HSBC Bank plc

Additional Information 2014

Additional Information 2014

Presentation of Information

This document, which should be read in conjunction with the HSBC Bank plc Annual Report and Accounts 2014, contains certain additional information, including commentary on the group's results for 2013 compared to 2012 and certain statistical and other information not required to be included in the group's Annual Report and Accounts by either the UK Companies Act 2006 or by International Financial Reporting Standards.

In November 2012, the group sold HSBC Private Banking Holdings (Suisse) SA to HSBC Holdings plc, with the exception of HSBC Private Bank (UK) Limited which remains as part of the group. The 2012 results include 10 months of HSBC Private Banking Holdings (Suisse) SA prior to its sale.

With effect from 1 January 2013, the group's operating segments were revised to reflect internal changes made to the management structure. The revised segments are consistent with those reported to the bank's Executive Committee, the identified Chief Operating Decision Maker under IFRS 8. The 2012 segmental information comparatives have been adjusted to the new basis.

'Prior period information', business commentary is provided on a reported basis. To enable consistent comparison to the adjusted basis referenced in the HSBC Bank plc's Annual Report and Accounts 2014 a reconciliation between the reported and adjusted performance has been provided in the Appendix setting out comparative figures for each of the adjusting items reported for 2014.

'Prior period information' is reported as published in the HSBC Bank plc Annual Report and Account 2013 and does not reflect the new balance sheet representation of reverse repurchase agreements and repurchase agreement as applied by HSBC Bank plc from 1 January 2014. "Other information" for 2014 along with related comparatives is aligned to the 2014 reported balance sheet reflecting this revised presentation.

Contents

Prior period information

Financial highlights of the group 2013 and 2012

	2013	2012
For the year (£m)		
Profit on ordinary activities before tax [1]	3,294	1,004
Total operating income	15,868	15,407
Net operating income before loan impairment charges and other credit risk provisions	12,840	12,488
Profit attributable to shareholders of the parent company	2,495	2,384
At year-end (£m)		
Total equity attributable to shareholders of the parent company	32,370	31,675
Risk weighted assets	185,879	193,402
Loans and advances to customers (net of impairment allowances)	305,032	282,685
Customer accounts	390,017	324,886
Capital ratios (%)		
Core Tier 1 ratio	12.1	11.4
Tier 1 ratio	13.0	12.4
Total capital ratio	18.0	17.3
Performance ratios (%)		
Return on average invested capital (on underlying basis) [2]	8.4	6.2
Return on average invested capital (on reported basis)	7.9	3.2
Return on average shareholders' funds (equity) of the parent company [3]	7.9	3.5
Post-tax return on average total assets	0.3	0.1
Pre-tax return on average risk-weighted assets	1.7	0.5
Dividend payout ratio [4]	80.2	118.4
Credit coverage ratios (%)		
Loan impairment charges as a percentage of total operating income	6.1	8.1
Loan impairment charges as a percentage of average gross customer advances	0.4	0.5
Efficiency and revenue mix ratios (%)		
Cost efficiency ratio [5]	66.8	82.0
As a percentage of total operating income:		
- net interest income	43.9	44.8
- net fee income	21.0	24.5
- net trading income	15.0	11.9
Financial ratios (%)		
Ratio of customer advances to customer accounts	78.2	87.0
Average total shareholders' equity to average total assets	3.8	3.4

1 *Excludes 2012 gain on sale of £1,265 million of HSBC Private Banking Holdings (Suisse) SA to HSBC Holdings plc.*
2 *The return on average invested capital measures the return made in the business, enabling management to benchmark the group against competitors. This ratio is defined as profit attributable to shareholders of the bank divided by average invested capital. Average invested capital is measured as average total shareholders' equity after deducting the average of the group's:*
- *revaluation surplus relating to property held for own use. This reserve was generated when determining the deemed carrying cost of such properties on transition to IFRSs and will run down over time as the properties are sold;*
- *preference shares and other equity instruments issued by HSBC Bank plc (as defined in Note 32 'Called up share capital and other equity instruments'); and*
- *average reserves for unrealised gains/ (losses) on effective cash flow hedges and available-for-sale securities.*

3 *The return on average total shareholders' equity is defined as profit attributable to shareholders of the bank divided by the average total shareholders' equity.*
4 *Dividends per ordinary share expressed as a percentage of basic earnings per share. Dividends recorded in the financial statements are dividends per ordinary share declared in a year and are not dividends in respect of, or for, that year.*
5 *The cost efficiency ratio is defined as total operating expenses divided by net operating income before loan impairment charges and other credit risk provisions.*

The financial highlights are influenced by changes in the group structure over the two years.

Prior period information (continued)

Key Performance Indicators

The Board of Directors monitors the group's progress against its strategic objectives on a regular basis. Progress is assessed by comparison with the group strategy, operating plan targets and historical performance. Further information on the key performance indicators is given on page 11 of the *Annual Report and Accounts 2014*.

Financial KPIs

	2013	2012
	%	%
Risk adjusted revenue growth	5.6	(9.3)
Cost efficiency ratio	66.8	82.0
Pre-tax return on average risk-weighted assets ratio	1.7	0.5
Core tier 1 capital ratio	12.1	11.4

Financial summary

Summary consolidated income statement

	2013	2012 Continuing operations	2012
	£m	£m	£m
Net interest income	6,961	6,519	6,904
Net fee income	3,336	3,309	3,781
Trading income	2,373	1,587	1,834
Net income from financial instruments designated at fair value	900	118	118
Gains less losses from financial investments	100	335	336
Net earned insurance premiums	2,022	2,286	2,286
Other operating income	176	144	148
Total operating income	15,868	14,298	15,407
Net insurance claims incurred and movement in liabilities to policyholders	(3,028)	(2,919)	(2,919)
Net operating income before impairments and provisions	12,840	11,379	12,488
Loan impairment charges and other credit risk provisions	(971)	(1,246)	(1,245)
Net operating income	11,869	10,133	11,243
Total operating expenses[1]	(8,575)	(9,506)	(10,236)
Operating profit	3,294	627	1,007
Share of profit in associates and joint ventures	-	(3)	(3)
Profit before tax	3,294	624	1,004
Tax (expense)/ credit	(754)	220	156
Profit for the year before discontinued operations	2,540	844	1,160
Gain on sale of discontinued operations[2]	–	–	1,265
Profit for the year	2,540	844	2,425
Profit attributable to shareholders of the parent company	2,495	803	2,384
Profit attributable to non-controlling interests	45	41	41

1 *Total operating expenses include notable items as detailed on page 7.*

2 *On the sale of HSBC Private Banking Holdings (Suisse) SA, the associated foreign exchange revaluation reserve of £1,258 million was recycled through the income statement, together with a gain on disposal of £7 million.*

Prior period information (continued)

Review of business performance

The following commentaries reflect reported performance including significant items excluded from the "adjusted performance" measures as described further on pages 18 and 19 of the bank's *Annual Report and Accounts 2014*. The appendix provides a reconciliation of reported to adjusted comparatives for each of the adjusting items reported for 2014 profit before tax, revenue and operating expenses for the group, and each business (on a total as well as a continuing basis).

For comparison, adjusted profit before tax would have been £4,210 million and £3,562 million for 2013 and 2012 respectively as compared to reported profit before tax of £3,294 million and £1,004 million for 2013 and 2012 respectively.

2013 compared with 2012

HSBC Bank plc and its subsidiary undertakings reported profit before tax of £3,294 million, £2,290 million or 228 per cent higher than 2012.

On a continuing operations basis, adjusting the 2012 results to exclude the contribution made by HSBC Private Banking Holdings (Suisse) SA, profit before tax increased by £2,670 million or 428 per cent compared with 2012. This was primarily due to lower adverse fair value movements on own debt attributable to credit spreads of £167 million (£1,055 million in 2012) and significantly lower operating expenses from a decrease in charges relating to UK customer redress programmes, an accounting gain of £280 million relating to changes in delivering ill-health benefits to certain employees in the UK and sustainable cost savings in 2013.

Progress continues to be made in aligning the in-country businesses to the respective global business operating models. This is designed to reduce complexity and lower costs in a sustainable way. Total restructuring costs of £96 million were incurred as a result of streamlining the businesses and other initiatives which delivered sustainable cost savings of approximately £370 million.

RBWM continued to make progress in delivering against its strategy. In addition, the business implemented the Global Wealth Incentive Plan to better align customer and business interests. In Turkey, unsecured lending continued to grow, notably in personal lending and cards, while in France there was strong growth in both mortgage and deposit balances.

CMB repositioned its Business Banking segment towards international and internationally aspirant customers, while streamlining and re-engineering core processes to deliver efficiencies, which supported continued investment in corporate banking and Global Trade and Receivables Finance. Following the success of the 2012 International SME Fund, the business launched a further fund in the UK in 2013 and similar SME funds in France and Turkey targeted at international trade customers.

In GB&M, debt capital markets activity in the Credit and Capital Financing businesses was successful in capturing growth in issuance demand which has resulted in leading market positions and an increase in sterling markets share. The business was ranked first by Bloomberg for primary debt capital market issuances in 2013. In France, the business acted as joint book runner of a £5.17 billion hybrid bond for a premier corporate client, demonstrating HSBC's ability to deliver large and complex transactions, connecting customers to opportunities.

