HSBC Bank plc

Interim Report 2015

HSBC

Interim Report 2015

Contents

Presentation of Information

This document is the Interim Report 2015 for HSBC Bank plc ('the bank') (Company No. 14259) and its subsidiaries (together 'the group'). 'We', 'us' and 'our' refer to HSBC Bank plc together with its subsidiaries.

It contains the Interim Management Report and Condensed Financial Statements of the group, together with the Auditor's review report, as required by the Financial Conduct Authority's ('FCA') Disclosure and Transparency Rules ('DTR'). References to 'HSBC' or 'the Group' within this document mean HSBC Holdings plc together with its subsidiaries.

Within the Interim Management Report, the group has presented income statement figures for the three most recent six month periods to illustrate the current performance compared to recent periods. This compares to the Condensed Financial Statements and related notes, prepared in accordance with IAS 34, which include income statement year-on-year comparatives.

Unless otherwise stated, commentary on the income statement compares the six months to 30 June 2015 to the same period in the prior year. Balance sheet commentary compares the position as at 30 June 2015 to 31 December 2014.

In accordance with IAS 34 the Interim Report is intended to provide an update on the *Annual Report and Accounts 2014* and therefore focusses on events during the six months of 2015 rather than duplicating information previously reported.

Cautionary Statement Regarding Forward-Looking Statements

This Interim Report contains certain forward-looking statements with respect to the financial condition, results of operations and business of the group.

Certain statements that are not historical facts, including statements about the group's beliefs and expectations, are forward-looking statements. Words such as 'expects', '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, and it should not be assumed that they have been revised or updated in the light of new information or subsequent events.

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.

Interim Management Report: Highlights

	Half-year to		
	30 June 2015	30 June 2014	31 December 2014
For the period (£m)			
Profit before tax (reported basis)	**2,136**	1,902	51
Adjusted profit before taxation	**2,621**	2,298	1,734
Total operating income	**8,357**	7,319	6,883
Net operating income before loan impairment charges and other credit risk provisions	**7,052**	6,111	5,775
Profit/(loss) attributable to shareholders of the parent company	**1,529**	1,499	(145)
At period end (£m)			
Total equity attributable to shareholders of the parent company	**34,975**	33,394	36,078
Total assets	**749,853**	810,196	797,289
Risk-weighted assets	**234,513**	235,300	243,652
Loans and advances to customers (net of impairment allowances)	**248,042**	278,204	257,252
Customer accounts	**336,964**	356,932	346,507
Capital ratios[1] (%)			
Common equity tier 1	**9.3**	9.3	8.7
Total tier 1 ratio	**10.9**	10.0	10.3
Total capital ratio	**14.3**	14.1	13.8
Performance, efficiency and other ratios (annualised %)			
Annualised return on average shareholders' equity	**9.3**	9.3	(0.9)
Pre-tax return on average risk-weighted assets	**1.7**	1.6	0.0
Cost efficiency ratio[2]	**67.0**	66.3	94.2
Ratio of customer advances to customer accounts	**73.6**	77.9	74.2

1 *Includes profits for the period to 30 June 2015 after deducting the interim dividend of £0.5 billion declared by the Board of Directors after 30 June 2015.*

2 *The cost efficiency ratio is defined as total operating expenses divided by net operating income before loan impairment charges and other credit risk provisions.*

Interim Management Report: Business Review

Our strategy

HSBC aims to be the world's leading and most respected international bank. The Group aims to achieve this by focusing on the needs of its customers and the societies it serves, thereby delivering long-term sustainable value to all its stakeholders.

The group's strategy is embedded in HSBC's two-part strategy, which reflects our purpose and competitive advantages:

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

In Europe the group's aim is to be the leading and most respected international bank connecting Europe with the rest of the world. On an operational level the group has developed a strategy for each of its four global businesses following HSBC's strategic priorities while also focusing on increasing capital and cost efficiency.

Strategy update

The group's strategy is based on the following distinctive advantages.

Distinctive advantages

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

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

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

Unrivalled global presence

HSBC's network covers more than 85 per cent of global trade and capital flows. We provide clients and investors with access to the most attractive global growth opportunities.

We expect global trade to continue to grow faster than global gross domestic product ('GDP') and we are a leading provider of transaction banking products which support global economic flows, including Payments and Cash Management, Global Trade and Receivables Finance, Foreign Exchange and Securities Services.

Diversified universal banking model

We generate revenues through four global businesses – Commercial Banking ('CMB'); Global Banking and Markets ('GB&M'); Retail Banking and Wealth Management ('RBWM'); and Global Private Banking ('GPB').

Diversification results in low earnings volatility for the group and through diverse business activities, we maintain a lower risk profile than our global and regional competitors. For example, in the first half of 2015, our loan impairment charges were only 0.1 per cent of total loans and advances, unchanged from the first half of 2014. Our large deposit base provides stable and valuable funding for our lending activities. In addition, our universal banking model provides benefits from shared resources and product capabilities.

Strong capital generation

Strong capital generation enables us to meet increasing regulatory requirements while continuing to pay dividends to our shareholder, HSBC Holdings plc.

