| – of which: Hong Kong  | 194,677               | 12,515        | 847          | 70         | 208,109        | (80)              | (58)         | (402)          | (26)         | (566)          |
| MENA   | 25,302                | 4,007         | 1,740        | 56         | 31,105         | (56)              | (93)         | (1,000)        | (45)         | (1,194)        |
| North America  | 56,722                | 8,894         | 656          | –          | 66,272         | (35)              | (114)        | (148)          | –            | (297)          |
| Latin America  | 16,862                | 644           | 280          | 52         | 17,838         | (75)              | (22)         | (153)          | (5)          | (255)          |
| <b>At 30 Jun 2018</b>  | <b>620,550</b>        | <b>52,591</b> | <b>9,735</b> | <b>314</b> | <b>683,190</b> | <b>(710)</b>      | <b>(859)</b> | <b>(4,160)</b> | <b>(126)</b> | <b>(5,855)</b> |



Total wholesale lending for loans and other credit-related commitments and financial guarantee and similar contracts by stage distribution

|                          | Nominal amount |               |              |           |                | Allowance for ECL |              |              |          |              |
|--------------------------|----------------|---------------|--------------|-----------|----------------|-------------------|--------------|--------------|----------|--------------|
|                          | Stage 1        | Stage 2       | Stage 3      | POCI      | Total          | Stage 1           | Stage 2      | Stage 3      | POCI     | Total        |
|                          | \$m            | \$m           | \$m          | \$m       | \$m            | \$m               | \$m          | \$m          | \$m      | \$m          |
| Corporate and commercial | 310,300        | 24,243        | 1,130        | 30        | 335,703        | (144)             | (196)        | (159)        | –        | (499)        |
| Financial                | 72,302         | 1,250         | 6            | –         | 73,558         | (13)              | –            | –            | –        | (13)         |
| <b>At 30 Jun 2018</b>    | <b>382,602</b> | <b>25,493</b> | <b>1,136</b> | <b>30</b> | <b>409,261</b> | <b>(157)</b>      | <b>(196)</b> | <b>(159)</b> | <b>–</b> | <b>(512)</b> |
| <b>By geography</b>      |                |               |              |           |                |                   |              |              |          |              |
| Europe                   | 152,182        | 6,414         | 664          | 30        | 159,290        | (80)              | (64)         | (97)         | –        | (241)        |
| – of which: UK           | 88,193         | 2,268         | 451          | 5         | 90,917         | (50)              | (50)         | (75)         | –        | (175)        |
| Asia                     | 89,072         | 5,706         | 185          | –         | 94,963         | (42)              | (16)         | (26)         | –        | (84)         |
| – of which: Hong Kong    | 35,312         | 2,518         | 169          | –         | 37,999         | (10)              | (6)          | (23)         | –        | (39)         |
| MENA                     | 16,602         | 2,917         | 197          | –         | 19,716         | (15)              | (24)         | (31)         | –        | (70)         |
| North America            | 120,514        | 10,316        | 89           | –         | 130,919        | (15)              | (92)         | (4)          | –        | (111)        |
| Latin America            | 4,232          | 140           | 1            | –         | 4,373          | (5)               | –            | (1)          | –        | (6)          |
| <b>At 30 Jun 2018</b>    | <b>382,602</b> | <b>25,493</b> | <b>1,136</b> | <b>30</b> | <b>409,261</b> | <b>(157)</b>      | <b>(196)</b> | <b>(159)</b> | <b>–</b> | <b>(512)</b> |

Supplementary information

The disclosure below presents the gross carrying/nominal amount of financial instruments to which the impairment requirements in

IFRS 9 are applied by global business and the associated allowance for ECL.

Summary of financial instruments to which the impairment requirements in IFRS 9 are applied – by global business

|  | Gross carrying/nominal amount |               |               |            |                  | Allowance for ECL |                |                |              |                |
|--|-------------------------------|---------------|---------------|------------|------------------|-------------------|----------------|----------------|--------------|----------------|
|  | Stage 1                       | Stage 2       | Stage 3       | POCI       | Total            | Stage 1           | Stage 2        | Stage 3        | POCI         | Total          |
|  | \$m                           | \$m           | \$m           | \$m        | \$m              | \$m               | \$m            | \$m            | \$m          | \$m            |
| Loans and advances to customers at amortised cost                  | 898,871                       | 68,775        | 14,218        | 314        | 982,178          | (1,284)           | (2,005)        | (5,320)        | (126)        | (8,735)        |
| – RBWM   | 326,386                       | 22,104        | 5,534         | –          | 354,024          | (577)             | (1,151)        | (1,184)        | –            | (2,912)        |
| – CMB  | 299,854                       | 27,408        | 6,252         | 254        | 333,768          | (500)             | (614)          | (3,223)        | (121)        | (4,458)        |
| – GB&M   | 233,956                       | 15,371        | 1,895         | 59         | 251,281          | (191)             | (199)          | (837)          | (5)          | (1,232)        |
| – GPB  | 36,718                        | 3,772         | 509           | 1          | 41,000           | (13)              | (10)           | (76)           | –            | (99)           |
| – Corporate Centre   | 1,957                         | 120           | 28            | –          | 2,105            | (3)               | (31)           | –              | –            | (34)           |
| Loans and advances to banks at amortised cost                      | 83,588                        | 335           | 16            | –          | 83,939           | (11)              | (2)            | (2)            | –            | (15)           |
| – RBWM   | 6,197                         | 23            | 9             | –          | 6,229            | –                 | –              | –              | –            | –              |
| – CMB  | 1,888                         | 3             | –             | –          | 1,891            | (1)               | –              | –              | –            | (1)            |
| – GB&M   | 20,987                        | 261           | 4             | –          | 21,252           | (8)               | (2)            | (1)            | –            | (11)           |
| – GPB  | 120                           | –             | –             | –          | 120              | –                 | –              | –              | –            | –              |
| – Corporate Centre   | 54,396                        | 48            | 3             | –          | 54,447           | (2)               | –              | (1)            | –            | (3)            |
| Other financial assets measured at amortised cost                  | 611,524                       | 1,525         | 79            | 1          | 613,129          | (27)              | (4)            | (25)           | –            | (56)           |
| – RBWM   | 49,397                        | 432           | 14            | –          | 49,843           | (12)              | –              | (1)            | –            | (13)           |
| – CMB  | 17,701                        | 623           | 45            | 1          | 18,370           | (6)               | (3)            | (24)           | –            | (33)           |
| – GB&M   | 280,074                       | 445           | 15            | –          | 280,534          | (2)               | (1)            | –              | –            | (3)            |
| – GPB  | 1,407                         | 2             | 1             | –          | 1,410            | –                 | –              | –              | –            | –              |
| – Corporate Centre   | 262,945                       | 23            | 4             | –          | 262,972          | (7)               | –              | –              | –            | (7)            |
| <b>Total gross carrying amount on balance sheet at 30 Jun 2018</b> | <b>1,593,983</b>              | <b>70,635</b> | <b>14,313</b> | <b>315</b> | <b>1,679,246</b> | <b>(1,322)</b>    | <b>(2,011)</b> | <b>(5,347)</b> | <b>(126)</b> | <b>(8,806)</b> |
| Loans and other credit related commitments                         | 504,160                       | 18,231        | 613           | 11         | 523,015          | (119)             | (134)          | (66)           | –            | (319)          |
| – RBWM   | 176,526                       | 2,028         | 264           | –          | 178,818          | (11)              | (7)            | (8)            | –            | (26)           |
| – CMB  | 73,961                        | 6,377         | 147           | 11         | 80,496           | (57)              | (47)           | (28)           | –            | (132)          |
| – GB&M   | 203,285                       | 8,494         | 163           | –          | 211,942          | (50)              | (79)           | (19)           | –            | (148)          |
| – GPB  | 30,118                        | 1,212         | 2             | –          | 31,332           | –                 | –              | –              | –            | –              |
| – Corporate Centre   | 20,270                        | 120           | 37            | –          | 20,427           | (1)               | (1)            | (11)           | –            | (13)           |
| Financial guarantee and similar contracts                          | 81,186                        | 9,136         | 762           | 19         | 91,103           | (48)              | (62)           | (95)           | –            | (205)          |
| – RBWM   | 872                           | 2             | 9             | –          | 883              | (2)               | (3)            | (5)            | –            | (10)           |
| – CMB  | 25,366                        | 4,589         | 487           | 19         | 30,461           | (18)              | (26)           | (75)           | –            | (119)          |
| – GB&M   | 52,252                        | 4,516         | 162           | –          | 56,930           | (25)              | (33)           | (13)           | –            | (71)           |
| – GPB  | 1,164                         | 1             | 2             | –          | 1,167            | (2)               | –              | (2)            | –            | (4)            |
| – Corporate Centre   | 1,532                         | 28            | 102           | –          | 1,662            | (1)               | –              | –              | –            | (1)            |
| <b>Total nominal amount off balance sheet at 30 Jun 2018</b>       | <b>585,346</b>                | <b>27,367</b> | <b>1,375</b>  | <b>30</b>  | <b>614,118</b>   | <b>(167)</b>      | <b>(196)</b>   | <b>(161)</b>   | <b>–</b>     | <b>(524)</b>   |
| RBWM   | 15,866                        | –             | –             | –          | 15,866           | (5)               | –              | –              | –            | (5)            |
| CMB  | 2,152                         | –             | –             | –          | 2,152            | (2)               | –              | –              | –            | (2)            |
| GB&M   | 3,214                         | –             | –             | –          | 3,214            | (8)               | –              | –              | –            | (8)            |
| GPB  | –                             | –             | –             | –          | –                | –                 | –              | –              | –            | –              |
| Corporate Centre   | 299,734                       | 904           | 54            | 16         | 300,708          | (19)              | (107)          | (11)           | –            | (137)          |
| <b>Debt instruments measured at FVOCI at 30 Jun 2018</b>           | <b>320,966</b>                | <b>904</b>    | <b>54</b>     | <b>16</b>  | <b>321,940</b>   | <b>(34)</b>       | <b>(107)</b>   | <b>(11)</b>    | <b>–</b>     | <b>(152)</b>   |

## Risk

### Securitisation exposures and other structured products

The following table summarises the carrying amount of our asset-backed securities ('ABSs') exposure by categories of collateral. It includes assets held in the GB&M legacy credit portfolio with a carrying value of \$6.8bn (31 December 2017: \$9bn).

At 30 June 2018, the FVOCI reserve in respect of ABSs was a deficit of \$205m (31 December 2017: deficit of \$519m). For 2018, the impairment write-back in respect of ABSs was \$107m (31 December 2017: \$53m).

#### Carrying amount of HSBC's consolidated holdings of ABSs

| <i>Footnote</i>  | Trading      | Financial investments at FVOCI | Held at amortised cost | Financial assets designated and otherwise mandatorily measured at fair value through profit or loss | Total         | Of which held through consolidated structured entities |
|--|--------------|--------------------------------|------------------------|---|---------------|--|
|  | \$m          | \$m                            | \$m                    | \$m   | \$m           | \$m  |
| Mortgage-related assets                                | 1,528        | 13,107                         | 14,898                 | 71  | 29,604        | 376  |
| – sub-prime residential                                | 17           | 729                            | –                      | 16  | 762           | 117  |
| – US Alt-A residential                                 | –            | 199                            | 3                      | –   | 202           | 116  |
| – US Government agency and sponsored enterprises: MBSs | 134          | 12,018                         | 13,961                 | –   | 26,113        | –  |
| – UK buy-to-let residential                            | –            | –                              | –                      | –   | –             | –  |
| – other residential                                    | 1,092        | 24                             | 889                    | –   | 2,005         | 12   |
| – commercial property                                  | 285          | 137                            | 45                     | 55  | 522           | 131  |
| Leveraged finance-related assets                       | 336          | 133                            | –                      | 323   | 792           | 264  |
| Student loan-related assets                            | 132          | 1,946                          | –                      | 24  | 2,102         | 1,918  |
| Auto finance related assets                            | 222          | –                              | 3                      | –   | 225           | –  |
| Other assets   | 1,279        | 800                            | 1                      | 3   | 2,083         | 227  |
| <b>At 30 Jun 2018</b>                                  | <b>3,497</b> | <b>15,986</b>                  | <b>14,902</b>          | <b>421</b>  | <b>34,806</b> | <b>2,785</b>   |

For footnote, see page 74.

### Selected 2017 credit risk disclosures

The disclosures below were included in our 2017 external reports and do not reflect the adoption of IFRS 9. As these tables are not

directly comparable to the current 2018 credit risk tables, which are disclosed on an IFRS 9 basis, these 2017 disclosures have been shown below and not adjacent to 2018 tables.

#### Summary of credit risk

|  | At 31 Dec 2017 |
|--|----------------|
|  | \$bn           |
| At end of period                                       |                |
| Maximum exposure to credit risk                        | 3,030          |
| – total assets subject to credit risk                  | 2,306          |
| – off-balance sheet commitments subject to credit risk | 724            |
| Gross loans and advances                               | 1,060          |
| – personal lending                                     | 376            |
| – wholesale lending                                    | 684            |
| Impaired loans   | 15             |
| – personal lending                                     | 5              |
| – wholesale lending                                    | 10             |
| Impaired loans as a % of gross loans and advances      | %              |
| Personal lending                                       | 1.3            |
| Wholesale lending                                      | 1.5            |
| Total  | 1.5            |
|  | \$bn           |
| Impairment allowances                                  | 7.5            |
| – personal lending                                     | 1.7            |
| – wholesale lending                                    | 5.8            |
| Loans and advances net of impairment allowances        | 1,053          |

|                              | Half-year to |             |
|------------------------------|--------------|-------------|
|                              | 30 Jun 2017  | 31 Dec 2017 |
|                              | \$bn         | \$bn        |
| Loan impairment charges      | 0.7          | 1.3         |
| – personal lending           | 0.5          | 0.5         |
| – wholesale lending          | 0.2          | 0.8         |
| Other credit risk provisions | (0.1)        | (0.1)       |
|                              | 0.6          | 1.2         |

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

|                | Neither past due nor impaired |         |              |              | Past due but not impaired | Impaired | Total gross amount | Impairment allowances | Total     |
|----------------|-------------------------------|---------|--------------|--------------|---------------------------|----------|--------------------|-----------------------|-----------|
|                | Strong                        | Good    | Satisfactory | Sub-standard |                           |          |                    |                       |           |
|                | \$m                           | \$m     | \$m          | \$m          |                           |          |                    |                       |           |
| At 31 Dec 2017 | 1,635,086                     | 336,212 | 293,685      | 23,084       | 8,716                     | 16,341   | 2,313,124          | (7,532)               | 2,305,592 |
|                | %                             | %       | %            | %            | %                         | %        | %                  |                       |           |
|                | 70.7                          | 14.5    | 12.7         | 1.0          | 0.4                       | 0.7      | 100.0              |                       |           |

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

|                                   | Neither past due nor impaired |         |              |              | Past due but not impaired | Impaired | Total gross amount | Impairment allowances | Total     |
|-----------------------------------|-------------------------------|---------|--------------|--------------|---------------------------|----------|--------------------|-----------------------|-----------|
|                                   | Strong                        | Good    | Satisfactory | Sub-standard |                           |          |                    |                       |           |
|                                   | \$m                           | \$m     | \$m          | \$m          |                           |          |                    |                       |           |
| At 31 Dec 2017                    | 580,934                       | 231,369 | 208,306      | 16,153       | 8,609                     | 15,470   | 1,060,841          | (7,484)               | 1,053,357 |
| Loans and advances to customers   | 503,759                       | 222,343 | 204,162      | 16,114       | 8,600                     | 15,470   | 970,448            | (7,484)               | 962,964   |
| – personal                        | 324,960                       | 26,612  | 14,549       | 780          | 4,658                     | 4,922    | 376,481            | (1,719)               | 374,762   |
| – corporate and commercial        | 140,382                       | 176,745 | 176,661      | 14,784       | 3,422                     | 10,254   | 522,248            | (5,494)               | 516,754   |
| – non-bank financial institutions | 38,417                        | 18,986  | 12,952       | 550          | 520                       | 294      | 71,719             | (271)                 | 71,448    |
| Loans and advances to banks       | 77,175                        | 9,026   | 4,144        | 39           | 9                         | –        | 90,393             | –                     | 90,393    |

### Impaired loans by industry sector and geographical region

|  | Europe | Asia  | MENA  | North America | Latin America | Total  |
|--|--------|-------|-------|---------------|---------------|--------|
|  | \$m    | \$m   | \$m   | \$m           | \$m           | \$m    |
| Non-renegotiated impaired loans                    | 4,551  | 1,645 | 870   | 1,180         | 452           | 8,698  |
| – personal   | 1,648  | 475   | 227   | 665           | 280           | 3,295  |
| – corporate and commercial                         | 2,895  | 1,146 | 639   | 508           | 172           | 5,360  |
| – financial  | 8      | 24    | 4     | 7             | –             | 43     |
| Renegotiated impaired loans                        | 3,491  | 604   | 1,079 | 1,426         | 172           | 6,772  |
| – personal   | 381    | 125   | 120   | 958           | 43            | 1,627  |
| – corporate and commercial                         | 2,926  | 478   | 895   | 466           | 129           | 4,894  |
| – financial  | 184    | 1     | 64    | 2             | –             | 251    |
| At 31 Dec 2017                                     | 8,042  | 2,249 | 1,949 | 2,606         | 624           | 15,470 |
| Impaired loans % of total gross loans and advances | 2.0%   | 0.5%  | 5.4%  | 2.2%          | 2.6%          | 1.5%   |

### Renegotiated loans and advances to customers by industry sector

|   | First lien residential mortgages | Other personal lending | Corporate and commercial | Non-bank financial institutions | Total  |
|---|----------------------------------|------------------------|--------------------------|---------------------------------|--------|
|   | \$m                              | \$m                    | \$m                      | \$m                             | \$m    |
| Neither past due nor impaired               | 476                              | 268                    | 2,082                    | 257                             | 3,083  |
| Past due but not impaired                   | 58                               | 49                     | 120                      | –                               | 227    |
| Impaired                                    | 1,329                            | 298                    | 4,894                    | 251                             | 6,772  |
| At 31 Dec 2017                              | 1,863                            | 615                    | 7,096                    | 508                             | 10,082 |
| Impairment allowances on renegotiated loans | 165                              | 127                    | 1,584                    | 151                             | 2,027  |

### Renegotiated loans and advances to customers by geographical region

|                | Europe | Asia | MENA  | North America | Latin America | Total  |
|----------------|--------|------|-------|---------------|---------------|--------|
|                | \$m    | \$m  | \$m   | \$m           | \$m           | \$m    |
| At 31 Dec 2017 | 5,667  | 921  | 1,622 | 1,604         | 268           | 10,082 |

## Risk

### Loan impairment

#### Loan impairment charge to the income statement by industry sector

|   | Europe | Asia | MENA | North America | Latin America | Total |
|---|--------|------|------|---------------|---------------|-------|
|   | \$m    | \$m  | \$m  | \$m           | \$m           | \$m   |
| Personal  | 103    | 143  | 53   | 8             | 240           | 547   |
| – first lien residential mortgages                            | 26     | 4    | –    | (11)          | (18)          | 1     |
| – other personal  | 77     | 139  | 53   | 19            | 258           | 546   |
| Corporate and commercial                                      | (69)   | 286  | 47   | (102)         | 21            | 183   |
| – manufacturing and international trade and services          | 65     | 231  | 34   | (18)          | 8             | 320   |
| – commercial real estate and other property-related           | (92)   | 33   | 23   | 3             | 1             | (32)  |
| – other commercial  | (42)   | 22   | (10) | (87)          | 12            | (105) |
| Financial   | 10     | 18   | 20   | 1             | –             | 49    |
| Total loan impairment charge for the half-year to 30 Jun 2017 | 44     | 447  | 120  | (93)          | 261           | 779   |
| Personal  | 37     | 100  | 39   | 24            | 212           | 412   |
| – first lien residential mortgages                            | (20)   | (5)  | 5    | 11            | (9)           | (18)  |
| – other personal  | 57     | 105  | 34   | 13            | 221           | 430   |
| Corporate and commercial                                      | 688    | 12   | 36   | (61)          | 69            | 744   |
| – manufacturing and international trade and services          | 249    | 5    | 61   | 36            | 51            | 402   |
| – commercial real estate and other property-related           | 292    | (12) | (27) | 6             | (1)           | 258   |
| – other commercial  | 147    | 19   | 2    | (103)         | 19            | 84    |
| Financial   | 56     | (1)  | 2    | –             | –             | 57    |
| Total loan impairment charge for the half-year to 31 Dec 2017 | 781    | 111  | 77   | (37)          | 281           | 1,213 |

#### 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 Jun 2017                 |        |        |        |               |               |        |
| New allowances net of allowance releases | 0.11   | 0.26   | 0.91   | (0.10)        | 3.30          | 0.25   |
| Recoveries                               | (0.08) | (0.03) | (0.09) | (0.07)        | (0.46)        | (0.07) |
| Total charge for impairment losses       | 0.03   | 0.23   | 0.82   | (0.17)        | 2.84          | 0.18   |
| Amount written off net of recoveries     | 0.27   | 0.12   | 0.82   | 0.20          | 2.32          | 0.26   |
| Half-year to 31 Dec 2017                 |        |        |        |               |               |        |
| New allowances net of allowance releases | 0.55   | 0.09   | 0.68   | –             | 3.28          | 0.34   |
| Recoveries                               | (0.11) | (0.03) | (0.18) | (0.07)        | (0.38)        | (0.08) |
| Total charge for impairment losses       | 0.44   | 0.06   | 0.50   | (0.07)        | 2.90          | 0.26   |
| Amount written off net of recoveries     | 0.21   | 0.15   | 1.88   | 0.35          | 2.64          | 0.31   |

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

|   | Half-year to 30 Jun 2017 |                       |                       | Total   |
|---|--------------------------|-----------------------|-----------------------|---------|
|   | Banks                    | Customers             |                       |         |
|   | individually assessed    | Individually assessed | Collectively assessed |         |
|   | \$m                      | \$m                   | \$m                   | \$m     |
| At the beginning of the period                          | –                        | 4,932                 | 2,918                 | 7,850   |
| Amounts written off                                     | –                        | (648)                 | (756)                 | (1,404) |
| Recoveries of loans and advances previously written off | –                        | 63                    | 223                   | 286     |
| Charge to income statement                              | –                        | 270                   | 509                   | 779     |
| Exchange and other movements                            | 2                        | 109                   | (59)                  | 52      |
| At the end of the period                                | 2                        | 4,726                 | 2,835                 | 7,563   |
| Impairment allowances as a % of loans and advances      | –                        | 0.5%                  | 0.3%                  | 0.8%    |
| Half-year to 31 Dec 2017                                |                          |                       |                       |         |
| At the beginning of the period                          | 2                        | 4,726                 | 2,835                 | 7,563   |
| Amounts written off                                     | –                        | (820)                 | (949)                 | (1,769) |
| Recoveries of loans and advances previously written off | –                        | 56                    | 302                   | 358     |
| Charge to income statement                              | –                        | 844                   | 369                   | 1,213   |
| Exchange and other movements                            | (2)                      | 154                   | (33)                  | 119     |
| At the end of the period                                | –                        | 4,960                 | 2,524                 | 7,484   |
| Impairment allowances as a % of loans and advances      | –                        | 0.5%                  | 0.3%                  | 0.8%    |

## Wholesale lending

### Total wholesale lending for loans and advances to banks and customers<sup>9</sup>

|  | Gross Loans | Impairment Allowance |
|--|-------------|----------------------|
|  | \$m         | \$m                  |
| Corporate and commercial   | 522,248     | (5,494)              |
| – agriculture, forestry and fishing                                    | 6,302       | (122)                |
| – mining and quarrying   | 10,911      | (450)                |
| – manufacture  | 115,531     | (1,390)              |
| – electricity, gas, steam and air-conditioning supply                  | 17,397      | (88)                 |
| – water supply, sewerage, waste management and remediation             | 2,806       | (3)                  |
| – construction   | 15,443      | (540)                |
| – wholesale and retail trade, repair of motor vehicles and motorcycles | 98,079      | (1,361)              |
| – transportation and storage   | 24,258      | (131)                |
| – accommodation and food   | 16,971      | (138)                |
| – publishing, audiovisual and broadcasting                             | 18,405      | (83)                 |
| – real estate  | 114,349     | (638)                |
| – professional, scientific and technical activities                    | 18,094      | (95)                 |
| – administrative and support services                                  | 19,960      | (138)                |
| – public administration and defence, compulsory social security        | 221         | –                    |
| – education  | 1,490       | (7)                  |
| – health and care  | 5,688       | (34)                 |
| – arts, entertainment and recreation                                   | 3,003       | (14)                 |
| – other services   | 20,354      | (235)                |
| – activities of households   | –           | –                    |
| – extra-territorial organisations and bodies activities                | –           | –                    |
| – government   | 11,728      | (8)                  |
| – asset-backed securities  | 1,258       | (19)                 |
| Non-bank financial institutions  | 71,719      | (271)                |
| Loans and advances to banks  | 90,393      | –                    |
| At 31 Dec 2017   | 684,360     | (5,765)              |
| By geography   |             |                      |
| Europe   | 228,775     | (2,469)              |
| – of which: UK   | 163,393     | (1,589)              |
| Asia   | 332,680     | (1,402)              |
| – of which: Hong Kong  | 197,232     | (639)                |
| MENA   | 29,142      | (1,131)              |
| North America  | 76,661      | (579)                |
| Latin America  | 17,102      | (184)                |
| At 31 Dec 2017   | 684,360     | (5,765)              |

For footnote, see page 74.

## Personal lending

### Total personal lending gross loans

|  | Europe  | Asia    | MENA  | North America | Latin America | Total   | UK      | Hong Kong | Total as a % of total gross loans |
|--|---------|---------|-------|---------------|---------------|---------|---------|-----------|-----------------------------------|
|  | \$m     | \$m     | \$m   | \$m           | \$m           | \$m     | \$m     | \$m       |                                   |
| First lien residential mortgages                       | 126,685 | 109,502 | 2,375 | 37,330        | 2,281         | 278,173 | 119,770 | 70,279    | 26.2                              |
| – of which:  |         |         |       |               |               |         |         |           |                                   |
| interest only (including offset)                       | 35,242  | 873     | 65    | 92            | –             | 36,272  | 33,468  | –         | 3.4                               |
| affordability (including US adjustable-rate mortgages) | 409     | 3,111   | –     | 13,742        | –             | 17,262  | –       | 3         | 1.6                               |
| Other personal lending                                 | 43,329  | 40,880  | 4,496 | 5,227         | 4,376         | 98,308  | 19,790  | 27,868    | 9.3                               |
| – other  | 32,995  | 29,400  | 2,663 | 2,919         | 2,205         | 70,182  | 10,039  | 19,977    | 6.7                               |
| – credit cards   | 10,235  | 11,435  | 1,531 | 1,037         | 1,642         | 25,880  | 9,751   | 7,891     | 2.4                               |
| – second lien residential mortgages                    | 99      | 21      | 2     | 1,233         | –             | 1,355   | –       | –         | 0.1                               |
| – motor vehicle finance                                | –       | 24      | 300   | 38            | 529           | 891     | –       | –         | 0.1                               |
| At 31 Dec 2017   | 170,014 | 150,382 | 6,871 | 42,557        | 6,657         | 376,481 | 139,560 | 98,147    | 35.5                              |

For footnote, see page 74.

## Risk

### Total personal lending impairment allowances

|   | Europe | Asia  | MENA  | North America | Latin America | Total | UK    | Hong Kong |
|---|--------|-------|-------|---------------|---------------|-------|-------|-----------|
|   | \$m    | \$m   | \$m   | \$m           | \$m           | \$m   | \$m   | \$m       |
| First lien residential mortgages          | 262    | 30    | 68    | 148           | 16            | 524   | 145   | —         |
| Other personal lending                    | 341    | 237   | 259   | 60            | 298           | 1,195 | 257   | 86        |
| – other                                   | 230    | 109   | 132   | 17            | 151           | 639   | 147   | 36        |
| – credit cards                            | 111    | 128   | 122   | 30            | 140           | 531   | 110   | 50        |
| – second lien residential mortgages       | —      | —     | —     | 13            | —             | 13    | —     | —         |
| – motor vehicle finance                   | —      | —     | 5     | —             | 7             | 12    | —     | —         |
| At 31 Dec 2017                            | 603    | 267   | 327   | 208           | 314           | 1,719 | 402   | 86        |
| Impairment allowances % of impaired loans | 29.7%  | 44.5% | 94.2% | 12.8%         | 97.2%         | 34.9% | 28.3% | 62.3%     |

### Supplementary information

#### Gross loans and advances to customers by country

|   | First lien residential mortgages | Other personal | Property-related | Commercial, international trade and other | Total   |
|---|----------------------------------|----------------|------------------|---|---------|
|   | \$m                              | \$m            | \$m              | \$m                                       | \$m     |
| Europe  | 126,685                          | 43,329         | 33,938           | 180,656                                   | 384,608 |
| – UK  | 119,770                          | 19,790         | 26,012           | 131,938                                   | 297,510 |
| – France  | 2,910                            | 16,650         | 6,255            | 28,440                                    | 54,255  |
| – Germany   | 1                                | 234            | 361              | 10,485                                    | 11,081  |
| – Switzerland   | 839                              | 5,776          | 491              | 1,284                                     | 8,390   |
| – other   | 3,165                            | 879            | 819              | 8,509                                     | 13,372  |
| Asia  | 109,502                          | 40,880         | 86,410           | 190,851                                   | 427,643 |
| – Hong Kong   | 70,279                           | 27,868         | 66,668           | 104,876                                   | 269,691 |
| – Australia   | 12,444                           | 838            | 2,851            | 10,815                                    | 26,948  |
| – India   | 1,185                            | 441            | 1,110            | 6,437                                     | 9,173   |
| – Indonesia   | 64                               | 322            | 164              | 4,107                                     | 4,657   |
| – mainland China                                      | 8,877                            | 1,170          | 5,674            | 25,202                                    | 40,923  |
| – Malaysia  | 3,003                            | 3,385          | 2,144            | 5,676                                     | 14,208  |
| – Singapore   | 5,760                            | 4,952          | 4,727            | 13,073                                    | 28,512  |
| – Taiwan  | 4,877                            | 822            | 19               | 5,342                                     | 11,060  |
| – other   | 3,013                            | 1,082          | 3,053            | 15,323                                    | 22,471  |
| Middle East and North Africa (excluding Saudi Arabia) | 2,375                            | 4,496          | 2,508            | 20,132                                    | 29,511  |
| – Egypt   | —                                | 283            | 39               | 1,342                                     | 1,664   |
| – Turkey  | 206                              | 1,035          | 265              | 2,702                                     | 4,208   |
| – UAE   | 1,880                            | 1,682          | 1,727            | 11,172                                    | 16,461  |
| – other   | 289                              | 1,496          | 477              | 4,916                                     | 7,178   |
| North America   | 37,330                           | 5,227          | 16,916           | 48,925                                    | 108,398 |
| – US  | 17,415                           | 2,278          | 11,092           | 34,790                                    | 65,575  |
| – Canada  | 18,639                           | 2,731          | 5,429            | 13,583                                    | 40,382  |
| – other   | 1,276                            | 218            | 395              | 552                                       | 2,441   |
| Latin America   | 2,281                            | 4,376          | 1,875            | 11,756                                    | 20,288  |
| – Mexico  | 2,129                            | 3,044          | 1,702            | 8,735                                     | 15,610  |
| – other   | 152                              | 1,332          | 173              | 3,021                                     | 4,678   |
| At 31 Dec 2017  | 278,173                          | 98,308         | 141,647          | 452,320                                   | 970,448 |

#### Carrying amount of HSBC's consolidated holdings of ABSs

|  | Trading | Available for sale | Held to maturity | Designated at fair value through profit or loss | Loans and receivables | Total  | Of which held through consolidated SEs |
|--|---------|--------------------|------------------|---|-----------------------|--------|--|
|  | \$m     | \$m                | \$m              | \$m   | \$m                   | \$m    | \$m                                    |
| Mortgage-related assets                                | 1,767   | 14,221             | 13,965           | —   | 1,762                 | 31,715 | 1,826                                  |
| – sub-prime residential                                | 22      | 918                | —                | —   | 32                    | 972    | 484                                    |
| – US Alt-A residential                                 | —       | 1,102              | 3                | —   | —                     | 1,105  | 1,041                                  |
| – US Government agency and sponsored enterprises: MBSs | 331     | 11,750             | 13,962           | —   | —                     | 26,043 | —                                      |
| – other residential                                    | 814     | 181                | —                | —   | 1,595                 | 2,590  | 75                                     |
| – commercial property                                  | 600     | 270                | —                | —   | 135                   | 1,005  | 226                                    |
| Leveraged finance-related assets                       | 128     | 373                | —                | —   | 45                    | 546    | 283                                    |
| Student loan-related assets                            | 155     | 2,198              | —                | —   | —                     | 2,353  | 2,158                                  |
| Other assets   | 1,266   | 731                | —                | 2   | 3,553                 | 5,552  | 428                                    |
| At 31 Dec 2017   | 3,316   | 17,523             | 13,965           | 2   | 5,360                 | 40,166 | 4,695                                  |

## Liquidity and funding risk profile

Liquidity risk is the risk that we do not have sufficient financial resources to meet our obligations as they fall due. Liquidity 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, is not sustainable over time. Funding risk arises when illiquid asset positions cannot be funded at the expected terms when required.

There were no material changes to the policies and practices for the management of liquidity and funding risk in 1H18.

*A summary of our current policies and practices regarding the management of liquidity and funding risk is set out on pages 73 and 74 of the Annual Report and Accounts 2017.*

## Liquidity and funding in the first half of 2018

HSBC requires all operating entities to comply with its liquidity and funding risk management framework ('LFRF') on a standalone basis and to meet regulatory and internal minimums at all times. The liquidity coverage ratio ('LCR') and net stable funding ratio ('NSFR') are key components of the LFRF.

The liquidity and funding position of the Group remained strong in 1H18 as illustrated below. The liquidity value is lower than carrying value due to adjustments applied to comply with the European Commission or other local regulators.

|  | At          |             |             |
|--|-------------|-------------|-------------|
|  | 30 Jun 2018 | 30 Jun 2017 | 31 Dec 2017 |
|  | \$bn        | \$bn        | \$bn        |
| High quality liquid assets (liquidity value) | 540         | 459         | 513         |
| Net outflows                                 | 342         | 329         | 360         |
| Liquidity coverage ratio                     | 158%        | 139%        | 142%        |

The increase in the LCR is driven by the growth in high quality liquid assets in the UK in the period leading up to structural ringfencing on 1 July 2018.

Each principal operating entity reported a NSFR above 100%, highlighting a surplus of stable funding.

## Management of liquidity and funding risk

### Liquidity coverage ratio

At 30 June 2018, all the Group's principal operating entities were well above regulatory minimums and above the internally expected levels established by the Board.

The following table displays the individual LCR levels for our principal operating entities on a European Commission LCR basis. This basis may vary from local LCR measures due to differences in the way non-EU regulators have implemented the Basel III recommendations.

### Principal operating entities' LCRs

|  | Footnotes | At          |             |             |
|--|-----------|-------------|-------------|-------------|
|  |           | 30 Jun 2018 | 30 Jun 2017 | 31 Dec 2017 |
|  |           | %           | %           | %           |
| HSBC UK liquidity group  | 10        | 153         | 126         | 139         |
| The Hongkong and Shanghai Banking Corporation – Hong Kong Branch | 11        | 154         | 158         | 151         |
| The Hongkong and Shanghai Banking Corporation – Singapore Branch | 11        | 203         | 151         | 181         |
| HSBC Bank USA  |           | 126         | 137         | 132         |
| HSBC France  |           | 169         | 159         | 149         |
| Hang Seng Bank   |           | 196         | 235         | 204         |
| HSBC Bank Canada   |           | 110         | 131         | 123         |
| HSBC Bank China  |           | 160         | 151         | 162         |
| HSBC Bank Middle East – UAE Branch                               |           | 165         | 207         | 197         |
| HSBC Mexico  |           | 154         | 158         | 215         |
| HSBC Private Bank  |           | 292         | 173         | 220         |

For footnotes, see page 74.

## Net stable funding ratio

We are required to maintain sufficient stable funding. The NSFR measures stable funding relative to required stable funding, and reflects a bank's funding profile (funding with a term of more than a year). It is designed to complement the LCR.

At 30 June 2018, the Group's principal operating entities were above the internally expected levels established by the Board and applicable under the LFRF. The table below displays the NSFR levels for the principal HSBC operating entities.