GPB continued to reposition its business model and target its client base to focus on selected priority markets. In November 2013 the legal ownership of HSBC's Channel Islands Private Banking group was transferred to HSBC Private Bank (UK) Limited from HSBC Private Banking Holdings (Suisse) SA.

The business continued to implement Global Standards and reposition itself through the adoption of new compliance and tax transparency standards.

Items which are significant in a comparison of 2013's results to 2012 have been summarised on page 7. The following commentary is on a continuing operations basis.

Net interest income increased by £442 million or 7 per cent. The income increase in RBWM was from growth in lending balances and margins, notably residential mortgages in the UK and, to a lesser extent, home loans in France. In GB&M, Balance Sheet Management net interest income was higher largely due to interest rate management and net deployment of funds at enhanced levels during the year. In addition, net interest income rose from higher lending spreads in Capital Financing and lower interest paid resulting from legacy portfolio maturities. In CMB, net interest income was also higher, primarily in the UK, from growth in term lending revenues from higher spreads on new and renewed business resulting in increased portfolio margins overall as well as deposit growth in Payments and Cash Management.

Net fee income increased by £27 million or 1 per cent. In CMB the growth in fee income reflected a rise in lending fees in the UK and Germany. In GB&M, net fee income decreased primarily due to higher fees paid to HSBC entities in other regions relating to increased foreign exchange trading activities undertaken for their clients. This was partly offset by increased issuance demand in debt capital markets and event-driven fee income in equity underwriting from increased deal volumes. In RBWM the growth in credit card revenue in Turkey was more than offset by a higher level of fees payable under partnership arrangements and lower creditor insurance fees in the UK.

Trading income increased by £786 million or 50 per cent. Of this increase £344 million was due to lower adverse foreign exchange movements on trading assets held as economic hedges against issued foreign currency debt designated at fair value, compared to 2012. These offset lower favourable foreign exchange movements on the foreign currency debt reported in *"Net (expenses) income from financial instruments designated at fair value"*.

In Markets, revenues were higher than 2012 which included a charge of £387 million as a result of a change in estimation methodology in respect of credit valuation adjustments on derivative assets. This was partially offset by lower favourable debit valuation adjustments from the change in estimation methodology in 2012 for

Prior period information (continued)

derivative liabilities of £45 million compared to £191 million in 2012.

Foreign exchange income benefited from increased client activity in part offset by margin compression and reduced market volatility in the second half of 2013. Equities benefited from increased deal volumes and revaluations gains. Rates revenue decreased, despite new client mandates and improved market share, particularly in European government bonds, as 2012 benefited from tightening spreads following the ECB liquidity intervention. In addition, revenue was also favourable from lower adverse fair value movements from own credit spreads on structured liabilities.

Net income from financial instruments designated at fair value increased by £782 million compared to 2012. This included favourable credit spread-related movements in the fair value of the group's own long-term debt of £888 million as adverse fair value movements were less extensive in 2013 compared to 2012. In addition, net income arising from financial assets held to meet liabilities under insurance and investment contracts increased reflecting higher net investment returns in 2013 than in 2012. These returns reflected favourable equity market movements in the UK and France.

Investment gains or losses arising from equity markets result in a corresponding movement in liabilities to customers, reflecting the extent to which unit-linked policyholders, in particular, participate in the investment performance of the associated asset portfolio. Where these relate to assets held to back insurance contracts or investment contracts with discretionary participation features ('DPFs'), the corresponding movement in liabilities to customers is recorded under '*Net insurance claims incurred and movement in liabilities to policyholders'*.

Other changes in fair value reflected lower favourable foreign exchange movements of £344 million in 2013 compared to 2012 on foreign currency debt designated at fair value and issued as part of our overall funding strategy (offset from assets held as economic hedges in '*Trading income'*), and higher adverse movements due to hedging ineffectiveness in 2013.

Gains less losses from financial investments were £235 million or 70 per cent lower than in 2012. Net gains on the disposal of debt securities fell as 2012 included significant gains on the sale of available-for-sale government debt securities, notably in the UK, arising from the structural interest rate risk management of the balance sheet.

Net earned insurance premiums decreased by £264 million or 12 per cent. This was mainly as a result of lower sales of investment contracts with DPFs in France. In addition, 2012 benefited from a number of large sales through independent financial adviser channels which are now in run off.

Other operating income was broadly in line with the prior year.

Net insurance claims incurred and movement in liabilities to policyholders increased by £109 million or 4 per cent. This reflected higher investment returns on the assets held to support policyholder contracts where the policyholder bears investment risk from favourable equity market movements in the UK and France. This was partly offset by a decrease in new business written, notably in France, as explained under '*Net earned insurance premiums'*.

Loan impairment charges and other credit risk provisions decreased by £275 million or 22 per cent. In the UK, GB&M reported net releases of credit risk provisions on available-for-sale asset backed securities, compared with impairment charges in 2012, offset in part by higher individually assessed provisions. In addition, there were lower loan impairment charges in CMB due to lower collectively and individually assessed provisions and in RBWM due to lower collectively assessed provisions reflecting recoveries from debt sales. In other European countries, lower individually assessed impairment provisions for CMB in Greece, were partly offset by increases in Turkey, where there was growth in unsecured lending in RBWM, and in the Spanish GB&M and CMB businesses as challenging economic conditions continued to affect the market.

Total operating expenses decreased by £931 million or 10 per cent, primarily due to lower customer redress provisions and a reduction of restructuring costs of £71 million.

These included:

- a charge for additional estimated redress for possible mis-selling in previous years of payment protection insurance ('PPI') policies of £483 million (£938 million in 2012);
- £166 million in respect of interest rate protection products (£375 million in 2012); and
- £96 million in respect of wealth management products.

In addition litigation-related expenses increased primarily due to Madoff litigation costs in GB&M following settlements reached in Ireland.

Following a consultation process on several employee benefit proposals, the group announced to UK employees that the future service accrual for defined benefit pension members would cease from 1 July 2015. As part of these amendments, the group is changing the basis of delivering ill-health benefits to certain employees, resulting in the recognition of an accounting gain of £280 million. This gain together with lower performance costs in GB&M reduced the level of staff costs compared to 2012.

During 2013 the group maintained its strict cost control discipline and benefited from the delivery of the organisational effectiveness programmes. The number of employees, expressed in fulltime equivalent numbers at the end of 2013 was 3 per cent lower compared to 2012.

Tax expense totalled £754 million in 2013, compared to tax income of £156 million (on a reported basis) in 2012. The effective tax rate for 2013 was 22.9 per cent, compared to a credit of 6.9 per cent (on a reported basis) in 2012. The effective tax rate in 2012 was lower primarily due to a non-taxable intragroup disposal of HSBC Private Banking Holdings (Suisse) SA and losses claimed from HSBC Holdings plc for nil consideration.

Prior period information (continued)

Review of business position

Summary consolidated balance sheet

	2013	2012
	£m	£m
Total assets	811,695	815,481
Cash and balances at central banks	67,584	51,613
Trading assets	134,097	161,516
- reverse repos	5,607	35,951
- other trading assets	128,490	125,565
Financial assets designated at fair value	16,661	15,387
Derivative assets	137,239	177,808
Loans and advances to banks	53,228	32,286
- reverse repos	30,023	13,798
- loans and other receivables	23,205	18,488
Loans and advances to customers	305,032	282,685
- reverse repos	29,091	16,890
- loans and other receivables	275,941	265,795
Financial investments	75,030	71,265
Other	22,824	22,921
Total liabilities	778,776	783,281
Deposits by banks	50,683	39,571
- repos	20,863	6,357
- cash deposits and other accounts	29,820	33,214
Customer accounts	390,017	324,886
- repos	38,039	12,207
- cash deposits and other accounts	351,978	312,679
Trading liabilities	91,842	122,896
- repos	9,426	40,742
- other	82,416	82,154
Financial liabilities designated at fair value	34,036	32,918
Derivative liabilities	137,352	181,095
Debt securities in issue	32,895	40,358
Liabilities under insurance contracts issued	19,228	17,913
Other	22,723	23,644
Total equity	32,919	32,200
Total shareholders' equity	32,370	31,675
Non-controlling interests	549	525

Prior period information (continued)

Movements in 2013

Total assets were £812 billion, in line with prior year.

The group maintained a strong and liquid balance sheet with the ratio of customer advances to customer accounts at 78.2 per cent (2012: 87.0 per cent).

The group's core tier 1 ratio stood at 12.1 per cent (2012: 11.4 per cent).

In 2013, GB&M changed the way it manages repo and reverse repo activities in the Credit and Rates businesses which were previously being managed in a trading environment. During the year, the repo and reverse repo business activities were organised into trading and non-trading portfolios, with separate risk management procedures. This resulted in an increase in the amount of reverse repos classified as *'Loans and advances to customers'* and *'Loans and advances to banks*', and a decline in the amount classified as *'Trading assets'* by 31 December 2013, compared to previous period-ends. Similarly, by 31 December 2013 there was an increase in the amount of repos classified as *'Customer accounts'* and *'Deposits by banks'*, with a decline in the amount classified as *'Trading liabilities'*, compared to previous period-ends. The increase in amortised cost balances and the decrease in trading balances primarily occurred in the UK.

Assets

Cash and balances at central banks rose by 31 per cent as a greater portion of the surplus liquidity was placed with central banks, reflecting growth in deposits in excess of lending opportunities.