Our Common Equity Tier ('CET') 1 ratio for first half of 2015 was 9.3 per cent compared with 8.7 per cent as at 31 December 2014. We have declared dividends of £0.5 billion for the first half of 2015, a decrease of £0.1 billion over the first half of 2014.

Strategic actions

At HSBC's Investor Update in June 2015, the Group outlined plans to redeploy resources to capture expected future growth opportunities and adapt to structural changes in the operating environment.

Interim Management Report: Business Review (continued)

The Group has set out a series of actions to be mostly completed by 2017, many of which are applicable to the group. The Group's actions are:

1. *Reduce risk weighted assets ('RWAs') across the Group by 25 per cent or more and reinvest the capital in higher-performing businesses. Reducing RWAs will help GB&M reach profitability targets*
2. *Continue to optimise HSBC's global network and reduce complexity through the ongoing application of the six-filter process that guides the Group's decisions on where it does business*
3. *Leverage HSBC's international network and strategic opportunity in the area covered by the North American Free Trade Agreement to rebuild profitability in Mexico and deliver satisfactory returns in the US*
4. *Set up a UK ring-fenced bank*
5. *Deliver USD$4.5-5.0 billion in cost savings*
6. *Deliver revenue growth above GDP growth from HSBC's international network*
7. *Capture growth opportunities in Asia including in China's Pearl River Delta, in the Association of Southeast Asian Nations, and in the Group's Asset Management and Insurance businesses*
8. *Grow business from HSBC's global leadership position in the internationalisation of the Chinese currency, the renminbi*
9. *Implement Global Standards, HSBC's globally consistent and rigorous financial crime controls*
10. *Review the location of the Group's headquarters*

The Group's strategic actions will influence how we proceed in structuring our businesses within the group. Further information about related RWAs or cost savings can be obtained in the section 'Regulation and supervision' on page 13 or within our 'Performance and Business review' from page 15 onwards. Other strategic actions like 'Structural reform' or our 'Six filter review' can be found below.

Structural Reform

HSBC resolution strategy and corporate structural changes

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

In the first half of 2015, the Group has progressed its plans to establish a separately incorporated group of service companies ('ServCo group') to remove operational dependencies (where one subsidiary bank provides critical services to another). In the UK, the bank has begun the transfer of critical services including associated employees and assets to the ServCo group. Critical services will then be provided to the bank by the ServCo group.

UK ring-fencing

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

Six filters review

We conduct a periodic review of our markets using six filters to guide our decisions about when and where to invest.
At 30 June 2015, the group's home market was the UK and its priority markets were Germany and France. At the June 2015 Investor Update, HSBC announced its intention to sell the operations in Turkey. Although we have a significant local presence in Turkey, our operations are not large enough to compete at scale. The assets and liabilities relating to Turkey are included within the individual balance sheet line items and have not been reclassified as 'Held for Sale' as this planned disposal did not meet the requirements of IFRS 5 at the balance sheet date.

In 2014, HSBC entered into an agreement to sell its third party UK pensions business, and the related balances are reported within other assets and other liabilities. The disposal group comprises £4.4 billion of total liabilities (31 December 2014: £4.4 billion), being liabilities under unit-linked investment contracts, unit-linked insurance contracts and annuity contracts. It also comprises £4.4 billion of total assets (31 December 2014: £4.4 billion), being financial and reinsurance assets backing the liabilities, and the associated present value of in-force long term insurance business ('PVIF') on these contracts. The transfer is subject to regulatory approvals and is expected to complete in the second half of 2015. As part of the transaction we also entered into a reinsurance agreement transferring certain risks and rewards of the business to the purchaser until completion of the transaction.

Global Standards implementation

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

Interim Management Report: Business Review (continued)

On 31 March 2015, HSBC put in place enhanced procedures everywhere it does business to help detect, deter and protect against financial crime. These procedures cover how the group meets the requirements of HSBC's global anti-money laundering ('AML') and sanctions policies – HSBC's Global Standards.

By adhering to these Global Standards, we are delivering a consistent, comprehensive approach to managing financial crime risk in all our markets. In many instances, the policies extend beyond what we are legally required to do, reflecting the fact that HSBC has no appetite for business with illicit actors.

The group continues to deliver infrastructure changes and systems enhancements that support the effective and sustainable operation of its financial crime controls. In this respect, we have made significant progress since the beginning of 2015, including:

- completing targeted training for those identified as being in the highest risk roles;
- moving Financial Intelligence Units from the Global Standards programme to business as usual management. This establishes a new strategic capability to identify and analyse significant financial crime cases, trends and strategic issues and share information across HSBC;
- commencing the roll-out of strategic technology to support customer selection and exit of business outside HSBC's financial crime risk appetite;
- deploying enhanced customer due diligence by GPB in their markets; and
- specific deployments of enhanced customer due diligence.

The Monitor

An independent compliance monitor ('the Monitor') was appointed in 2012 under the agreements entered into with the US Department of Justice ('DoJ'), the UK FCA and the US Federal Reserve Board, to produce regular assessments of the effectiveness of HSBC's Compliance function. The work of the Monitor is described on page 9 of the *Annual Report and Accounts 2014*. HSBC is working to implement the agreed recommendations flowing from the Monitor's 2013 and 2014 reviews. HSBC recognises it is only half way through its five-year Deferred Prosecution Agreement ('US DPA') and looks forward to maintaining a strong, collaborative relationship with the Monitor and his team.