### Principal operating entities' NSFRs

|  | Footnotes | At          |             |             |
|--|-----------|-------------|-------------|-------------|
|  |           | 30 Jun 2018 | 30 Jun 2017 | 31 Dec 2017 |
|  |           | %           | %           | %           |
| HSBC UK liquidity group  | 10        | 127         | 113         | 108         |
| The Hongkong and Shanghai Banking Corporation – Hong Kong Branch | 11        | 130         | 155         | 144         |
| The Hongkong and Shanghai Banking Corporation – Singapore Branch | 11        | 117         | 112         | 117         |
| HSBC Bank USA  |           | 122         | 132         | 129         |
| HSBC France  |           | 112         | 119         | 116         |
| Hang Seng Bank   |           | 154         | 159         | 155         |
| HSBC Bank Canada   |           | 125         | 136         | 136         |
| HSBC Bank China  |           | 149         | 133         | 148         |
| HSBC Bank Middle East – UAE Branch                               |           | 142         | 143         | 143         |
| HSBC Mexico  |           | 121         | 119         | 123         |
| HSBC Private Bank  |           | 176         | 181         | 185         |

For footnotes, see page 74.

## Depositor concentration and term funding maturity concentration

The LCR and NSFR metrics assume a stressed outflow based on a portfolio of depositors within retail, corporate and financial deposit segments. The validity of these assumptions is challenged if the portfolio of depositors is not large enough to avoid depositor concentration.

Operating entities are exposed to term refinancing concentration risk if the current maturity profile results in future maturities being overly concentrated in any defined period.

At 30 June 2018, all principal operating entities were within the internally expected levels set for depositor concentration and term funding maturity concentration established by the Board.

### Liquid assets of HSBC's principal operating entities

The table below shows the liquidity value of the unencumbered liquid assets of HSBC's principal operating entities at the period end as a six-monthly average. At 30 June 2018, 85% of the liquid assets eligible for inclusion in the Group consolidated LCR were classified as Level 1.

## Risk

### Liquid assets of HSBC's principal entities

|  |           | Recognised<br>at<br>30 Jun 2018 | 1H18<br>Average | Recognised at<br>30 Jun 2017 | 1H17<br>Average | Recognised at<br>31 Dec 2017 | 2H17<br>Average |
|--|-----------|---------------------------------|-----------------|------------------------------|-----------------|------------------------------|-----------------|
|  | Footnotes | \$m                             | \$m             | \$m                          | \$m             | \$m                          | \$m             |
| HSBC UK liquidity group  | 10        |                                 |                 |                              |                 |                              |                 |
| Level 1  |           | 166,913                         | 160,088         | 148,740                      | 141,032         | 161,036                      | 156,623         |
| Level 2a   |           | 7,763                           | 6,364           | 7,362                        | 4,610           | 2,914                        | 4,795           |
| Level 2b   |           | 16,582                          | 17,296          | 18,691                       | 14,635          | 18,777                       | 19,919          |
| The Hongkong and Shanghai Banking Corporation – Hong Kong Branch | 11        |                                 |                 |                              |                 |                              |                 |
| Level 1  |           | 75,436                          | 78,496          | 74,658                       | 85,848          | 77,217                       | 77,295          |
| Level 2a   |           | 28,656                          | 24,991          | 23,949                       | 24,218          | 26,848                       | 25,841          |
| Level 2b   |           | 1,153                           | 1,988           | 4,736                        | 4,454           | 5,528                        | 6,056           |
| Hang Seng Bank   |           |                                 |                 |                              |                 |                              |                 |
| Level 1  |           | 32,551                          | 30,531          | 33,077                       | 35,639          | 31,091                       | 31,485          |
| Level 2a   |           | 2,739                           | 3,151           | 1,864                        | 1,863           | 3,287                        | 3,077           |
| Level 2b   |           | 142                             | 146             | 200                          | 200             | 197                          | 199             |
| HSBC Bank USA  |           |                                 |                 |                              |                 |                              |                 |
| Level 1  |           | 57,413                          | 53,383          | 67,401                       | 69,031          | 65,131                       | 60,090          |
| Level 2a   |           | 15,612                          | 14,869          | 11,500                       | 15,178          | 13,690                       | 13,226          |
| Level 2b   |           | –                               | 13              | 18                           | 3               | 39                           | 32              |
| Total of HSBC's other principal entities                         | 12        |                                 |                 |                              |                 |                              |                 |
| Level 1  |           | 80,566                          | 84,508          | 87,869                       | 87,662          | 88,281                       | 86,372          |
| Level 2a   |           | 8,003                           | 8,447           | 7,363                        | 7,013           | 7,899                        | 7,810           |
| Level 2b   |           | 407                             | 691             | 1,060                        | 722             | 1,003                        | 886             |

For footnotes, see page 74.

### Sources of funding

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

The following 'Funding sources and uses' table provides a view of how our consolidated balance sheet is funded. In practice, operating entities are required to manage liquidity and funding risk on a stand-alone basis.

The table analyses our consolidated balance sheet according to the assets that primarily arise from operating activities and the sources of funding primarily supporting these activities. Assets and liabilities that do not arise from operating activities are presented as a net balancing source or deployment of funds.

In 1H18, the level of customer accounts continued to exceed the level of loans and advances to customers. The positive funding gap was predominantly deployed in liquid assets.

Loans and advances to banks continued to exceed deposits by banks, meaning the Group remained a net unsecured lender to the banking sector.

### Funding sources

|   |           | At                    |                       |
|---|-----------|-----------------------|-----------------------|
|   | Footnotes | 30 Jun<br>2018<br>\$m | 31 Dec<br>2017<br>\$m |
| Customer accounts                                 | 13        | 1,356,307             | 1,364,462             |
| Deposits by banks                                 | 13        | 64,792                | 69,922                |
| Repurchase agreements – non-trading               |           | 158,295               | 130,002               |
| Debt securities in issue                          |           | 81,708                | 64,546                |
| Accruals, deferred income and other liabilities   | 13        | 89,449                | N/A                   |
| – cash collateral, margin and settlement accounts |           | 89,449                | N/A                   |
| Liabilities of disposal groups held for sale      |           | 685                   | 1,286                 |
| Subordinated liabilities                          |           | 22,604                | 19,826                |
| Financial liabilities designated at fair value    |           | 151,985               | 94,429                |
| Liabilities under insurance contracts             |           | 86,918                | 85,667                |
| Trading liabilities                               | 13        | 83,845                | 184,361               |
| – repos   |           | 1,957                 | 2,255                 |
| – stock lending                                   |           | 11,314                | 8,363                 |
| – settlement accounts                             |           | N/A                   | 11,198                |
| – other trading liabilities                       |           | 70,574                | 162,545               |
| Total equity                                      |           | 191,294               | 197,871               |
|   |           | 2,287,882             | 2,212,372             |

For footnotes, see page 74.

### Funding uses

|  |           | At                    |                       |
|--|-----------|-----------------------|-----------------------|
|  | Footnotes | 30 Jun<br>2018<br>\$m | 31 Dec<br>2017<br>\$m |
| Loans and advances to customers                              | 13        | 973,443               | 962,964               |
| Loans and advances to banks                                  | 13        | 83,924                | 90,393                |
| Reverse repurchase agreements – non-trading                  |           | 208,104               | 201,553               |
| Prepayments, accrued income and other assets                 | 13, 14    | 80,521                | N/A                   |
| – cash collateral, margin and settlement accounts            |           | 80,521                | N/A                   |
| Assets held for sale   |           | 739                   | 781                   |
| Trading assets   | 14        | 247,892               | 287,995               |
| – reverse repos  |           | 14,224                | 10,224                |
| – stock borrowing  |           | 11,995                | 6,895                 |
| – settlement accounts  |           | N/A                   | 15,258                |
| – other trading assets                                       |           | 221,673               | 255,618               |
| Financial investments  |           | 386,436               | 389,076               |
| Cash and balances with central banks                         |           | 189,842               | 180,624               |
| Net deployment in other balance sheet assets and liabilities |           | 116,981               | 98,986                |
|  |           | 2,287,882             | 2,212,372             |



## Market risk profile

Market risk is the risk that 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 in 1H18.

*A summary of our current policies and practices for the management of market risk is set out in 'Market risk management' on page 77 of the Annual Report and Accounts 2017.*

### Market risk in the first half of 2018

Generally robust global economic sentiment has supported most stock markets. However, geopolitical tensions continue to exist and evolve, creating uncertainties that have the propensity to create market volatility. These include the disputes relating to trade tariffs and the ongoing negotiations over the UK's withdrawal from the EU.

The US Federal Reserve, ahead of other central banks, started gradual monetary tightening by raising interest rates and

signalling further rate increases in 2018. Against the backdrop of rising inflation expectations, bond yields started to increase but continue to remain flat and low by historical standards. In the eurozone, the European Central Bank announced the end of its bond-buying programme by the end of the year and pushed back expectations of an increase in rates during 2018.

In China, debt levels remain high. The Chinese authorities have committed to containing leverage with regulatory and monetary tightening. Currency weakness remains amid a looser policy stance, as the threat of further trade tariffs from the US looms.

Trading value at risk ('VaR') was lower during 1H18. The trading VaR composition changed during the half-year, when the interest rate trading VaR increased relative to equity and credit spread trading VaR. The increase in the interest rate VaR component resulted in this asset class being the largest contributor to the overall trading VaR. The changes in the interest rate and credit spread trading VaR components reflect changes in exposures.

Non-trading VaR increased during 1H18 due to a lengthening in duration caused by higher interest rates, especially in the US, and a reduction in portfolio diversification.

### Trading portfolios

#### Value at risk of the trading portfolios

Trading VaR predominantly resides within Global Markets. The VaR for trading activity at 30 June 2018 was lower than at 31 December 2017. The decrease in trading VaR from the equity and credit spread trading VaR components was partially offset by an increase in the interest rate and foreign exchange trading VaR components. The effects of portfolio diversification reduced the overall 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 | Interest rate | Equity      | Credit spread | Portfolio diversification <sup>15</sup> | Total       |
|---------------------------------|--------------------------------|---------------|-------------|---------------|---|-------------|
|                                 | \$m                            | \$m           | \$m         | \$m           | \$m                                     | \$m         |
| <b>Half-year to 30 Jun 2018</b> | <b>9.9</b>                     | <b>39.2</b>   | <b>17.0</b> | <b>18.1</b>   | <b>(34.2)</b>                           | <b>50.0</b> |
| Average                         | 10.4                           | 36.9          | 25.9        | 23.5          | (37.5)                                  | 59.2        |
| Maximum                         | 21.8                           | 48.2          | 33.8        | 35.2          |   | 71.2        |
| Minimum                         | 5.6                            | 28.9          | 16.8        | 12.2          |   | 43.9        |
| Half-year to 30 Jun 2017        | 16.5                           | 36.4          | 15.2        | 21.7          | (42.8)                                  | 47.0        |
| Average                         | 10.5                           | 42.3          | 11.3        | 10.8          | (28.8)                                  | 46.1        |
| Maximum                         | 16.5                           | 67.1          | 16.5        | 23.8          |   | 70.8        |
| Minimum                         | 5.4                            | 30.4          | 9.1         | 5.1           |   | 36.6        |
| Half-year to 31 Dec 2017        | 7.4                            | 31.0          | 32.6        | 31.1          | (38.4)                                  | 63.7        |
| Average                         | 10.2                           | 34.2          | 21.8        | 19.8          | (36.9)                                  | 49.1        |
| Maximum                         | 23.0                           | 45.7          | 32.6        | 31.8          |   | 63.7        |
| Minimum                         | 4.9                            | 27.2          | 14.7        | 11.1          |   | 39.5        |

For footnote, see page 74.

The risks not in VaR ('RNIV') framework covers risks from exposures in the HSBC trading book that are not captured well by the VaR model. The VaR-based RNIVs are included within the metrics for each asset class.

### Back-testing

There were no back-testing exceptions against hypothetical profit and loss for the Group in 1H18.

### 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 2018 was higher than at 31 December 2017. The non-trading credit spread component, reflecting reduced exposures, was offset by an increase in the interest rate component and a decrease in portfolio diversification effects during the period under review.

Non-trading VaR also includes the interest rate risk of non-trading financial instruments held in portfolios managed by Balance Sheet Management ('BSM'). The management of interest rate risk in the banking book is described further in 'Non-trading interest rate risk' below, including the role of BSM.

Non-trading VaR excludes the insurance operations which are discussed further on page 72.

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

## Risk

### Non-trading VaR, 99% 1 day

|                                 | Interest rate | Credit spread | Portfolio diversification <sup>15</sup> | Total        |
|---------------------------------|---------------|---------------|---|--------------|
|                                 | \$m           | \$m           | \$m                                     | \$m          |
| <b>Half-year to 30 Jun 2018</b> | <b>94.6</b>   | <b>35.3</b>   | <b>(24.9)</b>                           | <b>105.0</b> |
| Average                         | 102.2         | 56.7          | (32.8)                                  | 126.1        |
| Maximum                         | 129.3         | 96.0          |   | 154.1        |
| Minimum                         | 85.5          | 27.6          |   | 96.5         |
| Half-year to 30 Jun 2017        | 102.7         | 48.9          | (36.5)                                  | 115.1        |
| Average                         | 136.6         | 46.3          | (37.2)                                  | 145.7        |
| Maximum                         | 164.1         | 69.3          |   | 182.1        |
| Minimum                         | 98.8          | 31.3          |   | 102.1        |
| Half-year to 31 Dec 2017        | 88.5          | 46.7          | (38.9)                                  | 96.3         |
| Average                         | 102.0         | 43.3          | (35.3)                                  | 110.0        |
| Maximum                         | 118.8         | 71.9          |   | 135.0        |
| Minimum                         | 88.5          | 24.5          |   | 93.3         |

For footnote, see page 74.

Non-trading VaR excludes equity risk on securities held at fair value, structural foreign exchange risk and interest rate risk on fixed-rate securities issued by HSBC Holdings. The sections below describe the scope of HSBC's management of market risks in non-trading books.

### Third-party assets in BSM

Third-party assets in BSM decreased by 1% during the first half of 2018. Cash and balances at central banks increased by \$14bn,

predominantly in North America due in part to reduced reverse repo activity. Other notable items were an increase in Loans and Advances to banks of \$5.9bn, predominately in Asia driven by market environment at half-year, resulting in an increase of money markets and term lending operations. Other Assets increased by \$5.9bn reflective of an increase in cash collateral requirements in North America.

### Third-party assets in BSM

|                                    | At          |             |
|------------------------------------|-------------|-------------|
|                                    | 30 Jun 2018 | 31 Dec 2017 |
|                                    | \$m         | \$m         |
| Cash and balances at central banks | 176,163     | 161,715     |
| Trading assets                     | 923         | 637         |
| Loans and advances:                |             |             |
| – to banks                         | 42,006      | 36,047      |
| – to customers                     | 808         | 3,202       |
| Reverse repurchase agreements      | 13,650      | 38,842      |
| Financial investments              | 307,347     | 309,908     |
| Other                              | 10,615      | 4,648       |
|                                    | 551,512     | 554,999     |

### Interest rate risk in the banking book

Interest rate risk in the banking book is the risk of capital or earnings volatility due to changes in market interest rates.

Our policies regarding the funds transfer pricing process and the management of interest rate risk in the banking book are described on pages 73 and 76, respectively, of the *Annual Report and Accounts 2017*.

The Group utilises sensitivity of net interest income to assess the overall level of interest rate risk in the banking book. This measure reflects all interest rate risk in the banking book, including that transferred to BSM.

### Sensitivity of net interest income

The tables below set out the assessed impact to a hypothetical base case projection of our net interest income ('NII') (excluding insurance) under the following scenarios:

- an immediate shock of 25bps to the current market-implied path of interest rates across all currencies on 1 July 2018 (effects over one year and five years); and
- an immediate shock of 100bps to the current market-implied path of interest rates across all currencies on 1 July 2018 (effects over one year and five years).

The sensitivities shown represent our assessment of the change to a hypothetical base case NII, assuming a static balance sheet and no management actions from BSM. They incorporate the effect of

interest rate behaviouralisation, managed rate product pricing assumptions and customer behaviour; for example, prepayment of mortgages or customer migration from non-interest bearing to interest bearing deposit accounts under the specific interest rate scenarios. The scenarios represent interest rate shocks to the current market implied path of rates.

The NII sensitivities shown are indicative and based on simplified scenarios. Immediate interest rate rises of 25bps and 100bps would increase projected net interest income for the 12 months to 30 June 2019 by \$812m and \$3,031m, respectively. Conversely, falls of 25bps and 100bps would decrease projected net interest income for the 12 months to 30 June 2019 by \$731m and \$3,434m, respectively.

The sensitivity of NII for 12 months has decreased by \$268m and \$767m comparing June 2018 with December 2017 in the + and - 100bps parallel shocks, respectively. This decrease was driven by movements in US dollar and HK dollar sensitivities, primarily due to changes in balance sheet composition, increased pass-on assumptions for deposits, and the migration of non interest-bearing liabilities to interest-bearing liabilities as interest rates have increased. By contrast, sterling NII sensitivity has increased, because of higher liquidity linked to UK structural reform.

The change in NII sensitivity for five years is also driven by the factors above.

The structural sensitivity arising from the four global businesses, excluding Global Markets, is positive in a rising rate environment

and negative in a falling rate environment. Both BSM and Global Markets have NII sensitivity profiles that offset this to some degree. The tables do not include BSM management actions or changes in Global Markets' net trading income that may further limit the offset.

The NII sensitivity results should not be interpreted as predictive of future performance. The limitations of this analysis are discussed within the 'Risk management' section on page 76 of the *Annual Report and Accounts 2017*.

#### NII sensitivity to an instantaneous change in yield curves (12 months)

|   | US dollar<br>\$m | HK dollar<br>\$m | Sterling<br>\$m | Euro<br>\$m | Other<br>\$m | Total<br>\$m |
|---|------------------|------------------|-----------------|-------------|--------------|--------------|
| Change in Jul 2018 to Jun 2019 (based on balance sheet at 30 June 2018)     |                  |                  |                 |             |              |              |
| +25bps  | 107              | 206              | 218             | 82          | 199          | 812          |
| -25bps  | (67)             | (210)            | (291)           | (5)         | (158)        | (731)        |
| +100bps   | 285              | 634              | 862             | 502         | 748          | 3,031        |
| -100bps   | (652)            | (958)            | (1,046)         | (41)        | (737)        | (3,434)      |
| Change in Jan 2018 to Dec 2018 (based on balance sheet at 31 December 2017) |                  |                  |                 |             |              |              |
| +25bps  | 227              | 179              | 147             | 50          | 203          | 806          |
| -25bps  | (287)            | (305)            | (181)           | 8           | (160)        | (925)        |
| +100bps   | 845              | 711              | 600             | 412         | 731          | 3,299        |
| -100bps   | (1,444)          | (1,425)          | (631)           | 31          | (732)        | (4,201)      |

#### NII sensitivity to an instantaneous change in yield curves (5 years)

|   | Year 1<br>\$m | Year 2<br>\$m | Year 3<br>\$m | Year 4<br>\$m | Year 5<br>\$m | Total<br>\$m |
|---|---------------|---------------|---------------|---------------|---------------|--------------|
| Change in July 2018 to Jun 2019 (based on balance sheet at 30 June 2018)    |               |               |               |               |               |              |
| +25bps  | 812           | 1,111         | 1,311         | 1,405         | 1,493         | 6,132        |
| -25bps  | (731)         | (1,087)       | (1,155)       | (1,315)       | (1,400)       | (5,688)      |
| +100bps   | 3,031         | 4,123         | 4,792         | 5,186         | 5,532         | 22,664       |
| -100bps   | (3,434)       | (4,692)       | (4,957)       | (5,536)       | (5,906)       | (24,525)     |
| Change in Jan 2018 to Dec 2018 (based on balance sheet at 31 December 2017) |               |               |               |               |               |              |
| +25bps  | 806           | 1,153         | 1,326         | 1,439         | 1,506         | 6,231        |
| -25bps  | (925)         | (872)         | (1,154)       | (1,271)       | (1,381)       | (5,603)      |
| +100bps   | 3,299         | 4,463         | 5,105         | 5,542         | 5,759         | 24,098       |
| -100bps   | (4,201)       | (4,538)       | (5,102)       | (5,498)       | (5,813)       | (25,152)     |

#### Sensitivity of capital and reserves

Financial assets at fair value through Other Comprehensive Income reserves are included as part of common equity tier 1 ('CET1') capital. We measure the potential downside risk to the CET1 ratio due to interest rate and credit spread risk in this portfolio by the portfolio's stressed VaR, using a 99% confidence level and an assumed holding period of one quarter. At 30 June 2018, the stressed VaR of the portfolio was \$3.3bn.

We monitor the sensitivity of reported cash flow hedging reserves to interest rate movements on a monthly basis by assessing the

expected reduction in valuation of 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 following table describes the sensitivity of our cash flow hedge reported reserves to the stipulated movements in yield curves and the maximum and minimum month-end figures of December 2017 and June 2018. The sensitivities are indicative and based on simplified scenarios.

#### Sensitivity of cash flow hedging reported reserves to interest rate movements

|   | Impact in the preceding 6 months |                |                |
|---|----------------------------------|----------------|----------------|
|   | \$m                              | Maximum<br>\$m | Minimum<br>\$m |
| <b>At 30 Jun 2018</b>                         |                                  |                |                |
| +100bps parallel move in all yield curves     | (628)                            | (684)          | (628)          |
| As a percentage of total shareholders' equity | (0.34)%                          | (0.37)%        | (0.34)%        |
| -100bps parallel move in all yield curves     | 720                              | 792            | 720            |
| As a percentage of total shareholders' equity | 0.39%                            | 0.43%          | 0.39%          |
| <b>At 30 Jun 2017</b>                         |                                  |                |                |
| +100bps parallel move in all yield curves     | (839)                            | (1,051)        | (839)          |
| As a percentage of total shareholders' equity | (0.4)%                           | (0.6)%         | (0.4)%         |
| -100bps parallel move in all yield curves     | 860                              | 1,080          | 860            |
| As a percentage of total shareholders' equity | 0.50%                            | 0.60%          | 0.50%          |
| <b>At 31 Dec 2017</b>                         |                                  |                |                |
| +100bps parallel move in all yield curves     | (684)                            | (839)          | (684)          |
| As a percentage of total shareholders' equity | (0.4)%                           | (0.4)%         | (0.4)%         |
| -100bps parallel move in all yield curves     | 720                              | 860            | 720            |
| As a percentage of total shareholders' equity | 0.38%                            | 0.45%          | 0.38%          |

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### Operational risk profile

Operational risk is the risk to achieving our strategy or objectives as a result of inadequate or failed internal processes, people and systems, or from external events.

During 1H18, we continued to strengthen the operational risk management framework ('ORMF') and system of record. The ORMF sets out our approach to the management of non-financial risks, allowing us to focus on the risks that matter the most and the associated controls to manage those risks.

Responsibility for minimising operational risk lies with HSBC's employees. They are required to manage the operational risks of the business and operational activities for which they are responsible.

*A summary of our current policies and practices for the management of operational risk is set out in 'Operational risk management' on page 77 of the Annual Report and Accounts 2017.*

### Operational risk exposures in the first half of 2018

In 1H18, we continued to strengthen the controls that manage our most material risks. Among other measures, we:

- further enhanced our controls to help ensure that we know our customers, ask the right questions, monitor transactions and escalate concerns to detect, prevent and deter financial crime risk;
- implemented a number of initiatives to raise our standards in relation to the conduct of our business as described below in 'Conduct of business';
- increased monitoring and enhanced detective controls to manage fraud risks which arise from new technologies and new ways of banking;
- strengthened internal security controls to help prevent cyber-attacks;
- improved controls and security to protect customers when using digital channels; and
- enhanced our third-party risk management capability to help enable the consistent risk assessment of any third-party service.

### Conduct of business

In 2018, we are continuing to embed conduct considerations and our conduct framework throughout our risk management, across the Group, with conduct issue identification and resolution reported to senior governance forums within each of the global businesses, functions and HSBC Operations Services and Technology. The Board maintains oversight of conduct matters through the Group Risk Committee.

1H18 initiatives have included:

- development of conduct focused annual objectives for Senior Executives and conduct focused long-term incentives for Executive Directors;
- a continued programme of newsletter, corporate intranet and new live-streamed conduct related communications;
- preparation of our 4th annual global mandatory training course on conduct for all employees;
- inclusion of conduct considerations in the design and implementation of our digital products and services; and
- continued development of our global surveillance capabilities across all business lines, with primary focus on Global Banking and Markets, further strengthening our ability to monitor complex trading behaviours, and detect suspicious trading activity and potential misconduct.

There has been focus on support for vulnerable, or potentially vulnerable, customers with ongoing development of business-line led enhancements in specific markets including process changes to help appointed representatives of vulnerable customers operate accounts on their behalf more easily, procedures for early intervention to support customers in, or approaching, financial difficulty, and a pilot scheme to improve financial inclusion.

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### Insurance manufacturing operations risk profile

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

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 82 of the *Annual Report and Accounts 2017*.

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 2017*.

### Insurance manufacturing operations risk profile in the first half of 2018

The risk profile of our insurance manufacturing businesses is measured using an economic capital approach. Assets and liabilities are measured on a market value basis, and a capital requirement is defined to ensure that there is a less than one in 200 chance of insolvency over a one-year time horizon, given the risks to which the businesses are exposed. The methodology for the economic capital calculation is largely aligned to the pan-European Solvency II insurance capital regulations. The economic capital coverage ratio (economic net asset value divided by the economic capital requirement) is a key risk appetite measure. The business has a current appetite to remain globally above 140% with a tolerance to 110%. In addition to economic capital, the regulatory solvency ratio is also a metric used to manage risk appetite on an entity basis.

The risk profile of our remaining life insurance manufacturing businesses did not change materially during 1H18. The increase in policyholder liabilities during the period to \$86.9bn (31 December 2017: \$85.7bn) is primarily a result of increased net premium income and investment returns recognised in policyholder liabilities.

The following table shows the composition of assets and liabilities by contract type.

Balance sheet of insurance manufacturing subsidiaries by type of contract<sup>16</sup>

|   | Footnotes | With DPF<br>\$m | Unit-linked<br>\$m | Other contracts <sup>17</sup><br>\$m | Shareholder assets and liabilities<br>\$m | Total<br>\$m   |
|---|-----------|-----------------|--------------------|--------------------------------------|---|----------------|
| Financial assets  |           | 67,140          | 8,334              | 15,743                               | 6,615                                     | 97,832         |
| – trading assets  |           | –               | –                  | –                                    | –   | –              |
| – financial assets designated and otherwise mandatorily measured at fair value through profit or loss |           | 18,389          | 8,072              | 3,094                                | 1,168                                     | 30,723         |
| – derivatives   |           | 195             | –                  | 10                                   | 4   | 209            |
| – financial investments at amortised cost   | 18        | 33,321          | 47                 | 11,340                               | 3,761                                     | 48,469         |
| – financial investments at FVOCI  | 18        | 11,491          | –                  | 476                                  | 1,449                                     | 13,416         |
| – other financial assets  | 19        | 3,744           | 215                | 823                                  | 233                                       | 5,015          |
| Reinsurance assets  |           | 1,021           | 121                | 1,362                                | –   | 2,504          |
| PVIF  | 20        | –               | –                  | –                                    | 6,847                                     | 6,847          |
| Other assets and investment properties  |           | 1,941           | 5                  | 248                                  | 1,112                                     | 3,306          |
| <b>Total assets at 30 Jun 2018</b>  |           | <b>70,102</b>   | <b>8,460</b>       | <b>17,353</b>                        | <b>14,574</b>                             | <b>110,489</b> |
| Liabilities under investment contracts designated at fair value                                       |           | –               | 1,708              | 3,874                                | –   | 5,582          |
| Liabilities under insurance contracts   |           | 68,527          | 6,684              | 11,707                               | –   | 86,918         |
| Deferred tax  | 21        | 181             | 23                 | 15                                   | 979                                       | 1,198          |
| Other liabilities   |           | –               | –                  | –                                    | 4,520                                     | 4,520          |
| <b>Total liabilities</b>  |           | <b>68,708</b>   | <b>8,415</b>       | <b>15,596</b>                        | <b>5,499</b>                              | <b>98,218</b>  |
| Total equity  |           | –               | –                  | –                                    | 12,271                                    | 12,271         |
| <b>Total equity and liabilities at 30 Jun 2018</b>  |           | <b>68,708</b>   | <b>8,415</b>       | <b>15,596</b>                        | <b>17,770</b>                             | <b>110,489</b> |
| Financial assets  |           | 65,112          | 9,081              | 14,849                               | 6,662                                     | 95,704         |
| – trading assets  |           | –               | –                  | –                                    | –   | –              |
| – financial assets designated at fair value   |           | 15,533          | 8,814              | 2,951                                | 1,259                                     | 28,557         |
| – derivatives   |           | 286             | –                  | 13                                   | 41  | 340            |
| – financial investments – HTM   | 18        | 29,302          | –                  | 6,396                                | 3,331                                     | 39,029         |
| – financial investments – AFS   | 18        | 15,280          | –                  | 4,836                                | 1,877                                     | 21,993         |
| – other financial assets  | 19        | 4,711           | 267                | 653                                  | 154                                       | 5,785          |
| Reinsurance assets  |           | 1,108           | 274                | 1,154                                | –   | 2,536          |
| PVIF  | 20        | –               | –                  | –                                    | 6,610                                     | 6,610          |
| Other assets and investment properties  |           | 1,975           | 2                  | 164                                  | 1,126                                     | 3,267          |
| <b>Total assets at 31 Dec 2017</b>  |           | <b>68,195</b>   | <b>9,357</b>       | <b>16,167</b>                        | <b>14,398</b>                             | <b>108,117</b> |
| Liabilities under investment contracts designated at fair value                                       |           | –               | 1,750              | 3,885                                | –   | 5,635          |
| Liabilities under insurance contracts   |           | 67,137          | 7,548              | 10,982                               | –   | 85,667         |
| Deferred tax  | 21        | 14              | 6                  | 9                                    | 1,230                                     | 1,259          |
| Other liabilities   |           | –               | –                  | –                                    | 3,325                                     | 3,325          |
| <b>Total liabilities</b>  |           | <b>67,151</b>   | <b>9,304</b>       | <b>14,876</b>                        | <b>4,555</b>                              | <b>95,886</b>  |
| Total equity  |           | –               | –                  | –                                    | 12,231                                    | 12,231         |
| <b>Total equity and liabilities at 31 Dec 2017</b>  |           | <b>67,151</b>   | <b>9,304</b>       | <b>14,876</b>                        | <b>16,786</b>                             | <b>108,117</b> |

For footnotes, see page 74.

## Footnotes to Risk

### Credit risk profile

- 1 The total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.
- 2 Includes only those financial instruments which are subject to the impairment requirements of IFRS 9. 'Prepayments, accrued income and other assets' as presented within the consolidated balance sheet on page 80 includes both financial and non-financial assets.
- 3 Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.
- 4 Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in the income statement.
- 5 Purchased or originated credit-impaired ('POCI').
- 6 Days past due ('DPD'). Up to date accounts in Stage 2 are not shown in amounts.
- 7 For the purposes of this disclosure gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowance. As such the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the balance sheet as it excludes fair value gains and losses.
- 8 US mortgage-backed securities.
- 9 The disclosure is a comparative for the 2018 'Total wholesale lending for loans and advances to banks and customers by stage distribution table' and was not presented in the 2017 Interim Report.

### Liquidity and funding risk profile

- 10 The HSBC UK Liquidity Group shown comprises four legal entities: HSBC Bank plc (including all overseas branches, and special purpose entities consolidated by HSBC Bank plc for Financial Statement purposes), Marks and Spencer Financial Services plc, HSBC Private Bank (UK) Ltd and HSBC Trust Company (UK) Limited, managed as a single operating entity, in line with the application of UK liquidity regulation as agreed with the PRA in the UK. In adopting the NSFR (BCBS 295) as a key internal risk management metric, the HSBC Group has, until such time that the NSFR becomes a binding regulatory requirement on the Group or the operating entity locally, permitted entities to reduce the amount of Required Stable Funding Requirement (RSF) for listed equities where the valuation risk has been hedged through an exchange traded daily cash margined derivative, due to management's view as to the speed at which these assets could be monetised under stress and the mitigation of the valuation risk. At 30 June 2018, only HBEU were applying a lower RSF to such equities. The NSFRs presented seek to reflect the internal management view of funding risk.
- 11 The Hongkong and Shanghai Banking Corporation – Hong Kong branch and The Hongkong and Shanghai Banking Corporation – Singapore branch represent the material activities of The Hongkong and Shanghai Banking Corporation. Each branch is monitored and controlled for liquidity and funding risk purposes as a stand-alone operating entity.
- 12 The total shown for other principal HSBC operating entities represents the combined position of all the other operating entities overseen directly by the Risk Management Meeting of the Group Management Board.
- 13 Balances at 30 June 2018 have been prepared in accordance with the accounting policies referred to on page 84. Cash collateral, margin and settlement accounts previously presented as 'Loans and advances to banks' and 'Loans and advances to customers' at 31 December 2017 have been re-presented in 'Prepayments, accrued income and other assets'. Similarly, amounts previously presented as 'Trading liabilities', 'Deposits by banks' and 'Customer accounts' have been re-presented in 'Accruals, deferred income and other liabilities'. These changes were made to ensure consistent presentation of all such balances, including those required by IFRS 9 as described in the footnote below. Comparative data has not been re-presented.
- 14 Balances at 30 June 2018 have been prepared in accordance with the accounting policies referred to on page 84. Cash collateral, margin and settlement accounts have been reclassified from 'Trading assets' to 'Prepayments, accrued income and other assets' as a result of the assessment of business model in accordance with IFRS 9 which was adopted at 1 January 2018. Comparative data has not been re-presented.

## Market risk profile

- 15 When VaR is calculated at a portfolio level, natural offsets in risk can occur when compared with aggregating VaR at the asset class level. This difference is called portfolio diversification. The asset class VaR maxima and minima reported in the table occurred on different dates within the reporting period. For this reason, we do not report an implied portfolio diversification measure between the maximum (minimum) asset class VaR measures and the maximum (minimum) Total VaR measures in this table.

### Insurance manufacturing operations risk profile

- 16 Does not include associates (SABB Takaful Company and Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited).
- 17 'Other contracts' includes term assurance, credit life insurance, universal life insurance and certain investment contracts not included in the 'Unit-linked' or 'With DPF' columns.
- 18 Financial investments at amortised cost or fair value through profit and loss or other comprehensive income.
- 19 Comprise mainly loans and advances to banks, cash and inter-company balances with other non-insurance legal entities.
- 20 Present value of in-force long-term insurance business.
- 21 'Deferred tax' includes the deferred tax liabilities arising on recognition of PVIF.

## Capital

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Our objective in managing Group capital is to maintain appropriate levels of capital to support our business strategy, meet regulatory and stress testing requirements, and respect capital providers' payment priorities.

*A summary of our policies and practices regarding capital management, measurement and allocation is provided on page 117 of the Annual Report and Accounts 2017.*

### Capital overview

#### Capital ratios

|                            | At                               |                                 |                                  |
|----------------------------|----------------------------------|---------------------------------|----------------------------------|
|                            | 30 Jun <sup>1</sup><br>2018<br>% | 1 Jan <sup>1</sup><br>2018<br>% | 31 Dec <sup>2</sup><br>2017<br>% |
| <b>CRD IV transitional</b> |                                  |                                 |                                  |
| Common equity tier 1 ratio | 14.2                             | 14.6                            | 14.5                             |
| Tier 1 ratio               | 17.0                             | 17.4                            | 17.3                             |
| Total capital ratio        | 20.4                             | 21.0                            | 20.9                             |
| <b>CRD IV end point</b>    |                                  |                                 |                                  |
| Common equity tier 1 ratio | 14.2                             | 14.6                            | 14.5                             |
| Tier 1 ratio               | 16.6                             | 16.5                            | 16.4                             |
| Total capital ratio        | 19.8                             | 18.3                            | 18.3                             |

For footnotes, see page 77.

