HSBC HOLDINGS PLC
Form 6-K
August 06, 2018

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 X 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 X

(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.

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.

Our cover image
Guangzhou is one of China's largest and most dynamic cities. It is the capital of Guangdong Province and lies at the heart of China's Pearl River Delta (PRD), one of the country's fastest growing economic regions. The PRD in recent years has transformed from being the exporting factory floor of the world into a global leader in digital commerce and innovation. HSBC has had a presence in China for more than 150 years. China is an important part of the Group's strategy and we have branches across the PRD. In December 2017 HSBC Qianhai Securities Limited, the first joint venture securities company in mainland China to be majority-owned by a foreign bank, opened for business in the PRD.

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.

HSBC Holdings plc

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 121.

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.

Overview

Interim Management Report

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Additional Information

HSBC Holdings plc 1

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.

1a HSBC Holdings plc

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.

HSBC Holdings plc 1b

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

(1H17: $10.2bn)
$10.7bn
(1H17: $12.4bn)
$12.1bn

(1H17: $26.2bn)

$27.3bn
At 30 June 2018

(31 Dec 2017: $871bn)
$865bn
(31 Dec 2017: 14.5%)
14.2%
(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[1]

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[2]

#1
International bank in Asia[3]

$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’)	Commercial Banking (‘CMB’)	Global Banking and Markets (‘GB&M’)	Global Private Banking (‘GPB’)
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.	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.	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.	We help high net worth individuals and their families to grow, manage and preserve their wealth.
Adjusted profit before tax <>			
(1H17: $3.4bn)	(1H17: $3.6bn)	(1H17: $3.5bn)	(1H17: $0.1bn)
$3.6bn	$4.1bn	$3.6bn	$0.2bn
Adjusted risk-weighted assets <>			
(31 Dec 2017: $119.5bn)	(31 Dec 2017: $294.7bn)	(31 Dec 2017: $295.7bn)	(31 Dec 2017: $15.9bn)
$124.1bn	$315.1bn	$284.5bn	$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	Adjusted jaws <>	Dividends per ordinary share in respect of 1H18
9.7%	-5.6%	$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.

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.

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.

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

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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[2], gaining market share
Recognised by customers as leading international bank
International client revenue[4] <> (% of total)
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

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Geographical revenue mix[5] (%)
1H18 revenue: $27.3bn
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
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[6] – No. 1 international bank for Belt and Road Initiative – $100bn in sustainable financing and investment[7]
	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	– US return on tangible equity >6%
	5	Improve capital efficiency; redeploy capital into higher-return businesses	– 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	– Positive adjusted jaws, on an annual basis, each financial year
	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	– Improve customer satisfaction in eight scale markets[8]
Empower our people	8	Simplify the organisation and invest in future skills	–

Improved employee engagement

–

ESG rating: ‘Outperformer’[9]

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.

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

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

– 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 $m	30 Jun 2017 $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)
Operating profit	10,758	11,105	(347)		(3)
Share of profit in associates and joint ventures	1,381	1,259		122	10
Profit before tax	12,139	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 $m	30 Jun 2017 $m
Adjusted profit before tax	12,139	12,364
Currency translation		(289)
Significant items:	(1,427)	(1,832)
– costs of structural reform	(211)	(180)
– costs to achieve[10]	—	(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	(841)	322

regulatory matters[11]		
– currency translation on significant items	(108	)
Reported profit before tax	10,712	10,243

For footnotes, see page 47.

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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 GPB, 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.

	Half-year to			
Adjusted revenue <>	30 Jun 2018	30 Jun 2017	Variance	
	$m	$m	$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)
Total	27,535	26,957	578	2

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').

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

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%.

Adjusted
revenue
up
2.1%

Adjusted
jaws
-5.6 %

Adjusted
costs
up
7.7%

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.

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. <>

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. 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.

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

For footnotes, see page 47.

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.

- 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.

Management view of adjusted revenue <>	Half-year to			1H18 vs 1H17	
	30 Jun 2018 $m	30 Jun 2017 $m	31 Dec 2017 $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 [18]	1,031	816	899	215	26
Net operating income [15]	7,439	6,622	6,883	817	12
Adjusted RoRWA (%)[16]	2.7	2.5	2.3		

RoTE excluding significant items and UK bank levy (%)[17]	15.1	14.8	14.0

For footnotes, see page 47.