Economic environment

UK Real GDP growth picked up in the second quarter of 2015, increasing to 0.7 per cent quarter-on-quarter in the preliminary release (from 0.4 per cent in the first quarter of 2015). GDP was 2.6 per cent higher than the same quarter a year earlier. The unemployment rate fell in the early part of this year, but ticked back up to 5.6 per cent in the three months to May. Wage growth continued to accelerate, though, growing by 3.2 percent in the three months to May (compared with the same three months a year earlier), with private sector pay rising by close to 4 per cent. The annual rate of growth of the Consumer Price Index ('CPI') measure of inflation turned briefly negative in April (-0.1 per cent), but stood at zero in June. After a slowdown in the housing market in the second half of 2014, activity levels appeared to be picking up in 2015. The Bank of England kept the Bank Rate and its Asset Purchase Programme steady at 0.5 per cent and £375 billion, respectively.

UK real GDP is expected to rise by 2.7 per cent in 2015, a slight slowdown on the 3.0 per cent growth rate for 2014. Consumer spending remains the key driver of growth, supported by low inflation, high employment and rising real incomes. Headwinds come in the form of fiscal tightening, and uncertainty over the forthcoming EU referendum, which could weigh on investment growth. CPI inflation is expected to rise back towards 1 per cent towards the end of the year, as the effects from the drop in oil prices fall away, but remain below the Bank of England's 2 per cent target until at least the end of 2016. Nonetheless, we expect the Bank of England to start raising the Bank Rate from early 2016, and to cease reinvesting maturing gilts in its QE portfolio.

The domestic-led cyclical recovery continued in the eurozone. Real GDP in the region as a whole grew by 0.4 per cent in the first quarter after 0.3 per cent in the last quarter of 2014. Spain continued to be the star performer among the 'Big 4' large eurozone countries, with real GDP growth of 0.9 per cent in the first quarter, but the recovery was more broad based, with Italy also posting positive growth of 0.3 per cent, the highest since 2011. The fall in energy prices has provided a significant boost to real wages, supporting consumption, whilst public consumption has also been supportive to growth also thanks to the electoral cycle in some countries. The ECB's programme of asset purchases has also been positive for confidence, financial markets, bank lending and inflation expectations. It also helped keep the euro on a lower trajectory, which is helping in particular those countries that rely more on prices for their competitiveness, like France and Italy, which saw their exports improve particularly outside the eurozone despite sluggish world trade growth.

In the eurozone, sustainable growth depends on the delivery of a broader package of investment measures to support demand and raise productivity, along with greater fiscal and economic policy coordination between member states. The Juncker Plan to support investment is set to start in the second half of 2015, but its effect might only be evident in the longer-term and is unlikely to be sufficient to close the investment gap in the eurozone. HSBC Global Research expects real GDP growth of 1.3 per cent in 2015, moving slightly higher to 1.4 per cent in 2016 with CPI inflation remaining subdued. The uncertainties concerning Greece will remain for the foreseeable future.

HSBC Global Research expects global GDP growth to be 2.4 per cent in 2015, down from 2.5 per cent in 2014.

Financial summary

Summary consolidated income statement

	Half year to		
	30 June 2015 £m	30 June 2014 £m	31 December 2014 £m
Net interest income	**3,504**	3,241	3,388
Net fee income	**1,423**	1,697	1,569
Net trading income	**1,318**	585	1,024
Net income/(expense) from financial instruments designated at fair value	**838**	659	(288)
Gains less losses from financial investments	**136**	84	237
Net earned insurance premiums	**900**	943	880
Other operating income	**238**	110	73
Total operating income[1]	**8,357**	7,319	6,883
Net insurance claims incurred and movements in liabilities to policy holders	**(1,305)**	(1,208)	(1,108)
Net operating income before impairment charges and other credit risk provisions	**7,052**	6,111	5,775
Loan impairment charges and credit risk provisions	**(191)**	(161)	(288)
Net operating income	**6,861**	5,950	5,487
Total operating expenses[1]	**(4,727)**	(4,049)	(5,438)
Operating profit	**2,134**	1,901	49
Share of profit/ (loss) of associates and joint ventures	**2**	1	2
Profit before tax	**2,136**	1,902	51
Tax (expense)	**(590)**	(383)	(181)
Profit for the period	**1,546**	1,519	(130)
Profit attributable to shareholders of the parent company	**1,529**	1,499	(145)
Profit attributable to non-controlling interests	**17**	20	15

1 *Total operating income and expenses include significant items as detailed on pages 15 and 16.*

Review of business performance

Reported performance

HSBC Bank plc and its subsidiaries reported a profit before tax of £2,136 million in the first half of 2015, compared with a profit of £1,902 and £51 million in the first and second halves of 2014 respectively.