## Capital

#### Own funds disclosure

| Ref <sup>*</sup> |  | At                                 |                                   |                                    |
|------------------|--|------------------------------------|-----------------------------------|------------------------------------|
|                  |  | 30 Jun <sup>1</sup><br>2018<br>\$m | 1 Jan <sup>1</sup><br>2018<br>\$m | 31 Dec <sup>2</sup><br>2017<br>\$m |
| 6                | Common equity tier 1 capital before regulatory adjustments | 156,069                            | 158,923                           | 158,557                            |
| 28               | Total regulatory adjustments to common equity tier 1       | (33,312)                           | (31,613)                          | (32,413)                           |
| 29               | <b>Common equity tier 1 capital</b>                        | <b>122,757</b>                     | 127,310                           | 126,144                            |
| 36               | Additional tier 1 capital before regulatory adjustments    | 24,388                             | 24,922                            | 24,922                             |
| 43               | Total regulatory adjustments to additional tier 1 capital  | (60)                               | (112)                             | (112)                              |
| 44               | <b>Additional tier 1 capital</b>                           | <b>24,328</b>                      | 24,810                            | 24,810                             |
| 45               | <b>Tier 1 capital</b>                                      | <b>147,085</b>                     | 152,120                           | 150,954                            |
| 51               | Tier 2 capital before regulatory adjustments               | 30,048                             | 31,517                            | 31,932                             |
| 57               | Total regulatory adjustments to tier 2 capital             | (523)                              | (503)                             | (503)                              |
| 58               | <b>Tier 2 capital</b>                                      | <b>29,525</b>                      | 31,014                            | 31,429                             |
| 59               | <b>Total capital</b>                                       | <b>176,610</b>                     | 183,134                           | 182,383                            |
| 60               | <b>Total risk-weighted assets</b>                          | <b>865,467</b>                     | 872,089                           | 871,337                            |
|                  | <b>Capital ratios</b>                                      | %                                  | %                                 | %                                  |
| 61               | Common equity tier 1 ratio                                 | 14.2                               | 14.6                              | 14.5                               |
| 62               | Tier 1 ratio   | 17.0                               | 17.4                              | 17.3                               |
| 63               | Total capital ratio  | 20.4                               | 21.0                              | 20.9                               |

\* The references identify the lines prescribed in the EBA template.  
For footnotes, see page 77.

#### Total regulatory capital and risk-weighted assets

|                              | At                                 |                                   |                                    |
|------------------------------|------------------------------------|-----------------------------------|------------------------------------|
|                              | 30 Jun <sup>1</sup><br>2018<br>\$m | 1 Jan <sup>1</sup><br>2018<br>\$m | 31 Dec <sup>2</sup><br>2017<br>\$m |
| <b>CRD IV transitional</b>   |                                    |                                   |                                    |
| Common equity tier 1 capital | 122,757                            | 127,310                           | 126,144                            |
| Additional tier 1 capital    | 24,328                             | 24,810                            | 24,810                             |
| Tier 2 capital               | 29,525                             | 31,014                            | 31,429                             |
| Total regulatory capital     | 176,610                            | 183,134                           | 182,383                            |
| Risk-weighted assets         | 865,467                            | 872,089                           | 871,337                            |
| <b>CRD IV end point</b>      |                                    |                                   |                                    |
| Common equity tier 1 capital | 122,757                            | 127,310                           | 126,144                            |
| Additional tier 1 capital    | 20,704                             | 16,531                            | 16,531                             |
| Tier 2 capital               | 27,731                             | 15,997                            | 16,413                             |
| Total regulatory capital     | 171,192                            | 159,838                           | 159,088                            |
| Risk-weighted assets         | 865,467                            | 872,089                           | 871,337                            |

For footnotes, see page 77.

#### RWAs by risk type

|                          | RWAs         | Capital required <sup>3</sup> |
|--------------------------|--------------|-------------------------------|
|                          | \$bn         | \$bn                          |
| Credit risk              | 688.2        | 55.0                          |
| Counterparty credit risk | 47.6         | 3.8                           |
| Market risk              | 37.0         | 3.0                           |
| Operational risk         | 92.7         | 7.4                           |
| <b>At 30 Jun 2018</b>    | <b>865.5</b> | <b>69.2</b>                   |

For footnote, see page 77.

## Capital

At 30 June 2018, our CET1 capital ratio decreased to 14.2% from 14.5% at 31 December 2017.

CET1 capital decreased in 1H18 by \$3.4bn, mainly as a result of:

- \$3.5bn of unfavourable foreign currency translation differences;
- the \$2.0bn share buy-back; and
- a \$1.0bn increase in threshold deductions as a result of an increase in the value of our material holdings and a decrease in the CET1 capital base.

These decreases were partly offset by:

- \$2.5bn of capital generation through profits, net of cash and scrip dividends; and
- a \$1.2bn IFRS 9 day one transitional impact, mainly due to classification and measurement changes.

translation differences) was mainly due to an increase in asset size of \$10.5bn and changes in asset quality of \$3.7bn, less decreases due to model updates of \$5.3bn.

The following comments describe RWA movements excluding foreign currency translation differences.

### Asset size

Asset size movements were principally driven by lending growth in CMB, RBWM and GB&M which increased RWAs by \$19.5bn, mainly in Asia.

This growth was partly offset by reductions in legacy portfolios of \$7.4bn, and a \$1.7bn reduction in market risk exposures.

### Asset quality

RWAs increased by \$3.7bn mainly as a result of changes in portfolio mix in CMB, GB&M and GPB.

### Model updates

Implementing new counterparty credit risk exposure models in Asia and the US reduced RWAs by \$4.3bn and \$2.4bn respectively.

This was partly offset by a rise of \$1.6bn mainly from updates to retail and corporate models.

## Risk-weighted assets

### RWAs

RWAs decreased by \$5.8bn in the first half of the year, including a decrease of \$13.9bn due to foreign currency translation differences. The \$8.1bn increase (excluding foreign currency

### RWAs by global business

|                          | RBWM         | CMB          | GB&M         | GPB         | Corporate Centre | Total        |
|--------------------------|--------------|--------------|--------------|-------------|------------------|--------------|
|                          | \$bn         | \$bn         | \$bn         | \$bn        | \$bn             | \$bn         |
| Credit risk              | 96.8         | 291.4        | 174.5        | 13.9        | 111.6            | 688.2        |
| Counterparty credit risk | —            | —            | 46.0         | 0.2         | 1.4              | 47.6         |
| Market risk              | —            | —            | 33.2         | —           | 3.8              | 37.0         |
| Operational risk         | 27.3         | 23.7         | 30.8         | 2.9         | 8.0              | 92.7         |
| <b>At 30 Jun 2018</b>    | <b>124.1</b> | <b>315.1</b> | <b>284.5</b> | <b>17.0</b> | <b>124.8</b>     | <b>865.5</b> |

### RWAs by geographical region

|                          | Europe       | Asia         | MENA        | North America | Latin America | Total        |
|--------------------------|--------------|--------------|-------------|---------------|---------------|--------------|
|                          | \$bn         | \$bn         | \$bn        | \$bn          | \$bn          | \$bn         |
| Credit risk              | 218.9        | 293.4        | 46.8        | 102.2         | 26.9          | 688.2        |
| Counterparty credit risk | 27.1         | 9.6          | 1.0         | 8.5           | 1.4           | 47.6         |
| Market risk              | 26.4         | 23.9         | 3.1         | 10.2          | 1.2           | 37.0         |
| Operational risk         | 28.9         | 37.1         | 7.1         | 12.1          | 7.5           | 92.7         |
| <b>At 30 Jun 2018</b>    | <b>301.3</b> | <b>364.0</b> | <b>58.0</b> | <b>133.0</b>  | <b>37.0</b>   | <b>865.5</b> |

For footnote, see page 77.

### RWA movement by global businesses by key driver

|                                       | Credit risk, counterparty credit risk and operational risk |              |               |             |                  |              | Total RWAs   |
|---------------------------------------|--|--------------|---------------|-------------|------------------|--------------|--------------|
|                                       | RBWM   | CMB          | GB&M          | GPB         | Corporate Centre | Market risk  |              |
|                                       | \$bn   | \$bn         | \$bn          | \$bn        | \$bn             | \$bn         | \$bn         |
| <b>RWAs at 31 Dec 2017</b>            | <b>121.5</b>   | <b>301.0</b> | <b>263.4</b>  | <b>16.0</b> | <b>130.5</b>     | <b>38.9</b>  | <b>871.3</b> |
| Asset size                            | 2.4  | 15.1         | 2.1           | 0.4         | (7.8)            | (1.7)        | 10.5         |
| Asset quality                         | 0.6  | 2.0          | 0.7           | 0.6         | (0.2)            | —            | 3.7          |
| Model updates                         | 0.7  | 0.9          | (6.9)         | —           | —                | —            | (5.3)        |
| – portfolios moving onto IRB approach | —  | —            | (0.4)         | —           | —                | —            | (0.4)        |
| – new/updated models                  | 0.7  | 0.9          | (6.5)         | —           | —                | —            | (4.9)        |
| Methodology and policy                | 1.0  | 2.7          | (4.7)         | 0.1         | 0.3              | (0.2)        | (0.8)        |
| – internal updates                    | 1.2  | 2.5          | (4.7)         | 0.1         | (0.5)            | (0.2)        | (1.6)        |
| – external updates – regulatory       | (0.2)  | 0.2          | —             | —           | 0.8              | —            | 0.8          |
| Foreign exchange movements            | (2.1)  | (6.6)        | (3.3)         | (0.1)       | (1.8)            | —            | (13.9)       |
| <b>Total RWA movement</b>             | <b>2.6</b>   | <b>14.1</b>  | <b>(12.1)</b> | <b>1.0</b>  | <b>(9.5)</b>     | <b>(1.9)</b> | <b>(5.8)</b> |
| <b>RWAs at 30 Jun 2018</b>            | <b>124.1</b>   | <b>315.1</b> | <b>251.3</b>  | <b>17.0</b> | <b>121.0</b>     | <b>37.0</b>  | <b>865.5</b> |



## RWA movement by geographical region by key driver

|                                       | Credit risk, counterparty credit risk and operational risk |              |              |               |               |              | Market risk  | Total RWAs |
|---------------------------------------|--|--------------|--------------|---------------|---------------|--------------|--------------|------------|
|                                       | Europe   | Asia         | MENA         | North America | Latin America |              |              |            |
|                                       | \$bn   | \$bn         | \$bn         | \$bn          | \$bn          | \$bn         | \$bn         |            |
| <b>RWAs at 31 Dec 2017</b>            | <b>282.6</b>   | <b>334.3</b> | <b>55.9</b>  | <b>124.2</b>  | <b>35.4</b>   | <b>38.9</b>  | <b>871.3</b> |            |
| Asset size                            | (7.8)  | 15.8         | 0.1          | 1.8           | 2.3           | (1.7)        | 10.5         |            |
| Asset quality                         | 1.9  | 1.3          | (0.4)        | 0.7           | 0.2           | –            | 3.7          |            |
| Model updates                         | 1.5  | (4.6)        | –            | (2.2)         | –             | –            | (5.3)        |            |
| – portfolios moving onto IRB approach | –  | (0.4)        | –            | –             | –             | –            | (0.4)        |            |
| – new/updated models                  | 1.5  | (4.2)        | –            | (2.2)         | –             | –            | (4.9)        |            |
| Methodology and policy                | 2.4  | (2.5)        | 0.2          | (0.5)         | (0.2)         | (0.2)        | (0.8)        |            |
| – internal updates                    | 2.4  | (3.0)        | (0.2)        | (0.6)         | –             | (0.2)        | (1.6)        |            |
| – external updates – regulatory       | –  | 0.5          | 0.4          | 0.1           | (0.2)         | –            | 0.8          |            |
| Foreign exchange movements            | (5.7)  | (4.2)        | (0.9)        | (1.2)         | (1.9)         | –            | (13.9)       |            |
| <b>Total RWA movement</b>             | <b>(7.7)</b>   | <b>5.8</b>   | <b>(1.0)</b> | <b>(1.4)</b>  | <b>0.4</b>    | <b>(1.9)</b> | <b>(5.8)</b> |            |
| <b>RWAs at 30 Jun 2018</b>            | <b>274.9</b>   | <b>340.1</b> | <b>54.9</b>  | <b>122.8</b>  | <b>35.8</b>   | <b>37.0</b>  | <b>865.5</b> |            |

## Leverage ratio

| Ref*  |   | 30 Jun <sup>1</sup><br>2018<br>\$bn | 1 Jan <sup>1</sup><br>2018<br>\$bn | 31 Dec <sup>2</sup><br>2017<br>\$bn |
|-------|---|-------------------------------------|------------------------------------|-------------------------------------|
| 20    | Tier 1 capital  | 143.5                               | 143.8                              | 142.7                               |
| 21    | Total leverage ratio exposure   | 2,664.1                             | 2,556.4                            | 2,557.1                             |
|       |   | %                                   | %                                  | %                                   |
| 22    | <b>Leverage ratio</b>   | <b>5.4</b>                          | 5.6                                | 5.6                                 |
| EU-23 | Choice of transitional arrangements for the definition of the capital measure | <b>Fully phased-in</b>              | Fully phased-in                    | Fully phased-in                     |
|       | UK leverage ratio exposure – quarterly average                                | 2,467.4                             | 2,351.2                            | 2,351.4                             |
|       |   | %                                   | %                                  | %                                   |
|       | UK leverage ratio – quarterly average   | 5.9                                 | 6.2                                | 6.1                                 |
|       | UK leverage ratio – quarter end   | 5.9                                 | 6.1                                | 6.1                                 |

\* The references identify the lines prescribed in the EBA template. For footnotes, see page 77.

Our leverage ratio calculated in accordance with CRD IV was 5.4% at 30 June 2018, down from 5.6% at 31 December 2017, mainly due to balance sheet growth.

The Group's UK leverage ratio at 30 June 2018 on a modified basis, excluding qualifying central bank balances, was 5.9%.

At 30 June 2018, our UK minimum leverage ratio requirement of 3.25% was supplemented by an additional leverage ratio buffer of 0.5% and a countercyclical leverage ratio buffer of 0.2%. These additional buffers translate into capital values of \$12.8bn and \$3.9bn, respectively. We exceeded these leverage requirements.

## Regulatory disclosures

### Pillar 3 disclosure requirements

Pillar 3 of the Basel regulatory framework is related to market discipline and aims to make financial services firms more transparent by requiring publication of wide-ranging information on their risks, capital and management. Our *Pillar 3 Disclosures at 30 June 2018* is expected to be published on or around 6 August 2018 on our website, [www.hsbc.com](http://www.hsbc.com), under 'Investor Relations'.

## Footnotes to capital, leverage and risk-weighted assets

- 1 Unless otherwise stated, all figures are calculated using the EU's regulatory transitional arrangements for IFRS 9 in article 473a of the Capital Requirements Regulation.
- 2 All figures presented as reported under IAS 39 at 31 December 2017.
- 3 'Capital requirement' represents the minimum total capital charge set at 8% of RWAs by article 92 of the Capital Requirements Regulation.
- 4 RWAs are non-additive across geographical regions due to market risk diversification effects within the Group.

## Financial Statements

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### Consolidated income statement

|  | Notes | Half-year to          |                       |                       |
|--|-------|-----------------------|-----------------------|-----------------------|
|  |       | 30 Jun<br>2018<br>\$m | 30 Jun<br>2017<br>\$m | 31 Dec<br>2017<br>\$m |
| Net interest income  |       | 15,100                | 13,777                | 14,399                |
| – interest income  |       | 23,422                | 19,727                | 21,268                |
| – interest expense   |       | (8,322)               | (5,950)               | (6,869)               |
| Net fee income   |       | 6,767                 | 6,491                 | 6,320                 |
| – fee income   |       | 8,469                 | 7,906                 | 7,947                 |
| – fee expense  |       | (1,702)               | (1,415)               | (1,627)               |
| Net income from financial instruments held for trading or managed on a fair value basis <sup>10, 11</sup>  |       | 4,883                 | 4,232                 | 4,194                 |
| Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss <sup>10</sup> |       | (222)                 | 1,499                 | 1,337                 |
| Changes in fair value of long-term debt and related derivatives <sup>11</sup>  |       | (126)                 | 204                   | (49)                  |
| Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss <sup>10</sup>   |       | 345                   | N/A                   | N/A                   |
| Gains less losses from financial investments   |       | 124                   | 691                   | 459                   |
| Dividend income  |       | 41                    | 49                    | 57                    |
| Net insurance premium income   |       | 5,776                 | 4,811                 | 4,968                 |
| Other operating income/(expense)   |       | 359                   | 526                   | (189)                 |
| <b>Total operating income</b>  |       | <b>33,047</b>         | <b>32,280</b>         | <b>31,496</b>         |
| Net insurance claims and benefits paid and movement in liabilities to policyholders  |       | (5,760)               | (6,114)               | (6,217)               |
| <b>Net operating income before change in expected credit losses and other credit impairment charges</b>  |       | <b>27,287</b>         | <b>26,166</b>         | <b>25,279</b>         |
| Change in expected credit losses and other credit impairment charges   |       | (407)                 | N/A                   | N/A                   |
| Loan impairment charges and other credit risk provisions   |       | N/A                   | (663)                 | (1,106)               |
| <b>Net operating income</b>  |       | <b>26,880</b>         | <b>25,503</b>         | <b>24,173</b>         |
| Employee compensation and benefits   |       | (8,836)               | (8,680)               | (8,635)               |
| General and administrative expenses  |       | (7,767)               | (6,900)               | (8,807)               |
| Depreciation and impairment of property, plant and equipment   |       | (568)                 | (567)                 | (599)                 |
| Amortisation and impairment of intangible assets and goodwill  |       | (378)                 | (296)                 | (400)                 |
| <b>Total operating expenses</b>  |       | <b>(17,549)</b>       | <b>(16,443)</b>       | <b>(18,441)</b>       |
| <b>Operating profit</b>  |       | <b>9,331</b>          | <b>9,060</b>          | <b>5,732</b>          |
| Share of profit in associates and joint ventures   |       | 1,381                 | 1,183                 | 1,192                 |
| <b>Profit before tax</b>   |       | <b>10,712</b>         | <b>10,243</b>         | <b>6,924</b>          |
| Tax expense  |       | (2,296)               | (2,195)               | (3,093)               |
| <b>Profit for the period</b>   |       | <b>8,416</b>          | <b>8,048</b>          | <b>3,831</b>          |
| Attributable to:   |       |                       |                       |                       |
| – ordinary shareholders of the parent company  |       | 7,173                 | 6,999                 | 2,684                 |
| – preference shareholders of the parent company  |       | 45                    | 45                    | 45                    |
| – other equity holders   |       | 530                   | 466                   | 559                   |
| – non-controlling interests  |       | 668                   | 538                   | 543                   |
| <b>Profit for the period</b>   |       | <b>8,416</b>          | <b>8,048</b>          | <b>3,831</b>          |
|  |       | \$                    | \$                    | \$                    |
| Basic earnings per ordinary share  | 4     | 0.36                  | 0.35                  | 0.13                  |
| Diluted earnings per ordinary share  | 4     | 0.36                  | 0.35                  | 0.13                  |

The accompanying notes on pages 84 to 112, the sections in 'Global businesses and regions' (excluding adjusted risk-weighted assets) on pages 31 to 33, and the following disclosures in the Risk section on pages 56 to 66, form an integral part of these financial statements: 'Distribution of financial instruments to which the impairment requirements of IFRS 9 are applied, by credit quality and stage allocation', 'Reconciliation of gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees', 'Distribution of total financial instruments exposed to credit risk by credit quality (at 31 December 2017)', 'Distribution of loans and advances held at amortised cost by credit quality (at 31 December 2017)', and 'Movement in impairment allowances on loans and advances to customers and banks (2017)'.

For footnotes, see page 83.

## Consolidated statement of comprehensive income

|  | Half-year to          |                       |                       |
|--|-----------------------|-----------------------|-----------------------|
|  | 30 Jun<br>2018<br>\$m | 30 Jun<br>2017<br>\$m | 31 Dec<br>2017<br>\$m |
| Profit for the period  | 8,416                 | 8,048                 | 3,831                 |
| <b>Other comprehensive income/(expense)</b>  |                       |                       |                       |
| <b>Items that will be reclassified subsequently to profit or loss when specific conditions are met:</b>    |                       |                       |                       |
| Available-for-sale investments   | N/A                   | 484                   | (338)                 |
| – fair value gains/(losses)  | N/A                   | 1,447                 | (220)                 |
| – fair value gains reclassified to the income statement  | N/A                   | (848)                 | (185)                 |
| – amounts reclassified to the income statement in respect of impairment losses                             | N/A                   | 20                    | 73                    |
| – income taxes   | N/A                   | (135)                 | (6)                   |
| Debt instruments at fair value through other comprehensive income  | (265)                 | N/A                   | N/A                   |
| – fair value losses  | (658)                 | N/A                   | N/A                   |
| – fair value gains transferred to the income statement on disposal   | 329                   | N/A                   | N/A                   |
| – expected credit losses recognised in income statement  | (91)                  | N/A                   | N/A                   |
| – income taxes   | 155                   | N/A                   | N/A                   |
| Cash flow hedges   | (68)                  | 24                    | (216)                 |
| – fair value losses  | (276)                 | (881)                 | (165)                 |
| – fair value gains/(losses) reclassified to the income statement   | 184                   | 894                   | (61)                  |
| – income taxes   | 24                    | 11                    | 10                    |
| Share of other comprehensive expense of associates and joint ventures                                      | (57)                  | (6)                   | (37)                  |
| – share for the period   | (57)                  | (6)                   | (37)                  |
| Exchange differences   | (4,252)               | 5,269                 | 3,808                 |
| – other exchange differences   | (4,252)               | 5,270                 | 3,669                 |
| – income tax attributable to exchange differences  | –                     | (1)                   | 139                   |
| <b>Items that will not be reclassified subsequently to profit or loss:</b>                                 |                       |                       |                       |
| Remeasurement of defined benefit asset/liability   | 297                   | 1,708                 | 711                   |
| – before income taxes <sup>1</sup>   | 421                   | 2,253                 | 1,187                 |
| – income taxes   | (124)                 | (545)                 | (476)                 |
| Changes in fair value of financial liabilities designated at fair value due to movement in own credit risk | 1,345                 | (1,156)               | (868)                 |
| – before income taxes  | 1,653                 | (1,398)               | (1,011)               |
| – income taxes   | (308)                 | 242                   | 143                   |
| Equity instruments designated at fair value through other comprehensive income                             | (30)                  | N/A                   | N/A                   |
| – fair value losses  | (26)                  | N/A                   | N/A                   |
| – income taxes   | (4)                   | N/A                   | N/A                   |
| Other comprehensive income/(expense) for the period, net of tax  | (3,030)               | 6,323                 | 3,060                 |
| <b>Total comprehensive income for the period</b>   | <b>5,386</b>          | <b>14,371</b>         | <b>6,891</b>          |
| Attributable to:   |                       |                       |                       |
| – ordinary shareholders of the parent company  | 4,229                 | 13,241                | 5,673                 |
| – preference shareholders of the parent company  | 45                    | 45                    | 45                    |
| – other equity holders   | 530                   | 466                   | 559                   |
| – non-controlling interests  | 582                   | 619                   | 614                   |
| <b>Total comprehensive income for the period</b>   | <b>5,386</b>          | <b>14,371</b>         | <b>6,891</b>          |

For footnote, see page 83.

**Consolidated balance sheet**

|   | Notes | At                    |                                   |                       |
|---|-------|-----------------------|-----------------------------------|-----------------------|
|   |       | 30 Jun<br>2018<br>\$m | 1 Jan<br>2018 <sup>9</sup><br>\$m | 31 Dec<br>2017<br>\$m |
| <b>Assets</b>   |       |                       |                                   |                       |
| Cash and balances at central banks  |       | 189,842               | 180,621                           | 180,624               |
| Items in the course of collection from other banks  |       | 8,081                 | 6,628                             | 6,628                 |
| Hong Kong Government certificates of indebtedness   |       | 35,754                | 34,186                            | 34,186                |
| Trading assets  |       | 247,892               | 254,410                           | 287,995               |
| Financial assets designated and otherwise mandatorily measured at fair value through profit or loss |       | 40,678                | 39,746                            | N/A                   |
| Financial assets designated at fair value   |       | N/A                   | N/A                               | 29,464                |
| Derivatives   | 7     | 227,972               | 219,818                           | 219,818               |
| Loans and advances to banks   |       | 83,924                | 82,559                            | 90,393                |
| Loans and advances to customers   |       | 973,443               | 949,737                           | 962,964               |
| Reverse repurchase agreements – non-trading   |       | 208,104               | 201,553                           | 201,553               |
| Financial investments   | 8     | 386,436               | 383,499                           | 389,076               |
| Prepayments, accrued income and other assets  |       | 153,048               | 114,777                           | 67,191                |
| Current tax assets  |       | 1,106                 | 1,006                             | 1,006                 |
| Interests in associates and joint ventures  | 9     | 22,572                | 21,802                            | 22,744                |
| Goodwill and intangible assets  |       | 23,722                | 23,374                            | 23,453                |
| Deferred tax assets   |       | 4,740                 | 4,714                             | 4,676                 |
| <b>Total assets</b>   |       | <b>2,607,314</b>      | <b>2,518,430</b>                  | <b>2,521,771</b>      |
| <b>Liabilities and equity</b>   |       |                       |                                   |                       |
| <b>Liabilities</b>  |       |                       |                                   |                       |
| Hong Kong currency notes in circulation   |       | 35,754                | 34,186                            | 34,186                |
| Deposits by banks   |       | 64,792                | 64,492                            | 69,922                |
| Customer accounts   |       | 1,356,307             | 1,360,227                         | 1,364,462             |
| Repurchase agreements – non-trading   |       | 158,295               | 130,002                           | 130,002               |
| Items in the course of transmission to other banks  |       | 8,086                 | 6,850                             | 6,850                 |
| Trading liabilities <sup>2, 3</sup>   |       | 83,845                | 80,864                            | 184,361               |
| Financial liabilities designated at fair value  |       | 151,985               | 144,006                           | 94,429                |
| Derivatives   | 7     | 222,961               | 216,821                           | 216,821               |
| Debt securities in issue  |       | 81,708                | 66,536                            | 64,546                |
| Accruals, deferred income and other liabilities   |       | 134,774               | 99,926                            | 45,907                |
| Current tax liabilities   |       | 1,609                 | 928                               | 928                   |
| Liabilities under insurance contracts   |       | 86,918                | 85,598                            | 85,667                |
| Provisions  | 10    | 4,199                 | 4,295                             | 4,011                 |
| Deferred tax liabilities  |       | 2,183                 | 1,614                             | 1,982                 |
| Subordinated liabilities  |       | 22,604                | 25,861                            | 19,826                |
| <b>Total liabilities</b>  |       | <b>2,416,020</b>      | <b>2,322,206</b>                  | <b>2,323,900</b>      |
| <b>Equity</b>   |       |                       |                                   |                       |
| Called up share capital   |       | 10,159                | 10,160                            | 10,160                |
| Share premium account   |       | 9,774                 | 10,177                            | 10,177                |
| Other equity instruments  |       | 20,573                | 22,250                            | 22,250                |
| Other reserves  |       | 2,193                 | 6,643                             | 7,664                 |
| Retained earnings   |       | 140,908               | 139,414                           | 139,999               |
| <b>Total shareholders' equity</b>   |       | <b>183,607</b>        | <b>188,644</b>                    | <b>190,250</b>        |
| Non-controlling interests   |       | 7,687                 | 7,580                             | 7,621                 |
| <b>Total equity</b>   |       | <b>191,294</b>        | <b>196,224</b>                    | <b>197,871</b>        |
| <b>Total liabilities and equity</b>   |       | <b>2,607,314</b>      | <b>2,518,430</b>                  | <b>2,521,771</b>      |

For footnotes, see page 83.

## Consolidated statement of cash flows

|  | Half-year to          |                       |                       |
|--|-----------------------|-----------------------|-----------------------|
|  | 30 Jun<br>2018<br>\$m | 30 Jun<br>2017<br>\$m | 31 Dec<br>2017<br>\$m |
| <b>Profit before tax</b>   | <b>10,712</b>         | 10,243                | 6,924                 |
| <b>Adjustments for non-cash items:</b>   |                       |                       |                       |
| Depreciation and amortisation  | 946                   | 863                   | 999                   |
| Net gain from investing activities   | 85                    | (764)                 | (388)                 |
| Share of profit in associates and joint ventures   | (1,381)               | (1,183)               | (1,192)               |
| Loss on disposal of associates, joint ventures, subsidiaries and businesses              | —                     | (79)                  | —                     |
| Change in expected credit losses gross of recoveries and other credit impairment charges | 680                   | N/A                   | N/A                   |
| Loan impairment losses gross of recoveries and other credit risk provisions              | N/A                   | 1,018                 | 1,585                 |
| Provisions including pensions  | 1,244                 | 186                   | 731                   |
| Share-based payment expense  | 274                   | 267                   | 233                   |
| Other non-cash items included in profit before tax                                       | (899)                 | (157)                 | (224)                 |
| Change in operating assets   | (89,986)              | (115,324)             | (53,715)              |
| Change in operating liabilities  | 84,594                | 109,828               | 54,080                |
| Elimination of exchange differences <sup>4</sup>   | (11,816)              | (16,208)              | (5,081)               |
| Dividends received from associates   | 126                   | 589                   | 151                   |
| Contributions paid to defined benefit plans  | (103)                 | (351)                 | (334)                 |
| Tax paid   | (1,116)               | (810)                 | (2,365)               |
| <b>Net cash from operating activities</b>  | <b>(6,640)</b>        | (11,882)              | 1,404                 |
| Purchase of financial investments  | (227,256)             | (175,346)             | (181,918)             |
| Proceeds from the sale and maturity of financial investments                             | 225,295               | 233,711               | 184,641               |
| Net cash flows from the purchase and sale of property, plant and equipment               | (520)                 | (314)                 | (853)                 |
| Net cash inflow from disposal of customer and loan portfolios                            | (542)                 | 5,044                 | 1,712                 |
| Net investment in intangible assets  | (751)                 | (514)                 | (771)                 |
| Net cash inflow on disposal of subsidiaries, businesses, associates and joint ventures   | (19)                  | 141                   | 24                    |
| <b>Net cash from investing activities</b>  | <b>(3,793)</b>        | 62,722                | 2,835                 |
| Issue of ordinary share capital and other equity instruments                             | 4,150                 | 3,727                 | 1,469                 |
| Cancellation of shares   | (986)                 | (1,000)               | (2,000)               |
| Net (purchases)/sales of own shares for market-making and investment purposes            | 43                    | (49)                  | (18)                  |
| Redemption of preference shares and other equity instruments                             | (6,078)               | —                     | —                     |
| Subordinated loan capital repaid   | (4,020)               | (520)                 | (3,054)               |
| Dividends paid to shareholders of the parent company and non-controlling interests       | (4,965)               | (3,266)               | (5,739)               |
| <b>Net cash from financing activities</b>  | <b>(11,856)</b>       | (1,108)               | (9,342)               |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                              | <b>(22,289)</b>       | 49,732                | (5,103)               |
| Cash and cash equivalents at the beginning of the period                                 | 337,412               | 274,550               | 335,828               |
| Exchange differences in respect of cash and cash equivalents                             | (5,415)               | 11,546                | 6,687                 |
| <b>Cash and cash equivalents at the end of the period</b>                                | <b>309,708</b>        | 335,828               | 337,412               |

For footnote, see page 83.

Consolidated statement of changes in equity

|   | Other reserves   |   |                   |  |                           |                          |                |                            |                           |                |
|---|--|---|-------------------|--|---------------------------|--------------------------|----------------|----------------------------|---------------------------|----------------|
|   | Called up share capital and share premium <sup>5</sup> | Other equity instruments <sup>6,7</sup> | Retained earnings | Financial assets at FVOCI reserve <sup>8</sup> | Cash flow hedging reserve | Foreign exchange reserve | Merger reserve | Total shareholders' equity | Non-controlling interests | Total equity   |
|   | \$m  | \$m                                     | \$m               | \$m  | \$m                       | \$m                      | \$m            | \$m                        | \$m                       | \$m            |
| <b>At 31 Dec 2017</b>   | <b>20,337</b>  | <b>22,250</b>                           | <b>139,999</b>    | <b>(350)</b>                                   | <b>(222)</b>              | <b>(19,072)</b>          | <b>27,308</b>  | <b>190,250</b>             | <b>7,621</b>              | <b>197,871</b> |
| Impact on transition to IFRS 9  | –  | –                                       | (585)             | (1,021)  | –                         | –                        | –              | (1,606)                    | (41)                      | (1,647)        |
| <b>At 1 Jan 2018</b>  | <b>20,337</b>  | <b>22,250</b>                           | <b>139,414</b>    | <b>(1,371)</b>                                 | <b>(222)</b>              | <b>(19,072)</b>          | <b>27,308</b>  | <b>188,644</b>             | <b>7,580</b>              | <b>196,224</b> |
| Profit for the period   | –  | –                                       | 7,748             | –  | –                         | –                        | –              | 7,748                      | 668                       | 8,416          |
| Other comprehensive income (net of tax)   | –  | –                                       | 1,589             | (273)  | (66)                      | (4,194)                  | –              | (2,944)                    | (86)                      | (3,030)        |
| – debt instruments at fair value through other comprehensive income   | –  | –                                       | –                 | (264)  | –                         | –                        | –              | (264)                      | (1)                       | (265)          |
| – equity instruments designated at fair value through other comprehensive income                                  | –  | –                                       | –                 | (9)  | –                         | –                        | –              | (9)                        | (21)                      | (30)           |
| – cash flow hedges  | –  | –                                       | –                 | –  | (66)                      | –                        | –              | (66)                       | (2)                       | (68)           |
| – changes in fair value of financial liabilities designated at fair value arising from changes in own credit risk | –  | –                                       | 1,346             | –  | –                         | –                        | –              | 1,346                      | (1)                       | 1,345          |
| – remeasurement of defined benefit asset/liability  | –  | –                                       | 300               | –  | –                         | –                        | –              | 300                        | (3)                       | 297            |
| – share of other comprehensive income of associates and joint ventures  | –  | –                                       | (57)              | –  | –                         | –                        | –              | (57)                       | –                         | (57)           |
| – exchange differences  | –  | –                                       | –                 | –  | –                         | (4,194)                  | –              | (4,194)                    | (58)                      | (4,252)        |
| <b>Total comprehensive income for the period</b>  | <b>–</b>   | <b>–</b>                                | <b>9,337</b>      | <b>(273)</b>                                   | <b>(66)</b>               | <b>(4,194)</b>           | <b>–</b>       | <b>4,804</b>               | <b>582</b>                | <b>5,386</b>   |
| Shares issued under employee remuneration and share plans   | 582  | –                                       | (570)             | –  | –                         | –                        | –              | 12                         | –                         | 12             |
| Shares issued in lieu of dividends and amounts arising thereon  | –  | –                                       | 606               | –  | –                         | –                        | –              | 606                        | –                         | 606            |
| Capital securities issued   | –  | 4,150                                   | –                 | –  | –                         | –                        | –              | 4,150                      | –                         | 4,150          |
| Dividends to shareholders   | –  | –                                       | (6,904)           | –  | –                         | –                        | –              | (6,904)                    | (461)                     | (7,365)        |
| Redemption of securities  | –  | (5,827)                                 | (237)             | –  | –                         | –                        | –              | (6,064)                    | –                         | (6,064)        |
| Cost of share-based payment arrangements  | –  | –                                       | 274               | –  | –                         | –                        | –              | 274                        | –                         | 274            |
| Cancellation of shares  | (986)  | –                                       | (1,014)           | –  | –                         | –                        | –              | (2,000)                    | –                         | (2,000)        |
| Other movements   | –  | –                                       | 2                 | 83   | –                         | –                        | –              | 85                         | (14)                      | 71             |
| <b>At 30 Jun 2018</b>   | <b>19,933</b>  | <b>20,573</b>                           | <b>140,908</b>    | <b>(1,561)</b>                                 | <b>(288)</b>              | <b>(23,266)</b>          | <b>27,308</b>  | <b>183,607</b>             | <b>7,687</b>              | <b>191,294</b> |

|  | Other reserves                            |                                       |                   |                                       |                           |                          |                |                            |                           |                |
|--|---|---------------------------------------|-------------------|---------------------------------------|---------------------------|--------------------------|----------------|----------------------------|---------------------------|----------------|
|  | Called up share capital and share premium | Other equity instruments <sup>6</sup> | Retained earnings | Available-for-sale fair value reserve | Cash flow hedging reserve | Foreign exchange reserve | Merger reserve | Total shareholders' equity | Non-controlling interests | Total equity   |
|  | \$m                                       | \$m                                   | \$m               | \$m                                   | \$m                       | \$m                      | \$m            | \$m                        | \$m                       | \$m            |
| <b>At 1 Jan 2017</b>   | <b>22,715</b>                             | <b>17,110</b>                         | <b>136,795</b>    | <b>(477)</b>                          | <b>(27)</b>               | <b>(28,038)</b>          | <b>27,308</b>  | <b>175,386</b>             | <b>7,192</b>              | <b>182,578</b> |
| Profit for the period  | –   | –                                     | 7,510             | –                                     | –                         | –                        | –              | 7,510                      | 538                       | 8,048          |
| Other comprehensive income (net of tax)  | –   | –                                     | 536               | 468                                   | 16                        | 5,222                    | –              | 6,242                      | 81                        | 6,323          |
| – available-for-sale investments   | –   | –                                     | –                 | 468                                   | –                         | –                        | –              | 468                        | 16                        | 484            |
| – cash flow hedges   | –   | –                                     | –                 | –                                     | 16                        | –                        | –              | 16                         | 8                         | 24             |
| – changes in fair value of financial liabilities designated at fair value due to movement in own credit risk | –   | –                                     | (1,156)           | –                                     | –                         | –                        | –              | (1,156)                    | –                         | (1,156)        |
| – remeasurement of defined benefit asset/liability <sup>1</sup>  | –   | –                                     | 1,698             | –                                     | –                         | –                        | –              | 1,698                      | 10                        | 1,708          |
| – share of other comprehensive income of associates and joint ventures                                       | –   | –                                     | (6)               | –                                     | –                         | –                        | –              | (6)                        | –                         | (6)            |
| – exchange differences   | –   | –                                     | –                 | –                                     | –                         | 5,222                    | –              | 5,222                      | 47                        | 5,269          |
| <b>Total comprehensive income for the period</b>   | <b>–</b>                                  | <b>–</b>                              | <b>8,046</b>      | <b>468</b>                            | <b>16</b>                 | <b>5,222</b>             | <b>–</b>       | <b>13,752</b>              | <b>619</b>                | <b>14,371</b>  |
| Shares issued under employee remuneration and share plans  | 542                                       | –                                     | (535)             | –                                     | –                         | –                        | –              | 7                          | –                         | 7              |
| Shares issued in lieu of dividends and amounts arising thereon   | –   | –                                     | 2,771             | –                                     | –                         | –                        | –              | 2,771                      | –                         | 2,771          |
| Capital securities issued  | –   | 3,720                                 | –                 | –                                     | –                         | –                        | –              | 3,720                      | –                         | 3,720          |
| Dividends to shareholders  | –   | –                                     | (6,795)           | –                                     | –                         | –                        | –              | (6,795)                    | (420)                     | (7,215)        |
| Cost of share-based payment arrangements   | –   | –                                     | 267               | –                                     | –                         | –                        | –              | 267                        | –                         | 267            |
| Cancellation of shares   | (1,000)                                   | –                                     | –                 | –                                     | –                         | –                        | –              | (1,000)                    | –                         | (1,000)        |
| Other movements  | –   | –                                     | 288               | –                                     | –                         | –                        | –              | 288                        | (1)                       | 287            |
| <b>At 30 Jun 2017</b>  | <b>22,257</b>                             | <b>20,830</b>                         | <b>140,837</b>    | <b>(9)</b>                            | <b>(11)</b>               | <b>(22,816)</b>          | <b>27,308</b>  | <b>188,396</b>             | <b>7,390</b>              | <b>195,786</b> |

For footnotes, see page 83.