Trading assets decreased by 17 per cent. Excluding the change in GB&M's management approach, trading assets were broadly in line with December 2012 levels.

Financial assets designated at fair value increased by 8 per cent due to favourable market movements in insurance operations and the investment of premium income received during the year in the insurance businesses.

Derivative assets decreased by 23 per cent. Upward movements in yield curves in major currencies led to a decline in the fair value of interest rate contracts, although this was partly offset by a reduction in netting.

Loans and advances to banks increased by 65 per cent predominantly due to GB&M's change in the management approach for reverse repos. Excluding this, there was a £5 billion increase driven by higher placements with financial institutions.

Loans and advances to customers increased by 8 per cent, including a £12 billion increase in reverse repo balances. Excluding these, customer lending balances grew by £10 billion as the group continued to grow its mortgage and home loan portfolios in the UK and France, reflecting the banks competitive offering. In addition, there was an increase in corporate overdraft balances that did not meet the criteria for netting.

Financial investments increased by 5 per cent as part of the group's redeployment of liquidity, mainly into UK government debt securities.

Liabilities

Deposits by banks increased by 28 per cent. Excluding the increase in repo balances there was a fall in balances mainly due to redemptions.

Customer accounts increased by 20 per cent of which 8 per cent related to the change in GB&M's management approach to repo funding. Excluding this impact, customer accounts increased by £39 billion as in the UK RBWM customers' continued to have a preference for holding higher balances in readily accessible current and savings accounts. In addition there was higher Payments and Cash Management business in GB&M and CMB. Current accounts also grew in GB&M due to higher balances that did not meet the netting criteria.

Trading liabilities decreased by 25 per cent, again largely due to the change in the management approach for repo trade activities.

The derivative businesses are managed within market risk limits and, as a consequence, the decrease in the value of '*Derivative liabilities'* broadly matched that of *'Derivative assets'.*

Debt securities in issue fell by 18 per cent. This was due to net redemptions of debt securities in issue.

Liabilities under insurance contracts increased by 7 per cent. The increase was mainly driven by liabilities to policyholders established for new business together with the impact of an increase in equity markets of unit-linked insurance contracts.

Equity

Total shareholders' equity rose by 2 per cent.

Prior period information (continued)

Performance and Business Review

Profit on ordinary activities before tax

	2013 £m	2012 Continuing operations £m	2012 Total £m
Retail Banking and Wealth Management	**1,177**	411	411
Commercial Banking	**1,333**	766	766
Global Banking and Markets	**1,023**	642	642
Global Private Banking	**140**	100	480
Other/Intersegment	**(379)**	(1,295)	(1,295)
	3,294	624	1,004

Notable items by business segment

The following items are significant in a comparison of 2013's results against 2012:

	Retail Banking and Wealth Management £m	Commercial Banking £m	Global Banking and Markets £m	Global Private Banking £m	Other £m	Total £m
2013						
UK customer redress programmes	**610**	**91**	**84**	**2**	**–**	**787**
Restructuring and other related costs	**41**	**18**	**6**	**1**	**30**	**96**
Operational losses	**–**	**(10)**	**–**	**–**	**–**	**(10)**
Gain in change of delivering ill-health benefit	**(123)**	**(104)**	**(53)**	**–**	**–**	**(280)**
2012 (continuing operations)						
UK customer redress programmes	982	162	207	–	–	1,351
Restructuring and other related costs	47	22	36	5	57	167
Operational losses	–	65	–	–	–	65
Other provisions	–	–	–	–	84	84

HSBC Bank plc and its subsidiaries reported a profit before tax of £3,294 million, £2,290 million or 228 per cent higher than 2012. On a continuing operations basis profit before tax was £2,670 million or 328 per cent higher than 2012.

On a continuing operations basis all business segments reported significantly higher profits in 2013, with RBWM, CMB and GB&M all reporting profits in excess of £1 billion.

GPB reported lower levels of reported profit than 2012. This reflected the sale of HSBC Private Banking Holdings (Suisse) SA in November 2012.

Retail Banking and Wealth Management

	2013 £m	2012 £m
Net interest income	**3,569**	3,394
Net fee income	**1,502**	1,532
Trading income	**147**	32
Other income	**(147)**	(52)
Net operating income before impairments and provisions	**5,071**	4,906
Loan impairment charges and other credit risk provisions	**(223)**	(248)
Net operating income	**4,848**	4,658
Total operating expenses	**(3,673)**	(4,248)
Operating profit	**1,175**	410
Share of profit in associates and joint ventures	**2**	1
Profit before tax	**1,177**	411

Profit before tax – by country

	2013 £m	2012 £m
United Kingdom	**995**	309
France	**182**	85
Germany	**19**	18
Turkey	**(47)**	(20)
Malta	**22**	25
Other	**6**	(6)
Profit before tax	**1,177**	411

Overview

RBWM reported a profit before tax of £1,177 million, £766 million or 186 per cent higher than 2012. This was primarily due to a decrease in operating expenses resulting from lower provisions of £372 million relating to customer redress programmes, an accounting gain on changes to staff benefits of £123 million and growth in revenues.

RBWM continued to fulfil the hopes and ambitions of customers by supporting the UK housing market, approving £14.4 billion of new mortgage lending to over 135,000 customers during 2013. This included £3.8 billion to over 30,000 first time buyers. The loan to value ratio on new lending was 59.5 per cent compared with the ratio of the average mortgage portfolio 48.3 per cent. In France, the business increased the market share in home loans confirming the ability to grow the mortgage business in a highly competitive market. In Turkey, unsecured lending continued to grow notably in

Prior period information (continued)

the credit card business through new product features and channel capabilities including mobile banking.

In addition, the business implemented the Global Wealth Incentive Plan to better align customer and business interests.

Financial performance

Net interest income increased by £175 million or 5 per cent, primarily due to higher lending balances and margins, principally in residential mortgages in the UK and home loans in France, with the UK also experiencing growth in customer accounts. This was partially offset by deposit spread compression in 2013.

Net fee income decreased by £30 million or 2 per cent predominantly in the UK due to a higher level of fees payable under partnership arrangements and lower creditor insurance fees. This was partially offset by growth in card revenue in Turkey from business expansion.

Trading income increased by £115 million, mainly due to favourable fair value adjustments on non-qualifying hedges on the French home loans portfolio, as long-term interest rates rose. In addition, there were favourable market movements on derivatives used as economic hedges in the insurance business in France.

Other income decreased by £95 million. Lower levels of net earned premiums and higher levels of claims on credit protection and term-lending policies more than offset the increase in net income from financial assets designated at fair value. In addition, the offset of the net trading gain on economic hedges noted in *'Trading income'* also contributed to lower *'Other income'*.

Loan impairment charges and other credit risk provisions decreased by £25 million or 10 per cent. A fall in loan impairment charges in the UK as a result of improved delinquency rates and recoveries of previously written off debt were in part offset by an increase in Turkey, reflecting growth in credit card volumes.

Total operating expenses decreased by £575 million or 14 per cent. Excluding the £123 million accounting gain relating to the change of ill-health benefits in 2013 and customer redress provisions of £610 million compared to £982 million in 2012, operating expenses were 2 per cent lower. This reflected the benefits being delivered through re-engineering and streamlining of business processes and were achieved despite the additional cost incurred in respect of new regulation and implementation of the Group's Global Standards. The customer redress provision related primarily to the possible mis-selling of PPI policies and wealth management products.

Adjusted performance

For comparison:

- adjusted profit before tax would have been £1,672 million and £1,442 million for 2013 and 2012, respectively;
- adjusted revenue would have been £5,038 million and £4,908 million for 2013 and 2012, respectively; and
- adjusted operating expenses would have been £3,145 million and £3,219 million for 2013 and 2012, respectively.

Please refer to the appendix for a reconciliation of reported to adjusted figures.

Commercial Banking

	2013 £m	2012 £m
Net interest income	**2,144**	2,037
Net fee income	**1,143**	1,047
Trading income	**23**	26
Other income	**60**	70
Net operating income before impairments and provisions	**3,370**	3,180
Loan impairment charges and other credit risk provisions	**(601)**	(699)
Net operating income	**2,769**	2,481
Total operating expenses	**(1,437)**	(1,715)
Operating profit	**1,332**	766
Share of profit in associates and joint ventures	**1**	–
Profit before tax	**1,333**	766

Profit before tax – by country

	2013 £m	2012 £m
United Kingdom	**1,075**	529
France	**163**	128
Germany	**45**	41
Turkey	**24**	45
Malta	**33**	33
Other	**(7)**	(10)
Profit before tax	**1,333**	766

Overview

CMB reported a profit before tax of £1,333 million, £567 million or 74 per cent higher than 2012. Overall revenues rose by 6 per cent primarily due to growth term lending in the UK and higher fee income earned in both the UK and Germany.

CMB continued to help businesses thrive and prosper by further repositioning its Business Banking segment towards international and internationally aspirant customers. The streamlining and re-engineering of core processes delivered efficiencies in a number of areas and supported continued investment in corporate banking and Global Trade and Receivables Finance.

Following the success of the 2012 International SME fund the business launched a further fund in 2013, continuing to support UK businesses that trade or aspire to trade internationally with approved lending of £4.8 billion. This included the renewal of overdraft and other lending facilities. Similarly, the business launched SME funds in France and Turkey, targeted at international trade customers, with approved lending of £1.3 billion in France and £303 million in Turkey.