Net interest income increased by £263 million compared with the first half of 2014. This was primarily due to a provision arising from a review of compliance with the Consumer Credit Act ('CCA') taken in the first half of 2014 of £215 million. Excluding this, net interest income increased mainly in GB&M due to movements in Legacy Credit. Net interest income in Capital Financing also incorporates a reclassification from net fee income reflecting the composition of drawn and undrawn facilities as well as the basis of related charging arrangements. Net interest income in CMB also increased, primarily in the UK, from growth in average term lending and Payments and Cash Management ('PCM') deposit balances.

Net fee income decreased by £274 million compared with the first half of 2014. In GB&M net fee income decreased in Capital Financing, as we experienced challenging market conditions in Debt Capital Markets ('DCM') and reclassified certain amounts to net interest income as noted above to reflect the composition of drawn and undrawn facilities. Net fee income also reduced in Markets as we paid higher fees to other regions within the Group reflecting increased trading activity, the offset being higher trading income. RBWM fee income decreased mainly in the UK driven by lower overdraft fees following re-pricing, and lower overdraft balances resulting from the introduction of a customer text-alert service.

Net trading income increased by £733 million compared with the first half of 2014. The increase includes a number of significant items including a favourable movement in the debit valuation adjustment on derivative contracts ('DVA') of £52 million compared to an adverse movement of £47 million in the first half of 2014. Excluding these items, net trading income increased, predominantly driven by our Equities and Foreign Exchange businesses following increased volatility in the period with the former also benefitting from higher client flows, favourable movements on own credit spreads compared with minimal movements in the first half of 2014 and transfers to the income statement of previously recognised gains on cash flow hedges.

Net income from financial instruments designated at fair value increased by £179 million compared to the prior period. This was driven by favourable credit spread-related movements in the fair value of the group's own long-term debt of £82 million compared to adverse fair value movements of £38 million in 2014. In addition, there was higher net income arising from financial assets held to meet liabilities under insurance and investment contracts, reflecting higher net investment returns in the first half of 2015 compared to 2014. These returns reflected stronger equity markets movements in the UK and France.

Gains less losses from financial investments increased by £52 million, partly due to higher net gains on the disposal of government debt securities in GB&M Balance Sheet Management, notably in the UK.

Net earned insurance premiums decreased by £43 million including adverse foreign exchange movements. Excluding these movements, net earned insurance premiums increased largely driven by higher sales of investment contracts in RBWM France reflecting customer demand. This was partly offset in the UK by lower pension premiums following a decision to exit the commercial pensions market in 2014.

Other operating income increased by £128 million, driven by an increase in the present value of in-force ('PVIF') long term insurance business in RBWM France, driven by positive investment assumption changes due to rising long-term interest rates in 2015 compared to falling rates in 2014.

Net insurance claims, benefits paid and movement in liabilities to policyholders increased by £97 million. This reflected higher investment returns on assets held to support liabilities under contracts where the policyholder bears investment risk. This increase was due to stronger equity market movements in the first half of 2015 compared to 2014 in the UK and France.

Loan impairment charges and other credit risk provisions increased by £30 million. This was mainly in GB&M driven by higher provisions for Greece-related exposures and lower net releases on available-for-sale asset-backed securities, which were partly offset by lower individually assessed loan provisions, notably in the UK and France.

In CMB loan impairment charges increased by £13 million, as we recorded higher provisions for Greece-related exposures and higher individually assessed impairments in the UK, partly offset by marginal collective releases in the UK and lower individually assessed impairments in Spain.

RBWM and GPB loan impairment charges were broadly in line with the first half of 2014.

Total operating expenses increased by £678 million. The increase included a number of significant items including:

- £511 million of settlements and provisions in connection with legal and regulatory matters in GB&M;
- £85 million of insurance recovery recognised in 2014 relating to Madoff litigation costs; partially offset by
- lower UK customer redress provisions, notably in estimated redress for possible mis-selling in previous years of payment protection insurance ('PPI') policies (H1 2015: £60 million: H1 2014: £116 million).

Excluding these, expenses were higher reflecting an increase in compliance and regulatory programme costs across RBWM, CMB and GB&M in line with the implementation of Global Standards.

For further details of significant items affecting revenues and costs, please refer to disclosure note on pages 15 and 16.

Tax expense totalled £590 million, compared to £383 million in the first half of 2014. The effective tax rate for the first half of 2015 was 27.6 per cent, compared to 20.1 per cent for the same period in 2014. The increase in tax expense was driven by the permanent disallowance of the settlements and provisions in connection with legal and regulatory matters and an increase in profits in the French group which are subject to a higher tax rate than the UK statutory rate.

Review of business position

Summary consolidated balance sheet

	At 30 June 2015 £m	At 31 December 2014 £m
Total assets	**749,853**	797,289
Cash and balances at central banks	**49,507**	42,853
Trading assets	**129,442**	130,127
Financial assets designated at fair value	**6,891**	6,899
Derivative assets	**161,231**	187,736
Loans and advances to banks	**23,288**	25,262
Loans and advances to customers	**248,042**	257,252
Reverse repurchase agreements – non-trading	**38,424**	41,945
Financial investments	**67,571**	76,194
Other	**25,457**	29,021
Total liabilities	**714,292**	760,591
Deposits by banks	**27,481**	27,590
Customer accounts	**336,964**	346,507
Repurchase agreements – non-trading	**15,283**	23,353
Trading liabilities	**85,266**	82,600
Financial liabilities designated at fair value	**19,632**	22,552
Derivative liabilities	**159,250**	188,278
Debt securities in issue	**29,833**	27,921
Liabilities under insurance contracts issued	**16,243**	17,522
Other	**24,340**	24,268
Total equity	**35,561**	36,698
Total shareholders' equity	**34,975**	36,078
Non-controlling interests	**586**	620

Total assets reduced to £750 billion, principally reflecting a reduction in derivative assets and loans and advances to customers, partially offset by an increase in cash and balances at central banks.