## Consolidated statement of changes in equity (continued)

|  | Called up share capital and share premium | Other equity instruments <sup>6</sup> | Retained earnings | Other reserves                        |                           |                          |                | Total shareholders' equity | Non-controlling interests | Total equity |
|--|---|---------------------------------------|-------------------|---------------------------------------|---------------------------|--------------------------|----------------|----------------------------|---------------------------|--------------|
|  |   |                                       |                   | Available-for-sale fair value reserve | Cash flow hedging reserve | Foreign exchange reserve | Merger reserve |                            |                           |              |
|  | \$m                                       | \$m                                   | \$m               | \$m                                   | \$m                       | \$m                      | \$m            | \$m                        | \$m                       |              |
| At 1 Jul 2017  | 22,257                                    | 20,830                                | 140,837           | (9)                                   | (11)                      | (22,816)                 | 27,308         | 188,396                    | 7,390                     | 195,786      |
| Profit for the period  | —   | —                                     | 3,288             | —                                     | —                         | —                        | —              | 3,288                      | 543                       | 3,831        |
| Other comprehensive income (net of tax)  | —   | —                                     | (208)             | (337)                                 | (210)                     | 3,744                    | —              | 2,989                      | 71                        | 3,060        |
| – available-for-sale investments   | —   | —                                     | —                 | (337)                                 | —                         | —                        | —              | (337)                      | (1)                       | (338)        |
| – cash flow hedges   | —   | —                                     | —                 | —                                     | (210)                     | —                        | —              | (210)                      | (6)                       | (216)        |
| – changes in fair value of financial liabilities designated at fair value due to movement in own credit risk | —   | —                                     | (868)             | —                                     | —                         | —                        | —              | (868)                      | —                         | (868)        |
| – remeasurement of defined benefit asset/liability <sup>1</sup>  | —   | —                                     | 697               | —                                     | —                         | —                        | —              | 697                        | 14                        | 711          |
| – share of other comprehensive income of associates and joint ventures                                       | —   | —                                     | (37)              | —                                     | —                         | —                        | —              | (37)                       | —                         | (37)         |
| – exchange differences   | —   | —                                     | —                 | —                                     | —                         | 3,744                    | —              | 3,744                      | 64                        | 3,808        |
| Total comprehensive income for the period  | —   | —                                     | 3,080             | (337)                                 | (210)                     | 3,744                    | —              | 6,277                      | 614                       | 6,891        |
| Shares issued under employee remuneration and share plans  | 80  | —                                     | (31)              | —                                     | —                         | —                        | —              | 49                         | —                         | 49           |
| Shares issued in lieu of dividends and amounts arising thereon   | —   | —                                     | 435               | —                                     | —                         | —                        | —              | 435                        | —                         | 435          |
| Capital securities issued  | —   | 1,420                                 | —                 | —                                     | —                         | —                        | —              | 1,420                      | —                         | 1,420        |
| Dividends to shareholders  | —   | —                                     | (4,756)           | —                                     | —                         | —                        | —              | (4,756)                    | (240)                     | (4,996)      |
| Cost of share-based payment arrangements   | —   | —                                     | 233               | —                                     | —                         | —                        | —              | 233                        | —                         | 233          |
| Cancellation of shares   | (2,000)                                   | —                                     | —                 | —                                     | —                         | —                        | —              | (2,000)                    | —                         | (2,000)      |
| Other movements  | —   | —                                     | 201               | (4)                                   | (1)                       | —                        | —              | 196                        | (143)                     | 53           |
| At 31 Dec 2017   | 20,337                                    | 22,250                                | 139,999           | (350)                                 | (222)                     | (19,072)                 | 27,308         | 190,250                    | 7,621                     | 197,871      |

## Footnotes to financial statements

- As a result of the remeasurement of the defined benefit pension obligation of the HSBC Bank (UK) Pension Scheme there was an actuarial gain of \$2,024m in 1H17 and an actuarial loss of \$294m in 2H17.
- Includes structured deposits placed at HSBC Bank USA and HSBC Trust Company (Delaware) National Association. These are insured by the Federal Deposit Insurance Corporation, a US Government agency, up to \$250,000 per depositor. Structured deposits are presented in 'Accruals, deferred income and other liabilities' from 1 January 2018. Comparatives have not been restated. See note 14 for further detail.
- Structured liabilities have moved from 'Trading liabilities' to 'Financial liabilities designated at fair value'. Comparatives have not been restated. See note 14 for further detail.
- Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as details cannot be determined without unreasonable expense.
- In May 2018, HSBC announced a share buy-back of \$2.0bn. At 30 June 2018 \$1.0bn of shares had been bought back and cancelled.
- During 2018, HSBC Holdings issued \$4,150m of perpetual subordinated contingent convertible capital securities, on which there were \$8m of external issuance costs, \$34m of intra-group issuance costs and \$8m of tax benefits, which are classified as equity under IFRSs. During 1H17, HSBC Holdings issued \$3,000m and SGD1,000m of perpetual subordinated contingent convertible capital securities, on which there were \$10m of external issuance costs, \$27m of intra-group issuance costs and \$7m of tax benefits, which are classified as equity under IFRSs. During 2H17 HSBC Holdings issued €1,250m of perpetual subordinated contingent convertible capital securities, on which there were \$4m of external issuance costs, \$10m of intra-group issuance costs and \$3m of tax benefits, which are classified as equity under IFRSs.

- During 2018, HSBC Holdings redeemed its \$2,200m 8.125% perpetual subordinated capital securities and its \$3,800m 8.000% perpetual subordinated capital securities, Series 2, on which there were \$172m of external issuance costs, which are classified as equity under IFRSs.
- The \$350m at 31 December 2017 represents the IAS 39 Available-for-sale fair value reserve as at 31 December 2017.
- Balances at 1 January 2018 have been prepared in accordance with accounting policies referred to on page 84. 31 December 2017 balances have not been re-presented.
- The classification and measurement requirements under IFRS 9, which was adopted from 1 January 2018, are based on an entity's assessment of both the business model for managing the assets and the contractual cash flow characteristics of the assets. The standard contains a classification for items measured mandatorily at fair value through profit or loss as a residual category. Given its residual nature, the presentation of the income statement has been updated to separately present items in this category which are of a dissimilar nature or function, in line with IAS 1 'Presentation of financial statements' requirements. Comparative data has been re-presented. There is no net impact on total operating income.
- Prior to 2018 foreign exchange exposure on some financial instruments designated at fair value was presented in the same line in the income statement as the underlying fair value movement on these instruments. In 2018 we have grouped the presentation of the entire effect of foreign exchange exposure in profit or loss and presented it within 'net income from financial instruments held for trading or managed on a fair value basis'. Comparative data have been re-presented. There is no net impact on total operating income and the impact on 'changes in fair value of long-term debt and related derivatives' is \$(276)m in 1H17 and \$(241)m in 2H17.

## 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 Guidance 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. Therefore they include an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of HSBC since the end of 2017. These financial statements should be read in conjunction with the *Annual Report and Accounts 2017*, the information about the application of IFRS 9 'Financial Instruments' set out below and the new policies for financial instruments as described on pages 16 to 20 of our *Report on Transition to IFRS 9 'Financial Instruments' 1 January 2018*.

At 30 June 2018, there were no unendorsed standards effective for the half-year to 30 June 2018 affecting these 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 2018

HSBC has adopted the requirements of IFRS 9 from 1 January 2018, with the exception of the provisions relating to the presentation of gains and losses on financial liabilities designated at fair value, which were adopted from 1 January 2017. This includes the adoption of 'Prepayment Features with Negative Compensation (Amendments to IFRS 9)' which is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted. The effect of its adoption is not considered to be significant. IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting, which HSBC has exercised. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application. As permitted by IFRS 9, HSBC has not restated comparatives. Adoption reduced net assets at 1 January 2018 by \$1,647m as set out in Note 14.

The effect of IFRS 9 on the carrying value of investments in associates has been updated along with the related deferred tax and this has resulted in a change of \$643m from the previously disclosed impact.

In addition, HSBC has adopted the requirements of IFRS 15 'Revenue from contracts with customers' and a number of interpretations and amendments to standards which have had an insignificant effect on the consolidated financial statements of HSBC.

#### IFRS 9 transitional requirements

The transition requirements of IFRS 9 have necessitated a review of the designation of financial instruments at fair value. IFRS 9 requires that the designation is revoked where there is no longer an accounting mismatch at 1 January 2018 and permits designations to be revoked or additional designations created at 1 January 2018 if there are accounting mismatches at that date. As a result:

- fair value designations for financial liabilities have been revoked where the accounting mismatch no longer exists, as required by IFRS 9; and
- fair value designations have been revoked for certain long-dated securities where accounting mismatches continue to exist, but where HSBC has revoked the designation as permitted by IFRS 9 since it will better mitigate the accounting mismatch by undertaking fair value hedge accounting.

The results of these changes are included in the reconciliation set out in Note 14.

#### Changes in accounting policy

While not necessarily required by the adoption of IFRS 9, the following voluntary changes in accounting policy and presentation have been made as a result of reviews carried out in conjunction with its adoption. The effect of presentational changes at 1 January 2018 is included in the reconciliation set out in Note 14 and comparatives have not been restated.

- We have considered market practices for the presentation of certain financial liabilities which contain both deposit and derivative components. We have concluded that a change in accounting policy and presentation from 'trading customer accounts and other debt securities in issue' would be appropriate, since it would better align with the presentation of similar financial instruments by peers and therefore provide more relevant information about the effect of these financial liabilities on our financial position and performance. As a result, rather than being classified as held for trading, we will designate these financial liabilities as at fair value through profit or loss since they are managed and their performance evaluated on a fair value basis. A further consequence of this change in presentation is that the effects of changes in the liabilities' credit risk will be presented in 'Other comprehensive income' with the remaining effect presented in profit or loss in accordance with Group accounting policy adopted in 2017 (following the adoption of the requirements in IFRS 9 relating to the presentation of gains and losses on financial liabilities designated at fair value).
- Cash collateral, margin and settlement accounts have been reclassified from 'Trading assets' and 'Loans and advances to banks and customers' to 'Prepayments, accrued income and other assets' and from 'Trading liabilities' and 'Deposits by banks' and 'Customer accounts' to 'Accruals, deferred income and other liabilities'. The change in presentation for financial assets is in accordance with IFRS 9 and the change in presentation for financial liabilities is considered to provide more relevant information, given the change in presentation for the financial assets. The change in presentation for financial liabilities has had no effect on measurement of these items and therefore on retained earnings or profit for any period.



- Certain stock borrowing assets have been reclassified from 'Loans and advances to banks and customers' to 'Trading assets'. The change in measurement is a result of the determination of the global business model for this activity and will align the presentation throughout the Group.
- Prior to 2018, foreign exchange exposure on some financial instruments designated at fair value was presented in the same line in the income statement as the underlying fair value movement on these instruments. In 2018, we have grouped the presentation of the entire effect of foreign exchange exposure in profit or loss and presented it within 'Net income from financial instruments held for trading or managed on a fair value basis'. Comparative data has been re-presented.

## Differences between IAS 39 and IFRS 9

### Classification and measurement

Key similarities and differences between IAS 39 and IFRS 9 for the classification and measurement of financial assets are set out below. There are no differences for financial liabilities, except for the presentation of gains and losses on financial liabilities designated at fair value and the requirements to reconsider fair value designation on transition to IFRS 9.

|                         | IAS 39  | IFRS 9  |
|-------------------------|---|---|
| Classification criteria | Financial assets are measured at amortised cost (loans & receivables and held to maturity), FVOCI (AFS), or fair value through profit or loss (derivatives and trading) based on the nature of the instrument and the purpose for which it is held. Embedded derivatives are separated from their host contract unless the contract as a whole is measured at fair value through profit or loss. The fair value option applies where there are non-closely related embedded derivatives that are not bifurcated, financial instruments are managed on a fair value basis or where measuring at fair value through profit or loss would reduce or eliminate an accounting mismatch. AFS is the default category. | Debt instruments are measured at amortised cost or FVOCI based on their contractual terms and the business model in which they are held as set out in the accounting policies above. The concept of embedded derivatives does not apply to financial assets. Therefore, the fair value option only applies where it would reduce or eliminate an accounting mismatch. Fair value through profit or loss is the default category.<br>Equity securities are measured at fair value through profit or loss unless, where permitted by IFRS 9, the option has been exercised to measure at FVOCI. |
| Presentation            | Upon disposal of AFS securities (debt instruments and equity securities) the cumulative gains or losses in other comprehensive income are recognised in profit or loss.   | Upon disposal of debt instruments measured at FVOCI the cumulative gains or losses in other comprehensive income are recognised in profit or loss. Cumulative gains or losses in other comprehensive income are not recognised in profit or loss on the disposal of equity securities measured at FVOCI.  |

A reconciliation of presentational and measurement differences resulting from the adoption of IFRS 9 at 1 January 2018 is set out in Note 14.

In general:

- loans and advances to banks and to customers and non-trading reverse repurchase agreements that are classified as loans and receivables under IAS 39 are measured at amortised cost under IFRS 9;
- financial assets designated at fair value through profit and loss ('FVPL') remain at FVPL, because it is required under IFRS 9 or the designation will continue;
- debt securities classified as available for sale are measured at amortised cost or FVOCI, with a small minority at FVPL either because of their contractual cash flow characteristics or the business model within which they are held;
- debt securities classified as held to maturity are measured at amortised cost;
- treasury and other eligible bills classified as available for sale are measured at amortised cost or FVOCI depending upon the business model in which they are held; and
- all equity securities remain measured at fair value. A significant majority have fair value movements shown in profit or loss, while a minority have fair value movements presented in other comprehensive income. The equity securities for which fair value movements are shown in other comprehensive income are business facilitation and other similar investments where HSBC holds the investments other than to generate a capital return.

### Impairment

The recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge may be more volatile. The adoption has resulted in an increase in the total level of impairment allowances as set out in Note 14, since all financial assets are assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

## Notes on the Financial Statements (unaudited)

### Key similarities and differences between IAS 39 and IFRS 9

|                      | IAS 39   | IFRS 9   |
|----------------------|--|--|
| Scope                | <p>For amortised cost assets, impairment is recognised when there is objective evidence of impairment. Losses are measured by comparing the carrying amount with the discounted future cash flows. Losses which may arise from future events are not recognised.</p> <p>For available-for-sale financial assets, impairment is recognised when there is objective evidence of a shortfall in the recovery of future cash flows. Impairment is measured as the decrease in fair value below the original cost at initial recognition.</p>   | <p>The same recognition and measurement requirements apply to both amortised cost and FVOCI financial assets. Impairment is not recognised on equity securities which are measured at FVOCI. Impairment is recognised for all financial assets in scope at either 12-month ECL or lifetime ECL. All reasonable and supportable information, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date is used in measuring ECL.</p>  |
| Application          | <p>Accounting policies generally make a distinction between individually significant loans and homogeneous groups of loans which are assessed collectively.</p>  | <p>The distinction between individual and collective assessment is less relevant. In general, whether loans are managed through wholesale credit risk systems or retail credit risk systems is relevant because of differences in the types of information available and the way credit risk is managed.</p>   |
| Impaired/<br>Stage 3 | <p>The criteria used to determine whether there is objective evidence of impairment are the same for individually significant loans assessed under IAS 39 and for IFRS 9.</p> <p>The determination of the realisable value of security is based on the most recently updated market value at the time the impairment assessment is performed and is not adjusted for expected future changes in market prices.</p> <p>Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of loans that are not considered individually significant using either roll rate methodologies or historical loss rate experience for loans. Under these methodologies, impairment allowances are recognised at a portfolio level. However, loans are classified as impaired for presentation purposes when they are more than 90 days past due or have been renegotiated for credit risk reasons. For retail loans, an exception is made for individual loans that are in arrears by more than 90 days but have been individually assessed to have no indications of impairment, and these are not classified as impaired.</p> | <p>The stage 3 population is consistent with impaired loans under IAS 39 which are considered individually significant.</p> <p>For wholesale loans, individual discounted cash flow calculations continue to be performed. However, the net realisable value of security is adjusted for expected future changes in market and the losses reflecting cash flows under different scenarios are probability-weighted to determine the ECL rather than using the best estimate of cash flows.</p> <p>For the retail population, stage 3 is determined by considering the relevant objective evidence, primarily whether contractual payments of either principal or interest are past due for more than 90 days, or a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition, or the loan is otherwise considered to be in default.</p> <p>The impairment allowance is determined by the same calculation used for stage 2, with the probability of default set to 1. The result may, therefore, not be the same as that determined by the IAS 39 statistical methods and the population disclosed as stage 3 will not necessarily correspond with that disclosed as impaired in accordance with IAS 39.</p>  |
| Stage 2              | <p>This is not an IAS 39 concept.</p>  | <p>An assessment of whether credit risk has increased significantly since initial recognition, resulting in transfer to stage 2, is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale. However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. In addition, wholesale loans that are individually assessed, typically corporate and commercial customers, and included on a watch or worry list are included in stage 2. For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default which encompasses a wide range of information including the obligor's customer risk rating, macroeconomic condition forecasts and credit transition probabilities. Significant increase in credit risk is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at reporting date (or that the origination PD has doubled in the case of origination CRR greater than 3.3). The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates. The quantitative measure of significance varies depending on the credit quality at origination as follows:</p> |

| IAS 39                            |   | IFRS 9   |                 |  |         |       |         |       |                                   |    |                 |   |     |           |         |           |         |           |         |           |         |           |     |           |
|-----------------------------------|---|--|-----------------|--|---------|-------|---------|-------|-----------------------------------|----|-----------------|---|-----|-----------|---------|-----------|---------|-----------|---------|-----------|---------|-----------|-----|-----------|
|                                   |   | <table border="1"> <thead> <tr> <th>Origination CRR</th> <th>Significance trigger – PD to increase by</th> </tr> </thead> <tbody> <tr> <td>0.1–1.2</td> <td>15bps</td> </tr> <tr> <td>2.1–3.3</td> <td>30bps</td> </tr> <tr> <td>Greater than 3.3 and not impaired</td> <td>2x</td> </tr> </tbody> </table> <p>For loans originated prior to the implementation of IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle ('TTC') PDs and TTC migration probabilities, consistent with the instrument's underlying modelling approach and the CRR at origination. For these loans, the quantitative comparison is supplemented with additional CRR deterioration-based thresholds as set out in the table below:</p> <table border="1"> <thead> <tr> <th>Origination CRR</th> <th>Additional significance criteria – Number of CRR grade notches of deterioration required to identify as significant credit deterioration (stage2) ≥</th> </tr> </thead> <tbody> <tr> <td>0.1</td> <td>5 notches</td> </tr> <tr> <td>1.1–4.2</td> <td>4 notches</td> </tr> <tr> <td>4.3–5.1</td> <td>3 notches</td> </tr> <tr> <td>5.2–7.1</td> <td>2 notches</td> </tr> <tr> <td>7.2–8.2</td> <td>1 notches</td> </tr> <tr> <td>8.3</td> <td>0 notches</td> </tr> </tbody> </table> <p>For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit scores which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogeneous portfolios, generally by country, product and brand. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher than that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.</p> | Origination CRR | Significance trigger – PD to increase by | 0.1–1.2 | 15bps | 2.1–3.3 | 30bps | Greater than 3.3 and not impaired | 2x | Origination CRR | Additional significance criteria – Number of CRR grade notches of deterioration required to identify as significant credit deterioration (stage2) ≥ | 0.1 | 5 notches | 1.1–4.2 | 4 notches | 4.3–5.1 | 3 notches | 5.2–7.1 | 2 notches | 7.2–8.2 | 1 notches | 8.3 | 0 notches |
| Origination CRR                   | Significance trigger – PD to increase by  |  |                 |  |         |       |         |       |                                   |    |                 |   |     |           |         |           |         |           |         |           |         |           |     |           |
| 0.1–1.2                           | 15bps   |  |                 |  |         |       |         |       |                                   |    |                 |   |     |           |         |           |         |           |         |           |         |           |     |           |
| 2.1–3.3                           | 30bps   |  |                 |  |         |       |         |       |                                   |    |                 |   |     |           |         |           |         |           |         |           |         |           |     |           |
| Greater than 3.3 and not impaired | 2x  |  |                 |  |         |       |         |       |                                   |    |                 |   |     |           |         |           |         |           |         |           |         |           |     |           |
| Origination CRR                   | Additional significance criteria – Number of CRR grade notches of deterioration required to identify as significant credit deterioration (stage2) ≥   |  |                 |  |         |       |         |       |                                   |    |                 |   |     |           |         |           |         |           |         |           |         |           |     |           |
| 0.1                               | 5 notches   |  |                 |  |         |       |         |       |                                   |    |                 |   |     |           |         |           |         |           |         |           |         |           |     |           |
| 1.1–4.2                           | 4 notches   |  |                 |  |         |       |         |       |                                   |    |                 |   |     |           |         |           |         |           |         |           |         |           |     |           |
| 4.3–5.1                           | 3 notches   |  |                 |  |         |       |         |       |                                   |    |                 |   |     |           |         |           |         |           |         |           |         |           |     |           |
| 5.2–7.1                           | 2 notches   |  |                 |  |         |       |         |       |                                   |    |                 |   |     |           |         |           |         |           |         |           |         |           |     |           |
| 7.2–8.2                           | 1 notches   |  |                 |  |         |       |         |       |                                   |    |                 |   |     |           |         |           |         |           |         |           |         |           |     |           |
| 8.3                               | 0 notches   |  |                 |  |         |       |         |       |                                   |    |                 |   |     |           |         |           |         |           |         |           |         |           |     |           |
| Stage 1                           | This is not an IAS 39 concept. However, incurred but not yet identified impairment is assessed on loans for which no evidence of impairment has been specifically identified by estimating a collective allowance determined after taking into account factors including the estimated period between impairment occurring and the loss being identified. This is assessed empirically on a periodic basis and may vary over time. Similarly, for homogeneous groups of loans and advances which are assessed under IAS 39 on a collective basis, the inherent loss is determined using risk factors including the period of time between loss identification and write-off which is regularly benchmarked against actual outcomes. | Financial assets which are not considered to have significantly increased in credit risk have loss allowances measured at an amount equal to 12-month ECL. This 12-month time horizon is likely to be equal to or longer than the period estimated under IAS 39 (typically between 6 and 12 months).   |                 |  |         |       |         |       |                                   |    |                 |   |     |           |         |           |         |           |         |           |         |           |     |           |
| Movement between stages           | This is not an IAS 39 concept.  | Financial assets can be transferred between the different categories depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans will continue to be in stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period and there are no other indicators of impairment. For loans that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.  |                 |  |         |       |         |       |                                   |    |                 |   |     |           |         |           |         |           |         |           |         |           |     |           |

|                    | IAS 39   | IFRS 9   |
|--------------------|--|--|
| Measurement of ECL | Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the balance sheet date. | <p>The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. In general, HSBC calculates ECL using three main components: a probability of default; a loss given default; and the exposure at default ('EAD').</p> <p>The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.</p> <p>The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.</p> <p>Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which HSBC is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit HSBC's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period HSBC remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.</p> <p>HSBC will in general apply three forward-looking global economic scenarios determined with reference to external forecast distributions, the Consensus Economic Scenario approach. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. Further information about this methodology is included in 'Measurement of uncertainty and sensitivity analysis of ECL' from page 53.</p> |

**(b) Use of estimates and judgements**

Management believes that HSBC's critical accounting estimates and judgements are those which relate to impairment of amortised cost and FVOCI financial assets, goodwill impairment, the valuation of financial instruments, deferred tax assets, provisions for liabilities and interests in associates. The implementation of IFRS 9 resulted in a change to the assessment of the critical accounting estimates and judgements related to impairment of financial assets.

In determining ECL, management is required to exercise judgement in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. Judgement has been applied in determining the lifetime and point of initial recognition of revolving facilities.

The PD, LGD and EAD models which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience, but given that IFRS 9 requirements have only just been applied, there has been little time available to make these comparisons. Therefore, the underlying models and their calibration, including how they react to forward-looking economic conditions, remain subject to review and refinement. This is particularly relevant for lifetime PDs, which have not been previously used in regulatory modelling and for the incorporation of 'Upside scenarios' which have not generally been subject to experience gained through stress testing.

The exercise of judgement in making estimations requires the use of assumptions which are highly subjective and very sensitive to the risk factors, in particular to changes in economic and credit conditions across a large number of geographical areas. Many of the factors have a high degree of interdependency and there is no single factor to which loan impairment allowances as a whole are sensitive. Pages 53 to 56 set out the assumptions underlying the Central scenario and information about how scenarios are developed in relation to the Group's top and emerging risks and its judgements, informed by consensus forecasts of professional industry forecasters. The adjustment from the ECL determined by using the Central scenario alone, which is used to calculate an unbiased expected loss, provides an indication of the overall sensitivity of ECL to different economic assumptions. There were no other changes in the current period to the critical accounting estimates and judgements applied in 2017, which are stated on pages 30, 31 and 196 of the *Annual Report and Accounts 2017*.

### (c) Composition of Group

There were no material changes in the composition of the Group in the half-year to 30 June 2018.

### (d) Future accounting developments

In January 2016, the IASB issued IFRS 16 'Leases' with an effective date for annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to that in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease, and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as under IAS 17. HSBC is currently assessing the impact of IFRS 16, and it is not practicable to quantify the effect at the date of the publication of these financial statements.

IFRS 17 'Insurance contracts' was issued in May 2017 and sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. IFRS 17 is effective from 1 January 2021 and HSBC is considering its impact.

### (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, capital requirements and capital resources.

### (f) Accounting policies

Except as described above, the accounting policies applied by HSBC for these interim condensed consolidated financial statements are consistent with those described on pages 186 to 194 of the *Annual Report and Accounts 2017*, as are the methods of computation.

## 2 Net fee income

|  | Half-year to   |                |                |
|--|----------------|----------------|----------------|
|  | 30 Jun<br>2018 | 30 Jun<br>2017 | 31 Dec<br>2017 |
|  | \$m            | \$m            | \$m            |
| <b>Net fee income by product</b>         |                |                |                |
| Account services                         | 1,156          | 1,123          | 1,121          |
| Funds under management                   | 1,149          | 1,061          | 1,127          |
| Cards                                    | 965            | 930            | 1,064          |
| Credit facilities                        | 897            | 873            | 845            |
| Broking income                           | 710            | 564            | 627            |
| Unit trusts                              | 613            | 516            | 494            |
| Underwriting                             | 431            | 485            | 344            |
| Global custody                           | 378            | 326            | 366            |
| Imports/exports                          | 362            | 379            | 357            |
| Remittances                              | 361            | 372            | 387            |
| Insurance agency commission              | 233            | 209            | 201            |
| Other                                    | 1,214          | 1,068          | 1,014          |
| <b>Fee income</b>                        | <b>8,469</b>   | <b>7,906</b>   | <b>7,947</b>   |
| Less: fee expense                        | (1,702)        | (1,415)        | (1,627)        |
| <b>Net fee income</b>                    | <b>6,767</b>   | <b>6,491</b>   | <b>6,320</b>   |
| <b>Net fee income by global business</b> |                |                |                |
| Retail Banking and Wealth Management     | 2,795          | 2,516          | 2,640          |
| Commercial Banking                       | 1,874          | 1,774          | 1,744          |
| Global Banking and Markets               | 1,745          | 1,875          | 1,614          |
| Global Private Banking                   | 389            | 355            | 349            |
| Corporate Centre                         | (36)           | (29)           | (27)           |

## 3 Dividends

On 6 August 2018, the Directors declared a second interim dividend of \$0.10 per ordinary share in respect of the financial year ending 31 December 2018. This distribution amounts to approximately \$2,015m and will be payable on 27 September 2018. No liability is recognised in the financial statements in respect of this dividend.

## Notes on the Financial Statements (unaudited)

### Dividends paid to shareholders of HSBC Holdings plc

|  | 30 Jun 2018 |              |                  | Half-year to |              |                  |             |              |                  |
|--|-------------|--------------|------------------|--------------|--------------|------------------|-------------|--------------|------------------|
|  | Per share   | Total        | Settled in scrip | 30 Jun 2017  |              |                  | 31 Dec 2017 |              |                  |
|  |             |              |                  | Per share    | Total        | Settled in scrip | Per share   | Total        | Settled in scrip |
|  | \$          | \$m          | \$m              | \$           | \$m          | \$m              | \$          | \$m          | \$m              |
| <b>Dividends paid on ordinary shares</b>                                   |             |              |                  |              |              |                  |             |              |                  |
| In respect of previous year:   |             |              |                  |              |              |                  |             |              |                  |
| – fourth interim dividend  | 0.21        | 4,197        | 393              | 0.21         | 4,169        | 1,945            | –           | –            | –                |
| In respect of current year:  |             |              |                  |              |              |                  |             |              |                  |
| – first interim dividend   | 0.10        | 2,007        | 213              | 0.10         | 2,005        | 826              | –           | –            | –                |
| – second interim dividend  | –           | –            | –                | –            | –            | –                | 0.10        | 2,014        | 193              |
| – third interim dividend   | –           | –            | –                | –            | –            | –                | 0.10        | 2,005        | 242              |
| <b>Total</b>   | <b>0.31</b> | <b>6,204</b> | <b>606</b>       | <b>0.31</b>  | <b>6,174</b> | <b>2,771</b>     | <b>0.20</b> | <b>4,019</b> | <b>435</b>       |
| 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                   |             | 655          |                  |              | 576          |                  |             | 692          |                  |
| <b>Dividends to shareholders</b>   |             | <b>6,904</b> |                  |              | <b>6,795</b> |                  |             | <b>4,756</b> |                  |

### Total coupons on capital securities classified as equity

|  | Footnotes | First call date | Per security | Half-year to |             |             |
|--|-----------|-----------------|--------------|--------------|-------------|-------------|
|  |           |                 |              | 30 Jun 2018  | 30 Jun 2017 | 31 Dec 2017 |
|  |           |                 |              | Total \$m    | Total \$m   | Total \$m   |
| Perpetual subordinated capital securities                | 1         |                 |              |              |             |             |
| – \$2,200m issued at 8.125%                              |           | Apr 2013        | \$2.032      | 89           | 89          | 90          |
| – \$3,800m issued at 8.000%                              |           | Dec 2015        | \$2.000      | 76           | 152         | 152         |
| Perpetual subordinated contingent convertible securities | 2         |                 |              |              |             |             |
| – \$1,500m issued at 5.625%                              |           | Jan 2020        | \$56.250     | 42           | 42          | 42          |
| – \$2,000m issued at 6.875%                              |           | Jun 2021        | \$68.750     | 69           | 69          | 69          |
| – \$2,250m issued at 6.375%                              |           | Sep 2024        | \$63.750     | 72           | 72          | 71          |
| – \$2,450m issued at 6.375%                              |           | Mar 2025        | \$63.750     | 78           | 78          | 78          |
| – \$3,000m issued at 6.000%                              |           | May 2027        | \$60.000     | 90           | –           | 90          |
| – €1,500m issued at 5.250%                               |           | Sep 2022        | €52.500      | 48           | 42          | 47          |
| – €1,000m issued at 6.000%                               |           | Sep 2023        | €60.000      | 37           | 32          | 36          |
| – SGD1,000m issued at 4.700%                             |           | Jun 2022        | 18           | –            | 17          |             |
| – €1,250m issued at 4.750%                               |           | July 2029       | €47.500      | 36           | –           | –           |
| <b>Total</b>   |           |                 |              | <b>655</b>   | <b>576</b>  | <b>692</b>  |

1 Discretionary coupons are paid quarterly on the perpetual subordinated capital securities, in denominations of \$25 per security.

2 Discretionary coupons are paid twice a year on the perpetual subordinated contingent convertible securities, in denominations of 1,000 per security in each security's issuance currency.

In March 2018, HSBC issued both \$2,350m of 6.250% perpetual subordinated contingent convertible securities and \$1,800m of 6.500% perpetual subordinated contingent convertible securities. These contingent convertible securities are classified as equity under IFRSs. Discretionary coupons are paid semi-annually on these contingent convertible securities and none were declared in 1H18. On 4 May 2018, HSBC gave notice to redeem the \$2,200m and \$3,800m perpetual subordinated capital securities, and from this point the instruments ceased to meet the classification requirements to be recognised as equity. Therefore, the final coupons of \$25m and \$68m, which were paid respectively upon redemption, are not included in the above.

## 4 Earnings per share

### Profit attributable to ordinary shareholders of the parent company

|   | Half-year to |              |              |
|---|--------------|--------------|--------------|
|   | 30 Jun 2018  | 30 Jun 2017  | 31 Dec 2017  |
|   | \$m          | \$m          | \$m          |
| Profit attributable to shareholders of the parent company                 | 7,748        | 7,510        | 3,288        |
| Dividend payable on preference shares classified as equity                | (45)         | (45)         | (45)         |
| Coupon payable on capital securities classified as equity                 | (530)        | (466)        | (559)        |
| <b>Profit attributable to ordinary shareholders of the parent company</b> | <b>7,173</b> | <b>6,999</b> | <b>2,684</b> |

## Basic and diluted earnings per share

|  | Footnote   | 30 Jun 2018 |                  |                  | Half-year to |                  |                  |             |                  |                  |
|--|------------|-------------|------------------|------------------|--------------|------------------|------------------|-------------|------------------|------------------|
|  |            | Profit      | Number of shares | Amount per share | 30 Jun 2017  |                  |                  | 31 Dec 2017 |                  |                  |
|  |            |             |                  |                  | Profit       | Number of shares | Amount per share | Profit      | Number of shares | Amount per share |
| \$m  | (millions) | \$          | \$m              | (millions)       | \$           | \$m              | (millions)       | \$          |                  |                  |
| Basic  | 1          | 7,173       | 19,998           | 0.36             | 6,999        | 19,916           | 0.35             | 2,684       | 20,027           | 0.13             |
| Effect of dilutive potential ordinary shares |            |             | 86               |                  |              | 90               |                  |             | 104              |                  |
| Diluted                                      | 1          | 7,173       | 20,084           | 0.36             | 6,999        | 20,006           | 0.35             | 2,684       | 20,131           | 0.13             |

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

## 5 Fair values of financial instruments carried at fair value

The accounting policies, control framework and hierarchy used to determine fair values at 30 June 2018 are consistent with those applied for the *Annual Report and Accounts 2017*, amended as per IFRS 9.