In addition, the business continued to support the programme of renminbi internationalisation during the year with flagship client events taking place in the UK, France and Germany.

Prior period information (continued)

Financial Performance

Net interest income increased by £107 million or 5 per cent mainly in the UK due to growth in term lending revenues from higher spreads on new and renewal business and deposit growth in Payments and Cash Management.

Net fee income increased by £96 million or 9 per cent, due to an increase in lending fees in the UK and higher fee income from credit and lending business in Germany.

Loan impairment charges and other credit risk provisions decreased by £98 million or 14 per cent primarily due to lower individually and collectively assessed provisions in the UK and Greece. There were higher levels of individually assessed provisions in Spain.

Total operating expenses decreased by £278 million or 16 per cent compared to 2012. Excluding the £104 million accounting gain relating to the change of ill-health benefits in 2013 and customer redress and operational loss provisions of £81 million compared to £227 million in 2012, operating expenses were 2 per cent lower. This reflected the benefits being delivered through re-engineering and streamlining of business processes. The customer redress and operational losses related to the possible mis-selling of interest rate protection products and closed account balances of dissolved companies respectively.

Adjusted performance

For comparison:

- adjusted profit before tax would have been £1,328 million and £1,015 million for 2013 and 2012, respectively;
- adjusted revenue would have been £3,370 million and £3,180 million for 2013 and 2012, respectively; and
- adjusted operating expenses would have been £1,442 million and £1,466 million for 2013 and 2012, respectively.

Please refer to the appendix for a reconciliation of reported to adjusted figures.

Global Banking and Markets

	2013 £m	2012 £m
Net interest income[1]	**1,101**	876
Net fee income	**588**	616
Trading income[1]	**2,192**	1,554
Other income	**400**	973
Net operating income before impairments and provisions	**4,281**	4,019
Loan impairment charges and other credit risk provisions	**(133)**	(280)
Net operating income	**4,148**	3,739
Total operating expenses	**(3,122)**	(3,093)
Operating profit	**1,026**	646
Share of profit in associates and joint ventures	**(3)**	(4)
Profit before tax	**1,023**	642

1 *The bank's Balance Sheet Management business, reported within GB&M, provides funding to the trading businesses. To report GB&M Trading income on a fully funded basis, Net interest income and Trading income are grossed up to reflect internal funding transactions prior to their elimination in the Inter Segment column (refer to Note 13).*

Profit before tax – by country

	2013 £m	2012 £m
United Kingdom	**667**	(55)
France	**227**	326
Germany	**115**	178
Turkey	**70**	66
Malta	**22**	20
Other	**(78)**	107
Profit before tax	**1,023**	642

Overview

GB&M reported a profit before tax of £1,023 million in the period compared with a profit before tax of £642 million in 2012, an increase of £381 million or 59 per cent.

Overall, revenues rose by 7 per cent, primarily due to higher revenues in Capital Financing. These movements were partially offset by lower revenues in Rates and lower disposal gains on available-for-sale debt securities in Balance Sheet Management.

Financial performance

Net interest income increased by £225 million or 26 per cent compared to 2012, mainly in Balance Sheet Management largely due to interest rate management and net deployment of funds at enhanced levels during the year. In addition, net interest income was higher due to higher lending margins in Capital Financing and lower levels of interest paid on a reduced legacy portfolio.

Net fee income decreased by £28 million or 5 per cent compared to 2012 primarily due to higher levels of fees paid to other HSBC entities in respect to higher volumes of foreign exchange trading activities in other geographical regions. This was partly offset by higher fees earned on increased customer demand in debt capital markets and increase deal volumes in the equity underwriting businesses.

Trading income was £638 million or 41 per cent higher than 2012, of which £344 million was due to foreign exchange movements on trading assets held as economic hedges of foreign debt designated at fair value. A corresponding offset is reported within *"Other Income"*.

In Markets, revenues were higher than 2012 which included a charge of £387 million as a result of a change in estimation methodology in respect of credit valuation adjustments on derivative assets to reflect evolving market practices. This was partially offset by lower favourable debit valuation adjustments on derivative liabilities of £45 million in 2013 (2012: £191 million) also reflecting a refinement in estimation methodology in 2012.

Foreign exchange income benefited from higher client activity and volumes, although this rise was offset in part by margin compression. Equities benefited from increased deal volumes and revaluations gains. Rates revenue decreased despite new mandates and improved market share, particularly in European government bonds as the benefits from tightening spreads following the ECB liquidity intervention in 2012 were not repeated. In addition, revenues benefited from lower adverse fair value movements from own credit spreads on structured liabilities.

Prior period information (continued)

Other income decreased by £573 million or 59 per cent primarily reflecting £344 million lower favourable foreign exchange movements on debt designated at fair value offset in *'Trading income'* above. In addition lower gains on the disposal of available-for sale debt securities in Balance Sheet Management contributed to the decrease.

Loan impairment charges and other credit risk provisions decreased by £147 million or 53 per cent, primarily due to lower net impairments on available-for-sale asset-backed securities. This resulted from an improvement in underlying asset prices; partly offset by higher loan impairment charges in the UK and Spain.

Total operating expenses were in line with 2012 increasing by £29 million. Excluding the £53 million accounting gain relating to the change of ill-health benefits recognised in 2013, provisions of £84 million compared to £207 million in 2012 in relation to the possible mis-selling of interest rate protection products and a decrease in restructuring costs of £30 million, operating expenses were 8 per cent higher. This reflected higher litigation costs relating to the agreed settlements reached in respect to Madoff related claims in Ireland.

Adjusted performance

For comparison,

- adjusted profit before tax would have been £1,249 million and £694 million for 2013 and 2012, respectively;
- adjusted revenue would have been £4,277 million and £3,828 million for 2013 and 2012, respectively; and
- adjusted operating expenses would have been £2,892 million and £2,850 million for 2013 and 2012, respectively.

Please refer to the appendix for a reconciliation of reported to adjusted figures.

Global Private Banking

	2013	2012 Continuing operations	2012[1] Total
	£m	£m	£m
Net interest income	**224**	212	597
Net fee income	**100**	111	583
Trading income	**10**	7	254
Other income	**(4)**	3	8
Net operating income before impairments and provisions	**330**	333	1,442
Loan impairment charges and other credit risk provisions	**(14)**	(19)	(18)
Net operating income	**316**	314	1,424
Total operating expenses	**(176)**	(213)	(943)
Operating profit	**140**	101	481
Share of profit in associates and joint ventures	**–**	(1)	(1)
Profit before tax	**140**	100	480

Profit before tax – by country

	2013	2012 Continuing operations	2012[1] Total
	£m	£m	£m
United Kingdom	**99**	87	134
France	**13**	(7)	(7)
Germany	**28**	25	25
Turkey	**–**	–	–
Malta	**–**	–	–
Other	**–**	(5)	328
Profit before tax	**140**	100	480

1 *The reported results for 2012 include only 10 months of HSBC Private Banking Holdings (Suisse) SA, prior to its sale.*

Overview

GPB reported profit before tax of £140 million in 2013 compared to £480 million in 2012, a decrease of 71 per cent.

On a continuing operations basis, GPB reported a profit before tax of £140 million in 2013 compared with £100 million in 2012, an increase of 40 per cent.

Financial performance

The commentary that follows is on a continuing operations basis.

Net interest income was £12 million or 6 per cent higher, due to improved margins in the UK and additional net interest income as a result of the acquisition of HSBC Private Banking (C.I.) Limited in November 2013.

Net fee income was £11 million or 10 per cent lower primarily due to the non-recurrence of fee income following the disposal of Property Vision in 2012, and lower client demand.

Trading income was broadly in line with prior year.

Other income decreased by £7 million in part due to lower net premium income in France.

Total operating expenses decreased by £37 million or 17 per cent compared to 2012. This was due to lower staff costs reflecting a reduction in staff numbers and related costs, reduced performance costs and the recovery of losses arising on a 2001 litigation in France.

Adjusted performance

For comparison:

- adjusted profit before tax would have been £143 million and £510 million for 2013 and 2012, respectively;
- adjusted profit before tax on a continuing basis would have been £143 million and £105 million for 2013 and 2012, respectively;
- adjusted revenue would have been £330 million and £1,442 million for 2013 and 2012, respectively; and
- adjusted operating expenses would have been £173 million and £913 million for 2013 and 2012, respectively.

Please refer to the appendix for a reconciliation of reported to adjusted figures.

Prior period information (continued)

Other

	2013 £m	2012 £m
Net interest income	**(73)**	(43)
Net fee income	**3**	3
Trading income	**(22)**	(9)
Change in credit spread on long-term debt	**(167)**	(1,055)
Other income	**102**	118
Net operating income before impairments and provisions	**(157)**	(986)
Loan impairment charges and other credit risk provisions	**–**	–
Net operating expense	**(157)**	(986)
Total operating expenses	**(222)**	(310)
Operating loss	**(379)**	(1,296)
Share of profit in associates and joint ventures	**–**	1
Loss profit before tax	**(379)**	(1,295)

'Other contains the movements in fair value of own debt, financing operations, central support and functional costs with associated recoveries.

The reported loss before tax in 'Other' was £379 million, compared to a loss before tax of £1,295 million in 2012. This was primarily due to the change in own credit spreads on long-term debt which resulted in a loss of £167 million in 2013 compared with a loss of £1,055 million in 2012.