The group maintained a strong and liquid balance sheet with a ratio of customer advances to customer accounts of 73.6 per cent (December 2014: 74.2 per cent).

The group's Common Equity Tier 1 ratio was 9.3 per cent (31 December 2014: 8.7 per cent). Risk-weighted assets of £234,513 million were 4 per cent lower than at 31 December 2014.

The group plans to dispose of its operations in Turkey as part of the plans to re-size and simplify the business, announced in the investors update on 9 June 2015. The assets and liabilities relating to Turkey are included within the individual balance sheet line items and have not been reclassified as 'Held for Sale' as this planned disposal did not meet the requirements of IFRS 5 at the balance sheet date.

The UK pension insurance business has been 'Held for sale' since 2014 and is included in 'other assets' and 'other liabilities'.

Assets

Cash and balances at central banks increased by 16 per cent in line with a decrease of *Financial investments* of 11 per cent, mainly due to disposals of UK Gilts during the first half of 2015.

Trading assets decreased by 1 per cent primarily due to a decrease in debt securities offset by a rise in settlement balances, which vary according to customer trading activity, and are typically lower at the end of the year.

Derivative assets decreased by 14 per cent, principally due to a reduction in fair value of interest rate contracts in the UK and France reflecting movements in yield curves.

Loans and advances to banks decreased by 8 per cent principally due to lower level of lending to other HSBC Group entities.

Loans and advances to customers decreased by 4 per cent, predominantly due to a decrease in corporate overdraft and corresponding corporate customer balances supported by initiatives with clients to settle gross positions. This was partially offset by an increase in term lending to corporate customers, notably in the UK and Germany.

Reverse repurchase agreements – non trading decreased by 8 per cent, primarily in Turkey due to reduced market opportunities.

Other assets decreased by 12 per cent mainly due to a decrease in cash collateral placed with clearing houses and a reduction in the defined benefit pension surplus.

Liabilities

Customer accounts decreased by 3 per cent, in line with the decrease in corresponding corporate overdraft balances.

Repurchase agreements – non trading decreased by 35 per cent. This reflected maturing repo positions in the UK and France.

Trading liabilities increased by 3 per cent mainly due to a rise in settlement account balances in the UK.

Financial liabilities designated at fair value decreased by 13 per cent predominately due to maturities in USD and EUR denominated securities.

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

Debt securities in issue increased by 7 per cent mainly due to new issuances of Bonds and Medium Term notes and Certificate of deposits due to higher funding requirements.

Liabilities under insurance contracts decreased by 7 per cent mainly as a result of foreign exchange movements.

Equity

Total shareholders' equity decreased by 3 per cent, mainly due to adverse foreign exchange rate movements and movements in reserves reflecting a decrease in the defined benefit pension surplus, following lower than expected asset returns and an increase in the assumed inflation.

Risk

Robust risk governance and accountability are embedded throughout the Group, fostering a continuous monitoring of the risk environment and an integrated evaluation of risks and their interactions. The Group risk governance framework ensures the appropriate oversight of and accountability for the effective management of risk, including financial crime risk, at Group, regional and business levels.

The group's risk profile is underpinned by its core philosophy of maintaining a strong balance sheet and liquidity position and capital strength. The group continued to sustain a conservative risk profile during the first half of 2015 by managing and, where appropriate, reducing exposure to the most likely areas of stress. In particular, the group

- selectively managed its exposure to sovereign debt and bank counterparties to ensure that the overall quality of the portfolio remained strong;
- regularly assessed higher-risk countries and adjusted its risk appetite and exposures accordingly;
- repositioned certain portfolios through its six filters process and its focus on selected products or customer segments;
- made its client selection filters more robust in managing the risk of financial crime; and
- mitigated risks, for example reputational and operational, when they were forecast to exceed its risk appetite.

As a provider of banking and financial services, risk is at the core of the group's day-to-day activities. The group's activities involve, to varying degrees, the measurement, evaluation, acceptance and management of risk or a combination of risks. We employ a risk management framework at all levels of the organisation and across all risk types, fostering a continuous monitoring of the risk environment and an integrated evaluation of risks and their interactions. It is underpinned by a strong risk culture and reinforced by HSBC Values and Global Standards and ensures that our risk profile remains conservative and aligned to our risk appetite. Further details are set out in the *Annual Report and Accounts 2014*. There have been no material changes to our policies and practices regarding risk management and governance as described in the *Annual Report and Accounts 2014.*

Principal Risks and Uncertainties

The group continuously monitors and identifies risks. This process, which is informed by its risk factors and the results of its stress testing programme, gives rise to the classification of certain principal risks. Changes in the assessment of principal risks may result in adjustments to the group's business strategy and, potentially, its risk appetite.