### Financial instruments carried at fair value and bases of valuation

|   | Valuation techniques        |                                 |  | Total   |
|---|-----------------------------|---------------------------------|--|---------|
|   | Quoted market price Level 1 | Using observable inputs Level 2 | With significant unobservable inputs Level 3 |         |
|   | \$m                         | \$m                             | \$m  | \$m     |
| <b>Recurring fair value measurements</b>  |                             |                                 |  |         |
| <b>At 30 Jun 2018</b>   |                             |                                 |  |         |
| <b>Assets</b>   |                             |                                 |  |         |
| Trading assets  | 173,848                     | 67,497                          | 6,547  | 247,892 |
| Financial assets designated and otherwise mandatorily measured at fair value through profit or loss | 25,021                      | 10,651                          | 5,006  | 40,678  |
| Derivatives   | 1,756                       | 223,746                         | 2,470  | 227,972 |
| Financial investments   | 244,816                     | 76,637                          | 2,228  | 323,681 |
| <b>Liabilities</b>  |                             |                                 |  |         |
| Trading liabilities   | 62,875                      | 20,895                          | 75   | 83,845  |
| Financial liabilities designated at fair value  | 5,549                       | 142,081                         | 4,355  | 151,985 |
| Derivatives   | 1,558                       | 219,533                         | 1,870  | 222,961 |

At 31 Dec 2017

|  |         |         |       |         |
|--|---------|---------|-------|---------|
| <b>Assets</b>                                  |         |         |       |         |
| Trading assets                                 | 181,168 | 101,775 | 5,052 | 287,995 |
| Financial assets designated at fair value      | 24,622  | 3,382   | 1,460 | 29,464  |
| Derivatives                                    | 1,017   | 216,357 | 2,444 | 219,818 |
| Financial investments                          | 227,943 | 104,692 | 3,432 | 336,067 |
| <b>Liabilities</b>                             |         |         |       |         |
| Trading liabilities                            | 62,710  | 117,451 | 4,200 | 184,361 |
| Financial liabilities designated at fair value | 4,164   | 90,265  | —     | 94,429  |
| Derivatives                                    | 1,635   | 213,242 | 1,944 | 216,821 |

### Transfers between Level 1 and Level 2 fair values

|                                   | Assets                |                |  | Liabilities |                     |                          |             |
|-----------------------------------|-----------------------|----------------|--|-------------|---------------------|--------------------------|-------------|
|                                   | Financial investments | Trading assets | Designated and otherwise mandatorily measured at fair value through profit or loss | Derivatives | Trading liabilities | Designated at fair value | Derivatives |
|                                   | \$m                   | \$m            | \$m  | \$m         | \$m                 | \$m                      | \$m         |
| <b>At 30 Jun 2018</b>             |                       |                |  |             |                     |                          |             |
| Transfers from Level 1 to Level 2 | 12                    | 233            | 2  | 1           | 42                  | —                        | —           |
| Transfers from Level 2 to Level 1 | 13,163                | 5,143          | —  | 128         | 2,261               | —                        | 138         |

|                                   | Assets             |                  |   | Liabilities |                  |   |             |
|-----------------------------------|--------------------|------------------|---|-------------|------------------|---|-------------|
|                                   | Available for sale | Held for trading | Designated at fair value through profit or loss | Derivatives | Held for trading | Designated at fair value through profit or loss | Derivatives |
|                                   | \$m                | \$m              | \$m   | \$m         | \$m              | \$m   | \$m         |
| <b>At 31 Dec 2017</b>             |                    |                  |   |             |                  |   |             |
| Transfers from Level 1 to Level 2 | 2,231              | 1,507            | —   | —           | 35               | —   | —           |
| Transfers from Level 2 to Level 1 | 11,173             | 1,384            | —   | —           | 683              | —   | —           |

Transfers between levels of the fair value hierarchy are deemed to occur at the end of each quarterly reporting period. Transfers into and out of levels of the fair value hierarchy are primarily attributable to observability of valuation inputs and price transparency.

## Notes on the Financial Statements (unaudited)

### 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.

#### Global Banking and Markets fair value adjustments

| Type of adjustment                                 | At          |                            |             |                            |
|--|-------------|----------------------------|-------------|----------------------------|
|  | 30 Jun 2018 |                            | 31 Dec 2017 |                            |
|  | GB&M<br>\$m | Corporate<br>Centre<br>\$m | GB&M<br>\$m | Corporate<br>Centre<br>\$m |
| Risk-related                                       | 1,062       | 57                         | 1,078       | 79                         |
| – bid-offer  | 439         | 3                          | 413         | 5                          |
| – uncertainty                                      | 112         | 3                          | 91          | 8                          |
| – credit valuation adjustment                      | 410         | 46                         | 420         | 59                         |
| – debit valuation adjustment                       | (144)       | –                          | (82)        | –                          |
| – funding fair value adjustment                    | 226         | 5                          | 233         | 7                          |
| – other  | 19          | –                          | 3           | –                          |
| Model-related                                      | (21)        | 3                          | 92          | 13                         |
| – model limitation                                 | (28)        | 3                          | 92          | 6                          |
| – other  | 7           | –                          | –           | 7                          |
| Inception profit (Day 1 P&L reserves) <sup>1</sup> | 80          | –                          | 106         | –                          |
|  | 1,121       | 60                         | 1,276       | 92                         |

<sup>1</sup> See Note 7 on the Financial Statements on page 98.

Fair value adjustments decreased by \$187m during 1H18. The most significant movement was an absolute reduction of \$123m in respect of the model limitation adjustments following model enhancements and new positions which gave rise to an offsetting adjustment.

A description of HSBC's risk-related and model-related adjustments is provided on pages 208 and 209 of the *Annual Report and Accounts 2017*.

### Fair value valuation bases

#### Financial instruments measured at fair value using a valuation technique with significant unobservable inputs – Level 3

|  | Assets                          |                          |  |                    |               | Liabilities                   |  |                    |              |
|--|---------------------------------|--------------------------|--|--------------------|---------------|-------------------------------|--|--------------------|--------------|
|  | Financial<br>investments<br>\$m | Trading<br>assets<br>\$m | Designated and<br>otherwise<br>mandatorily<br>measured at fair<br>value through profit<br>or loss<br>\$m | Derivatives<br>\$m | Total<br>\$m  | Trading<br>liabilities<br>\$m | Designated<br>at fair<br>value <sup>1</sup><br>\$m | Derivatives<br>\$m | Total<br>\$m |
|  |                                 |                          |  |                    |               |                               |  |                    |              |
| Private equity including strategic investments | 457                             | 27                       | 4,388  | –                  | 4,872         | 17                            | –  | –                  | 17           |
| Asset-backed securities                        | 1,022                           | 1,223                    | 4  | –                  | 2,249         | –                             | –  | –                  | –            |
| Loans held for securitisation                  | –                               | –                        | 50   | –                  | 50            | –                             | –  | –                  | –            |
| Structured notes                               | –                               | 3                        | –  | –                  | 3             | 58                            | 4,355  | –                  | 4,413        |
| Derivatives with monolines                     | –                               | –                        | –  | 75                 | 75            | –                             | –  | –                  | –            |
| Other derivatives                              | –                               | –                        | –  | 2,395              | 2,395         | –                             | –  | 1,869              | 1,869        |
| Other portfolios                               | 749                             | 5,294                    | 564  | –                  | 6,607         | –                             | –  | 1                  | 1            |
| <b>At 30 Jun 2018</b>                          | <b>2,228</b>                    | <b>6,547</b>             | <b>5,006</b>   | <b>2,470</b>       | <b>16,251</b> | <b>75</b>                     | <b>4,355</b>                                       | <b>1,870</b>       | <b>6,300</b> |
| Private equity including strategic investments | 2,012                           | 38                       | 1,458  | –                  | 3,508         | 20                            | –  | –                  | 20           |
| Asset-backed securities                        | 1,300                           | 1,277                    | –  | –                  | 2,577         | –                             | –  | –                  | –            |
| Loans held for securitisation                  | –                               | 24                       | –  | –                  | 24            | –                             | –  | –                  | –            |
| Structured notes                               | –                               | 3                        | –  | –                  | 3             | 4,180                         | –  | –                  | 4,180        |
| Derivatives with monolines                     | –                               | –                        | –  | 113                | 113           | –                             | –  | –                  | –            |
| Other derivatives                              | –                               | –                        | –  | 2,331              | 2,331         | –                             | –  | 1,944              | 1,944        |
| Other portfolios                               | 120                             | 3,710                    | 2  | –                  | 3,832         | –                             | –  | –                  | –            |
| <b>At 31 Dec 2017</b>                          | <b>3,432</b>                    | <b>5,052</b>             | <b>1,460</b>   | <b>2,444</b>       | <b>12,388</b> | <b>4,200</b>                  | <b>–</b>   | <b>1,944</b>       | <b>6,144</b> |

<sup>1</sup> 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 210 of the *Annual Report and Accounts 2017*.



## Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

### Movement in Level 3 financial instruments

|  | Assets                |                |  |              | Liabilities         |                          |              |
|--|-----------------------|----------------|--|--------------|---------------------|--------------------------|--------------|
|  | Financial investments | Trading assets | Designated and otherwise mandatorily measured at fair value through profit or loss | Derivatives  | Trading liabilities | Designated at fair value | Derivatives  |
|  |                       |                |  |              |                     |                          |              |
| <b>At 1 Jan 2018</b>   | <b>1,767</b>          | <b>5,080</b>   | <b>3,957</b>   | <b>2,444</b> | <b>93</b>           | <b>4,107</b>             | <b>1,949</b> |
| Total gains/(losses) recognised in profit or loss  | <b>253</b>            | <b>228</b>     | <b>245</b>   | <b>126</b>   | <b>(2)</b>          | <b>(460)</b>             | <b>(185)</b> |
| – net income from financial instruments held for trading or managed on a fair value basis  | –                     | <b>228</b>     | –  | <b>126</b>   | <b>(2)</b>          | –                        | <b>(185)</b> |
| – net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss | –                     | –              | –  | –            | –                   | <b>(460)</b>             | –            |
| – changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss                               | –                     | –              | <b>245</b>   | –            | –                   | –                        | –            |
| – gains less losses from financial investments at fair value through other comprehensive income  | <b>253</b>            | –              | –  | –            | –                   | –                        | –            |
| – expected credit loss charges and other credit impairment charges   | –                     | –              | –  | –            | –                   | –                        | –            |
| – fair value gains transferred to the income statement on disposal   | –                     | –              | –  | –            | –                   | –                        | –            |
| Total gains/(losses) recognised in other comprehensive income  | <b>64</b>             | <b>(201)</b>   | <b>(92)</b>  | <b>(56)</b>  | <b>(2)</b>          | <b>(72)</b>              | <b>(34)</b>  |
| – financial investments: fair value gains/(losses)   | <b>57</b>             | –              | –  | –            | –                   | –                        | –            |
| – cash flow hedges: fair value gains/(losses)  | –                     | –              | <b>6</b>   | <b>6</b>     | –                   | –                        | <b>2</b>     |
| – fair value gains transferred to the income statement on disposal   | –                     | –              | –  | –            | –                   | –                        | –            |
| – exchange differences   | <b>7</b>              | <b>(201)</b>   | <b>(98)</b>  | <b>(62)</b>  | <b>(2)</b>          | <b>(72)</b>              | <b>(36)</b>  |
| Purchases  | <b>242</b>            | <b>4,032</b>   | <b>1,202</b>   | –            | <b>2</b>            | <b>46</b>                | –            |
| New issuances  | –                     | <b>975</b>     | –  | –            | <b>5</b>            | <b>1,309</b>             | –            |
| Sales  | <b>(24)</b>           | <b>(1,212)</b> | <b>(98)</b>  | –            | <b>(4)</b>          | –                        | –            |
| Settlements  | <b>(70)</b>           | <b>(1,682)</b> | <b>(213)</b>   | <b>137</b>   | –                   | <b>(172)</b>             | <b>317</b>   |
| Transfers out  | <b>(373)</b>          | <b>(941)</b>   | <b>(31)</b>  | <b>(199)</b> | <b>(17)</b>         | <b>(479)</b>             | <b>(235)</b> |
| Transfers in   | <b>369</b>            | <b>268</b>     | <b>36</b>  | <b>18</b>    | –                   | <b>76</b>                | <b>58</b>    |
| <b>At 30 Jun 2018</b>  | <b>2,228</b>          | <b>6,547</b>   | <b>5,006</b>   | <b>2,470</b> | <b>75</b>           | <b>4,355</b>             | <b>1,870</b> |
| Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2018                                  | –                     | <b>(47)</b>    | <b>177</b>   | <b>44</b>    | <b>(5)</b>          | <b>82</b>                | <b>(111)</b> |
| – net income from financial instruments held for trading or managed on a fair value basis  | –                     | <b>(47)</b>    | –  | <b>44</b>    | <b>(5)</b>          | –                        | <b>(111)</b> |
| – net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss | –                     | –              | –  | –            | –                   | <b>82</b>                | –            |
| – changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss                               | –                     | –              | <b>177</b>   | –            | –                   | –                        | –            |
| – loan impairment recoveries and other credit risk provisions  | –                     | –              | –  | –            | –                   | –                        | –            |

## Notes on the Financial Statements (unaudited)

### Movement in Level 3 financial instruments (continued)

|   | Assets             |                  |   |             | Liabilities      |   |             |  |
|---|--------------------|------------------|---|-------------|------------------|---|-------------|--|
|   | Available for sale | Held for trading | Designated at fair value through profit or loss | Derivatives | Held for trading | Designated at fair value through profit or loss | Derivatives |  |
| Footnote  | \$m                | \$m              | \$m   | \$m         | \$m              | \$m   | \$m         |  |
| At 1 Jan 2017   | 3,476              | 6,489            | 730   | 2,752       | 3,582            | 37  | 2,300       |  |
| Total gains/(losses) recognised in profit or loss   | 329                | (78)             | 43  | (50)        | 103              | (4)   | 39          |  |
| – trading income/(expense) excluding net interest income  | –                  | (78)             | –   | (50)        | 103              | –   | 39          |  |
| – net income/(expense) from other financial instruments designated at fair value                              | –                  | –                | 43  | –           | –                | (4)   | –           |  |
| – gains less losses from financial investments  | 306                | –                | –   | –           | –                | –   | –           |  |
| – loan impairment charges and other credit risk provisions  | 23                 | –                | –   | –           | –                | –   | –           |  |
| Total gains/(losses) recognised in other comprehensive income <sup>1</sup>                                    | (84)               | 62               | 4   | 99          | 82               | 1   | 62          |  |
| – available-for-sale investments: fair value gains  | (150)              | –                | –   | –           | –                | –   | –           |  |
| – cash flow hedges: fair value gains  | –                  | –                | –   | (30)        | –                | –   | (38)        |  |
| – exchange differences  | 66                 | 62               | 4   | 129         | 82               | 1   | 100         |  |
| Purchases   | 50                 | 635              | 321   | –           | –                | –   | –           |  |
| New issuances   | –                  | –                | –   | –           | 977              | –   | –           |  |
| Sales   | (536)              | (2,161)          | (1)   | –           | (12)             | –   | –           |  |
| Settlements   | (10)               | (297)            | (28)  | (53)        | (433)            | –   | 67          |  |
| Transfers out   | (470)              | (35)             | (2)   | (164)       | (271)            | (33)  | (425)       |  |
| Transfers in  | 694                | 189              | –   | 85          | 22               | –   | 20          |  |
| At 30 Jun 2017  | 3,449              | 4,804            | 1,067   | 2,669       | 4,050            | 1   | 2,063       |  |
| Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2017 | 23                 | 28               | 23  | (48)        | 228              | –   | 106         |  |
| – trading income/(expense) excluding net interest income  | –                  | 28               | –   | (48)        | 228              | –   | 106         |  |
| – net income/(expense) from other financial instruments designated at fair value                              | –                  | –                | 23  | –           | –                | –   | –           |  |
| – loan impairment recoveries and other credit risk provisions   | 23                 | –                | –   | –           | –                | –   | –           |  |
| At 1 Jul 2017   | 3,449              | 4,804            | 1,067   | 2,669       | 4,050            | 1   | 2,063       |  |
| Total gains/(losses) recognised in profit or loss   | 22                 | (110)            | (150)   | 202         | 51               | (1)   | 361         |  |
| – trading income/(expense) excluding net interest income  | –                  | (110)            | –   | 202         | 51               | –   | 361         |  |
| – net income/(expense) from other financial instruments designated at fair value                              | –                  | –                | (150)   | –           | –                | (1)   | –           |  |
| – gains less losses from financial investments  | 7                  | –                | –   | –           | –                | –   | –           |  |
| – loan impairment charges and other credit risk provisions  | 15                 | –                | –   | –           | –                | –   | –           |  |
| Total gains/(losses) recognised in other comprehensive income <sup>1</sup>                                    | 155                | 44               | 3   | 89          | 87               | –   | 58          |  |
| – available-for-sale investments: fair value gains  | 120                | –                | –   | –           | –                | –   | –           |  |
| – cash flow hedges: fair value gains  | –                  | (1)              | 3   | 7           | –                | –   | 3           |  |
| – exchange differences  | 35                 | 45               | –   | 82          | 87               | –   | 55          |  |
| Purchases   | 150                | 868              | 806   | 2           | 5                | –   | 23          |  |
| New issuances   | –                  | –                | –   | 1           | 938              | –   | –           |  |
| Sales   | (403)              | (1,060)          | (129)   | (8)         | –                | –   | (12)        |  |
| Settlements   | (59)               | (34)             | (138)   | (7)         | (565)            | –   | (190)       |  |
| Transfers out   | (95)               | (114)            | (1)   | (721)       | (407)            | –   | (605)       |  |
| Transfers in  | 213                | 654              | 2   | 217         | 41               | –   | 246         |  |
| At 31 Dec 2017  | 3,432              | 5,052            | 1,460   | 2,444       | 4,200            | –   | 1,944       |  |
| Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2017 | (7)                | (138)            | (169)   | 266         | (345)            | –   | (503)       |  |
| – trading income/(expense) excluding net interest income  | –                  | (138)            | –   | 266         | (345)            | –   | (503)       |  |
| – net income/(expense) from other financial instruments designated at fair value                              | –                  | –                | (169)   | –           | –                | –   | –           |  |
| – loan impairment recoveries and other credit risk provisions   | (7)                | –                | –   | –           | –                | –   | –           |  |

<sup>1</sup> Included in 'Available-for-sale investments: fair value gains/(losses)' for prior years and 'financial investments: fair value gains/(losses)' in the current year 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 each quarterly reporting period. Transfers into and out of Levels of the fair value hierarchy are primarily attributable to observability of valuation inputs and price transparency.

## 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

|  | Footnote | Reflected in profit or loss |                      | Reflected in other comprehensive income |                      |
|--|----------|-----------------------------|----------------------|---|----------------------|
|  |          | Favourable changes          | Unfavourable changes | Favourable changes                      | Unfavourable changes |
|  |          | \$m                         | \$m                  | \$m                                     | \$m                  |
| Derivatives, trading assets and trading liabilities  | 1        | 320                         | (270)                | —                                       | —                    |
| Financial assets and liabilities designated and otherwise mandatorily measured at fair value |          | 344                         | (279)                | —                                       | —                    |
| Financial investments  |          | 48                          | (51)                 | 15                                      | (10)                 |
| <b>At 30 Jun 2018</b>  |          | <b>712</b>                  | <b>(600)</b>         | <b>15</b>                               | <b>(10)</b>          |
| Derivatives, trading assets and trading liabilities  | 1        | 249                         | (202)                | —                                       | —                    |
| Financial assets and liabilities designated at fair value                                    |          | 68                          | (54)                 | —                                       | —                    |
| Financial investments: available for sale  |          | 76                          | (40)                 | 166                                     | (132)                |
| At 30 Jun 2017   |          | 393                         | (296)                | 166                                     | (132)                |
| Derivatives, trading assets and trading liabilities  | 1        | 372                         | (253)                | —                                       | —                    |
| Financial assets and liabilities designated at fair value                                    |          | 89                          | (74)                 | —                                       | —                    |
| Financial investments: available for sale  |          | 53                          | (30)                 | 128                                     | (149)                |
| At 31 Dec 2017   |          | 514                         | (357)                | 128                                     | (149)                |

1 Derivatives, 'trading assets and trading liabilities' are presented as one category to reflect the manner in which these financial instruments are risk-managed.

### 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          | Unfavourable changes | Favourable changes                      | Unfavourable changes |
|  | \$m                         | \$m                  | \$m                                     | \$m                  |
| Private equity including strategic investments | 357                         | (288)                | —                                       | —                    |
| Asset-backed securities                        | 71                          | (40)                 | 15                                      | (10)                 |
| Loans held for securitisation                  | 1                           | (1)                  | —                                       | —                    |
| Structured notes                               | 15                          | (12)                 | —                                       | —                    |
| Derivatives with monolines                     | —                           | —                    | —                                       | —                    |
| Other derivatives                              | 200                         | (166)                | —                                       | —                    |
| Other portfolios                               | 68                          | (93)                 | —                                       | —                    |
| <b>At 30 Jun 2018</b>                          | <b>712</b>                  | <b>(600)</b>         | <b>15</b>                               | <b>(10)</b>          |
| Private equity including strategic investments | 133                         | (91)                 | 116                                     | (86)                 |
| Asset-backed securities                        | 38                          | (24)                 | 41                                      | (38)                 |
| Loans held for securitisation                  | 1                           | (1)                  | —                                       | —                    |
| Structured notes                               | 10                          | (7)                  | —                                       | —                    |
| Derivatives with monolines                     | 1                           | (1)                  | —                                       | —                    |
| Other derivatives                              | 171                         | (127)                | —                                       | —                    |
| Other portfolios                               | 39                          | (45)                 | 9                                       | (8)                  |
| At 30 Jun 2017                                 | 393                         | (296)                | 166                                     | (132)                |
| Private equity including strategic investments | 142                         | (105)                | 117                                     | (102)                |
| Asset-backed securities                        | 66                          | (39)                 | 3                                       | (39)                 |
| Loans held for securitisation                  | 1                           | (1)                  | —                                       | —                    |
| Structured notes                               | 12                          | (9)                  | —                                       | —                    |
| Derivatives with monolines                     | —                           | —                    | —                                       | —                    |
| Other derivatives                              | 249                         | (150)                | —                                       | —                    |
| Other portfolios                               | 44                          | (53)                 | 8                                       | (8)                  |
| At 31 Dec 2017                                 | 514                         | (357)                | 128                                     | (149)                |

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, as well as the availability and reliability of observable proxy and historical data.

When the fair value of a financial instrument is affected by more than one unobservable assumption, the table above reflects the most favourable or the most unfavourable change from varying the assumptions individually.

## Notes on the Financial Statements (unaudited)

### Key unobservable inputs to Level 3 financial instruments

The table below lists key unobservable inputs to Level 3 financial instruments, and provides the range of those inputs at 30 June 2018. 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 pages 213 and 214 of the *Annual Report and Accounts 2017*.

#### Quantitative information about significant unobservable inputs in Level 3 valuations

| Footnotes                                      | Fair value    |              | Valuation technique          | Key unobservable inputs | Full range of inputs |        | Core range of inputs |        |
|--|---------------|--------------|------------------------------|-------------------------|----------------------|--------|----------------------|--------|
|  | Assets        | Liabilities  |                              |                         | Lower                | Higher | Lower                | Higher |
|  | \$m           | \$m          |                              |                         |                      |        |                      |        |
|  | 4,872         | 17           | See footnote 3               | See footnote 3          |                      |        |                      |        |
| Private equity including strategic investments |               |              |                              |                         |                      |        |                      |        |
| Asset-backed securities                        | 2,249         | –            |                              |                         |                      |        |                      |        |
| – CLO/CDO                                      | 336           | –            | Market proxy                 | Prepayment rate         | 2%                   | 7%     | 2%                   | 7%     |
|  |               |              | Market proxy                 | Bid quotes              | 0                    | 102    | 72                   | 100    |
| – other ABSs                                   | 1,913         | –            | Market proxy                 | Bid quotes              | 0                    | 107    | 56                   | 97     |
| Loans held for securitisation                  | 50            | –            |                              |                         |                      |        |                      |        |
| Structured notes                               | 3             | 4,413        |                              |                         |                      |        |                      |        |
| – equity-linked notes                          | –             | 4,268        | Model – option model         | Equity volatility       | 7%                   | 59%    | 11%                  | 37%    |
|  |               |              | Model – option model         | Equity correlation      | 19%                  | 93%    | 34%                  | 79%    |
| – fund-linked notes                            | –             | 26           | Model – option model         | Fund volatility         | 5%                   | 17%    | 5%                   | 17%    |
| – FX-linked notes                              | –             | 100          | Model – option model         | FX volatility           | 4%                   | 21%    | 4%                   | 11%    |
| – other  | 3             | 19           |                              |                         |                      |        |                      |        |
| Derivatives with monolines                     | 75            | –            | Model – discounted cash flow | Credit spread           | 1%                   | 4%     | 1%                   | 4%     |
| Other derivatives                              | 2,395         | 1,869        |                              |                         |                      |        |                      |        |
| – interest rate derivatives:                   |               |              |                              |                         |                      |        |                      |        |
| securitisation swaps                           | 281           | 652          | Model – discounted cash flow | Prepayment rate         | 6%                   | 7%     | 6%                   | 7%     |
| long-dated swaptions                           | 1,074         | 28           | Model – option model         | IR volatility           | 12%                  | 35%    | 13%                  | 33%    |
| other  | 266           | 135          |                              |                         |                      |        |                      |        |
| – FX derivatives                               |               |              |                              |                         |                      |        |                      |        |
| FX options                                     | 158           | 122          | Model – option model         | FX volatility           | 1%                   | 26%    | 6%                   | 10%    |
| other  | 85            | 84           |                              |                         |                      |        |                      |        |
| – equity derivatives                           |               |              |                              |                         |                      |        |                      |        |
| long-dated single stock options                | 305           | 380          | Model – option model         | Equity volatility       | 5%                   | 82%    | 6%                   | 60%    |
| other  | 187           | 298          |                              |                         |                      |        |                      |        |
| – credit derivatives                           |               |              |                              |                         |                      |        |                      |        |
| other  | 39            | 170          |                              |                         |                      |        |                      |        |
| Other portfolios                               | 6,607         | 1            |                              |                         |                      |        |                      |        |
| – structured certificates                      | 3,013         | –            | Model – discounted cash flow | Credit volatility       | 2%                   | 4%     | 2%                   | 4%     |
| – EM corporate debt                            | 39            | –            |                              |                         |                      |        |                      |        |
| – other  | 3,555         | 1            |                              |                         |                      |        |                      |        |
| <b>At 30 Jun 2018</b>                          | <b>16,251</b> | <b>6,300</b> |                              |                         |                      |        |                      |        |

Quantitative information about significant unobservable inputs in Level 3 valuations (continued)

| Footnotes                       | Fair value |             | Valuation technique          | Key unobservable inputs | Full range of inputs |        | Core range of inputs |        |
|---------------------------------|------------|-------------|------------------------------|-------------------------|----------------------|--------|----------------------|--------|
|                                 | Assets     | Liabilities |                              |                         | Lower                | Higher | Lower                | Higher |
|                                 | \$m        | \$m         |                              |                         |                      |        |                      |        |
|                                 | 3,508      | 20          | See footnote 3               | See footnote 3          | n/a                  | n/a    | n/a                  | n/a    |
| Asset-backed securities         | 2,577      |             |                              |                         |                      |        |                      |        |
| - CLO/CDO <sup>1</sup>          | 520        |             | Market proxy                 | Prepayment rate         | 2%                   | 7%     | 2%                   | 7%     |
|                                 |            |             | Market proxy                 | Bid quotes              | 0                    | 101    | 6                    | 53     |
| - other ABSs                    | 2,057      |             | Market proxy                 | Bid quotes              | 0                    | 103    | 34                   | 98     |
| Loans held for securitisation   | 24         | —           |                              |                         |                      |        |                      |        |
| Structured notes                | 3          | 4,180       |                              |                         |                      |        |                      |        |
| - equity-linked notes           | —          | 4,077       | Model – option model         | Equity volatility       | 7%                   | 47%    | 14%                  | 30%    |
|                                 | —          |             | Model – option model         | Equity correlation      | 33%                  | 95%    | 45%                  | 72%    |
| - fund-linked notes             | —          | 7           | Model – option model         | Fund volatility         | 6%                   | 15%    | 6%                   | 15%    |
| - FX-linked notes               | —          | 76          | Model – option model         | FX volatility           | 3%                   | 20%    | 4%                   | 13%    |
| - other                         | 3          | 20          |                              |                         |                      |        |                      |        |
| Derivatives with monolines      | 113        | —           | Model – discounted cash flow | Credit spread           | 0.4%                 | 3%     | 1%                   | 3%     |
| Other derivatives               | 2,331      | 1,944       |                              |                         |                      |        |                      |        |
| - interest rate derivatives     |            |             |                              |                         |                      |        |                      |        |
| securitisation swaps            | 285        | 806         | Model – discounted cash flow | Prepayment rate         | 20%                  | 90%    | 20%                  | 90%    |
| long-dated swaptions            | 1,244      | 66          | Model – option model         | IR volatility           | 8%                   | 41%    | 15%                  | 31%    |
| other                           | 302        | 145         |                              |                         |                      |        |                      |        |
| - FX derivatives                |            |             |                              |                         |                      |        |                      |        |
| FX options                      | 86         | 83          | Model – option model         | FX volatility           | 0.7%                 | 50%    | 5%                   | 11%    |
| other                           | 135        | 129         |                              |                         |                      |        |                      |        |
| - equity derivatives            |            |             |                              |                         |                      |        |                      |        |
| long-dated single stock options | 158        | 359         | Model – option model         | Equity volatility       | 7%                   | 84%    | 15%                  | 44%    |
| other                           | 96         | 329         |                              |                         |                      |        |                      |        |
| - Credit derivatives            |            |             |                              |                         |                      |        |                      |        |
| Other                           | 25         | 27          |                              |                         |                      |        |                      |        |
| Other portfolios                | 3,832      | —           |                              |                         |                      |        |                      |        |
| - structured certificates       | 3,014      | —           | Model – discounted cash flow | Credit volatility       | 2%                   | 4%     | 2%                   | 4%     |
| - EM corporate debt             | 85         | —           | Market proxy                 | Bid quotes              | 100                  | 100    | 100                  | 100    |
| - other <sup>2</sup>            | 733        | —           |                              |                         |                      |        |                      |        |
| At 31 Dec 2017                  | 12,388     | 6,144       |                              |                         |                      |        |                      |        |

<sup>1</sup> Collateralised loan obligation/collateralised debt obligation.

<sup>2</sup> 'Other' includes a range of smaller asset holdings.

<sup>3</sup> See notes on page 213 of the Annual Report and Accounts 2017.

## 6 Fair values of financial instruments not carried at fair value

The bases for measuring the fair values of loans and advances to banks and customers, financial investments, deposits by banks, customer accounts, debt securities in issue, subordinated liabilities and non-trading repurchase and reverse repurchase agreements are explained on pages 215 and 216 of the *Annual Report and Accounts 2017*.

### Fair values of financial instruments not carried at fair value on the balance sheet

|   | At 30 Jun 2018         |                   | At 31 Dec 2017         |                   |
|---|------------------------|-------------------|------------------------|-------------------|
|   | Carrying amount<br>\$m | Fair value<br>\$m | Carrying amount<br>\$m | Fair value<br>\$m |
| <b>Assets</b>                               |                        |                   |                        |                   |
| Loans and advances to banks                 | 83,924                 | 83,902            | 90,393                 | 90,391            |
| Loans and advances to customers             | 973,443                | 974,646           | 962,964                | 964,205           |
| Reverse repurchase agreements – non-trading | 208,104                | 208,156           | 201,553                | 201,538           |
| Financial investments – at amortised cost   | 62,755                 | 61,930            | 52,919                 | 54,087            |
| <b>Liabilities</b>                          |                        |                   |                        |                   |
| Deposits by banks                           | 64,792                 | 64,791            | 69,922                 | 69,892            |
| Customer accounts                           | 1,356,307              | 1,356,275         | 1,364,462              | 1,364,625         |
| Repurchase agreements – non-trading         | 158,295                | 158,303           | 130,002                | 129,996           |
| Debt securities in issue                    | 81,708                 | 81,970            | 64,546                 | 65,138            |
| Subordinated liabilities                    | 22,604                 | 26,417            | 19,826                 | 24,095            |

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.

## 7 Derivatives

### Notional contract amounts and fair values of derivatives by product contract type held by HSBC

|                                | Notional contract amount |                | Fair value amount |                |                |                |                |                |
|--------------------------------|--------------------------|----------------|-------------------|----------------|----------------|----------------|----------------|----------------|
|                                | Assets and Liabilities   |                | Assets            |                | Liabilities    |                |                |                |
|                                | Trading<br>\$m           | Hedging<br>\$m | Trading<br>\$m    | Hedging<br>\$m | Total<br>\$m   | Trading<br>\$m | Hedging<br>\$m | Total<br>\$m   |
| Foreign exchange               | 7,389,043                | 29,761         | 100,818           | 401            | 101,219        | 96,192         | 744            | 96,936         |
| Interest rate                  | 22,569,400               | 179,968        | 205,654           | 1,659          | 207,313        | 204,042        | 2,535          | 206,577        |
| Equities                       | 561,103                  | –              | 10,270            | –              | 10,270         | 10,038         | –              | 10,038         |
| Credit                         | 358,277                  | –              | 3,592             | –              | 3,592          | 4,036          | –              | 4,036          |
| Commodity and other            | 78,504                   | –              | 1,421             | –              | 1,421          | 1,217          | –              | 1,217          |
| <b>Gross total fair values</b> | <b>30,956,327</b>        | <b>209,729</b> | <b>321,755</b>    | <b>2,060</b>   | <b>323,815</b> | <b>315,525</b> | <b>3,279</b>   | <b>318,804</b> |
| Offset                         |                          |                |                   |                | (95,843)       |                |                | (95,843)       |
| <b>At 30 Jun 2018</b>          | <b>30,956,327</b>        | <b>209,729</b> | <b>321,755</b>    | <b>2,060</b>   | <b>227,972</b> | <b>315,525</b> | <b>3,279</b>   | <b>222,961</b> |
| Foreign exchange               | 6,215,518                | 28,768         | 78,089            | 428            | 78,517         | 74,915         | 853            | 75,768         |
| Interest rate                  | 19,751,577               | 178,289        | 235,430           | 1,365          | 236,795        | 229,989        | 3,042          | 233,031        |
| Equities                       | 590,156                  | –              | 9,353             | –              | 9,353          | 11,845         | –              | 11,845         |
| Credit                         | 391,798                  | –              | 4,692             | –              | 4,692          | 5,369          | –              | 5,369          |
| Commodity and other            | 59,716                   | –              | 886               | –              | 886            | 1,233          | –              | 1,233          |
| Gross total fair values        | 27,008,765               | 207,057        | 328,450           | 1,793          | 330,243        | 323,351        | 3,895          | 327,246        |
| Offset                         |                          |                |                   |                | (110,425)      |                |                | (110,425)      |
| <b>At 31 Dec 2017</b>          | <b>27,008,765</b>        | <b>207,057</b> | <b>328,450</b>    | <b>1,793</b>   | <b>219,818</b> | <b>323,351</b> | <b>3,895</b>   | <b>216,821</b> |

The notional contract amounts of derivatives held for trading purposes and derivatives designated in qualifying hedge accounting indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk. Derivative assets and liabilities decreased during 1H18, reflecting changes in foreign exchange rates and yield curve movements.

## 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 shown in the following table.

### Unamortised balance of derivatives valued using models with significant unobservable inputs

|   | Footnote | Half-year to   |                |                |
|---|----------|----------------|----------------|----------------|
|   |          | 30 Jun<br>2018 | 30 Jun<br>2017 | 31 Dec<br>2017 |
|   |          | \$m            | \$m            | \$m            |
| Unamortised balance at beginning of period              |          | 106            | 99             | 110            |
| Deferral on new transactions                            |          | 86             | 101            | 90             |
| Recognised in the income statement during the period:   |          | (90)           | (92)           | (95)           |
| – amortisation  |          | (52)           | (46)           | (39)           |
| – subsequent to unobservable inputs becoming observable |          | (1)            | (1)            | (1)            |
| – maturity, termination or offsetting derivative        |          | (37)           | (45)           | (55)           |
| Exchange differences                                    |          | (2)            | 6              | 4              |
| Other   |          | (20)           | (4)            | (3)            |
| <b>Unamortised balance at end of period</b>             | 1        | <b>80</b>      | <b>110</b>     | <b>106</b>     |

1 This amount is yet to be recognised in the consolidated 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 Jun 2018      |                      | At 31 Dec 2017      |                      |
|------------------|---------------------|----------------------|---------------------|----------------------|
|                  | Cash flow<br>hedges | Fair value<br>hedges | Cash flow<br>hedges | Fair value<br>hedges |
|                  | \$m                 | \$m                  | \$m                 | \$m                  |
| Foreign exchange | 24,746              | 15                   | 22,741              | 1,027                |
| Interest rate    | 55,197              | 124,771              | 65,575              | 112,714              |
| <b>Total</b>     | <b>79,943</b>       | <b>124,786</b>       | <b>88,316</b>       | <b>113,741</b>       |

The Group applies hedge accounting in respect of certain consolidated net investments. Hedging is undertaken using forward foreign exchange contracts or by financing with foreign currency borrowings. At 30 June 2018 the notional contract values of outstanding financial instruments designated as hedges of net investments in foreign operations were \$5,000m (31 December 2017: \$5,000m).