*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.

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.
- 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.

Management view of adjusted revenue <>	Half-year to			1H18 vs 1H17	
	30 Jun 2018 $m	30 Jun 2017 $m	31 Dec 2017 $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[19]	(44)	(98)	(170)	54	(55)
Other[20]	(11)	(52)	(34)	41	(79)
Net operating income[15]	8,265	8,192	7,386	73	1
Adjusted RoRWA (%)[16]	2.5	2.4	1.6		
RoTE excluding significant items and UK bank levy (%)[17]	12.3	12.5	10.6		

For footnotes, see page 47.

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.

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.

Management view of adjusted revenue <>	Half-year to			1H18 vs 1H17	
	30 Jun 2018	30 Jun 2017	31 Dec 2017		
	$m	$m	$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)
Net operating income[15]	929	874	866	55	6
Adjusted RoRWA (%)[16]	2.3	1.8	1.9		
RoTE excluding significant items and UK bank levy (%)[17]	11.2	6.5	7.1		

For footnotes, see page 47.

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 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%.

	Half-year to			1H18 vs 1H17	
Management view of adjusted revenue <>	30 Jun 2018	30 Jun 2017	31 Dec 2017	$m	%
	$m	$m	$m		
Central Treasury[21]	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[22]	(153)	74	(106)	(227)	>(100)
Net operating income[15]	(163)	986	323	(1,149)	>(100)

For footnotes, see page 47.

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
Externally driven		
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.
Internally driven		
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

Financial summary

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

		Half-year to		
		30 Jun 2018	30 Jun 2017	31 Dec 2017
	Footnotes	$m	$m	$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)
Total operating income		33,047	32,280	31,496
Net insurance claims and benefits paid and movement in liabilities to policyholders		(5,760)	(6,114)	(6,217)
Net operating income before change in expected credit losses and other credit impairment charges	15	27,287	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)
Net operating income		26,880	25,503	24,173
Total operating expenses		(17,549)	(16,443)	(18,441)
Operating profit		9,331	9,060	5,732
Share of profit in associates and joint ventures		1,381	1,183	1,192
Profit before tax		10,712	10,243	6,924
Tax expense		(2,296)	(2,195)	(3,093)
Profit for the period		8,416	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
Profit for the period		8,416	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

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

		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
	Footnotes	$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
Total interest-earning assets		1,839,603	23,422	2.57	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		
Total		2,650,708	26,197	1.99	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

	Half-year to								
	30 Jun 2018			30 Jun 2017			31 Dec 2017		
	Average	Interest	Cost	Average	Interest	Cost	Average	Interest	Cost

	Footnotes	balance $m	expense $m	%	balance $m	expense $m	%	balance $m	expense $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
Total interest-bearing liabilities		1,571,604	8,322	1.07	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		
Total		2,650,708	10,126	0.77	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 2018	30 Jun 2017	31 Dec 2017
	$m	$m	$m
Significant items	46	—	(111)
– customer redress programmes	46	—	(108)
– currency translation on significant items		—	(3)
Currency translation		(367)	(70)
Total	46	(367)	(181)

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.

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.

Net fee income

	Half-year to		
	30 Jun 2018	30 Jun 2017	31 Dec 2017
	$m	$m	$m
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
Fee income	8,469	7,906	7,947
Less: fee expense	(1,702)	(1,415)	(1,627)
Net fee income	6,767	6,491	6,320

Financial summary

Significant items and currency translation

	Half-year to		
	30 Jun 2018	30 Jun 2017	31 Dec 2017
	$m	$m	$m
Significant items	—	—	—
Currency translation		(214)	(54)
Total	—	(214)	(54)

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

		Half-year to		
		30 Jun 2018	30 Jun 2017	31 Dec 2017
	Footnotes	$m	$m	$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
Net income from financial instruments held for trading or managed on a fair value basis		4,883	4,232	4,194
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)
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	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
Net income from financial instruments measured at fair value through profit or loss		4,880	5,935	5,482

For footnote, see page 47.