Our principal banking risks are credit risk, operational risk, market risk, liquidity and funding risk, compliance risk and reputational risk. We also incur insurance risk.

Next to these banking risks we have identified further principal risks which have the potential to have a material impact on our financial results or reputation and the sustainability of our long-term business model.

During the first half of 2015, the group made a number of changes to its principal risks to reflect its revised assessment of their effect on the group. 'Internet crime and fraud' was removed as a principal risk as mitigating actions taken have reduced losses through digital channels. 'Reputational Risk in the current environment' was added to the list of principal risks, reflecting a potential impact on the group of either high profile allegations relating to any of the group's businesses or a result of ongoing or recently concluded regulatory investigations. Also added as principal risks were 'Risk of UK exit' and 'Records Management'.

Further details on the group's principal risks and uncertainties are set out below.

Principal risks:

Risk	Description	Mitigants
Macroeconomic and geopolitical risk		
Economic outlook and government intervention	Weak economic growth in both developed and emerging market countries could adversely affect global trade and capital flows and our profits from operations in those countries.	We closely monitor economic developments in key markets and appropriate action is taken as circumstances evolve. We use stress testing, both internal and regulatory programmes, to assess the effect of changes in economic conditions on our operations.
Increased geopolitical risk	Our operations are exposed to risks arising from political instability and civil unrest in a number of countries, which may have a wider effect on regional stability and regional and global economies. The developing eurozone crisis involving Greece has raised the profile of this risk further during the first half of 2015.	We continuously monitor the geopolitical and economic outlook, particularly in countries where we have material exposures and/or a physical presence.

Interim Management Report: Business Review (continued)

Macro-prudential, regulatory and legal risks to our business model		
Regulatory developments affecting our business model and Group profitability	Governments and regulators continue to develop and implement policies which impose new or additional requirements, particularly in the areas of capital and liquidity management and our business, governance and corporate structure.	We actively assess and consider the impact of relevant developments and engage closely with governments and regulators in the countries in which we operate. We seek to ensure that requirements are considered properly and implemented in an effective manner.
Regulatory and other investigations, fines, sanctions, commitments and other requirements relating to conduct of business and financial crime negatively affecting our results and brand	Financial service providers are at risk of regulatory and other sanctions or fines related to conduct of business and financial crime. These can take significant time both to crystallise and to resolve. Breach of the US DPA may allow the US authorities to prosecute HSBC with respect to matters covered thereunder.	The Group seeks actively to manage and defend HSBC's interests in those investigations. Significant programmes to enhance the management of conduct and financial crime risks are progressing in all global businesses and we have significantly enhanced our financial crime and regulatory compliance controls and resources. HSBC continues to take steps to address the requirements of the US DPA and other consent orders in consultation with the relevant regulatory agencies.
Competition risk	The European Commission and other national level competition authorities in Europe are continuing to focus on the financial sector when enforcing laws against anticompetitive practices. In the UK, the level of scrutiny is likely to rise further as the FCA and the Payment Systems Regulator became enforcers of these laws for the first time as of 1 April 2015.	We are implementing a comprehensive programme of risk mitigation measures to raise awareness of – and promote compliance with – competition laws. HSBC and its subsidiaries are cooperating with all regulatory investigations and reviews.
Risk of UK exit from EU	There is a risk that the UK may vote to exit the EU following a referendum expected to occur within the lifetime of the current Parliament.	We continue to use stress testing to access the impact of such an outcome on our European businesses and subsidiaries.
Dispute risk	HSBC is party to legal proceedings arising out of its normal business operations which could give rise to potential financial loss and significant reputational damage.	HSBC continues to focus on identifying emerging regulatory and judicial trends to limit exposure to litigation or regulatory enforcement action in the future.
Risks related to our business operations, governance and internal control systems		
Heightened execution risk	The complexity of projects to meet regulatory demands and risks arising from business and portfolio disposals may affect our ability to execute our strategy.	We have strengthened our prioritisation and governance processes for significant projects and have invested in our project implementation and IT capabilities.
People risk	Significant demands are being placed on the human capital of the Group due to the extent and pace of the regulatory and business change reform agendas.	We have reviewed our remuneration policy to ensure we can remain competitive and retain our key talent and continue to increase the level of specialist resources in key areas.
Information security risk	HSBC and other multinational organisations continue to be the targets of cyber attacks.	We have invested significantly in staff training and enhanced multi-layered controls to protect our information and technical infrastructure.
Data management	New regulatory requirements necessitate more frequent and granular data submissions, which must be produced on a consistent, accurate and timely basis.	HSBC's Data Strategy Board is driving consistent data aggregation, reporting and management across the Group.
Model risk	Adverse consequences could result from decisions based on incorrect model outputs or from models that are poorly developed, implemented or used.	Model development, usage and validation are subject to governance and independent review.
Records Management	A failure to manage physical records could impact on the group's ability to meet its regulatory and legislative obligations, as well as the operational needs of the business.	We are strengthening the effectiveness of our Records Management controls and improvements will be validated by our regulatory compliance controls and resources.
Reputational risk in the current environment	High profile allegations relating to any of the group's businesses, along with other on-going or recently concluded regulatory investigations potentially impacts upon the reputation of the group.	Reputational Risk continues to be monitored and managed by dedicated teams, led by the Global Head of Reputational Risk within the Group.