## 8 Financial investments

### Carrying amounts of financial investments

|   | Footnotes | 30 Jun<br>2018 | 31 Dec<br>2017 |
|---|-----------|----------------|----------------|
|   |           | \$m            | \$m            |
| Financial investments measured at fair value through other comprehensive income |           | 323,681        | N/A            |
| – treasury and other eligible bills   |           | 77,370         | N/A            |
| – debt securities   |           | 244,469        | N/A            |
| – equity securities   |           | 1,741          | N/A            |
| – other instruments   | 1         | 101            | N/A            |
| Debt instruments measured at amortised cost                                     | 2         | 62,755         | N/A            |
| – treasury and other eligible bills   |           | 307            | N/A            |
| – debt securities   |           | 62,448         | N/A            |
| Available-for-sale securities at fair value                                     |           | N/A            | 336,157        |
| – treasury and other eligible bills   |           | N/A            | 78,851         |
| – debt securities   |           | N/A            | 253,389        |
| – equity securities   |           | N/A            | 3,917          |
| Held to maturity securities at amortised cost                                   |           | N/A            | 52,919         |
| – debt securities   | 2         | N/A            | 52,919         |
| <b>At the end of the period</b>   | 3         | <b>386,436</b> | <b>389,076</b> |

1 'Other Instruments' are comprised of loans and advances.

2 Fair value \$61.9bn (31 December 2017: \$54.1bn).

3 Categories of financial instruments are disclosed under IFRS 9 at 30 June 2018. These are not directly comparable with 31 December 2017, where the instruments were categorised in accordance with IAS 39.

## 9 Interests in associates and joint ventures

At 30 June 2018, the carrying amount of HSBC's interests in associates and joint ventures was \$22,572m (31 December 2017: \$22,744m).

### Principal associates of HSBC

|                                     | At              |                         |                 |                         |
|-------------------------------------|-----------------|-------------------------|-----------------|-------------------------|
|                                     | 30 Jun 2018     |                         | 31 Dec 2017     |                         |
|                                     | Carrying amount | Fair value <sup>1</sup> | Carrying amount | Fair value <sup>1</sup> |
|                                     | \$m             | \$m                     | \$m             | \$m                     |
| Bank of Communications Co., Limited | 17,890          | 10,830                  | 18,057          | 10,491                  |
| The Saudi British Bank              | 3,568           | 5,048                   | 3,618           | 4,320                   |

<sup>1</sup> 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

At 30 June 2018, the fair value of HSBC's investment in Bank of Communications Co., Limited ('BoCom') had been below the carrying amount for approximately six years. As a result, the Group performed an impairment test on the carrying amount of the investment in BoCom, which confirmed there was no impairment at 30 June 2018.

|                                     | At          |                |            |             |                |            |
|-------------------------------------|-------------|----------------|------------|-------------|----------------|------------|
|                                     | 30 Jun 2018 |                |            | 31 Dec 2017 |                |            |
|                                     | VIU         | Carrying value | Fair value | VIU         | Carrying value | Fair value |
|                                     | \$bn        | \$bn           | \$bn       | \$bn        | \$bn           | \$bn       |
| Bank of Communications Co., Limited | 18.2        | 17.9           | 10.8       | 18.3        | 18.1           | 10.5       |

#### 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 to derive a terminal value, which comprises the majority of the VIU. An imputed capital maintenance charge ('CMC') is calculated to reflect expected regulatory capital requirements, and is deducted 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 minimum regulatory capital requirements. An increase in the CMC as a result of a change to these principal inputs would reduce VIU. Additionally, management considers other factors (including qualitative factors) to ensure that the inputs to the VIU calculation remain appropriate. Significant management judgement is required in estimating the future cash flows of BoCom.

#### Key assumptions in VIU calculation

The assumptions we used in our VIU calculation were:

- Long-term profit growth rate: 3% (31 December 2017: 3%) for periods after 2021, which does not exceed forecast GDP growth in mainland China and is within the range forecast by external analysts.
- Long-term asset growth rate: 3% (31 December 2017: 3%) for periods after 2021, which is the rate that assets are expected to grow to achieve long-term profit growth of 3%.
- Discount rate: 11.85% (31 December 2017: 11.85%), which is based on a capital asset pricing model ('CAPM') calculation for BoCom, using market data. Management also compares rates derived from the CAPM with discount rates from external sources. The discount rate used is within the range of 11.3% to 12.7% (31 December 2017: 10.2% to 13.4%) indicated by external sources.
- Loan impairment charge as a percentage of customer advances: ranges from 0.70% to 0.72% (31 December 2017: 0.66% to 0.82%) in the short to medium term, and is based on the forecasts disclosed by external analysts. For periods after 2021, the ratio is 0.70% (31 December 2017: 0.70%), slightly higher than the historical average.
- Risk-weighted assets as a percentage of total assets: 62% (31 December 2017: 62%) for all forecast periods. This is slightly higher than BoCom's recent actual results.
- Cost-income ratio: ranges from 37.3% to 38.0% (31 December 2017: 37.1% to 38.0%) in the short to medium term. This is consistent with the forecasts disclosed by external analysts.

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 profit growth rate                                | Decrease by 13 basis points                         |
| • Long-term asset growth rate                                 | Increase by 11 basis points                         |
| • Discount rate   | Increase by 15 basis points                         |
| • Loan impairment charge as a percentage of customer advances | Increase by 2 basis points                          |
| • Risk-weighted assets as a percentage of total assets        | Increase by 74 basis points                         |
| • Cost-income ratio   | Increase by 50 basis points                         |



## 10 Provisions

|   | Restructuring costs | Legal proceedings and regulatory matters | Customer remediation | Other provisions | Total        |
|---|---------------------|--|----------------------|------------------|--------------|
|   | \$m                 | \$m                                      | \$m                  | \$m              | \$m          |
| <b>Provisions (excluding contractual commitments)</b> |                     |  |                      |                  |              |
| <b>At 31 Dec 2017</b>                                 | <b>334</b>          | <b>1,501</b>                             | <b>1,454</b>         | <b>469</b>       | <b>3,758</b> |
| Additions   | 44                  | 1,053                                    | 172                  | 54               | 1,323        |
| Amounts utilised                                      | (96)                | (352)                                    | (457)                | (57)             | (962)        |
| Unused amounts reversed                               | (47)                | (237)                                    | (70)                 | (59)             | (413)        |
| Unwinding of discounts                                | –                   | –  | –                    | 3                | 3            |
| Exchange and other movements                          | (10)                | 56                                       | (19)                 | (59)             | (32)         |
| <b>At 30 Jun 2018</b>                                 | <b>225</b>          | <b>2,021</b>                             | <b>1,080</b>         | <b>351</b>       | <b>3,677</b> |
| <b>Contractual commitments<sup>1</sup></b>            |                     |  |                      |                  |              |
| <b>At 31 Dec 2017</b>                                 |                     |  |                      |                  | <b>253</b>   |
| Impact on transition to IFRS 9                        |                     |  |                      |                  | 284          |
| Net change in expected credit loss provision          |                     |  |                      |                  | (15)         |
| <b>At 30 Jun 2018</b>                                 |                     |  |                      |                  | <b>522</b>   |
| <b>Total provisions</b>                               |                     |  |                      |                  |              |
| <b>At 31 Dec 2017</b>                                 |                     |  |                      |                  | <b>4,011</b> |
| <b>At 30 Jun 2018</b>                                 |                     |  |                      |                  | <b>4,199</b> |

<sup>1</sup> The contractual commitments provision at 31 December 2017 represented IAS 37 provisions on off-balance sheet loan commitments and guarantees for which expected credit losses are provided following transition to IFRS 9 on 1 January 2018. Further analysis of the movement in the expected credit loss provision is disclosed within the 'Reconciliation of gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees' table on page 53.

Further details of 'Legal proceedings and regulatory matters' are set out in Note 12. 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' refers 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 HSBC's activities 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. Further details of customer remediation are set out in this note.

Further disclosure on 'ECL on undrawn loan commitments and financial guarantees' can be found in the Credit Risk section of the Overview. This provision results from the adoption of IFRS 9 and has no comparatives.

### Payment protection insurance

At 30 June 2018, a provision of \$842m (2017: \$1,174m) related to the estimated liability for redress in respect of the possible mis-selling of payment protection insurance ('PPI') policies in previous years. Cumulative provisions made since the Judicial Review ruling in the first half of 2011 amount to \$5.1bn, of which \$4.3bn has been paid to 30 June 2018.

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 the historically observed redress per policy.

A total of 5.4 million PPI policies have been sold since 2000, generating estimated revenues of \$3.6bn. The gross written premiums on these policies were approximately \$4.7bn. At 30 June 2018, the estimated total complaints expected to be received were 2.2 million, representing 41% of total policies sold. It is estimated that contact will be made with regard to 2.6 million policies, representing 49% of total policies sold. This estimate includes inbound complaints as well as the Group's proactive contact exercise on certain policies ('outbound contact').

The following table details the cumulative number of complaints received to 30 June 2018 and the number of claims expected in the future:

#### Cumulative PPI complaints received to 30 June 2018 and future claims expected

|  | Footnotes | Cumulative to 30 Jun 2018 | Future expected |
|--|-----------|---------------------------|-----------------|
| Inbound complaints (000s of policies)                                    | 1         | 1,647                     | 292             |
| Outbound contact (000s of policies)                                      |           | 685                       | –               |
| Response rate to outbound contact  |           | 44%                       | n/a             |
| Average uphold rate per claim  | 2         | 77%                       | 83%             |
| Average redress per claim (\$)   |           | 2,674                     | 3,079           |
| Complaints to the Financial Ombudsman Service ('FOS') (000s of policies) |           | 159                       | 15              |
| Average uphold rate per FOS complaint                                    |           | 39%                       | 33%             |

<sup>1</sup> Excludes invalid claims for which no PPI policy exists.

<sup>2</sup> Claims include inbound and responses to outbound contact.

A 100,000 increase/decrease in the total inbound complaints would increase/decrease the redress provision by approximately \$268m.

## 11 Contingent liabilities, contractual commitments and guarantees

|  | At                    |                       |
|--|-----------------------|-----------------------|
|  | 30 Jun<br>2018<br>\$m | 31 Dec<br>2017<br>\$m |
| Guarantees and contingent liabilities:                           |                       |                       |
| – financial guarantees and other similar contracts               | 91,104                | 89,762                |
| – other contingent liabilities                                   | 796                   | 616                   |
| <b>At the end of the period</b>                                  | <b>91,900</b>         | <b>90,378</b>         |
| Commitments:   |                       |                       |
| – documentary credits and short-term trade-related transactions  | 7,571                 | 8,776                 |
| – forward asset purchases and forward deposits placed            | 12,235                | 4,295                 |
| – standby facilities, credit lines and other commitments to lend | 691,353               | 672,518               |
| <b>At the end of the period</b>                                  | <b>711,159</b>        | <b>685,589</b>        |

The table above discloses the nominal principal amounts, which represent the maximum amounts at risk should the contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments are expected to expire without being drawn upon, the total of the nominal principal amounts is not indicative of future liquidity requirements. The expected credit loss provision relating to guarantees and commitments under IFRS 9 is disclosed in Note 10.

Approximately half the guarantees have a term of less than one year, while guarantees with terms of more than one year are subject to HSBC's annual credit review process.

Contingent liabilities arising from legal proceedings, regulatory and other matters against Group companies are disclosed in Notes 10 and 12.

## 12 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 1 of the *Annual Report and Accounts 2017*. 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 2018 (see Note 10). 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.

### Bernard L. Madoff Investment Securities LLC

Bernard L. Madoff ('Madoff') was arrested in December 2008 and later pleaded guilty to running a Ponzi scheme. 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, including fictitious profits reported by Madoff.

Based on information available to HSBC, the funds' actual transfers to Madoff Securities minus their actual withdrawals from Madoff Securities during the time HSBC serviced the funds are estimated to have 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 lawsuits against various HSBC companies in the US Bankruptcy Court and in the High Court of England and Wales, seeking recovery of transfers from Madoff Securities to HSBC in an amount not yet pleaded or determined. HSBC and other parties to the action have moved to dismiss the Trustee's US actions. The US Bankruptcy Court granted HSBC's motion to dismiss with respect to certain of the Trustee's claims in November 2016. In September 2017, the US Court of Appeals for the Second Circuit (the 'Second Circuit Court of Appeals') agreed to hear the Trustee's appeal of the US Bankruptcy Court's decision. Briefing on the appeal was completed in May 2018, and this matter is currently pending.

The deadline by which the Trustee must serve HSBC with his English action has been extended to September 2018 for UK-based defendants and November 2018 for all other defendants.

Fairfield Sentry Limited, Fairfield Sigma Limited and Fairfield Lambda Limited (together, 'Fairfield') (in liquidation since July 2009) have brought lawsuits in the US and the British Virgin Islands against fund shareholders, including HSBC companies that acted as nominees for clients, seeking restitution of redemption payments. In October 2016, the liquidators for Fairfield (the 'Fairfield Liquidators') filed a motion seeking leave to amend their complaints in the US Bankruptcy Court. In January 2017, the defendants moved to dismiss and oppose the Fairfield Liquidators' motion. These motions are pending.

In December 2014, SPV Optimal SUS Ltd ('SPV OSUS'), the purported assignee of the Madoff-invested company, Optimal Strategic US Equity Ltd, filed a lawsuit in New York state court against various HSBC companies and others, seeking damages on various alleged grounds, including breach of fiduciary duty and breach of trust. In April 2018, SPV OSUS filed an amended complaint and HSBC transferred the case to the US District Court for the Southern District of New York (the 'New York District Court'), where the matter is currently pending. In July 2018, the defendants filed a motion to dismiss the amended complaint.

**Bermuda litigation:** In January 2009, Kingate Global Fund Limited and Kingate Euro Fund Limited (together, 'Kingate') brought an action against HSBC Bank Bermuda Limited ('HBBM') for recovery of funds held in Kingate's accounts, fees and dividends. This action is pending, but is not expected to move forward until the resolution of the Trustee's US actions against Kingate and HBBM.

Thema Fund Limited and Hermes International Fund Limited ('Hermes') each brought three actions in 2009 asserting a number of alleged claims against various HSBC companies. In March 2018, the parties reached a settlement with respect to all three sets of actions, and these actions were subsequently dismissed in April 2018.

**Cayman Islands litigation:** In February 2013, Primeo Fund Limited ('Primeo') (in liquidation since April 2009) brought an action against HSBC Securities Services Luxembourg ('HSSL') and Bank of Bermuda (Cayman) Limited, alleging breach of contract and breach of fiduciary duty and claiming damages and equitable compensation. The trial concluded in February 2017 and, in August 2017, the court dismissed all claims against the defendants. In September 2017, Primeo appealed to the Court of Appeal of the Cayman Islands, where the matter is pending.

**Luxembourg litigation:** In April 2009, Herald Fund SPC ('Herald') (in liquidation since July 2013) brought an action against HSSL before the Luxembourg District Court, seeking restitution of cash and securities Herald purportedly lost because of Madoff Securities' fraud, or money damages. The Luxembourg District Court dismissed Herald's securities restitution claim, but reserved Herald's cash restitution claim and its claim for money damages. Herald has appealed this judgment to the Luxembourg Court of Appeal, where the matter is pending.

In October 2009, Alpha Prime Fund Limited and, in December 2014, Senator Fund SPC ('Senator'), each brought an action against HSSL before the Luxembourg District Court, seeking the restitution of securities, or the cash equivalent, or money damages. Both actions have been temporarily suspended at the plaintiffs' request. In April 2015, Senator commenced a separate action against the Luxembourg branch of HSBC Bank plc asserting identical claims before the Luxembourg District Court. HSSL has also been named as a defendant in various actions by shareholders in Primeo Select Fund, Herald, Herald (Lux) SICAV and Hermes. Most of these actions have been dismissed, suspended or postponed.

**Ireland litigation:** In November 2013, Defender Limited brought an action against HSBC Institutional Trust Services (Ireland) Limited ('HTIE') and others, alleging breach of contract and claiming damages and indemnification for fund losses. The trial is scheduled to begin in October 2018.

SPV OSUS's action against HTIE and HSBC Securities Services (Ireland) Limited alleging breach of contract and claiming damages and indemnification for fund losses was dismissed by the Irish High Court in October 2015, on the basis of a preliminary issue. In March 2017, the Irish Court of Appeal affirmed the dismissal, on the same basis. In July 2018, following a further appeal by SPV OSUS, the Irish Supreme Court affirmed the dismissal, on a final basis.

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. Based upon the information currently available, management's estimate of the possible aggregate damages that might arise as a result of all claims in the various Madoff-related proceedings is up to or exceeding \$500m, excluding costs and interest. Due to uncertainties and limitations of this estimate, the ultimate damages could differ significantly from this amount.

## **US mortgage securitisation activity and litigation**

HSBC Bank USA N.A. ('HSBC Bank USA') was a sponsor or 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 approximately \$24bn of such loans to HSI, which were subsequently securitised and sold by HSI to third parties. The outstanding principal balance was approximately \$3.9bn as at 30 June 2018. HSBC notes that the scale of its mortgage securitisation activities was more limited in relation to a number of other banks in the industry. In addition, HSI served as an underwriter on securitisations issued by HSBC Finance Corporation ('HSBC Finance') or third parties, and HSBC Bank USA served as trustee on behalf of various mortgage securitisation trusts.

**Mortgage foreclosure and trustee matters:** HSBC Bank USA has taken title to a number of foreclosed homes as trustee on behalf of various mortgage 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 relating to property upkeep and tenants' rights. While HSBC believes and continues to maintain that these obligations and any related liabilities are 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'.

Beginning in June 2014, a number of lawsuits were filed in state and federal courts in New York and Virginia against HSBC Bank USA as trustee of more than 280 mortgage securitisation trusts. These lawsuits are brought on behalf of the trusts by a putative class of investors including, among others, BlackRock and PIMCO funds. The complaints allege that the trusts have sustained losses in collateral value of approximately \$38bn. The lawsuits seek unspecified damages resulting from alleged breaches of the US Trust Indenture Act, breach of fiduciary duty, negligence, breach of contract and breach of the common law duty of trust. HSBC's motions to dismiss in several of these lawsuits were, for the most part, denied. In February 2018, one of these matters was dismissed on procedural grounds. The plaintiff in that action has appealed the decision and has also filed another proceeding in New York state court, which is currently stayed pending appeal. The motion for class certification filed by certain plaintiffs has been denied, as has their request for a review of that decision by the Second Circuit Court of Appeals.

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.

**Loan repurchase matters:** Since 2013, HSBC Bank USA, HSBC Finance and Decision One Mortgage Company LLC ('Decision One'), an indirect subsidiary of HSBC Finance, have been named as defendants in various mortgage loan repurchase actions brought by trustees of mortgage securitisation trusts. One of the two remaining actions against HSBC Bank USA was dismissed on appeal in December 2017, and the plaintiffs have submitted a request for further review which remains pending. The second remaining action is currently pending.

HSBC Mortgage Corporation (USA) Inc. and Decision One were also named as defendants in two separate actions filed by Residential Funding Company LLC ('RFC'), a mortgage loan purchase counterparty, seeking unspecified damages in connection with approximately 25,000 mortgage loans. In May 2018, HSBC reached settlements with RFC to resolve both actions, and these actions have subsequently been dismissed.

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.

## Notes on the Financial Statements (unaudited)

**RMBS investigations:** Since 2010, various HSBC entities have received subpoenas and requests for information from the US Department of Justice (the 'DoJ') and the Massachusetts Attorney General, seeking the production of documents and information regarding HSBC's involvement in certain residential mortgage-backed securities ('RMBS') transactions as an issuer, sponsor, underwriter, depositor, trustee, custodian or servicer. In November 2014, HSBC North America Holdings Inc. ('HNAH'), on behalf of itself and various subsidiaries including, but not limited to, HSBC Bank USA, HSI Asset Securitization Corp., HSI, HSBC Mortgage Corporation (USA) Inc., HSBC Finance and Decision One, received a subpoena from the US Attorney's Office for the District of Colorado, pursuant to the Financial Industry Reform, Recovery and Enforcement Act ('FIRREA'), concerning the origination, financing, purchase, securitisation and servicing of sub-prime and non-sub-prime residential mortgages. HSBC continues to cooperate with these investigations, which are at or nearing completion.

In July 2018, HSBC reached a settlement-in-principle to resolve the DoJ's civil claims relating to its investigation of HSBC's legacy RMBS origination and securitisation activities from 2005 to 2007. Under the terms of the settlement, HSBC will pay the DoJ a civil money penalty of \$765m. The settlement-in-principle is subject to the negotiation of definitive documentation, and there can be no assurance that HSBC and the DoJ will agree on the final documentation.

Separately, HSBC has also resolved the Massachusetts Attorney General's civil investigation of HSBC's legacy RMBS origination and securitisation activities from 2005 to 2007.

The settlement-in-principle with the DoJ and resolution with the Massachusetts Attorney General do not preclude litigation brought by other parties and HSBC may be subject to additional claims, litigation and governmental or regulatory scrutiny relating to its participation in the US mortgage securitisation market.

### Anti-money laundering and sanctions-related matters

In 2010, HSBC Bank USA entered into a consent cease-and-desist order with the Office of the Comptroller of the Currency ('OCC'), and HNAH entered into a consent cease-and-desist order with the Federal Reserve Board ('FRB'). In 2012, HSBC Bank USA further entered into an enterprise-wide compliance consent order with the OCC (each an 'Order' and together, the 'Orders'). These Orders required improvements to establish an effective compliance risk management programme across HSBC's US businesses, including risk management related to the Bank Secrecy Act ('BSA') and AML compliance. In 2012, an additional consent order was entered into with the OCC that required HSBC Bank USA to correct the circumstances noted in the OCC's report and imposed restrictions on HSBC Bank USA acquiring control of, or holding an interest in, any new financial subsidiary, or commencing a new activity in its existing financial subsidiary, without the OCC's approval.

In June 2018, the OCC terminated the 2010 consent cease-and-desist order and the 2012 enterprise-wide compliance consent order after determining that HSBC Bank USA had satisfied the requirements of those respective orders. The 2010 consent cease-and-desist order entered into with the FRB and the 2012 additional consent order entered into with the OCC remain open.

In December 2012, HSBC Holdings, HNAH and HSBC Bank USA entered into agreements with US and UK government and regulatory 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, among others, the DoJ (the 'AML 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. HSBC Holdings also entered into an agreement with the Office of Foreign Assets Control ('OFAC') regarding historical transactions involving parties subject to OFAC sanctions, as well as an undertaking with the UK FCA to comply with certain forward-looking AML and sanctions-related obligations. In addition, HSBC Bank USA entered into civil money penalty orders with the Financial Crimes Enforcement Network of the US Treasury Department ('FinCEN') and the OCC.

Under these agreements, HSBC Holdings and HSBC Bank USA made payments totalling \$1.9bn to US authorities and undertook various further obligations, including, among others, to retain an independent compliance monitor (who is, for FCA purposes, a 'skilled person' under section 166 of the Financial Services and Markets Act) to produce annual assessments of the Group's AML and sanctions compliance programme (the 'Monitor'). Under the 2012 cease-and-desist order issued by the FRB, the Monitor also serves as an independent consultant to conduct annual assessments. In February 2018, the Monitor delivered his fourth annual follow-up review report.

Through his country-level reviews, the Monitor identified potential AML and sanctions compliance issues that HSBC is reviewing further with the DoJ, FRB and/or FCA. In particular, the DoJ is investigating HSBC's handling of a corporate customer's accounts. In addition, FinCEN as well as the Civil Division of the US Attorney's Office for the Southern District of New York are investigating the collection and transmittal of third-party originator information in certain payments instructed over HSBC's proprietary payment systems. The FCA is also conducting an investigation into HSBC Bank plc's compliance with UK money laundering regulations and financial crime systems and controls requirements. HSBC is cooperating with all of these investigations.

In December 2017, the AML DPA expired and the charges deferred by the AML DPA were dismissed. The Monitor will continue working in his capacity as a skilled person and independent consultant for a period of time at the FCA's and FRB's discretion. The role of the Monitor and his fourth annual follow-up review report, as well as the AML DPA and related agreements and consent orders, are discussed on pages 65 and 78 of the *Annual Report and Accounts 2017*.

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 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 AML DPA. In November 2015, the New York state court granted the Nominal Corporate Defendants' motion to dismiss. The plaintiff has appealed that decision.

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 Depositary 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 indirect subsidiary, HSBC Bank Canada, relating to HSBC's compliance with BSA, AML, sanctions and other laws. In September 2017, the Ontario Superior Court of Justice dismissed the statutory claims against HSBC Holdings and the former employee for lack of jurisdiction, and stayed the common law misrepresentation

claim against HSBC Holdings on the basis of forum non-conveniens. In October 2017, the plaintiff appealed to the Court of Appeal for Ontario and, in July 2018, that appeal was dismissed.

Since November 2014, a number of lawsuits have been filed in federal courts in the United States against various HSBC companies and others on behalf of plaintiffs who are, or are related to, victims of terrorist attacks in the Middle East or of cartel violence in Mexico. In each case, it is alleged that the defendants aided and abetted the unlawful conduct of various sanctioned parties in violation of the US Anti-Terrorism Act. Four actions are pending in federal court in New York and one action is pending in federal court in Florida. In July 2018, in one case, the New York District Court granted HSBC's motion to dismiss, while in a different case, the magistrate judge issued a recommendation that the New York District Court should deny the defendants' motion to dismiss. Motions to dismiss remain pending in the two other cases in the New York District Court. The federal court in Florida also dismissed the case before it in July 2018, but granted the plaintiff leave to file an amended complaint.

In July 2018, a claim was issued against HSBC Holdings in the High Court of England and Wales alleging that HSBC Holdings made untrue and/or misleading statements and/or omissions in public statements between 2007 and 2012 regarding compliance by the HSBC Group with AML, anti-terrorist financing and sanctions laws, regulations and requirements, and the regulatory compliance of the HSBC Group more generally.

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.

### **Tax-related investigations**

Various tax administration, regulatory and law enforcement authorities around the world, including in the US, Belgium, Argentina, India and Spain are conducting investigations and reviews of HSBC Private Bank (Suisse) SA ('HSBC Swiss Private Bank') and other HSBC companies, in connection with allegations of tax evasion or tax fraud, money laundering and unlawful cross-border banking solicitation.

HSBC continues to cooperate in ongoing investigations by the DoJ and the US Internal Revenue Service regarding whether certain HSBC companies and employees, including those associated with HSBC Swiss Private Bank and an HSBC company in India, acted appropriately in relation to certain customers who may have had US tax reporting obligations. In connection with these investigations, 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. These investigations remain pending.

In November 2014, HSBC Swiss Private Bank was placed under formal criminal examination in Belgium for alleged tax-related offences. In June 2017, Belgian authorities also placed HSBC Holdings and HSBC Private Bank Holdings (Suisse) SA, a Swiss holding company, under formal criminal examination. HSBC is cooperating with this ongoing investigation.

In November 2014, the Argentine tax authority initiated a criminal action against various individuals, including current and former HSBC employees. The criminal action includes allegations of tax evasion, conspiracy to launder undeclared funds and an unlawful association among HSBC Swiss Private Bank, HSBC Bank Argentina, HSBC Bank USA and certain HSBC employees, which allegedly enabled numerous HSBC customers to evade their Argentine tax obligations. HSBC is cooperating with this ongoing investigation.

In February 2015, the Indian tax authority issued a summons and request for information to an HSBC company in India. In August 2015 and November 2015, HSBC companies received notices issued by two offices of the Indian tax authority, alleging that the Indian tax authority had sufficient evidence to initiate prosecution against HSBC Swiss Private Bank and an HSBC company in Dubai for allegedly abetting tax evasion of four different Indian individuals and/or families and requesting that the HSBC companies show cause as to why such prosecution should not be initiated. HSBC Swiss Private Bank and the HSBC company in Dubai have responded to the show cause notices. HSBC is cooperating with this ongoing investigation.

As at 30 June 2018, HSBC has recognised a provision for these various matters in the amount of \$632m. There are many factors that may affect the range of outcomes, and the resulting financial impact, of these investigations and reviews. Based on the information currently available, management's estimate of the possible aggregate penalties that might arise as a result of the matters in respect of which it is practicable to form estimates is up to or exceeding \$1.5bn, including amounts for which a provision has been recognised. Due to uncertainties and limitations of these estimates, the ultimate penalties could differ significantly from this amount.

In light of the 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.

### **Mossack Fonseca & Co.**

HSBC has received requests for information from various regulatory and law enforcement authorities around the world concerning persons and entities believed to be linked to Mossack Fonseca & Co., a service provider of personal investment companies. HSBC is cooperating with the relevant 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.

### **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 and Switzerland, 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 Libor, Euribor and other benchmark interest rates and screens used to price certain derivative products. HSBC has been the subject of regulatory demands for information and is cooperating with those investigations and reviews.

In December 2016, the European Commission (the 'Commission') issued a decision finding that HSBC, among other banks, engaged in anti-competitive practices in connection with the pricing of euro interest rate derivatives in early 2007. The Commission imposed a fine on HSBC based on a one-month infringement. HSBC has appealed the decision.

**US dollar Libor:** Beginning in 2011, HSBC and other 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 ('US 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.

## Notes on the Financial Statements (unaudited)

The New York District Court has issued a number of decisions dismissing certain of the claims in response to motions filed by the defendants. The original decisions resulted in the dismissal of the plaintiffs' federal and state antitrust claims, racketeering claims and certain unjust enrichment claims. The dismissal of the antitrust claims was appealed to the Second Circuit Court of Appeals, which reversed the decisions in May 2016. In July 2016, the defendants filed a joint motion to dismiss the antitrust claims on additional grounds not previously addressed by the court and, in December 2016, the New York District Court granted in part and denied in part the motion, leaving only certain antitrust claims to be litigated. Certain plaintiffs appealed the December 2016 order to the Second Circuit Court of Appeals, and that appeal is pending. Additionally, in February 2017, the New York District Court granted the defendants' motion to dismiss certain of the remaining antitrust claims against defendants, including HSBC Bank USA, that did not serve on the US dollar Libor submission panel.

Separately in October 2016, the New York District Court granted a motion to dismiss claims brought by certain individual plaintiffs for lack of personal jurisdiction. Certain plaintiffs appealed that dismissal to the Second Circuit Court of Appeals, which reversed the dismissal in February 2018 and remanded the case to the New York District Court for further consideration of the personal jurisdiction issues, where this matter is pending.

In the New York District Court, the cases with remaining claims that have survived the defendants' motions to dismiss were stayed while the court considered motions to certify classes in several putative class actions that are pending against HSBC's co-defendants. In February 2018, the New York District Court granted in part the class certification motion in one of the cases and denied the class certification motions in two of the cases. As a result of these rulings, certain limited discovery can proceed in the pending cases that have survived the defendants' motions to dismiss.

In 2017, HSBC reached agreements with plaintiffs to resolve three putative class actions brought on behalf of persons who purchased US dollar Libor-indexed bonds, persons who purchased US Libor-indexed-exchange-traded instruments and US-based lending institutions that made or purchased US dollar Libor-indexed loans. In February 2018, HSBC reached an agreement with plaintiffs to resolve a putative class action brought on behalf of persons who purchased US dollar Libor-indexed interest rate swaps and other instruments directly from the defendant banks and their affiliates. In May 2018, HSBC reached an agreement with plaintiffs to resolve a putative class action brought on behalf of persons who purchased US dollar Libor-indexed interest rate swaps and other instruments from certain financial institutions that are not the defendant banks or their affiliates. These settlements are all subject to final court approval.

**Euribor:** In November 2013, HSBC and other panel banks were 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 allegedly related to Euribor. The complaint alleges, among other things, misconduct related to Euribor in violation of US antitrust laws, the US CEA and state law. In December 2016, HSBC reached an agreement with plaintiffs to resolve this action, subject to court approval, and in May 2018 the court granted final approval of the settlement.

**Singapore Interbank Offered Rate ('SIBOR'), Singapore Swap Offer Rate ('SOR') and Australia Bank Bill Swap Rate ('BBSW'):** In July 2016 and August 2016, HSBC and other panel banks were named as defendants in two putative class actions filed in the New York District Court on behalf of persons who transacted in products related to the SIBOR, SOR and BBSW benchmark rates. The complaints allege, among other things, misconduct related to these benchmark rates in violation of US antitrust, commodities and racketeering laws, and state law. In October 2017, the defendants moved to dismiss the SIBOR and SOR case, and this motion remains pending. The defendants moved to dismiss the BBSW case in February 2017 and filed a renewed motion to dismiss on standing and capacity to sue grounds in February 2018, and these motions also remain pending.

**US dollar International Swaps and Derivatives Association fix ('ISDAfix'):** In September 2014, HSBC and other panel banks were named as defendants in a number of putative class actions consolidated in the New York District Court on behalf of persons who transacted in interest rate derivatives or purchased or sold financial instruments that were either tied to ISDAfix rates or were executed shortly before, during, or after the time of the daily ISDAfix setting window. The consolidated complaint alleges, among other things, misconduct related to these activities in violation of US antitrust laws, the US CEA and state law. In June 2017, HSBC reached an agreement with plaintiffs to resolve this consolidated action, and the court granted final approval of the settlement in June 2018.

**Canadian Dealer Offered Rate:** In January 2018, various HSBC companies, among other banks, were named as defendants in a putative class action filed in the New York District Court in relation to the Canadian Dealer Offered Rate. The claim, which is at an early stage, asserts various breaches of US laws, including US antitrust and racketeering laws, the US CEA, and common law. The defendants filed a motion to dismiss in July 2018, and this motion remains pending.

There are many factors that may affect the range of outcomes, and the resulting financial impact, of these matters, which could be significant.

### Supranational, sovereign and agency bonds

In April 2017, various HSBC companies, among other banks, were added as defendants in a putative class action alleging a conspiracy to manipulate the market for US dollar-denominated supranational, sovereign and agency bonds between 2005 and 2015 in violation of US antitrust laws. In November 2017, the plaintiffs filed an amended consolidated complaint which omitted certain HSBC defendants. The remaining HSBC defendants moved to dismiss the amended consolidated complaint, and this motion remains pending.

Beginning in November 2017, various HSBC companies and other financial institutions were named as defendants in putative class actions issued in the Superior Court and Federal Court in Canada making similar allegations under Canadian law. The Superior Court action has now lapsed; accordingly, the Federal Court action will proceed.

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.

### Foreign exchange rate investigations and litigation

Various regulators and competition and law enforcement authorities around the world, including in the EU, Switzerland, Brazil, South Korea and South Africa, are conducting civil and criminal investigations and reviews into trading by HSBC and others on the foreign exchange markets. HSBC is cooperating with these investigations and reviews.

In January 2018, HSBC Holdings entered into a three-year deferred prosecution agreement with the Criminal Division of the DoJ (the 'FX DPA'), regarding fraudulent conduct in connection with two particular transactions in 2010 and 2011. This concluded the DoJ's investigation into HSBC's historical foreign exchange activities. Under the terms of the FX DPA, HSBC has a number of ongoing obligations, including continuing to cooperate with authorities and implementing enhancements to its internal controls and procedures in

its Global Markets business, which will be the subject of annual reports to the DoJ. In addition, HSBC agreed to pay a financial penalty and restitution.

In December 2016, HSBC Bank plc entered into a settlement with Brazil's Administrative Council of Economic Defense ('CADE') in connection with its investigation into 15 banks, including HSBC Bank plc, as well as 30 individuals, relating to practices in the offshore foreign exchange market. Under the terms of the settlement, HSBC Bank plc agreed to pay a financial penalty to CADE. CADE has also publicly announced that it is initiating a separate investigation into the onshore foreign exchange market and has identified a number of banks, including HSBC, as subjects of its investigation.

In February 2017, the Competition Commission of South Africa referred a complaint for proceedings before the South African Competition Tribunal against 18 financial institutions, including HSBC Bank plc, for alleged misconduct related to the foreign exchange market in violation of South African antitrust laws. In April 2017, HSBC filed an exception to the complaint based on a lack of jurisdiction and statute of limitations. In January 2018, the South African Competition Tribunal approved the provisional referral of additional financial institutions, including HSBC Bank USA, to the proceedings. These proceedings are at an early stage.