Significant items and currency translation

	Half-year to		
	30 Jun 2018	30 Jun 2017	31 Dec 2017
	$m	$m	$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)
Total	(160)	(508)	(86)

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 2018	30 Jun 2017	31 Dec 2017
	$m	$m	$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)
Gains less losses from financial investments	124	691	459

Significant items and currency translation

	Half-year to		
	30 Jun 2018	30 Jun 2017	31 Dec 2017
	$m	$m	$m
Significant items	—	312	122
– disposals, acquisitions and investment in new businesses	—	312	122
– currency translation on significant items		—	—

Currency translation		(22)	(6)
Total	—	290	116

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	30 Jun	31 Dec
	2018	2017	2017
	$m	$m	$m
Gross insurance premium income	6,078	5,551	5,251
Reinsurance premiums	(302)	(740)	(283)
Net insurance premium income	5,776	4,811	4,968

Financial summary

Significant items and currency translation

	Half-year to		
	30 Jun 2018	30 Jun 2017	31 Dec 2017
	$m	$m	$m
Significant items	—	—	—
Currency translation		(126)	(30)
Total	—	(126)	(30)

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 2018	30 Jun 2017	31 Dec 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)
Other operating income/(expense)	359	526	(189)

Significant items and currency translation

	Half-year to		
	30 Jun 2018	30 Jun 2017	31 Dec 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)
Total	(134)	(38)	(251)

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 2018	30 Jun 2017	31 Dec 2017
	$m	$m	$m
Gross	5,879	6,795	6,413
Less reinsurers' share	(119)	(681)	(196)
Net total	5,760	6,114	6,217

Significant items and currency translation

	Half-year to		
	30 Jun 2018	30 Jun 2017	31 Dec 2017
	$m	$m	$m
Significant items	—	—	—
Currency translation		(169)	(27)
Total	—	(169)	(27)

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[35]

	Half-year to		
	30 Jun 2018	30 Jun 2017	31 Dec 2017
	$m	$m	$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)
Change in expected credit losses and other credit impairment charges/Loan impairment charges and other credit risk provisions	407	663	1,106

For footnotes, see page 47.

Significant items and currency translation

	Half-year to		
	30 Jun 2018	30 Jun 2017	31 Dec 2017
	$m	$m	$m
Significant items	—	—	—
Currency translation		6	(7)
Total	—	6	(7)

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.

Financial summary

Operating expenses

Operating expenses by category

	Half-year to		
	30 Jun 2018	30 Jun 2017	31 Dec 2017
	$m	$m	$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
Administrative expenses	16,603	15,580	17,442
Depreciation and impairment of property, plant and equipment	568	567	599
Amortisation and impairment of intangible assets	378	296	400
Operating expenses	17,549	16,443	18,441

Staff numbers (full-time equivalents)

	At		
	30 Jun 2018	30 Jun 2017	31 Dec 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
Total staff numbers	229,195	232,957	228,687

Significant items and currency translation

	Half-year to		
	30 Jun 2018	30 Jun 2017	31 Dec 2017
	$m	$m	$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)
Total	1,179	1,248	1,711

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 2018	30 Jun 2017	31 Dec 2017
	$m	$m	$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
Share of profit in associates and joint ventures	1,381	1,183	1,192

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 2018	30 Jun 2017	31 Dec 2017
	$m	$m	$m
Profit before tax	10,712	10,243	6,924
Tax expense	(2,296)	(2,195)	(3,093)
Profit after tax	8,416	8,048	3,831
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.

Financial summary

Summary consolidated balance sheet

	At 30 Jun 2018 $m	1 Jan 2018[36] $m	31 Dec 2017 $m
Assets			
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
Total assets	2,607,314	2,518,430	2,521,771
Liabilities and equity			
Liabilities			
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
Total liabilities	2,416,020	2,322,206	2,323,900
Equity			
Total shareholders' equity	183,607	188,644	190,250
Non-controlling interests	7,687	7,580	7,621
Total equity	191,294	196,224	197,871
Total liabilities and equity	2,607,314	2,518,430	2,521,771

For footnote, see page 47.

Selected financial information

	At 30 Jun 2018 $m	31 Dec 2017 $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
Financial statistics		
Loans and advances to customers as a percentage of customer accounts	71.8	70.6
Average total shareholders' equity to average total assets		