Adjusted performance

For comparison,

- adjusted loss before tax would have been £182 million and £99 million for 2013 and 2012, respectively;
- adjusted revenue would have been £10 million and £69 million for 2013 and 2012, respectively; and
- adjusted operating expenses would have been £192 million and £169 million for 2013 and 2012, respectively.

Please refer to the appendix for a reconciliation of reported to adjusted figures.

Other information

Average balance sheet and net interest income

Average balances are based on daily averages of the group's banking activities with monthly or less frequent averages used elsewhere. Net interest margin numbers are calculated by dividing net interest income as reported in the income statement by the average interest-earning assets from which interest income is reported within the *'Net interest income'* line of the income statement. Interest income and interest expense arising from trading assets and liabilities and the funding thereof is included within *'Net trading income'* in the income statement.

Assets

	2014			2013			2012		
Summary	**Average balance £m**	**Interest income £m**	**Yield %**	Average balance £m	Interest income £m	Yield %	Average balance £m	Interest income £m	Yield %
Interest-earning assets measured at amortised cost (itemised below)	**426,150**	**9,249**	**2.17%**	405,671	10,000	2.47%	465,594	10,674	2.29%
Trading assets and financial assets designated at fair value	**92,827**	**1,725**	**1.86%**	133,406	2,122	1.59%	134,841	2,463	1.83%
Impairment provisions	**(3,042)**	**–**	**–**	(3,499)	–	–	(3,488)	–	–
Non-interest-earning assets	**264,712**	**–**	**–**	283,677	–	–	341,851	–	–
Total assets and interest income	**780,647**	**10,974**	**1.41%**	819,255	12,122	1.48%	938,798	13,137	1.40%
Short-term funds and loans and advances to banks									
HSBC Bank	**58,080**	**550**	**0.95%**	56,311	536	0.95%	64,103	609	0.95%
HSBC France	**4,526**	**40**	**0.88%**	6,557	60	0.92%	8,169	74	0.91%
HSBC Private Bank Holdings	**–**	**–**	**–**	–	–	–	3,925	26	0.66%
Other	**5,242**	**65**	**1.24%**	2,957	45	1.52%	15,805	103	0.65%
	67,848	**655**	**0.97%**	65,825	641	0.97%	92,002	812	0.88%
Loans and advances to customers									
HSBC Bank	**155,288**	**4,876**	**3.14%**	155,915	5,271	3.38%	152,616	5,242	3.43%
HSBC France	**28,060**	**843**	**3.00%**	28,679	1,060	3.70%	27,860	1,042	3.74%
HSBC Private Bank Holdings	–	–	–	–	–	–	18,299	374	2.04%
Other	**38,834**	**1,531**	**3.94%**	37,998	1,652	4.35%	54,646	1,519	2.78%
	222,182	**7,250**	**3.26%**	222,592	7,983	3.59%	253,421	8,177	3.23%
Reverse repurchase agreements									
HSBC Bank	**40,910**	**146**	**0.36%**	17,290	58	0.34%	7,626	26	0.34%
HSBC France	**19,397**	**37**	**0.19%**	27,784	30	0.11%	27,214	78	0.29%
Other	**1,390**	**127**	**9.14%**	705	14	1.99%	339	20	5.90%
	61,697	**310**	**0.50%**	45,779	102	0.22%	35,179	124	0.35%
Financial investments									
HSBC Bank	**38,122**	**414**	**1.09%**	33,443	415	1.24%	33,990	498	1.47%
HSBC France	**8,006**	**69**	**0.86%**	7,623	32	0.42%	6,934	82	1.18%
HSBC Private Bank Holdings	**–**	**–**	**–**	–	–	–	14,098	204	1.45%
HSBC Assurance Vie	**10,567**	**389**	**3.68%**	10,737	402	3.74%	9,967	387	3.88%
Other	**16,816**	**147**	**0.88%**	19,261	405	2.10%	19,432	386	1.99%
	73,511	**1,019**	**1.39%**	71,064	1,254	1.76%	84,421	1,557	1.84%
Other interest-earning assets									
HSBC Bank	**26**	**5**	**19.23%**	23	2	8.70%	12	–	–
HSBC France	**146**	**8**	**5.48%**	240	13	5.42%	–	–	–
HSBC Private Bank Holdings	**–**	**–**	**–**	–	–	–	5	–	–
Other	**740**	**2**	**0.27%**	148	5	–	554	4	–
	912	**15**	**1.64%**	411	20	4.87%	571	4	0.70%
Total interest-earning assets									
HSBC Bank	**292,426**	**5,991**	**2.05%**	262,982	6,282	2.39%	258,347	6,375	2.47%
HSBC France	**60,135**	**997**	**1.66%**	70,883	1,195	1.69%	70,177	1,276	1.82%
HSBC Private Bank Holdings	**–**	**–**	**–**	–	–	–	36,327	604	1.66%
Other	**73,589**	**2,261**	**3.07%**	71,806	2,523	–	100,743	2,419	–
	426,150	**9,249**	**2.17%**	405,671	10,000	2.47%	465,594	10,674	2.29%

In November 2012, the group sold HSBC Private Banking Holdings (Suisse) SA to HSBC Holdings plc, with the exception of HSBC Private Bank (UK) Limited which remains part of the group.

Other information (continued)

Total equity and liabilities

	2014			2013			2012		
Summary	**Average balance £m**	**Interest expense £m**	**Cost %**	Average balance £m	Interest expense £m	Cost %	Average balance £m	Interest expense £m	Cost %
Interest-bearing liabilities measured at amortised cost (itemised below)	**411,406**	**2,810**	**0.68%**	382,582	3,039	0.79%	418,280	3,770	0.90%
Trading liabilities and financial liabilities designated at fair value (excluding own debt)	**81,652**	**1,177**	**1.44%**	128,368	1,366	1.06%	105,563	1,512	1.43%
Non–interest bearing current accounts	**32,832**	**–**	**–**	31,243	–	–	40,045	–	–
Total equity and other non–interest bearing liabilities	**254,757**	**–**	**–**	277,062	–	–	374,910	–	–
Total equity and liabilities	**780,647**	**3,987**	**0.51%**	819,255	4,405	0.54%	938,798	5,282	0.56%
Deposits by banks									
HSBC Bank	**15,410**	**118**	**0.77%**	17,246	167	0.97%	26,500	329	1.24%
HSBC France	**4,026**	**32**	**0.79%**	5,710	45	0.79%	9,177	91	0.99%
HSBC Private Bank Holdings	**–**	**–**	**–**	–	–	–	1,056	2	0.19%
Other	**2,189**	**27**	**1.23%**	485	37	7.63%	15,226	31	0.20%
	21,625	**177**	**0.82%**	23,441	249	1.06%	51,959	453	0.87%
Financial liabilities designated at fair value – own debt issued									
HSBC Bank	**16,503**	**243**	**1.47%**	18,229	271	1.49%	17,399	329	1.89%
HSBC France	**5,281**	**40**	**0.76%**	5,549	43	0.77%	4,422	74	1.67%
Other	**349**	**13**	**3.72%**	290	13	4.48%	256	22	8.59%
	22,133	**296**	**1.34%**	24,068	327	1.36%	22,077	425	1.93%
Customer accounts									
HSBC Bank	**211,906**	**878**	**0.41%**	188,525	1,058	0.56%	177,537	1,128	0.64%
HSBC France	**13,465**	**114**	**0.85%**	14,838	152	1.02%	14,794	203	1.37%
HSBC Private Bank Holdings	**–**	**–**	**–**	–	–	–	30,474	154	0.51%
Other	**39,110**	**685**	**1.75%**	40,879	523	1.28%	43,592	623	1.43%
	264,481	**1,677**	**0.63%**	244,242	1,733	0.71%	266,397	2,108	0.79%
Repurchase agreements									
HSBC Bank	**45,359**	**116**	**0.26%**	18,223	55	0.30%	4,539	17	0.37%
HSBC France	**18,951**	**35**	**0.18%**	22,718	22	0.10%	21,812	70	0.32%
Other	**50**	**13**	**26.00%**	338	15	4.44%	303	19	6.46%
	64,360	**164**	**0.26%**	41,279	92	0.22%	26,654	106	0.40%
Debt securities in issue									
HSBC Bank	**22,448**	**234**	**1.04%**	30,889	265	0.86%	31,159	405	1.30%
HSBC France	**6,958**	**31**	**0.45%**	8,085	35	0.43%	9,157	75	0.82%
Regency Assets Limited	**5,770**	**21**	**0.37%**	6,678	27	0.40%	4,564	20	0.44%
Other (includes intercompany	**1,902**	**148**	**7.75%**	2,234	237	-	5,087	138	-
	37,078	**434**	**1.17%**	47,886	564	1.18%	49,967	638	1.28%
Other interest–bearing liabilities									
HSBC Bank	**44**	**5**	**11.36%**	76	5	6.58%	–	–	–
HSBC France	**348**	**13**	**3.74%**	502	26	5.18%	–	–	–
HSBC Private Bank Holdings	**–**	**–**	**–**	–	–	–	10	–	–
Other	**1,337**	**44**	**3.29%**	1,088	43	–	1,216	40	–
	1,729	**62**	**3.59%**	1,666	74	4.44%	1,226	40	3.26%
Total interest–bearing liabilities									
HSBC Bank	**311,670**	**1,594**	**0.51%**	273,188	1,821	0.67%	257,134	2,208	0.86%
HSBC France	**49,029**	**265**	**0.54%**	57,402	323	0.56%	59,362	513	0.86%
HSBC Private Bank Holdings	**–**	**–**	**–**	**–**	–	–	31,549	156	0.49%
Other	**50,707**	**951**	**1.88%**	51,992	895	–	70,235	893	–
	411,406	**2,810**	**0.68%**	382,582	3,039	0.79%	418,280	3,770	0.90%

Distribution of average total assets

	2014	2013	2012
	%	%	%
HSBC Bank	**73.4**	72.4	65.2
HSBC France	**18.9**	20.8	19.0
HSBC Private Bank Holdings (Suisse)	**–**	–	4.8
Other	**7.7**	6.8	11.0
	100.0	100.0	100.0

Other information (continued)

Analysis of changes in net interest income

The following table allocates changes in net interest income between volume and rate for 2014 compared to 2013, and for 2013 compared to 2012.