In late 2013 and early 2014, HSBC and other banks were named as defendants in various putative class actions consolidated in the New York District Court. The consolidated complaint alleged, among other things, that the defendants conspired to manipulate the WM/Reuters foreign exchange benchmark rates. In September 2015, HSBC reached an agreement with plaintiffs to resolve the consolidated action, subject to court approval. In December 2015, the court granted preliminary approval of the settlement, and HSBC made payment of the agreed settlement amount into an escrow account. The settlement remains subject to final approval by the court.

In June 2015, a putative class action was filed in the New York District Court making similar allegations on behalf of Employee Retirement Income Security Act of 1974 ('ERISA') plan participants. The court dismissed the claims in the ERISA action; and in July 2018, the Second Circuit Court of Appeals affirmed the dismissal. In May 2015, another complaint was filed in the US District Court for the Northern District of California making similar allegations on behalf of retail customers. HSBC filed a motion to transfer that action from California to New York, which was granted in November 2015. In August 2017, the retail customer plaintiffs filed an amended complaint, and the defendants moved to dismiss. The motion was denied in most respects, and discovery is underway. In April and June 2017, putative class actions making similar allegations on behalf of purported 'indirect' purchasers of foreign exchange products were filed in New York. Those plaintiffs subsequently filed a consolidated amended complaint. HSBC moved to dismiss the complaint in August 2017, and that motion was granted in March 2018. The plaintiffs have moved for leave to file an amended complaint, and that motion remains pending. It is possible that additional actions will be initiated against HSBC in relation to its historical foreign exchange activities.

As at 30 June 2018, the provision recognised by HSBC for these and similar matters has been reduced to reflect the payment of a financial penalty and restitution pursuant to the FX DPA and the remeasurement of provisions relating to other matters. 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 investigations and litigation**

Various regulators and competition and law enforcement authorities, including in the US and the EU, are conducting investigations and reviews relating to HSBC's precious metals operations and trading. HSBC is cooperating with these investigations and reviews. In November 2014, the Antitrust Division and Criminal Fraud Section of the DoJ issued a document request to HSBC Holdings, seeking the voluntary production of certain documents in connection with a criminal investigation that the DoJ is conducting of alleged anti-competitive and manipulative conduct in precious metals trading. In January 2016, the Antitrust Division of the DoJ informed HSBC that it was closing its investigation.

**Gold:** Beginning in March 2014, numerous putative class actions were filed in the New York District Court and the US District Courts for the District of New Jersey and the Northern District of California, naming HSBC and other members of The London Gold Market Fixing Limited as defendants. The complaints allege that, from January 2004 to June 2013, the defendants conspired to manipulate the price of gold and gold derivatives for their collective benefit in violation of US antitrust laws, the US CEA and New York state law. The actions were consolidated in the New York District Court. The defendants' motion to dismiss the consolidated action was granted in part and denied in part in October 2016. In June 2017, the court granted the plaintiffs leave to file a third amended complaint, which names a new defendant. The court has denied the pre-existing defendants' request for leave to file a joint motion to dismiss, and discovery has been stayed.

Beginning in December 2015, numerous putative class actions under Canadian law were filed in the Ontario and Quebec Superior Courts of Justice against various HSBC companies and other financial institutions. The plaintiffs allege that, among other things, from January 2004 to March 2014, the defendants conspired to manipulate the price of gold and gold derivatives in violation of the Canadian Competition Act and common law. These actions are at an early stage.

**Silver:** Beginning in July 2014, numerous putative class actions were filed in the US District Courts for the Southern and Eastern Districts of New York, naming HSBC and other members of The London Silver Market Fixing Ltd as defendants. The complaints allege that, from January 2007 to December 2013, the defendants conspired to manipulate the price of silver and silver derivatives for their collective benefit in violation of US antitrust laws, the US CEA and New York state law. The actions were consolidated in the New York District Court. The defendants' motion to dismiss the consolidated action was granted in part and denied in part in October 2016. In June 2017, the court granted the plaintiffs leave to file a third amended complaint, which names several new defendants. The court has denied the pre-existing defendants' request for leave to file a joint motion to dismiss, and discovery has been stayed.

In April 2016, two putative class actions under Canadian law were filed in the Ontario and Quebec Superior Courts of Justice against various HSBC companies and other financial institutions. The plaintiffs in both actions allege that, from January 1999 to August 2014, the defendants conspired to manipulate the price of silver and silver derivatives in violation of the Canadian Competition Act and common law. The Ontario action is at an early stage. The Quebec action has been temporarily stayed.

**Platinum and palladium:** Between late 2014 and early 2015, numerous putative class actions were filed in the New York District Court, naming HSBC and other members of The London Platinum and Palladium Fixing Company Limited as defendants. The complaints allege that, from January 2008 to November 2014, the defendants conspired to manipulate the price of platinum group metals ('PGM') and PGM-based financial products for their collective benefit in violation of US antitrust laws and the US CEA. In March 2017, the defendants' motion to dismiss the second amended consolidated complaint was granted in part and denied in part. In June 2017, the plaintiffs filed a third amended complaint. The defendants filed a joint motion to dismiss which remains pending.

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.

### Treasury auctions

In January 2017, the DoJ requested information from HSBC and reportedly other banks regarding US Treasury securities trading practices. HSBC is cooperating with this ongoing investigation. Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of this matter, including the timing or any possible impact on HSBC, which could be significant.

### Credit default swap litigation

In June 2017, various HSBC companies, among others, were named as defendants in an individual action filed in the New York District Court, alleging violations of federal and state antitrust laws and breaches of common law in relation to the credit default swap market. The defendants filed a joint motion to dismiss, which remains pending. Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of this matter, including the timing or any possible impact on HSBC, which could be significant.

### Fédération Internationale de Football Association ('FIFA') related investigations

HSBC has received enquiries from the DoJ regarding its banking relationships with certain individuals and entities that are or may be associated with FIFA. The DoJ is investigating whether multiple financial institutions, including HSBC, permitted the processing of suspicious or otherwise improper transactions or failed to observe applicable AML laws and regulations. HSBC is cooperating with the DoJ's investigation. Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of this matter, including the timing or any possible impact on HSBC, which could be significant.

### Hiring practices investigation

The US Securities and Exchange Commission (the 'SEC') is investigating multiple financial institutions, including HSBC, in relation to hiring practices of candidates referred by or related to government officials or employees of state-owned enterprises in Asia-Pacific. HSBC has received various requests for information and is cooperating with the SEC's investigation. Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of this matter, including the timing or any possible impact on HSBC, which could be significant.

### Stanford litigation

In January 2018, HSBC Bank plc received a letter of claim from the Antiguan Joint Liquidators of Stanford International Bank Ltd ('SIB') asserting various claims in connection with HSBC Bank plc's role as a correspondent bank to SIB from 2003 to 2009. HSBC Bank plc denies the allegations and is preparing its response.

HSBC Bank plc continues to defend putative class action lawsuits in the US District Court for the Northern District of Texas against HSBC Bank plc, among others. The complaints, filed by the Official Stanford Investors Committee and a putative class of persons who held monies on deposit and/or certificates of deposit issued by SIB, allege various fraudulent transfer, statutory and tort claims. In November 2017, the court denied the class plaintiffs' motion for class certification, and permission to appeal that decision was denied in April 2018.

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.

### Mexican government bond litigation

In March 2018, various HSBC companies, among others, were named as defendants in several putative class actions brought in the New York District Court relating to the Mexican government bond ('MGB') market. These actions allege generally that defendants conspired to fix MGB prices between January 2006 and April 2017 in violation of federal antitrust laws. In July 2018, these actions were consolidated in the New York District Court. This consolidated action is at a very early stage. Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of this matter, including the timing or any possible impact on HSBC, which could be significant.

### Film finance litigation

In July and November 2015, respectively, two actions were brought against HSBC Private Bank (UK) Limited in the High Court of England and Wales seeking damages on various alleged grounds, including breach of duty by HSBC Private Bank (UK) Limited in the provision of certain historical services relating to the participation by the claimants in certain film finance transactions. These actions are ongoing.

It is possible that additional actions or investigations will be initiated against HSBC Private Bank (UK) Limited as a result of its historical involvement in the provision of certain film finance related services.

Based on the facts currently known, it is not practicable to predict the resolution of these matters, including the timing or possible aggregate impact, which could be significant.

## 13 Transactions with related parties

There were no changes in the related party transactions described in the *Annual Report and Accounts 2017* that have had a material effect on the financial position or performance of HSBC in the half-year to 30 June 2018. All related party transactions that took place in the half-year to 30 June 2018 were similar in nature to those disclosed in the *Annual Report and Accounts 2017*.



## 14 Effect of reclassification upon adoption of IFRS 9

### Reconciliation of consolidated balance sheet at 31 December 2017 and 1 January 2018

| Footnotes     | IFRS 9 measurement category | IAS 39 carrying amount at 31 Dec 2017<br>\$m | Other changes in classification<br>\$m | IFRS 9 reclassification to                |  |                       | Carrying amount post reclassification<br>\$m | IFRS 9 re-measurement including expected credit losses <sup>4</sup><br>\$m | IFRS 9 carrying amount at 1 Jan 2018<br>\$m |
|---------------|-----------------------------|--|--|---|--|-----------------------|--|--|---|
|               |                             |  |  | Fair value through profit and loss<br>\$m | Fair value through other comprehensive income<br>\$m | Amortised cost<br>\$m |  |  |   |
| <b>Assets</b> |                             |  |  |   |  |                       |  |  |   |
|               | <b>Amortised cost</b>       | <b>180,624</b>                               | <b>–</b>                               | <b>–</b>                                  | <b>–</b>   | <b>–</b>              | <b>180,624</b>                               | <b>(3)</b>   | <b>180,621</b>                              |
|               | <b>Amortised cost</b>       | <b>6,628</b>                                 | <b>–</b>                               | <b>–</b>                                  | <b>–</b>   | <b>–</b>              | <b>6,628</b>                                 | <b>–</b>   | <b>6,628</b>                                |
|               | <b>Amortised cost</b>       | <b>34,186</b>                                | <b>–</b>                               | <b>–</b>                                  | <b>–</b>   | <b>–</b>              | <b>34,186</b>                                | <b>–</b>   | <b>34,186</b>                               |
|               | <b>FVPL</b>                 | <b>287,995</b>                               | <b>4,329</b>                           | <b>9</b>                                  | <b>–</b>   | <b>(37,924)</b>       | <b>254,409</b>                               | <b>1</b>   | <b>254,410</b>                              |
|               | <b>FVPL</b>                 | <b>29,464</b>                                | <b>313</b>                             | <b>10,055</b>                             | <b>(3)</b>   | <b>(115)</b>          | <b>39,714</b>                                | <b>32</b>  | <b>39,746</b>                               |
|               | <b>FVPL</b>                 | <b>219,818</b>                               | <b>–</b>                               | <b>–</b>                                  | <b>–</b>   | <b>–</b>              | <b>219,818</b>                               | <b>–</b>   | <b>219,818</b>                              |
|               | <b>Amortised cost</b>       | <b>90,393</b>                                | <b>(7,099)</b>                         | <b>(712)</b>                              | <b>–</b>   | <b>–</b>              | <b>82,582</b>                                | <b>(23)</b>  | <b>82,559</b>                               |
|               | <b>Amortised cost</b>       | <b>962,964</b>                               | <b>(7,458)</b>                         | <b>(3,903)</b>                            | <b>–</b>   | <b>24</b>             | <b>951,627</b>                               | <b>(1,890)</b>   | <b>949,737</b>                              |
|               | <b>Amortised cost</b>       | <b>201,553</b>                               | <b>–</b>                               | <b>–</b>                                  | <b>–</b>   | <b>–</b>              | <b>201,553</b>                               | <b>–</b>   | <b>201,553</b>                              |
|               | <b>FVOCI</b>                | <b>332,240</b>                               | <b>–</b>                               | <b>(3,131)</b>                            | <b>83</b>  | <b>(7,026)</b>        | <b>322,166</b>                               | <b>(3)</b>   | <b>322,163</b>                              |
|               | <b>FVOCI</b>                | <b>3,917</b>                                 | <b>–</b>                               | <b>(2,104)</b>                            | <b>–</b>   | <b>–</b>              | <b>1,813</b>                                 | <b>–</b>   | <b>1,813</b>                                |
|               | <b>Amortised cost</b>       | <b>52,919</b>                                | <b>–</b>                               | <b>–</b>                                  | <b>(80)</b>  | <b>7,141</b>          | <b>59,980</b>                                | <b>(457)</b>   | <b>59,523</b>                               |
|               | <b>Amortised cost</b>       | <b>67,191</b>                                | <b>9,915</b>                           | <b>(214)</b>                              | <b>–</b>   | <b>37,900</b>         | <b>114,792</b>                               | <b>(15)</b>  | <b>114,777</b>                              |
|               | <b>N/A</b>                  | <b>1,006</b>                                 | <b>–</b>                               | <b>–</b>                                  | <b>–</b>   | <b>–</b>              | <b>1,006</b>                                 | <b>–</b>   | <b>1,006</b>                                |
|               | <b>N/A</b>                  | <b>22,744</b>                                | <b>–</b>                               | <b>–</b>                                  | <b>–</b>   | <b>–</b>              | <b>22,744</b>                                | <b>(942)</b>   | <b>21,802</b>                               |
|               | <b>N/A</b>                  | <b>23,453</b>                                | <b>–</b>                               | <b>–</b>                                  | <b>–</b>   | <b>–</b>              | <b>23,453</b>                                | <b>(79)</b>  | <b>23,374</b>                               |
|               | <b>N/A</b>                  | <b>4,676</b>                                 | <b>–</b>                               | <b>–</b>                                  | <b>–</b>   | <b>–</b>              | <b>4,676</b>                                 | <b>38</b>  | <b>4,714</b>                                |
|               |                             | <b>2,521,771</b>                             | <b>–</b>                               | <b>–</b>                                  | <b>–</b>   | <b>–</b>              | <b>2,521,771</b>                             | <b>(3,341)</b>   | <b>2,518,430</b>                            |

For footnotes, see page 112.

## Notes on the Financial Statements (unaudited)

### Reconciliation for consolidated balance sheet at 31 December 2017 and 1 January 2018 (continued)

| Footnotes  | IAS 39 measurement category | IFRS 9 measurement category | IAS 39 carrying amount at 31 Dec 2017 | Other changes in classification | IFRS 9 reclassification to         |   |                | Carrying amount post reclassification | IFRS 9 remeasurement including expected credit losses <sup>4</sup> | IFRS 9 carrying amount at 1 Jan 2018 |
|--|-----------------------------|-----------------------------|---------------------------------------|---------------------------------|------------------------------------|---|----------------|---------------------------------------|--|--------------------------------------|
|  |                             |                             |                                       |                                 | Fair value through profit and loss | Fair value through other comprehensive income | Amortised cost |                                       |  |                                      |
|  |                             |                             | \$m                                   | \$m                             | \$m                                | \$m   | \$m            | \$m                                   | \$m  | \$m                                  |
| <b>Liabilities</b>                                 |                             |                             |                                       |                                 |                                    |   |                |                                       |  |                                      |
|  | Amortised cost              | Amortised cost              | 34,186                                | –                               | –                                  | –   | –              | 34,186                                | –  | 34,186                               |
| Hong Kong currency notes in circulation            |                             |                             |                                       |                                 |                                    |   |                |                                       |  |                                      |
| Deposits by banks                                  | 1                           | Amortised cost              | 69,922                                | (5,430)                         | –                                  | –   | –              | 64,492                                | –  | 64,492                               |
| Customer accounts                                  | 1                           | Amortised cost              | 1,364,462                             | (4,235)                         | –                                  | –   | –              | 1,360,227                             | –  | 1,360,227                            |
| Repurchase agreements – non-trading                |                             | Amortised cost              | 130,002                               | –                               | –                                  | –   | –              | 130,002                               | –  | 130,002                              |
| Items in the course of transmission to other banks |                             | Amortised cost              | 6,850                                 | –                               | –                                  | –   | –              | 6,850                                 | –  | 6,850                                |
| Trading liabilities                                | 1, 11                       | FVPL                        | 184,361                               | (103,497)                       | –                                  | –   | –              | 80,864                                | –  | 80,864                               |
| Financial liabilities designated at fair value     | 9, 10, 11                   | FVPL                        | 94,429                                | 59,267                          | –                                  | –   | (9,699)        | 143,997                               | 9  | 144,006                              |
| Derivatives  |                             | FVPL                        | 216,821                               | –                               | –                                  | –   | –              | 216,821                               | –  | 216,821                              |
| Debt securities in issue                           | 10                          | Amortised cost              | 64,546                                | –                               | –                                  | –   | 2,095          | 66,641                                | (105)  | 66,536                               |
| Accruals, deferred income and other liabilities    | 1, 10                       | Amortised cost              | 45,907                                | 53,895                          | –                                  | –   | 124            | 99,926                                | –  | 99,926                               |
| Current tax liabilities                            |                             | N/A                         | 928                                   | –                               | –                                  | –   | –              | 928                                   | –  | 928                                  |
| Liabilities under insurance contracts              | 9                           | N/A                         | 85,667                                | –                               | –                                  | –   | –              | 85,667                                | (69)   | 85,598                               |
| Provisions   |                             | N/A                         | 4,011                                 | –                               | –                                  | –   | –              | 4,011                                 | 284  | 4,295                                |
| Deferred tax liabilities                           | 14                          | N/A                         | 1,982                                 | –                               | –                                  | –   | –              | 1,982                                 | (368)  | 1,614                                |
| Subordinated liabilities                           | 10                          | Amortised cost              | 19,826                                | –                               | –                                  | –   | 7,480          | 27,306                                | (1,445)  | 25,861                               |
| <b>Total liabilities</b>                           |                             |                             | <b>2,323,900</b>                      | <b>–</b>                        | <b>–</b>                           | <b>–</b>                                      | <b>–</b>       | <b>2,323,900</b>                      | <b>(1,694)</b>   | <b>2,322,206</b>                     |

For footnotes, see page 112.

| Footnotes                        | IAS 39 carrying amount at 31 Dec 2017 | IFRS 9 reclassification | Carrying amount post reclassification | IFRS 9 remeasurement including expected credit losses | Carrying amount at 1 Jan 2018 |
|----------------------------------|---------------------------------------|-------------------------|---------------------------------------|---|-------------------------------|
|                                  |                                       |                         |                                       |   |                               |
| <b>Equity</b>                    |                                       |                         |                                       |   |                               |
|                                  | 10,160                                | –                       | 10,160                                | –   | 10,160                        |
| Called up share capital          |                                       |                         |                                       |   |                               |
| Share premium account            | 10,177                                | –                       | 10,177                                | –   | 10,177                        |
| Other equity instruments         | 22,250                                | –                       | 22,250                                | –   | 22,250                        |
| Other reserves                   | 12                                    | (960)                   | 6,704                                 | (61)  | 6,643                         |
| Retained earnings                | 14                                    | 960                     | 140,959                               | (1,545)   | 139,414                       |
| <b>Total Shareholders Equity</b> | <b>190,250</b>                        | <b>–</b>                | <b>190,250</b>                        | <b>(1,606)</b>  | <b>188,644</b>                |
| Non-controlling interests        | 7,621                                 | –                       | 7,621                                 | (41)  | 7,580                         |
| <b>Total equity</b>              | <b>197,871</b>                        | <b>–</b>                | <b>197,871</b>                        | <b>(1,647)</b>  | <b>196,224</b>                |

For footnotes, see page 112.

Reconciliation of impairment allowance under IAS 39 and provision under IAS 37 to expected credit losses under IFRS 9

| IAS 39 measurement category                               | Reclassification to                           |   |                | Remeasurement |                   | Total        |
|---|---|---|----------------|---------------|-------------------|--------------|
|   | Fair value through profit and loss            | Fair value through other comprehensive income | Amortised cost | Stage 3       | Stage 1 & Stage 2 |              |
|   | \$m   | \$m   | \$m            | \$m           | \$m               |              |
| <b>Financial assets at amortised cost</b>                 |   |   |                |               |                   |              |
| IAS 39 impairment allowance at 31 Dec 2017                |   |   |                |               |                   | <b>7,532</b> |
| Cash and balances at central banks                        | <b>Amortised cost (Loans and receivables)</b> | –   | –              | –             | –                 | <b>3</b>     |
| Items in the course of collection from other banks        | <b>Amortised cost (Loans and receivables)</b> | –   | –              | –             | –                 | –            |
| Hong Kong Government certificates of indebtedness         | <b>Amortised cost (Loans and receivables)</b> | –   | –              | –             | –                 | –            |
| Loans and advances to banks                               | <b>Amortised cost (Loans and receivables)</b> | –   | –              | –             | <b>1</b>          | <b>22</b>    |
| Loans and advances to customers                           | <b>Amortised cost (Loans and receivables)</b> | <b>(31)</b>                                   | –              | –             | <b>629</b>        | <b>1,261</b> |
| Reverse repurchase agreements – non-trading               | <b>Amortised cost (Loans and receivables)</b> | –   | –              | –             | –                 | –            |
| Financial investments                                     | <b>Amortised cost (Held to maturity)</b>      | –   | –              | <b>3</b>      | –                 | <b>13</b>    |
| Prepayments, accrued income and other assets              | <b>Amortised cost (Loans and receivables)</b> | –   | –              | –             | –                 | <b>47</b>    |
| <b>Expected credit loss allowance at 1 Jan 2018</b>       |   |   |                |               |                   | <b>9,480</b> |
| <b>Loan commitments and financial guarantee contracts</b> |   |   |                |               |                   |              |
| IAS 37 provisions at 31 Dec 2017                          |   |   |                |               |                   | <b>253</b>   |
| Provisions (loan commitments and financial guarantees)    | <b>N/A</b>                                    | <b>N/A</b>                                    | <b>N/A</b>     | <b>N/A</b>    | <b>74</b>         | <b>210</b>   |
| <b>Expected credit loss provision at 1 Jan 2018</b>       |   |   |                |               |                   | <b>537</b>   |

The pre-tax net asset impact of additional impairment allowances on adoption of IFRS 9 is \$2,232m; \$1,948m in respect of financial assets at amortised cost and \$284m related to loan commitments and financial guarantee contracts. The total expected credit loss allowance at 1 January 2018 was \$9,480m in respect of financial assets at amortised cost and \$537m related to loan commitments and financial guarantee contracts.

## Footnotes to 'Effect of reclassification upon adoption of IFRS 9'

- 1 Cash collateral, margin and settlement accounts of \$37,900m have been reclassified from 'Trading assets' to 'Prepayments, accrued income and other assets' as a result of the assessment of the business model in accordance with IFRS 9.
- Cash collateral, margin and settlement accounts previously presented as 'Loans and advances to banks' of \$5,939m and 'Loans and advances to customers' of \$3,976m have been re-presented in 'Prepayments, accrued income and other assets' to ensure consistent presentation of all such balances. Cash collateral, margin and settlement accounts previously presented as 'Trading liabilities' of \$44,230m, 'Deposits by banks' of \$5,430m and 'Customer accounts' of \$4,235m have been re-presented in 'Accruals, deferred income and other liabilities'. This change in presentation for financial liabilities is considered to provide more relevant information, given the change in presentation for the financial assets. These changes in presentation for financial assets and liabilities have had no effect on measurement of these items and therefore on 'Retained earnings'.
- 2 'Loans and advances to customers' of \$3,903m and 'Loans and advances to banks' of \$712m did not meet the 'solely payments of principal and interest' ('SPPI') requirement for amortised cost classification under IFRS 9. As a result, these financial assets were reclassified to 'Financial assets designated and otherwise mandatorily measured at fair value through profit or loss'.
- 3 Stock borrowing assets of \$4,642m have been reclassified from 'Loans and advances to banks and customers' to 'Trading assets'. The change in measurement is a result of the determination of the global business model for this activity and will align the presentation throughout the Group.
- 4 IFRS 9 ECL have decreased net assets by \$2,232m, principally comprising of \$1,890m reduction in the carrying value of assets classified as 'Loans and advances to customers' and \$284m increase in 'Provisions' relating to expected credit losses on loan commitments and financial guarantee contracts.
- 5 Debt instruments of \$3,131m previously classified as available for sale under IAS 39 did not meet the SPPI requirement for FVOCI classification. As a result, these financial assets were classified as 'Financial assets designated and otherwise mandatorily measured at fair value through profit or loss' upon adoption of IFRS 9. Debt instruments of \$7,026m previously classified as available for sale under IAS 39, have been reclassified to amortised cost as a result of 'hold to collect' business model classification under IFRS 9. This resulted in a \$441m downward remeasurement of the financial assets now measured at amortised cost excluding expected credit losses.
- 6 \$2,104m of available for sale non-traded equity instruments have been reclassified as 'Financial assets designated and otherwise mandatorily measured at fair value through profit or loss' in accordance with IFRS 9. The Group has elected to apply the FVOCI option under IFRS 9 for the remaining \$1,813m.
- 7 \$214m of other financial assets measured at amortised cost under IAS 39 did not meet the SPPI requirement for amortised cost classification under IFRS 9. As a result, these financial assets were classified as 'Financial assets designated and otherwise mandatorily measured at fair value through profit or loss'.
- 8 'Interests in associates and joint ventures' includes the consequential downward remeasurement of our interests in associates and joint ventures as a result of these entities applying IFRS 9 of \$942m. The effect of IFRS 9 on the carrying value of investments in associates has been updated from the estimate disclosed in our Annual Report and Accounts 2017 as a result of those entities publicly reporting their expected transition impacts.
- 9 Changes in the classification and measurement of financial assets held in our insurance business and the recognition of ECL under IFRS 9 has resulted in secondary impacts on the present value of in-force long-term insurance business ('PVIF') and liabilities to holders of insurance and investment contracts. The gross carrying value of PVIF reported in 'Goodwill and intangible assets' and liabilities reported in 'Liabilities under insurance contracts' has decreased by \$79m and \$69m respectively. Liabilities reported under 'Financial liabilities designated at fair value' have increased by \$9m.
- 10 As permitted by IFRS 9, fair value designations have been revoked for certain long-dated liabilities where the accounting mismatch will be better mitigated by undertaking fair value hedge accounting, resulting in reclassifications of \$7,110m from 'Financial liabilities designated at fair value' to 'Subordinated liabilities' measured at amortised cost and \$2,095m from 'Financial liabilities designated at fair value' to 'Debt securities in issue' measured at amortised cost. A further \$124m of associated accrued interest has been reclassified to 'Accruals, deferred income and other liabilities'. In addition, as required by IFRS 9, fair value designations have been revoked where accounting mismatches no longer exist, resulting in a further \$370m of 'Subordinated liabilities' being measured at amortised cost. Together, these changes result in the financial liabilities now being measured at amortised cost, decreasing 'Debt securities in issue' by \$105m and 'Subordinated Liabilities' by \$1,445m.
- 11 We have considered market practices for the presentation of \$59,267m of financial liabilities which contain both deposit and derivative components. We have concluded that a change in accounting policy and presentation from 'Trading liabilities' would be appropriate, since it would better align with the presentation of similar financial instruments by peers and therefore provide more relevant information about the effect of these financial liabilities on our financial position and performance. As a result, rather than being classified as held for trading, we will designate these financial liabilities as at fair value through profit or loss since they are managed and their performance evaluated on a fair value basis. Consequently, changes in fair value of these instruments attributable to changes in own credit risk are recognised in other comprehensive income rather than profit or loss. For the half-year to 30 June 2017, a restatement would have increased 'Net income from financial instruments held for trading or managed on a fair value basis' by \$346m (half-year to 31 December 2017: \$199m) and increased tax expense by \$104m (half-year to 31 December 2017: \$64m), with an equivalent net decrease in other comprehensive income.
- 12 While IFRS 9 ECL has no effect on the carrying value of FVOCI financial assets, which remain measured at fair value, the adoption of IFRS 9 results in a transfer from the FVOCI reserve (formerly AFS reserve) to retained earnings to reflect the cumulative impairment recognised in profit or loss in accordance with IFRS 9 (net of impairment losses previously recognised in profit or loss under IAS 39). The amount transferred from 'Other reserves' to 'Retained earnings' was \$61m. The resulting cumulative expected credit losses recognised in 'Retained earnings' on financial assets measured at FVOCI on adoption of IFRS 9 is \$184m. In addition, the cumulative AFS reserve relating to financial investments reclassified to 'Financial assets designated and otherwise mandatorily measured at fair value through profit or loss' in accordance with IFRS 9 has been transferred to retained earnings.
- 13 Measurement refers to that under IAS 39 and IFRS 9. Financial investments measured under fair value through other comprehensive income were measured as available for sale instruments under IAS 39.
- 14 The effect of IFRS 9 remeasurement has been updated from the estimate disclosed in our Annual Report and Accounts 2017 as a result of our associates publicly reporting their transition impacts.

## 15 Events after the balance sheet date

A second interim dividend in respect of the financial year ending 31 December 2018 was declared by the Directors on 6 August 2018, as described in Note 3.

## 16 Interim Report 2018 and statutory accounts

The information in this *Interim Report 2018* is unaudited and does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. This *Interim Report 2018* was approved by the Board of Directors on 6 August 2018. The statutory accounts of HSBC Holdings plc for the year ended 31 December 2017 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 auditor, PricewaterhouseCoopers LLP ('PwC') has reported on those accounts. Its report was unqualified, did not include a reference to any matters to which PwC drew attention by way of emphasis without qualifying its report and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

## 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 2018 (or date of retirement from the Board if earlier) the Directors of HSBC Holdings had the following interests, all beneficial unless otherwise stated, in the shares or debentures of HSBC and its associates:

#### Directors' interests – shares and debentures

|                                      | Footnotes | At 30 Jun 2018 |                  |                          |                             |         | Total interests <sup>1</sup> |
|--------------------------------------|-----------|----------------|------------------|--------------------------|-----------------------------|---------|------------------------------|
|                                      |           | At 1 Jan 2018  | Beneficial owner | Child under 18 or spouse | Jointly with another person | Trustee |                              |
| <b>HSBC Holdings ordinary shares</b> |           |                |                  |                          |                             |         |                              |
| Phillip Ameen                        | 1,4       | 5,000          | 5,000            | –                        | –                           | –       | 5,000                        |
| Kathleen Casey                       | 1         | 9,125          | 9,320            | –                        | –                           | –       | 9,320                        |
| Laura Cha                            |           | 18,200         | 10,200           | 8,000                    | –                           | –       | 18,200                       |
| Henri de Castries                    |           | 17,116         | 17,474           | –                        | –                           | –       | 17,474                       |
| Lord Evans of Weardale               |           | 12,892         | 12,892           | –                        | –                           | –       | 12,892                       |
| Joachim Faber                        | 4         | 66,605         | 93,221           | –                        | –                           | –       | 93,221                       |
| John Flint                           | 2,4       | 533,118        | 719,405          | –                        | –                           | –       | 719,405                      |
| Stuart Gulliver                      | 2,4       | 3,711,169      | 3,503,563        | 176,885                  | –                           | –       | 3,680,448                    |
| Irene Lee                            |           | 10,588         | 10,809           | –                        | –                           | –       | 10,809                       |
| John Lipsky                          | 1,4       | 16,165         | 16,165           | –                        | –                           | –       | 16,165                       |
| Iain Mackay                          | 2         | 442,118        | 756,668          | –                        | –                           | –       | 756,668                      |
| Heidi Miller                         | 1         | 4,200          | 4,285            | –                        | –                           | –       | 4,285                        |
| Marc Moses                           | 2         | 1,207,068      | 1,475,567        | –                        | –                           | –       | 1,475,567                    |
| David Nish                           |           | 50,000         | –                | 50,000                   | –                           | –       | 50,000                       |
| Jonathan Symonds                     |           | 42,821         | 37,936           | 4,885                    | –                           | –       | 42,821                       |
| Jackson Tai                          | 1,3       | 44,825         | 13,945           | 10,350                   | 21,675                      | –       | 45,970                       |
| Mark Tucker                          |           | 276,000        | 281,785          | –                        | –                           | –       | 281,785                      |
| Pauline van der Meer Mohr            |           | 15,000         | 15,000           | –                        | –                           | –       | 15,000                       |

- Phillip Ameen has an interest in 1,000, Kathleen Casey has an interest in 1,864, John Lipsky has an interest in 3,233, Heidi Miller has an interest in 857 and Jackson Tai has an interest in 9,194 listed American Depository Shares ('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.
- 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 2018, 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: John Flint – 1,281,533; Stuart Gulliver – 6,712,018; Iain Mackay – 2,505,919; and Marc Moses – 3,218,740. Each Director's total interests represents less than 0.04% of the shares in issue and 0.04% of the shares in issue excluding treasury shares.
- Jackson Tai's holding includes a non-beneficial interest in 10,350 shares of which he is custodian.
- Stuart Gulliver retired from the Board on 20 February 2018. Phillip Ameen, Joachim Faber and John Lipsky retired from the Board on 20 April 2018. Their total interests are as at their retirement date. All figures are as at 30 June 2018 or on the retirement of the Director unless otherwise stated. John Flint's opening interests are as at 21 February 2018, the date he joined the Board.

### Savings-related share option plan

#### HSBC Holdings savings-related share option plan

|             | Date of award     | Exercise price (£) | Exercisable     |               | HSBC Holdings ordinary shares |                     |
|-------------|-------------------|--------------------|-----------------|---------------|-------------------------------|---------------------|
|             |                   |                    | from            | until         | Held at 1 Jan 2018            | Held at 30 Jun 2018 |
| John Flint  | 22 September 2015 | 4.0472             | 1 November 2018 | 30 April 2019 | 4,447                         | 4,447               |
| Iain Mackay | 23 September 2014 | 5.1887             | 1 November 2017 | 30 April 2018 | 3,469                         | –                   |

There are no performance criteria for savings-related share options. No changes have been made to the terms of these awards since they were made. See page 116 for more details on the savings-related share option plans. The market value per ordinary share at 30 June 2018 was £7.1075. The highest and lowest market values per ordinary share during the half-year to 30 June 2018 were £7.9605 and £6.6205. 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.

## Shareholder information

### HSBC Share Plan 2011

#### Conditional awards of deferred shares

Vesting of deferred 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 conditional share awards are categorised as the interests of the beneficial owner.

#### Deferred share awards

|                              | Date of award | Footnotes    | Year in which awards may vest | HSBC Holdings ordinary shares |  |                        |   |                        |                          |
|------------------------------|---------------|--------------|-------------------------------|-------------------------------|--|------------------------|---|------------------------|--------------------------|
|                              |               |              |                               | Awards held at                | Awards made during the period to 30 Jun 2018 |                        | Awards vested during the period to 30 Jun 2018 <sup>1</sup> |                        | Awards held at           |
|                              |               |              |                               | 1 Jan 2018                    | Number                                       | Monetary value<br>£000 | Number  | Monetary value<br>£000 | 30 Jun 2018 <sup>1</sup> |
|                              | 11 Mar 2013   | <sup>2</sup> | 2018                          | 73,793                        | —  | —                      | 75,339  | 532                    | —                        |
|                              | 2 Mar 2015    | <sup>3</sup> | 2016-2018                     | 27,717                        | —  | —                      | 28,298  | 196                    | —                        |
|                              | 29 Feb 2016   | <sup>4</sup> | 2017-2019                     | 96,595                        | —  | —                      | 49,417  | 346                    | 49,203                   |
|                              | 27 Feb 2017   | <sup>6</sup> | 2020-2024                     | 104,104                       | —  | —                      | —   | —                      | 106,286                  |
| John Flint <sup>7</sup>      | 26 Feb 2018   | <sup>5</sup> | 2018                          | —                             | 86,366                                       | 623                    | 86,366  | 623                    | —                        |
|                              | 26 Feb 2018   | <sup>8</sup> | 2021-2025                     | —                             | 166,014                                      | 1,201                  | —   | —                      | 166,014                  |
|                              | 11 Mar 2013   | <sup>2</sup> | 2018                          | 105,221                       | —  | —                      | —   | —                      | 105,221                  |
|                              | 2 Mar 2015    | <sup>3</sup> | 2016-2018                     | 26,996                        | —  | —                      | —   | —                      | 26,996                   |
| Stuart Gulliver <sup>7</sup> | 29 Feb 2016   | <sup>4</sup> | 2017-2019                     | 52,648                        | —  | —                      | —   | —                      | 52,648                   |
|                              | 11 Mar 2013   | <sup>2</sup> | 2018                          | 72,742                        | —  | —                      | 74,266  | 524                    | —                        |
|                              | 2 Mar 2015    | <sup>3</sup> | 2016-2018                     | 18,123                        | —  | —                      | 18,503  | 128                    | —                        |
|                              | 29 Feb 2016   | <sup>4</sup> | 2017-2019                     | 52,427                        | —  | —                      | 26,821  | 188                    | 26,705                   |
| Iain Mackay                  | 26 Feb 2018   | <sup>5</sup> | 2018                          | —                             | 184,406                                      | 1,330                  | 184,406   | 1,330                  | —                        |
|                              | 11 Mar 2013   | <sup>2</sup> | 2018                          | 70,672                        | —  | —                      | 72,153  | 509                    | —                        |
|                              | 2 Mar 2015    | <sup>3</sup> | 2016-2018                     | 21,606                        | —  | —                      | 22,509  | 156                    | —                        |
|                              | 29 Feb 2016   | <sup>4</sup> | 2017-2019                     | 40,581                        | —  | —                      | 20,760  | 145                    | 20,671                   |
| Marc Moses                   | 26 Feb 2018   | <sup>5</sup> | 2018                          | —                             | 187,724                                      | 1,354                  | 187,724   | 1,354                  | —                        |

<sup>1</sup> Includes additional shares arising from dividend equivalents.