Areas of special interest

During the first half of 2015, there were a number of particular areas of focus as a result of the effect they have on the group. Whilst these areas may already have been identified in principal risks, further details of the actions taken in the last six months are provided below.

Financial crime compliance and regulatory compliance

HSBC has experienced increasing levels of compliance risk in recent years as regulators and other agencies pursued investigations into historical activities, for example, investigations related to compliance with anti-money laundering and sanctions laws and regulations (giving rise to the US DPA), mis-selling in the UK of PPI policies, investigations in connection with the setting of Libor, other benchmark interest rates, activities related to foreign exchange, precious metals and credit default swaps. Details of these investigations and legal proceedings can be found in Note 10 on the Financial Statements and the work of the Monitor, who has been appointed to assess HSBC's progress against the Group's various obligations in the US is described on page 4.

The level of inherent compliance risk remained high in the first half of 2015 as the industry continued to experience greater regulatory scrutiny and heightened levels of regulatory oversight and supervision.

Regulatory Stress Tests

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

HSBC Bank plc and the Group are taking part in the 2015 PRA concurrent stress test programme, involving all major UK banks. The scenarios for the 2015 stress test incorporate a synchronised global downturn affecting Asia and Emerging Markets, a reduction in global risk appetite and market liquidity, and a slowdown in the UK driven by the downturn in its trading partners, notably the euro area. 2015 PRA Stress Test results for the Group will be published by the Bank of England alongside the Financial Stability Report in the fourth quarter of 2015.

Eurozone

In light of recent developments in Greece we invoked our long established major incident crisis management procedures and continue to monitor the situation carefully. The rest of the eurozone, including Italy, Ireland, Portugal and Spain, has remained resilient. Various indicators such as credit default swap prices and interest rate spreads suggest that the risk of contagion to other peripheral Eurozone countries has been successfully contained.

As a result of the ongoing stress in Greece we have raised additional loan impairment charges and other credit risk provisions amounting to £0.1bn.

Exposures to Greece are described further in the tables below. Exposures to banks, other financial corporations, non-financial corporations are based on the counterparty's country of incorporation whilst exposures to households are based on the counterparty's country of residence. We separately identify exposures to the shipping industry. These are denominated in US dollars and booked in the UK. We believe the shipping industry is less sensitive to the Greek economy as it is mainly dependent on international trade. The average portfolio loan-to-value ('LTV') of our personal mortgages is 66 per cent. We have had restricted lending appetite in Greece for a number of years.

Summary of exposures to Greece

	£bn
On-balance sheet exposures	
Loans and advances	**1.9**
– other financial institutions and corporates	**0.4**
– shipping industry booked in UK	**1.1**
– personal – mortgages	**0.4**
Derivative assets	**0.3**
Gross balance sheet exposure before risk mitigation	**2.2**
Risk mitigation: collateral and derivative liabilities	**(0.3)**
Net on-balance sheet exposure	**1.9**
Off-balance sheet exposures	
Gross off-balance sheet exposures to banks before risk mitigation	**0.2**
Risk mitigation: collateral and guarantees held on off-balance sheet exposures to banks	**(0.1)**
Net off-balance sheet exposure to banks	**0.1**
Gross off-balance sheet exposure to customers	**0.4**
Net off-balance sheet exposures	**0.5**
Total net exposures at 30 June 2015	**2.4**

Interim Management Report: Business Review (continued)

Basis of preparation

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

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

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

Redenomination risk

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

Greece funding exposure

	Denominated in:			
	Euros	US Dollars	Other Currencies	Total
30 June 2015	**£bn**	**£bn**	**£bn**	**£bn**
Greece				
In-country assets	0.7	–	–	0.7
In-country liabilities	(0.5)	(0.2)	–	(0.7)
Net in-country funding	0.2	(0.2)	–	–
Off balance sheet exposure/hedging	–	–	–	–

Key risks associated with an exit by Greece include foreign exchange losses and external contracts redenomination risks as explained further in our *Annual Report and Accounts 2014* on pages 35 and 36.

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

Russia

Tensions rose in 2014 between the Russian Federation ('Russia') and western countries ('the West') in respect of the Ukraine resulting in sanctions being imposed by the West. The resolution of these issues will take time. Potentially additional sanctions could, if the environment deteriorated, be imposed and reciprocal actions taken by Russia, which may impact upon the activities of the group in Russia and with Russian counterparties. The fourth quarter of 2014 saw significant falls in the value of the Russian Rouble and the price of crude oil, and multiple interest rate rises implemented by Russia's Central Bank. The rebound of oil prices in early 2015 has reduced macro-economic risks for Russia, although this rebound may not prove sustainable in light of concerns over China's slowdown as the world's largest consumer of oil.

Monitoring and action in response to these developments and the sanctions requirements is ongoing and will impose some restrictions on the business in Russia, although the impact on the group has not been significant. The group's exposures to counterparties incorporated or domiciled in the Ukraine are not considered material. The outlook for Russia remains uncertain although the economic downturn predicted for 2015 seems less severe than that anticipated with GDP contracting 1.9 per cent year-on-year in the first quarter of 2015.