		Increase/(decrease) in 2014 compared with 2013			Increase/(decrease) in 2013 compared with 2012		
	2014	**Volume**	**Rate**	2013	Volume	Rate	2012
	£m	**£m**	**£m**	£m	£m	£m	£m
Interest income							
Short-term funds and loans and advances to banks							
HSBC Bank	**550**	**34**	**(20)**	536	(74)	1	609
HSBC France	**40**	**(19)**	**(1)**	60	(15)	1	74
HSBC Private Bank Holdings (Suisse)	**–**	**–**	**–**	–	(26)	–	26
Other	**65**	**22**	**(2)**	45	(84)	26	103
	655	**29**	**(15)**	641	(231)	60	812
Loans and advances to customers							
HSBC Bank	**4,876**	**(15)**	**(380)**	5,271	113	(84)	5,242
HSBC France	**843**	**(23)**	**(194)**	1,060	31	(13)	1,042
HSBC Private Bank Holdings (Suisse)	**–**	**–**	**–**	–	(374)	–	374
Other	**1,531**	**86**	**(207)**	1,652	(463)	596	1,519
	7,250	**33**	**(766)**	7,983	(995)	801	8,177
Reverse repurchase agreements							
HSBC Bank	**146**	**–**	**88**	58	33	25	-
HSBC France	**37**	**–**	**7**	30	2	2	26
HSBC Private Bank Holdings (Suisse)	**–**	**–**	**–**	–	–	(78)	78
Other	**127**	**–**	**113**	14	-	(6)	20
	310	**14**	**194**	102	22	(44)	124
Financial investments							
HSBC Bank	**414**	**58**	**(59)**	415	(8)	(75)	498
HSBC France	**69**	**2**	**35**	32	8	(58)	82
HSBC Private Bank Holdings (Suisse)	**–**	**–**	**–**	–	(204)	–	204
HSBC Assurance Vie	**389**	**(6)**	**(6)**	402	30	(16)	387
Other	**147**	**(51)**	**(207)**	405	(3)	23	386
	1,019	**43**	**(278)**	1,254	(246)	(57)	1,557
Interest expense							
Deposits by banks							
HSBC Bank	**118**	**37**	**(86)**	167	(115)	(47)	329
HSBC France	**32**	**(13)**	**–**	45	(34)	(12)	91
HSBC Private Bank Holdings (Suisse)	**–**	**–**	**–**	–	(2)	–	2
Other	**27**	**(278)**	**268**	37	(30)	36	31
	177	**(16)**	**(56)**	249	(249)	45	453
Customer accounts							
HSBC Bank	**878**	**107**	**(287)**	1,058	16	(86)	1,128
HSBC France	**114**	**(14)**	**(24)**	152	19	(70)	203
HSBC Private Bank Holdings (Suisse)	**–**	**–**	**–**	–	–	(154)	154
Other	**685**	**46**	**116**	523	(39)	(61)	623
	1,677	**151**	**(207)**	1,733	(175)	(200)	2,108
Financial liabilities designated at fair value–own debt issued							
HSBC Bank	**243**	**(26)**	**(2)**	271	16	(74)	329
HSBC France	**40**	**(2)**	**(1)**	43	19	(50)	74
HSBC Private Bank Holdings (Suisse)	**–**	**–**	**–**	–	–	–	-
Other	**13**	**3**	**(3)**	13	3	(12)	22
	296	**(26)**	**(5)**	327	38	(136)	425
Repurchase agreements							
HSBC Bank	**116**	**–**	**61**	55	70	(32)	17
HSBC France	**35**	**–**	**13**	22	1	(49)	70
HSBC Private Bank Holdings (Suisse)	**–**	**–**	**–**	–	(154)	154	–
Other	**13**	**–**	**(2)**	15	-	(4)	19
	164	**(13)**	**85**	92	3	(17)	106
Debt securities in issue							
HSBC Bank	**234**	**(72)**	**41**	265	(4)	(136)	405
HSBC France	**31**	**(5)**	**1**	35	(9)	(31)	75
Regency Assets Limited	**21**	**(4)**	**(2)**	27	9	(2)	20
Other	**148**	**–**	**(89)**	237	(77)	176	138
	434	**(127)**	**(3)**	564	(27)	(47)	638

Other information (continued)

Net interest margin

	2014	2013	2012
	%	%	%
Net interest margin	**1.51**	1.72	1.48
HSBC Bank	**1.50**	1.70	1.61
HSBC France	**1.22**	1.23	1.09
HSBC Private Bank Holdings (Suisse)	–	–	1.23
Other	**1.78**	2.27	1.51

In-country foreign currency and cross-border amounts outstanding

The following table summarises the aggregate of the in-country foreign currency and cross-border outstandings by type of borrower to countries which individually represent in excess of 0.75% of total assets. The classification is based on the country of residence of the borrower but also recognises the transfer of country risk in respect of third-party guarantees, eligible collateral held and residence of the head office when the borrower is a branch. In accordance with the Bank of England Country Exposure Report ('Form CE') guidelines, outstandings comprise loans and advances (excluding settlement accounts), amounts receivable under finance leases, acceptances, commercial bills, certificates of deposit ('CD's) and debt and equity securities (net of short positions), and exclude accrued interest and intra-group exposures.

	Banks £m	Government and official institutions £m	Other £m	Total £m
At 31 December 2014				
US	**8,821**	**7,810**	**23,981**	**40,612**
UK	**7,268**	**956**	**22,015**	**30,239**
France	**2,250**	**1,169**	**4,876**	**8,295**
Germany	**7,518**	**11,077**	**3,559**	**22,154**
Turkey	**1,889**	**1,797**	**3,911**	**8,304**
Cayman Islands	**22**	**–**	**7,539**	**7,561**
Netherlands	**1,708**	**1,845**	**7,657**	**11,210**
Japan	**469**	**2,125**	**8,269**	**10,863**
Ireland	**800**	**121**	**5,057**	**5,978**
At 31 December 2013				
US	7,117	10,989	16,960	35,066
UK	6,949	600	28,031	35,580
France	2,964	3,179	3,925	10,068
Germany	7,198	8,942	4,000	20,140
Turkey	1,889	1,797	3,911	7,597
Cayman Islands	10	–	12,308	12,318
Ireland	406	50	4,379	4,835
At 31 December 2012				
US	5,499	12,962	12,961	31,422
UK	10,672	1,244	24,276	36,192
France	6,045	4,250	6,340	16,635
Germany	6,144	6,045	6,216	18,405
Turkey	2,341	3,975	4,029	10,345
Cayman Islands	1	–	14,050	14,051
Ireland	1,049	71	7,302	8,422

Contractual obligations

The table below provides details of selected known contractual obligations of the group.

	At 31 December 2014 Payments due by period			
	Total £m	Less than 1 year £m	1 to 5 years £m	More than 5 years £m
Long-term debt obligations	**57,362**	**18,610**	**20,932**	**17,820**
Term deposits and certificates of deposit	**76,655**	**73,760**	**2,741**	**154**
Capital (finance) lease obligations	**–**	**–**	**–**	**–**
Operating lease obligations	**1,595**	**211**	**598**	**786**
Purchase obligations	**8**	**8**	**–**	**–**
Short positions in debt securities and equity shares	**24,639**	**14,035**	**4,939**	**5,665**
Current tax liability	**255**	**255**	**–**	**–**
Pension/health care obligation	**502**	**150**	**192**	**160**
	161,016	**107,029**	**29,402**	**24,585**

Other information (continued)

Loan maturity and interest rate sensitivity analysis

At 31 December 2014 the analysis of loan maturity and interest rate sensitivity by loan type on a contractual repayment basis was as follows:

	At 31 December 2014 £m
Maturity of 1 year or less	
Loans and advances to banks	21,379
	21,379
Commercial loans to customers	
Manufacturing and international trade and services	48,893
Real estate and other property related	6,685
Non-bank financial institutions	11,558
Governments	710
Other commercial	20,177
	88,023
Maturity after 1 year but within 5 years	
Loans and advances to banks	3,567
	3,567
Commercial loans to customers	
Manufacturing and international trade and services	18,946
Real estate and other property related	10,986
Non-bank financial institutions	4,568
Governments	150
Other commercial	11,879
	46,529
Interest rate sensitivity of loans and advances to banks and commercial loans to customers	
Fixed interest rate	9,722
Variable interest rate	40,374
	50,096
Maturity after 5 years	
Loans and advances to banks	336
	336
Commercial loans to customers	
Manufacturing and international trade and services	6,164
Real estate and other property related	4,800
Non-bank financial institutions	604
Governments	592
Other commercial	5,950
	18,110
Interest rate sensitivity of loans and advances to banks and commercial loans to customers	
Fixed interest rate	4,854
Variable interest rate	13,592
	18,446

Other information (continued)

Deposits

The following table summarises the average amount of bank deposits, customer deposits and certificates of deposit ('CDs') and other money market instruments (which are included within *Debt securities in issue* in the balance sheet), together with the average interest rates paid thereon for each of the past three years. The Other category includes securities sold under agreements to repurchase.