<sup>2</sup> Awards granted in March 2013 are subject to service conditions and satisfactory completion of the AML DPA, as determined by the Committee. The AML DPA condition ended on the fifth anniversary of the award date.

<sup>3</sup> At the date of the award (2 March 2015) the market value per share was £5.83. Shares equivalent in number to those that vest under the award (net of tax liabilities) must be retained for six months from the vesting date. On 14 March 2018, the third tranche of the award vested. On that date, the market value per share was £6.9321.

<sup>4</sup> At the date of the award (29 February 2016), the market value per share was £4.60. Shares equivalent in number to those that vest under the award (net of tax liabilities) must be retained for six months from the vesting date. On 13 March 2018, the second tranche of the award vested. On that date, the market value per share was £7.0074. The balance will vest in 2019.

<sup>5</sup> The non-deferred award vested immediately on 26 February 2018. Shares equivalent in number to those that vest under the award (net of tax liabilities) must be retained for one year from the vesting date. At the date of vesting, the market value per share was £7.2146.

<sup>6</sup> At the date of the award (27 February 2017), the market value per share was £6.50. Shares equivalent in number to those that vest under the award (net of tax liabilities) must be retained for six months from the vesting date. The award will vest in five equal annual tranches commencing in March 2020.

<sup>7</sup> Stuart Gulliver retired from the Board on 20 February 2018. His total interests are as at his retirement date. John Flint's opening interests are as at 21 February 2018, the date he joined the Board.

<sup>8</sup> The number of shares was determined using a market value per share of £7.234. Shares equivalent in number to those that vest under the award (net of tax liabilities) must be retained for one year from the vesting date. The award will vest in five equal annual tranches commencing in March 2021.

#### Conditional awards under the Group Performance Share Plan

The Group Performance Share Plan ('GPSP') is a plan designed to offer long-term incentives 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.

## Group Performance Share Plan

|                              | Date of award | Footnote     | Year in which awards may vest | HSBC Holdings ordinary shares |  |                        |   |                        |                          |
|------------------------------|---------------|--------------|-------------------------------|-------------------------------|--|------------------------|---|------------------------|--------------------------|
|                              |               |              |                               | Awards held at                | Awards made during the period to 30 Jun 2018 |                        | Awards vested during the period to 30 Jun 2018 <sup>1</sup> |                        | Awards held at           |
|                              |               |              |                               | 1 Jan 2018                    | Number                                       | Monetary value<br>£000 | Number  | Monetary value<br>£000 | 30 Jun 2018 <sup>1</sup> |
| John Flint <sup>2</sup>      | 11 Mar 2013   | <sup>3</sup> | 2018                          | 85,156                        | –  | –                      | 86,941  | 614                    | –                        |
|                              | 10 Mar 2014   |              | 2019                          | 147,082                       | –  | –                      | –   | –                      | 150,165                  |
|                              | 2 Mar 2015    |              | 2020                          | 30,851                        | –  | –                      | –   | –                      | 31,497                   |
|                              | 29 Feb 2016   |              | 2021                          | 53,396                        | –  | –                      | –   | –                      | 54,516                   |
| Stuart Gulliver <sup>2</sup> | 11 Mar 2013   |              | 2018                          | 539,599                       | –  | –                      | –   | –                      | 539,599                  |
|                              | 10 Mar 2014   |              | 2019                          | 750,611                       | –  | –                      | –   | –                      | 750,611                  |
|                              | 2 Mar 2015    |              | 2020                          | 442,452                       | –  | –                      | –   | –                      | 442,452                  |
|                              | 29 Feb 2016   |              | 2021                          | 480,795                       | –  | –                      | –   | –                      | 480,795                  |
| Iain Mackay                  | 11 Mar 2013   | <sup>3</sup> | 2018                          | 251,812                       | –  | –                      | 257,091   | 1,815                  | –                        |
|                              | 10 Mar 2014   |              | 2019                          | 439,686                       | –  | –                      | –   | –                      | 448,903                  |
|                              | 2 Mar 2015    |              | 2020                          | 236,992                       | –  | –                      | –   | –                      | 241,960                  |
|                              | 29 Feb 2016   |              | 2021                          | 268,976                       | –  | –                      | –   | –                      | 274,614                  |
| Marc Moses                   | 11 Mar 2013   | <sup>3</sup> | 2018                          | 280,591                       | –  | –                      | 286,473   | 2,022                  | –                        |
|                              | 10 Mar 2014   |              | 2019                          | 439,643                       | –  | –                      | –   | –                      | 448,859                  |
|                              | 2 Mar 2015    |              | 2020                          | 236,992                       | –  | –                      | –   | –                      | 241,960                  |
|                              | 29 Feb 2016   |              | 2021                          | 268,976                       | –  | –                      | –   | –                      | 274,614                  |

<sup>1</sup> Includes additional shares arising from dividend equivalents.

<sup>2</sup> Stuart Gulliver retired from the Board on 20 February 2018. His total interests are as at his retirement date. John Flint's opening interests are as at 21 February 2018, the date he joined the Board.

<sup>3</sup> On 12 March 2018, the deferred awards granted in 2013 vested. On that date, the market value per share was £7.06.

## Long-term incentive awards

The long-term incentive award is an award of shares with a three-year performance period. At the end of this performance period and subject to the award terms the number of shares that vest will be determined based on an assessment of performance against financial and non-financial measures. Subject to that assessment, the shares will vest in five equal annual instalments. On vesting, awards are subject to a retention period of up to one year. Under the Securities and Futures Ordinance of Hong Kong, interests in awards are categorised as beneficial.

## Long-term incentive awards

|                              | Date of award | Year in which awards may vest | HSBC Holdings ordinary shares |  |                        |  |                        |                          |
|------------------------------|---------------|-------------------------------|-------------------------------|--|------------------------|--|------------------------|--------------------------|
|                              |               |                               | Awards held at                | Awards made during the period to 30 Jun 2018 |                        | Awards vested during the period to 30 Jun 2018 |                        | Awards held at           |
|                              |               |                               | 1 Jan 2018                    | Number                                       | Monetary value<br>£000 | Number   | Monetary value<br>£000 | 30 Jun 2018 <sup>1</sup> |
| Stuart Gulliver <sup>2</sup> | 27 Feb 2017   | 2020-2024                     | 633,278                       | –  | –                      | –  | –                      | 633,278                  |
| Iain Mackay                  | 26 Feb 2018   | 2021-2025                     | –                             | 395,388                                      | 2,859                  | –  | –                      | 395,388                  |
| Marc Moses                   | 26 Feb 2018   | 2021-2025                     | –                             | 395,388                                      | 2,859                  | –  | –                      | 395,388                  |

<sup>1</sup> At the date of award, 26 February 2018, the market value per share was £7.234.

<sup>2</sup> Stuart Gulliver retired from the Board on 20 February 2018. His total interests are as at his retirement date.

No Directors held any short position (as defined in the Securities and Futures Ordinance of Hong Kong) in the shares or debentures of HSBC Holdings and its associated corporations. Save as stated in the tables 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 2018, 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 2018

| Beneficial owner  | Footnotes | HSBC Holdings ordinary shares |
|-------------------|-----------|-------------------------------|
| Kathleen Casey    | 1, 2      | 95                            |
| Henri de Castries | 2         | 177                           |
| John Flint        | 3         | 3,977                         |
| Irene Lee         | 2         | 109                           |
| Iain Mackay       | 3         | 13,749                        |
| Heidi Miller      | 1, 2      | 40                            |
| Marc Moses        | 3         | 13,688                        |

<sup>1</sup> Kathleen Casey has an interest in 1,883 and Heidi Miller has an interest in 865 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.

<sup>2</sup> Additional shares arising from scrip dividends.

<sup>3</sup> Comprises dividend equivalents on deferred share awards, GPSP awards and long-term incentive awards granted under the HSBC Share Plan 2011.

### 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 to 30 June 2018.

A summary, for each plan, of the total number of options which were granted, exercised or lapsed during the period is shown in the table below. Particulars of options held by Directors of HSBC Holdings are set out on page 113. 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](http://www.hsbc.com), and on the website of The Stock Exchange of Hong Kong Limited at [www.hkex.com.hk](http://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 are no outstanding options under the HSBC Holdings Savings-Related Share Option Plan: International and the plan ceased on 31 January 2018. The HSBC International Employee Share Purchase Plan was introduced in 2013 and now includes employees based in 27 jurisdictions.

For options granted under the HSBC Holdings Savings-Related Share Option Plan, employees save up to £500 each month over a period of three or five years. Employees may elect within six months following the third or fifth anniversary of the commencement of the relevant savings contract, to use these savings, 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, ceasing employment on grounds of injury or ill health, retirement, 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 limited circumstances, in accordance with the plan rules, the exercise period of options granted under the all-employee share plans may be extended.

The terms set out in the preceding paragraph also applied to options granted up to April 2012 under the HSBC Holdings Savings-Related Share Option Plan: International, with the exception that contributions were capped at the equivalent of £250 each month.

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 (at which time the plan may be extended with approval from Shareholders) unless the Directors resolve to terminate the plan at an earlier date.

#### HSBC Holdings All-employee Share Option Plans

| Dates of award  | Exercise price | Exercisable    | HSBC Holdings ordinary shares |                   |                     |                  |                   |   |                  |                  |                   |
|---|----------------|----------------|-------------------------------|-------------------|---------------------|------------------|-------------------|---|------------------|------------------|-------------------|
|   |                |                | At 1 Jan 2018                 | Granted in period | Exercised in period | Lapsed in period | At 30 Jun 2018    |   |                  |                  |                   |
| from  | to             | from           | to                            | Footnotes         |                     |                  |                   |   |                  |                  |                   |
| <b>Savings-Related Share Option Plan</b>                |                |                |                               |                   | 1                   |                  |                   |   |                  |                  |                   |
| 24 Apr 2012   | 21 Sep 2017    | (£) 4.0472     | (£) 5.9640                    | 1 Aug 2017        | 30 April 2023       |                  | <b>64,566,103</b> | – | <b>1,890,314</b> | <b>2,330,378</b> | <b>60,345,411</b> |
| <b>Savings-Related Share Option Plan: International</b> |                |                |                               |                   | 2                   |                  |                   |   |                  |                  |                   |
| 24 Apr 2012   |                | (£) 4.4621     |                               | 1 Aug 2017        | 31 Jan 2018         |                  | <b>38,829</b>     | – | <b>25,295</b>    | <b>13,534</b>    | –                 |
| 24 Apr 2012   |                | (\$ 7.1456     |                               | 1 Aug 2017        | 31 Jan 2018         |                  | <b>17,873</b>     | – | <b>11,064</b>    | <b>6,809</b>     | –                 |
| 24 Apr 2012   |                | (€) 5.3532     |                               | 1 Aug 2017        | 31 Jan 2018         |                  | <b>10,539</b>     | – | <b>8,486</b>     | <b>2,053</b>     | –                 |
| 24 Apr 2012   |                | (HK\$) 55.4701 |                               | 1 Aug 2017        | 31 Jan 2018         |                  | <b>36,309</b>     | – | <b>20,631</b>    | <b>15,678</b>    | –                 |

1 The weighted average closing price of the shares immediately before the dates on which options were exercised was £7.2456.

2 The weighted average closing price of the shares immediately before the dates on which options were exercised was £7.7119.

### 3 Share buy-back

On 9 May 2018, HSBC Holdings commenced a share buy-back of its ordinary shares of \$0.50 each for up to a maximum consideration of \$2.0bn. This buy-back will conclude no later than 31 October 2018 (subject to regulatory approval remaining in place). The purpose of the buy-back is to reduce HSBC's number of outstanding ordinary shares. The nominal value of ordinary shares purchased as at 30 June 2018 was £54,503,896.50 and the aggregate consideration paid by HSBC was £790,070,974. The table that follows outlines details of the ordinary shares purchased on a monthly basis from 9 May to 30 June 2018. At 30 June 2018, the total number of shares purchased was 109,007,793, representing 0.54% of the ordinary shares in issue and 0.55% of the shares (excluding treasury shares). All shares purchased were subsequently cancelled.



## Share buy-back

|        | Number of shares | Highest price paid per share<br>£ | Lowest price paid per share<br>£ | Average price paid per share<br>£ | Aggregate price paid<br>£ |
|--------|------------------|-----------------------------------|----------------------------------|-----------------------------------|---------------------------|
| May-18 | 43,843,281       | 7.4990                            | 7.1340                           | 7.3027                            | 320,172,904               |
| Jun-18 | 65,164,512       | 7.3910                            | 7.0030                           | 7.2110                            | 469,898,070               |
|        | 109,007,793      |                                   |                                  |                                   | 790,070,974               |

## 4 Other equity instruments

### Additional tier 1 capital – contingent convertible securities

HSBC continues to issue contingent convertible securities that are included in its capital base as fully CRD IV compliant additional tier 1 capital securities on an end point basis. These securities are marketed principally and subsequently allotted to corporate investors and fund managers. The net proceeds of the issuances are used for HSBC's general corporate purposes and to further strengthen its capital base to meet requirements under CRD IV. These securities bear a fixed rate of interest until their initial call dates. After the initial call dates, if they are not redeemed, the securities will bear interest at rates fixed periodically in advance for five-year periods based on credit spreads, fixed at issuance, above prevailing market rates. Interest on the contingent convertible securities will be due and payable only at the sole discretion of HSBC, and HSBC has sole and absolute discretion at all times to cancel for any reason (in whole or part) any interest payment that would otherwise be payable on any payment date. Distributions will not be paid if they are prohibited under UK banking regulations or if the company has insufficient reserves or fails to meet the solvency conditions defined in the securities' terms.

The contingent convertible securities are undated and are repayable at the option of HSBC in whole at the initial call date or on any fifth anniversary after this date. In addition, the securities are repayable at the option of HSBC in whole for certain regulatory or tax reasons. Any repayments require the prior consent of the PRA. These securities rank *pari passu* with HSBC's dollar and sterling preference shares and therefore rank ahead of ordinary shares. The contingent convertible securities will be converted into fully paid ordinary shares of HSBC at a predetermined price, should HSBC's consolidated end point CET1 ratio fall below 7.0%. Therefore, in accordance with the terms of the securities, if the end point CET1 ratio breaches the 7.0% trigger, the securities will convert into ordinary shares at fixed contractual conversion prices in the issuance currencies of the relevant securities, equivalent to £2.70 at the prevailing rate of exchange on the issuance date, subject to anti-dilution adjustments.

### Additional tier 1 capital instruments issued during 2018

|   | Nominal<br>\$m | Issue price<br>% | Market price<br>% | Net price<br>% | Issue date     |
|---|----------------|------------------|-------------------|----------------|----------------|
| 2,350m 6.25% perpetual subordinated contingent convertible securities | 2,350          | 100.00           | 98.25             | 100.00         | 23 March, 2018 |
| 1,800m 6.50% perpetual subordinated contingent convertible securities | 1,800          | 100.00           | 99.60             | 100.00         | 23 March, 2018 |

## 5 Notifiable interests in share capital

At 30 June 2018, HSBC Holdings had received the following notification of major holdings of voting rights pursuant to the requirements of Rule 5 of the UK Disclosure Guidance and Transparency Rules:

- BlackRock, Inc. gave notice on 22 May 2018 that on 21 May 2018 it had an indirect interest in HSBC Holdings of 1,167,291,912 ordinary shares, qualifying financial instruments with 94,198,726 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 10,781,765 voting rights. These represented 5.81%, 0.46% and 0.05%, respectively, of the total voting rights at 21 May 2018.
- Ping An Asset Management Co., Ltd. gave notice on 6 December 2017 that on 4 December 2017 it had an indirect interest in HSBC Holdings ordinary shares of 1,007,946,172, representing 5.04% of the total voting rights at that date.

At 30 June 2018, as recorded in the register maintained by HSBC Holdings pursuant to section 336 of the Securities and Futures Ordinance of Hong Kong:

- BlackRock, Inc. gave notice on 22 May 2018 that on 17 May 2018 it had the following interests in HSBC Holdings ordinary shares: a long position of 1,382,665,285 shares and a short position of 6,264,297 representing 6.78% and 0.03%, respectively, of the ordinary shares in issue at 17 May 2018.
- JPMorgan Chase & Co. gave notice on 1 March 2018 that on 26 February 2018 it had the following interests in HSBC Holdings ordinary shares: a long position of 777,156,316 shares, a short position of 135,523,161 shares, and a lending pool of 443,282,346 shares. These represented 3.82%, 0.66% and 2.17%, respectively, of the ordinary shares in issue at 26 February 2018.
- Ping An Asset Management Co., Ltd. gave notice on 13 February 2018 that on 9 February 2018 it had a long position of 1,253,254,972 shares, representing 6.17% of the ordinary shares in issue at 9 February 2018.

## 6 Dealings in HSBC Holdings listed securities

HSBC has policies and procedures that, except where permitted by statute and regulation, prohibit it undertaking specified transactions in respect of its securities listed on The Stock Exchange of Hong Kong Limited ('HKEx'). Except for the share buy-back and dealings as intermediaries or as trustees by subsidiaries of HSBC Holdings, neither HSBC Holdings nor any of its subsidiaries has purchased, sold or redeemed any of its securities listed on HKEx during the half-year ended 30 June 2018.

## 7 First interim dividend for 2018

The first interim dividend for 2018 of \$0.10 per ordinary share was paid on 5 July 2018.

## Shareholder information

### 8 Second interim dividend for 2018

On 6 August 2018, the Directors declared a second interim dividend in respect of 2018 of \$0.10 per ordinary share. The ordinary shares in London, Hong Kong, Paris and Bermuda, and the American Depositary Shares ('ADSs') in New York, will be quoted ex-dividend on 16 August 2018. The dividend will be payable on 27 September 2018 to holders of record on 17 August 2018.

The dividend will be payable in 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 17 September 2018. A scrip dividend will also be offered. Particulars of these arrangements will be sent to shareholders on or about 29 August 2018 and elections must be received by 13 September 2018.

The dividend will be payable on ordinary shares held through Euroclear France, the settlement and central depository system for Euronext Paris, on 27 September 2018 to the holders of record on 17 August 2018. The dividend will be payable in US dollars or as a scrip dividend. Particulars of these arrangements will be announced through Euronext Paris on 9 August 2018, 24 August 2018 and 28 September 2018.

The dividend will be payable on ADSs, each of which represents five ordinary shares, on 27 September 2018 to holders of record on 17 August 2018. The dividend of \$0.50 per ADS will be payable by the depository in US dollars or as a scrip dividend of new ADSs. Particulars of these arrangements will be sent to holders on or about 29 August 2018 and elections will be required to be made by 7 September 2018. Alternatively, the cash dividend may be invested in additional ADSs by participants in the dividend reinvestment plan operated by the depository.

Any person who has acquired ordinary shares registered on the Principal Register in the UK, 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 17 August 2018 in order to receive the dividend.

Ordinary shares may not be removed from or transferred to the Principal Register in the UK, the Hong Kong Overseas Branch Register or the Bermuda Overseas Branch Register on 17 August 2018. Any person wishing to remove ordinary shares to or from each register must do so before 4.00pm local time on 16 August 2018.

Transfers of ADSs must be lodged with the depository by 11.00am local time on 17 August 2018 in order to receive the dividend.

#### Dividend on preference shares

A quarterly dividend of \$15.50 per 6.20% non-cumulative US dollar preference share, Series A ('Series A dollar preference share'), (equivalent to a dividend of \$0.3875 per Series A American Depositary Share, each of which represents one-fortieth of a Series A dollar preference share), and £0.01 per Series A sterling preference share is payable on 15 March, 15 June, 15 September and 15 December 2018 for the quarter then ended at the sole and absolute discretion of the Board of HSBC Holdings plc. Accordingly, the Board of HSBC Holdings plc has declared a quarterly dividend be payable on 17 September 2018 to holders of record on 30 August 2018.

### 9 Proposed interim dividends for 2018

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 proposed timetables for dividends payable on the ordinary shares in respect of 2018 that have not yet been declared are as follows:

#### Interim dividends for 2018 not yet declared

|   | <i>Footnote</i> | <b>Third interim dividend for 2018</b> | <b>Fourth interim dividend for 2018</b> |
|---|-----------------|--|---|
| Announcement  |                 | <b>2 Oct 2018</b>                      | <b>19 Feb 2019</b>                      |
| Shares quoted ex-dividend in London, Hong Kong, New York, Paris and Bermuda |                 | <b>11 Oct 2018</b>                     | <b>21 Feb 2019</b>                      |
| Record date in London, Hong Kong, New York, Paris and Bermuda               | <sup>1</sup>    | <b>12 Oct 2018</b>                     | <b>22 Feb 2019</b>                      |
| Payment date  |                 | <b>21 Nov 2018</b>                     | <b>8 Apr 2019</b>                       |

<sup>1</sup> Removals from or transfers to the Principal Register in the UK, the Hong Kong Overseas Branch Register or the Bermuda Overseas Branch Register will not be permitted on these dates.

### 10 Earnings release

An earnings release for the three-month period ending 30 September 2018 is expected to be issued on 29 October 2018.

### 11 Final results

The results for the year to 31 December 2018 are expected to be announced on 19 February 2019.

### 12 Corporate governance

HSBC is subject to corporate governance requirements in both the UK and Hong Kong. Throughout the six months ended 30 June 2018, HSBC complied with the applicable provisions of the UK Corporate Governance Code and also the requirements of the Hong Kong Corporate Governance Code. The UK Corporate Governance Code is available at [www.frc.org.uk](http://www.frc.org.uk) and the Hong Kong Corporate Governance Code is available at [www.hkex.com.hk](http://www.hkex.com.hk).

Under the Hong Kong Code, the audit committee should be responsible for the oversight of all risk management and internal control systems, unless expressly addressed by a separate Risk Committee. HSBC's Group Risk Committee is responsible for oversight of internal control, other than internal control over financial reporting, and risk management systems.

The Board has codified obligations for transactions in HSBC Group securities in accordance with the requirements of the Market Abuse Regulation and the rules governing the listing of securities on the HKEx, save that the HKEx has granted waivers from strict compliance with the rules that take into account accepted practices in the UK, particularly in respect of employee share plans.

Following specific enquiry, all Directors have confirmed that they have complied with their obligations in respect of transacting in Group securities throughout the period.

There have been no material changes to the information disclosed in the *Annual Report and Accounts 2017* in respect of the remuneration of employees, remuneration policies, bonus and share option plans and training schemes. Details of the number of employees are provided on page 26.

### 13 Changes in Directors' details

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Changes in current Directors' details since the date of the *Annual Report and Accounts 2017* 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.

On 25 June 2018, the Group announced that Iain Mackay will retire as Executive Director and Group Finance Director. His successor was announced as Ewen Stevenson. Retirement and appointment dates will be confirmed in due course.

#### Phillip Ameen

Retired from the Board on 20 April 2018.

#### Kathleen Casey

Resigned as a member of the Financial System Vulnerabilities Committee on 20 April 2018.  
Appointed as a member of the Nomination & Corporate Governance Committee on 20 April 2018.

#### Henri de Castries

Appointed as a member of the Nomination & Corporate Governance Committee on 20 April 2018.  
Appointed as a non-executive director of Argus Media Limited on 1 June 2018.

#### Laura Cha

Appointed as a member of the Financial System Vulnerabilities Committee on 20 April 2018.  
Resigned as a member of the Conduct & Values Committee (following its demise) on 20 April 2018.  
Resigned as a member of the Philanthropic & Community Investment Oversight Committee (following its demise) on 20 April 2018.  
Resigned as a non-executive director of China Telecom Corporation Limited on 28 May 2018.  
Resigned as Hong Kong Delegate to the 12th National People's Congress of China on 5 March 2018.  
Appointed as Chair of Hong Kong Exchanges and Clearing Limited on 25 April 2018.  
Appointed as a non-executive director of London Metal Exchange on 26 April 2018 (a subsidiary of Hong Kong Exchanges and Clearing Limited).  
Resigned as Chairman of Financial Services Development Council, Hong Kong on 10 July 2018.

#### Jonathan Evans

Appointed as a member of the Nomination & Corporate Governance Committee on 20 April 2018.  
Resigned as a member of the Conduct & Values Committee (following its demise) on 20 April 2018.  
Resigned as a member of the Philanthropic & Community Investment Oversight Committee (following its demise) on 20 April 2018.

#### Joachim Faber

Retired from the Board on 20 April 2018.

#### John Flint

Appointed to the Board on 21 February 2018.

#### Stuart Gulliver

Retired from the Board on 20 February 2018.

#### Irene Lee

Appointed as a member of the Nomination & Corporate Governance Committee on 20 April 2018.  
Appointed as a member of the Remuneration Committee on 20 April 2018.  
Resigned as a non-executive director of CLP Holdings Limited on 4 May 2018.  
Appointed as a member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority on 28 May 2018.

#### John Lipsky

Retired from the Board on 20 April 2018.

#### Pauline van der Meer Mohr

Resigned as a member of the Conduct & Values Committee (following its demise) on 20 April 2018.  
Appointed as a member of the Group Risk Committee on 20 April 2018.  
Resigned as a member of the supervisory board of ASML Holdings N.V. on 25 April 2018.  
Appointed as a non-executive director of Mylan NV on 29 June 2018.

#### Heidi Miller

Appointed as a member of the Nomination & Corporate Governance Committee on 20 April 2018.

#### David Nish

Appointed as a member of the Nomination & Corporate Governance Committee on 20 April 2018.

#### Jonathan Symonds

Resigned as a member of the Conduct & Values Committee (following its demise) on 20 April 2018.  
Appointed as a member of the Group Risk Committee on 20 April 2018.  
Appointed as an adviser to Board and an adviser to CEO of Mesoblast Limited on 19 January 2018.  
Appointed as non-executive director of Rubius Therapeutics Inc. on 1 April 2018.  
Resigned as Chairman and non-executive director of HSBC Bank Plc on 6 August 2018.  
Appointed as Deputy Group Chairman of HSBC Holdings Plc on 6 August 2018.

#### Jackson Tai

Appointed as a member of the Nomination & Corporate Governance Committee on 20 April 2018.

## Shareholder information

### 14 Going concern basis

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As mentioned in Note 1 'Basis of preparation and significant accounting policies' on page 84, 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, capital requirements and capital resources.

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 2017*; and HSBC's approach to capital management and allocation is described in the Capital section of the *Annual Report and Accounts 2017*.

### 15 Telephone and online share dealing service

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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; or UK telephone: +44 (0) 3456 080848, or from an overseas telephone: +44 (0) 1226 261090; or website: [www.hsbc.co.uk/shares](http://www.hsbc.co.uk/shares).

### 16 Stock symbols

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HSBC Holdings plc ordinary shares trade under the following stock symbols:

|                               |         |
|-------------------------------|---------|
| London Stock Exchange         | HSBA    |
| Hong Kong Stock Exchange      | 5       |
| New York Stock Exchange (ADS) | HSBC    |
| Euronext Paris                | HSB     |
| Bermuda Stock Exchange        | HSBC.BH |

### 17 Copies of the Interim Report 2018 and shareholder enquiries and communications

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Further copies of the *Interim Report 2018* 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 US Communications, HSBC Bank USA, N.A., 1 West 39th Street, 9th Floor, New York, NY 10018, USA. The *Interim Report 2018* may also be downloaded from the HSBC website, [www.hsbc.com](http://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 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](http://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 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 Registrars offer an online facility, Investor Centre, which enables shareholders to manage their shareholding electronically.

#### Principal Register

Computershare Investor Services PLC  
The Pavilions  
Bridgwater Road  
Bristol BS99 6ZZ  
United Kingdom

Telephone: +44 (0) 370 702 0137  
Email: [via website](http://via.website)  
Web: [www.investorcentre.co.uk/contactus](http://www.investorcentre.co.uk/contactus)

#### Hong Kong Overseas Branch Register

Computershare Hong Kong Investor  
Services Limited  
Rooms 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

Telephone: +852 2862 8555  
Email: [hsbc.ecom@computershare.com.hk](mailto:hsbc.ecom@computershare.com.hk)  
Web: [www.investorcentre.com/hk](http://www.investorcentre.com/hk)

#### Bermuda Overseas Branch Register

Investor Relations Team  
HSBC Bank Bermuda Limited  
37 Front Street  
Hamilton HM 11  
Bermuda

Telephone: +1 441 299 6737  
Email: [hbbm.shareholder.services@hsbc.bm](mailto:hbbm.shareholder.services@hsbc.bm)  
Web: [www.investorcentre.com/bm](http://www.investorcentre.com/bm)

Any enquiries relating to ADSs should be sent to the depositary at:

The Bank of New York Mellon  
Shareowner Services  
PO Box 505000  
Louisville, KY 40233-5000  
USA

Telephone (US): +1 877 283 5786  
Telephone (international): +1 201 680 6825  
Email: [shrrelations@cpushareownerservices.com](mailto:shrrelations@cpushareownerservices.com)  
Web: [www.mybnymdr.com](http://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:

CACEIS Corporate Trust  
14, rue Rouget de Lisle  
92130 Issy-les-Moulineaux  
France

Telephone: +33 1 57 78 34 28  
Email: ct-service-ost@caceis.com  
Website: www.caceis.com

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.

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本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。股東如收到本文件的中譯本，但不希望再收取此等中譯本，亦請聯絡股份登記處。

## Abbreviations

### Currencies

|      |                      |
|------|----------------------|
| CAS  | Canadian dollar      |
| €    | Euro                 |
| HK\$ | Hong Kong dollar     |
| RMB  | Chinese renminbi     |
| SGD  | Singapore dollar     |
| \$   | United States dollar |

### Abbreviation

|      |                        |
|------|------------------------|
| 1H17 | First half of 2017     |
| 1H18 | First half of 2018     |
| 1Q17 | First quarter of 2017  |
| 1Q18 | First quarter of 2018  |
| 2H17 | Second half of 2017    |
| 2Q17 | Second quarter of 2017 |
| 2Q18 | Second quarter of 2018 |
| 4Q17 | Fourth quarter of 2017 |

### A

|         |   |
|---------|---|
| ABS     | Asset-backed security   |
| ADS     | American Depositary Share   |
| AFS     | Available for sale  |
| AIEA    | Average interest-earning assets   |
| AML     | Anti-money laundering   |
| AML DPA | Five-year deferred prosecution agreement with the US Department of Justice, entered into in December 2012 |
| ASEAN   | Association of Southeast Asian Nations  |

### 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             |
| BoE             | Bank of England   |
| Bps             | Basis points. One basis point is equal to one hundredth of a percentage point |
| BSA             | Bank Secrecy Act (US)   |
| BSM             | Balance Sheet Management  |

### C

|      |                                       |
|------|---------------------------------------|
| C&L  | Credit and Lending                    |
| CAPM | Capital asset pricing model           |
| CDO  | Collateralised debt obligation        |
| CEA  | Commodity Exchange Act (US)           |
| CET1 | Common equity tier 1                  |
| CLO  | Collateralised loan obligation        |
| CMB  | Commercial Banking, a global business |
| CMC  | Capital maintenance charge            |

|     |                                    |
|-----|------------------------------------|
| CML | Consumer and Mortgage Lending (US) |
| CRD | Capital Requirements Directive     |
| CRR | Capital Requirements Regulation    |

### D

|              |   |
|--------------|---|
| DCM          | Debt Capital Markets  |
| Decision One | Decision One Mortgage Company LLC   |
| DoJ          | Department of Justice (US)  |
| DPA          | Deferred prosecution agreement (US)                                       |
| DPF          | Discretionary participation feature of insurance and investment contracts |

### E

|         |                                 |
|---------|---------------------------------|
| EBA     | European Banking Authority      |
| EC      | European Commission             |
| ECL     | Expected credit losses          |
| EU      | European Union                  |
| Euribor | European interbank offered rate |

### F

|        |   |
|--------|---|
| FCA    | Financial Conduct Authority (UK)  |
| FICC   | Fixed Income, Currencies and Commodities  |
| FOS    | Financial Ombudsman Service   |
| FRB    | Federal Reserve Board (US)  |
| FTE    | Full-time equivalent staff  |
| FVOCI  | Fair value through other comprehensive income   |
| FVPL   | Fair value through profit and loss  |
| FX     | Foreign exchange  |
| FX DPA | Three-year deferred prosecution agreement with the US Department of Justice, entered into in January 2018 |

### G

|                |   |
|----------------|---|
| GAAP           | Generally accepted accounting practice                        |
| GB&M           | Global Banking and Markets, a global business                 |
| GDP            | Gross domestic product  |
| GLCM           | Global Liquidity and Cash Management                          |
| Global Markets | HSBC's capital markets services in Global Banking and Markets |
| GMB            | Group Management Board  |
| GPB            | Global Private Banking, a global business                     |
| GPSP           | Group Performance Share Plan                                  |
| Group          | HSBC Holdings together with its subsidiary undertakings       |
| GTRF           | Global Trade and Receivables Finance                          |

### H

|           |   |
|-----------|---|
| HKEx      | The Stock Exchange of Hong Kong Limited                                   |
| 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 | HSBC Bank plc   |

## Shareholder information

|                          |  |
|--------------------------|--|
| HSBC Bank Middle East    | HSBC Bank Middle East Limited  |
| HSBC Bank USA            | HSBC Bank USA, N.A., HSBC's retail bank in the US  |
| 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 Private Bank Suisse | HSBC Private Bank (Suisse) SA, HSBC's private bank in Switzerland                                  |
| HSBC USA                 | The sub-group, HSBC USA Inc and HSBC Bank USA, consolidated for liquidity purposes                 |
| HSI                      | HSBC Securities (USA) Inc.   |
| HSSL                     | HSBC Securities Services (Luxembourg)  |
| HTIE                     | HSBC Institutional Trust Services (Ireland) Limited  |
| HTM                      | Held to maturity   |

### I

|                 |   |
|-----------------|---|
| IAS             | International Accounting Standards              |
| IASB            | International Accounting Standards Board        |
| IFRSs           | International Financial Reporting Standards     |
| Investor Update | The Investor Update in June 2015                |
| IRB             | Internal ratings-based                          |
| ISDA            | International Swaps and Derivatives Association |

### L

|       |  |
|-------|--|
| LCR   | Liquidity coverage ratio                                 |
| LCRF  | Liquidity and funding risk management framework          |
| LGD   | Loss given default                                       |
| Libor | London interbank offered rate                            |
| LICs  | Loan impairment charges 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)                         |
| PRD     | Pearl River Delta (China)                                    |
| Premier | HSBC Premier, HSBC's premium personal global banking service |
| PVIF    | Present value of in-force long-term insurance business       |
| PwC     | PricewaterhouseCoopers LLP and its network of firms          |

### R

|              |   |
|--------------|---|
| RBWM         | Retail Banking and Wealth Management, a global business |
| Repo         | Sale and repurchase transaction                         |
| Reverse repo | Security purchased under commitments to sell            |
| RMBS         | Residential mortgage-backed securities                  |
| RNIV         | Risk not in VaR   |
| RoE          | Return on equity  |
| RoRWA        | Return on average risk-weighted assets                  |
| RoTE         | Return on tangible equity                               |
| RWAs         | Risk-weighted assets                                    |

### S

|              |  |
|--------------|--|
| SEC          | Securities and Exchange Commission (US)  |
| ServCo group | Separately incorporated group of service companies planned in response to UK ringfencing proposals |

### T

|   |  |
|---|--|
| The Hongkong and Shanghai Banking Corporation | The Hongkong and Shanghai Banking Corporation Limited, the founding member of HSBC |
|---|--|

### U

|                      |   |
|----------------------|---|
| UAE                  | United Arab Emirates  |
| UK                   | United Kingdom  |
| US                   | United States of America  |
| US run-off portfolio | Includes the run-off CML residential mortgage loan portfolio of HSBC Finance on an IFRSs management basis |

### V

|     |               |
|-----|---------------|
| VaR | Value at risk |
| VIU | Value in use  |

This document comprises the *Interim Report 2018* and information herein has been filed on Form 6-K with the US Securities and Exchange Commission for HSBC Holdings plc and its subsidiary and associated undertakings.

**HSBC Holdings PLC**

Incorporated in England with limited liability. Registered in England: number 617987

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## SIGNATURES

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

HSBC Holdings plc

By: /s/ Iain J Mackay

Name: Iain J Mackay

Title: Group Finance Director

Dated: 6 August 2018