	2014		2013		2012	
	Average balance £m	Average rate %	Average balance £m	Average rate %	Average balance £m	Average rate %
Deposits by banks	**31,616**		46,729		64,896	
Demand and other–non-interest bearing	**9,650**	**-**	10,604	–	4,427	–
Demand–interest bearing	**3,531**	**0.4**	3,259	0.5	5,637	0.4
Time	**8,644**	**1.0**	10,725	1.2	15,381	1.5
Other	**9,791**	**3.2**	22,141	1.6	39,451	1.1
Customer accounts	**301,478**		308,711		330,182	
Demand and other–non-interest bearing	**35,952**	**-**	35,874	–	45,641	–
Demand–interest bearing	**189,915**	**0.4**	170,962	0.4	160,147	0.4
Savings	**33,873**	**1.5**	37,502	1.5	38,807	1.8
Time	**24,383**	**1.1**	27,466	1.2	44,376	1.3
Other	**17,355**	**1.3**	36,907	1.1	41,211	1.0
CDs and other money market instruments	**12,949**	**0.4**	18,155	0.5	20,972	0.5

Certificates of deposit and other time deposits

At 31 December 2014, the maturity analysis of CDs and other wholesale time deposits, by remaining maturity, was as follows:

	At 31 December 2014				
	3 months or less £m	After 3 months but within 6 months £m	After 6 months but within 12 months £m	After 12 months £m	Total £m
Certificates of deposit	**5,333**	**3,924**	**645**	**–**	**9,902**
Time deposits					
-banks	**24,059**	**912**	**205**	**1,389**	**26,565**
-customers	**29,426**	**6,849**	**2,407**	**1,506**	**40,188**

Short-term borrowings

Short-term borrowings are included within customer accounts, deposits by banks and debt securities in issue and are not shown separately on the balance sheet. Short-term borrowings are defined by the US Securities and Exchange Commission as Federal funds purchased and securities sold under agreements to repurchase, commercial paper and other short-term borrowings.

The only significant short-term borrowings are securities sold under agreements to repurchase and certain debt securities in issue.

For securities sold under agreements to repurchase, the group runs matched repo and reverse repo trading books. The group generally observes lower year-end demand in the reverse repo lending business which results in lower repo balances at the balance sheet date. Additional information on these is provided in the table below.

Other information (continued)

Repos and short-term bonds

	2014 £m	2013 £m	2012 £m
Securities sold under agreements to repurchase			
Outstanding at 31 December	**25,692**	75,019	66,156
Average amount outstanding during the year	**75,492**	86,502	81,812
Maximum quarter-end balance outstanding during the year	**84,740**	90,361	74,673
Weighted average interest rate during the year	**0.2%**	0.2%	0.3%
Weighted average interest rate at the year-end	**0.6%**	0.6%	0.4%
Short-term bonds			
Outstanding at 31 December	**12,917**	17,775	18,876
Average amount outstanding during the year	**15,247**	19,184	16,462
Maximum quarter-end balance outstanding during the year	**15,608**	22,342	18,876
Weighted average interest rate during the year	**0.1%**	0.1%	0.1%
Weighted average interest rate at the year-end	**0.7%**	0.3%	0.2%

Financial investments

Carrying amounts of financial investments

	2014 £m	2013 £m	2012 £m
Financial investments:			
– which may be repledged or resold by counterparties	**14,831**	11,435	7,979
– not subject to repledge or resale by counterparties	**61,363**	63,595	63,286
	76,194	75,030	71,265
Fair value of financial investments			
Treasury and other eligible bills - available-for-sale	**2,849**	2,196	5,203
Debt securities	**72,336**	71,828	65,034
– available-for-sale	**72,336**	71,828	65,034
– held-to-maturity	**–**	–	–
Equity securities - available-for-sale	**1,009**	1,006	1,028
Total financial investments at 31 December	**76,194**	75,030	71,265

£6,172 million (2013: £2,936 million, 2012: £1,953 million) of the debt securities issued by banks and other financial institutions are guaranteed by various governments. The fair value of the held to maturity financial investments reported in 2011 was £4,204 million.

Financial investments at fair value

	2014 £m	2013 £m	2012 £m
At 31 December			
US Treasury	**4,304**	5,551	7,881
US Government agencies	**–**	–	–
US Government sponsored entities	**–**	–	–
UK Government	**16,627**	13,729	10,392
Hong Kong Government	**–**	–	–
Other government	**25,254**	23,615	21,487
Asset-back securities	**12,025**	14,069	15,392
Corporate debt and other securities	**16,976**	17,060	15,085
Equities	**1,008**	1,006	1,028
	76,194	75,030	71,265

Other information (continued)

Contractual maturities and weighted average yields of investment debt securities at 31 December 2014

	Within one year		After one year but within five years		After five years but within ten years		After ten years	
	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %
Available for sale								
US Treasury	**1,026**	**1.2**	**1,321**	**0.4**	**1,619**	**1.9**	**–**	**–**
UK Government	**180**	**2.2**	**7,676**	**0.9**	**8,046**	**1.7**	**–**	**–**
Other government	**3,007**	**2.5**	**13,149**	**1.6**	**3,971**	**0.9**	**1,102**	**0.1**
Asset-back securities	**441**	**0.1**	**716**	**1.3**	**2,558**	**0.9**	**9,406**	**1.0**
Corporate debt and other securities	**2,125**	**0.8**	**9,646**	**0.9**	**3,223**	**1.1**	**1,263**	**0.5**
Total amortised cost	**6,779**		**32,508**		**19,417**		**11,771**	
Total fair value	**6,400**		**33,303**		**21,097**		**11,536**	

The maturity distributions of asset-backed securities are presented in the above table on the basis of contractual maturity dates. The weighted average yield for each range of maturities is calculated by dividing the annualised interest income for the year ended 31 December 2013 by the carrying amount of available-for-sale debt securities at that date. The yields do not include the effect of related derivatives.

Further analysis of credit risk

Gross loans and advances by industry sector

	2014 Amount £m	**%**	2013 Amount £m	%	2012 Amount £m	%	2011 Amount £m	%	2010 Amount £m	%
Personal										
Residential mortgages	**83,009**	**29.09%**	83,882	27.95%	82,544	28.71%	77,871	26.71%	72,327	25.44%
Other personal[1]	**24,381**	**8.55%**	25,257	8.42%	23,222	8.08%	33,571	11.52%	35,008	12.31%
	107,390	**37.64%**	109,139	36.37%	105,766	36.79%	111,442	38.23%	107,335	37.75%
Commercial										
Commercial, industrial and international trade	**74,003**	**25.94%**	79,576	26.52%	78,176	27.19%	71,098	24.39%	72,006	25.33%
Commercial real estate	**17,899**	**6.27%**	18,755	6.25%	20,504	7.13%	21,034	7.22%	19,970	7.02%
Other property-related	**4,572**	**1.60%**	4,421	1.47%	4,580	1.59%	4,908	1.68%	4,125	1.45%
Government	**1,452**	**0.51%**	2,020	0.67%	1,481	0.52%	1,977	0.68%	1,452	0.51%
Other commercial[2]	**38,006**	**13.32%**	40,610	13.53%	34,569	12.02%	36,583	12.55%	37,161	13.07%
	135,932	**47.64%**	145,382	48.44%	139,310	48.44%	135,600	46.52%	134,714	47.38%
Financial										
Non-bank financial institutions	**16,085**	**5.64%**	21,602	7.20%	23,649	8.22%	19,667	6.75%	15,142	5.32%
Settlement accounts	**645**	**0.22%**	935	0.31%	316	0.11%	440	0.15%	612	0.22%
	16,730	**5.86%**	22,537	7.51%	23,965	8.33%	20,107	6.90%	15,754	5.54%
Total gross loans and advances to customers	**260,052**	**91.14%**	277,058	92.32%	269,041	93.56%	267,149	91.64%	257,803	90.67%
Gross loans and advances to banks	**25,282**	**8.86%**	23,035	7.68%	18,512	6.44%	24,357	8.35%	26,520	9.33%
Total gross loans and advances	**285,334**	**100.00%**	300,093	100.00%	287,553	100.00%	291,506	100.00%	284,323	100.00%
Impaired loans and advances to customers	**6,398**		7,869		6,778		7,467		7,155	
as a percentage of total gross loans and advances to customers		**2.46%**		2.84%		2.52%		2.80%		2.78%
Loan impairment charge	**647**		1,102		2,639		2,624		2,698	
new allowance net of allowance releases	**828**		1,508		2,424		2,327		2,539	
recoveries	**(181)**		(406)		215		297		159	

1 'Other personal loans and advances' include second lien mortgages and other property-related lending.
2 'Other commercial loans and advances' include advances in respect of agriculture, transport, energy and utilities.

Other information (continued)

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

(Unaudited)

	2014	2013	2012	2011	2010
	%	%	%	%	%
Net allowances net of allowances releases	**0.36**	0.67	0.53	0.53	0.72
Recoveries	**(0.08)**	(0.18)	(0.08)	(0.10)	(0.06)
Total charge for impairment losses	**0.28**	0.49	0.45	0.43	0.66
Amount written off net of recoveries	**0.49**	0.43	0.46	0.46	0.67

Loan impairment charges by industry sector over 5 years

(Unaudited)

	2014	2013	2012	2011	2010
	£m	£m	£m	£m	£m
Loan impairment charge					
Personal	**148**	215	250	415	803
– residential mortgages	**(45)**	(9)	(34)	60	99
– other personal[1]	**193**	224	284	355	704
Corporate and commercial	**472**	921	974	798	709
– manufacturing and international trade and services	**306**	518	420	261	322
– commercial real estate and other property-related	**50**	276	279	310	232
– other commercial	**116**	127	275	227	155
Financial	**27**	(34)	(11)	9	121
Year ended 31 December	**647**	1,102	1,213	1,222	1,633
Loan loss rates					
Personal	**0.14%**	0.20%	0.24%	0.37%	0.75%
Corporate and commercial	**0.35%**	0.63%	0.70%	0.59%	0.53%
Financial	**0.16%**	(0.15%)	(0.05%)	0.04%	0.77%

Movement in impairment allowances over 5 years

(Unaudited)

	2014	2013	2012	2011	2010
	£m	£m	£m	£m	£m
Impairment allowances at 1 January	**3,357**	3,270	3,381	3,580	3,649
Amounts written off	**(1,285)**	(1,386)	(1,475)	(1,627)	(1,824)
Personal	**(435)**	(559)	(499)	(996)	(834)
– residential mortgages	**(13)**	(53)	(17)	(15)	(31)
– other personal[1]	**(422)**	(506)	(482)	(981)	(803)
Corporate and commercial	**(728)**	(801)	(902)	(612)	(980)
– manufacturing and international trade and services	**(443)**	(430)	(416)	(345)	(247)
– commercial real estate and other property-related	**(208)**	(184)	(238)	(165)	(648)
– other commercial[10]	**(77)**	(187)	(248)	(102)	(85)
Financial[1]	**(122)**	(26)	(74)	(19)	(10)
Recoveries of amounts written off in previous years	**181**	406	214	297	159
Personal	**162**	374	180	268	136
– residential mortgages	**1**	16	21	13	19
– other personal[1]	**161**	358	159	255	117
Corporate and commercial	**17**	32	32	27	22
– manufacturing and international trade and services	**12**	11	11	11	11
– commercial real estate and other property-related	**6**	4	6	5	4
– other commercial[10]	**(1)**	17	15	11	7
Financial[1]	**2**	–	2	2	1
Charge to the income statement	**647**	1,102	1,213	1,222	1,633
Exchange and other movements	**(80)**	(35)	(63)	(91)	(37)
Impairment allowances at 31 December	**2,820**	3,357	3,270	3,381	3,580
Impairment allowances - banks:					
– individually assessed	**20**	21	24	32	50
Impairment allowances - customers					
– individually assessed	**1,874**	2,402	2,327	2,429	2,248
– collectively assessed	**926**	934	919	920	1,282
Impairment allowances at 31 December	**2,820**	3,357	3,270	3,381	3,580

1 *Includes movements in impairment allowances against banks.*

Other information (continued)

Risk elements in the loan portfolio

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Impaired loans	**6,415**	7,893	6,818	7,514	6,783
Unimpaired loans contractually past 90 days or more as to principal or interest	**3**	14	23	27	41
Troubled debt restructuring (not included in the classification above)	**1,059**	863	789	458	165

The interest that would have been recognised under the original terms of impaired and restructured loans amounted to approximately £132 million in 2014 (2013: £137 million). Interest income from such loans of approximately £70 million was recorded in 2014 (2013: £66 million).

Reconciliation of reported to adjusted basis

	Total Global Businesses			RBWM		CMB		GB&M		GPB			Other	
	2013	**2012**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2012**	**2013**	**2012**
		Continuing									Continuing			
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Revenue														
Reported[1]	**12,840**	**11,379**	**12,488**	**5,071**	**4,906**	**3,370**	**3,180**	**4,281**	**4,019**	**330**	**333**	**1,442**	**(157)**	**(986)**
Less significant items:														
Change in credit spread on long-term debt	(167)	(1,055)	(1,055)	–	–	–	–	–	–	–	–	–	(167)	(1,055)
Fair value movement on non-qualifying hedges	(8)	(2)	(2)	33	(2)	–	–	(41)	–	–	–	–	–	–
Debit valuation adjustment on derivative contracts	45	191	191	–	–	–	–	45	191	–	–	–	–	–
Provisions arising from the on-going review of compliance with the Consumer Credit Act in the UK	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Revenue excluding significant items:	**12,970**	**12,245**	**13,354**	**5,038**	**4,908**	**3,370**	**3,180**	**4,277**	**3,828**	**330**	**333**	**1,442**	**10**	**69**
Loan impairment charges and other credit risk provisions	**(971)**	**(1,246)**	**(1,245)**	**(223)**	**(248)**	**(601)**	**(699)**	**(133)**	**(280)**	**(14)**	**(19)**	**(18)**	–	–
Total operating expenses														
Reported[1]	**(8,575)**	**(9,506)**	**(10,236)**	**(3,673)**	**(4,248)**	**(1,437)**	**(1,715)**	**(3,122)**	**(3,093)**	**(176)**	**(213)**	**(943)**	**(222)**	**(310)**
Less significant items:														
UK customer redress programme	(787)	(1,351)	(1,351)	(610)	(982)	(91)	(162)	(84)	(207)	(2)	–	–	–	–
Restructuring and other related costs	(96)	(167)	(162)	(41)	(47)	(18)	(22)	(6)	(36)	(1)	(5)	–	(30)	(57)
Operational losses (dissolved company)	10	(65)	(65)	–	–	10	(65)	–	–	–	–	–	–	–
Gains in change of delivering ill-health benefits	280	–	–	123	–	104	–	53	–	–	–	–	–	–
Madoff related litigation costs	(193)	–	–	–	–	–	–	(193)	–	–	–	–	–	–
Settlements and provisions in connection with foreign exchange investigations	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Other provisions	–	(84)	(114)	–	–	–	–	–	–	–	–	(30)	–	(84)
Total operating expenses excluding significant items:	**(7,789)**	**(7,839)**	**(8,544)**	**(3,145)**	**(3,219)**	**(1,442)**	**(1,466)**	**(2,892)**	**(2,850)**	**(173)**	**(208)**	**(913)**	**(192)**	**(169)**

[1] Includes intersegment eliminations of £(55) million for 2013 and £(73) million for 2012 respectively.

	Total Global Business			RBWM		CMB		GB&M		GPB			Other	
	2013	2012 Continuing	2012	2013	2012	2013	2012	2013	2012	2013	2012 Continuing	2012	2013	2012
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Share of profit in associates and joint ventures	**–**	**(3)**	**(3)**	**2**	**1**	**1**	**–**	**(3)**	**(4)**	**–**	**(1)**	**(1)**	**–**	**1**
Profit before tax														
Reported	**3,294**	**624**	**1,004**	**1,177**	**411**	**1,333**	**766**	**1,023**	**642**	**140**	**100**	**480**	**(379)**	**(1,295)**
Less significant items:														
Change in credit spread on long-term debt	(167)	(1,055)	(1,055)	–	–	–	–	–	–	–	–	–	(167)	(1,055)
Fair value movement on non-qualifying hedges	(8)	(2)	(2)	33	(2)	–	–	(41)	–	–	–	–	–	–
Debit valuation adjustment on derivative contracts	45	191	191	–	–	–	–	45	191	–	–	–	–	–
Provisions arising from the on-going review of compliance with the Consumer Credit Act in the UK	–	–	–	–	–	–	–	–	–	–	–	–	–	–
UK customer redress programme	(787)	(1,351)	(1,351)	(610)	(982)	(91)	(162)	(84)	(207)	(2)	–	–	–	–
Restructuring and other related costs	(96)	(167)	(162)	(41)	(47)	(18)	(22)	(6)	(36)	(1)	(5)	–	(30)	(57)
Operational losses (dissolved company)	10	(65)	(65)	–	–	10	(65)	–	–	–	–	–	–	–
Gains in change of delivering ill-health benefits	280	–	–	123	–	104	–	53	–	–	–	–	–	–
Madoff related litigation costs	(193)	–	–	–	–	–	–	(193)	–	–	–	–	–	–
Settlements and provisions in connection with foreign exchange investigations	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Other provisions	–	(84)	(114)	–	–	–	–	–	–	–	–	(30)	–	(84)
Profit before tax excluding significant items:	**4,210**	**3,157**	**3,562**	**1,672**	**1,442**	**1,328**	**1,015**	**1,249**	**694**	**143**	**105**	**510**	**(182)**	**(99)**

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HSBC Bank plc
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London E14 5HQ
United Kingdom
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