The group's Russian on-balance sheet exposures within loans and advances to banks was £0.6 billion (31 December 2014: £0.5 billion) and loans and advances to customers was £1.8 billion (31 December 2014: £2.2 billion).

Regulation and supervision

Regulatory Capital

On 1 January 2014, Capital Requirements Regulation and Directive ('CRD') IV came into force and capital and RWAs are calculated and presented on the group's interpretation of final CRD IV legislation and the PRA's final rules as set out in the PRA Rulebook. All comparatives for capital and RWAs in 2014 are calculated on the same basis.

The PRA rules transposed various areas of national discretion within the final CRD IV legislation into UK law. Whilst CRD IV allows for the majority of regulatory adjustments and deductions from CET1 to be implemented on a gradual basis from 1 January 2014 to 1 January 2018, the PRA has largely decided not to adopt most of these transitional provisions, instead opting for an acceleration of the CRD IV end point definition of CET1 capital. In particular, from 1 January 2015, unrealised gains on investment property and available-for-sale securities are recognised in CET1 capital. As a result, the group's end point and transitional CET1 ratios are now aligned. Transitional provisions, however, continue to apply for additional tier 1 and tier 2 capital.

For additional tier 1 and tier 2 capital, the PRA followed the transitional provisions timing as set out in CRD IV to apply the necessary regulatory adjustments and deductions. The effect of these adjustments is being phased in at 20 per cent per annum from 1 January 2014 to 1 January 2018. Furthermore, non-CRD IV compliant additional tier 1 and tier 2 instruments benefit from a grandfathering period. This progressively reduces the eligible amount by 10 per cent annually, following an initial reduction of 20 per cent on 1 January 2014, until they are fully phased out by 1 January 2022.

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

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

The group's approach to managing its capital position has been to ensure the bank, regulated subsidiaries and the group exceed current regulatory requirements and is well placed to meet future regulatory requirements from the on-going implementation of CRD IV.

The table below provides a comparison of the key capital numbers period-on-period.

Key capital numbers

	At 30 June 2015	At 31 December 2014
Capital resources (£m)		
CET 1	**21,757**	21,091
Tier 1 Capital	**25,573**	25,138
Total Capital	**33,652**	33,556
Risk Weighted Assets (£m)		
Credit Risk	**159,715**	168,600
- IRB	**128,080**	137,206
- Standardised	**31,635**	31,394
Counterparty Credit Risk	**28,010**	30,364
Market Risk	**24,537**	22,437
Operational Risk	**22,251**	22,251
Total Risk Weighted Assets	**234,513**	243,652
Capital Ratios (%)		
CET 1	**9.3**	8.7
Total Tier 1	**10.9**	10.3
Total Capital	**14.3**	13.8

Interim Management Report: Business Review (continued)

RWA movement by business by key driver – credit risk – IRB only

	RBWM £bn	CMB £bn	GB&M £bn	GPB £bn	Other £bn	Total £bn
RWAs at 1 January 2015	14.3	49.0	69.2	2.7	2.0	137.2
Foreign exchange movement	(0.2)	(0.9)	(1.1)	–	(0.1)	(2.3)
Book size	0.4	3.5	(1.4)	(0.1)	–	2.4
Book quality[1]	(0.6)	0.2	(9.9)	0.1	0.1	(10.1)
Model new/updated	1.1	0.3	–	–	–	1.4
Methodology and policy	–	0.5	(1.0)	–	–	(0.5)
– internal updates	–	0.5	(2.5)	–	–	(2.0)
– external updates – regulatory	–	–	1.5	–	–	1.5
Total RWA movement	0.7	3.6	(13.4)	–	–	(9.1)
RWAs at 30 June 2015	15.0	52.6	55.8	2.7	2.0	128.1

[1] Reflects the disposal of assets with risk-weighting above the average for the book.

Performance and Business Review

Profit/(loss) on ordinary activities before tax

	Half year to		
	30 June 2015 £m	30 June 2014 £m	31 December 2014 £m
Retail Banking and Wealth Management	**606**	287	(74)
Commercial Banking	**881**	933	659
Global Banking and Markets	**606**	784	(803)
Global Private Banking	**97**	69	46
Other/Intersegment	**(54)**	(171)	223
	2,136	1,902	51

Reported performance

HSBC Bank plc and its subsidiaries reported a profit before tax of £2,136 million, £234 million or 12 per cent higher than the first half of 2014.

In RBWM, reported profit before tax increased by £319 million primarily due to higher revenue and lower expenses both reflecting movements in significant items including lower provisions arising from a review of compliance with the Consumer Credit Act ('CCA') and lower customer redress charges. Excluding these, RBWM reported a fall in profit before tax of £39 million mainly driven by higher expenses partly offset by marginally higher revenue.

CMB's reported profit before tax fell by £52 million driven by increased costs and higher loan impairment charges.

GB&M's reported profit before tax reduced by £178 million, mainly driven by higher costs reflecting a number of significant items including provisions in connection with legal and regulatory matters partly offset by higher revenue. Excluding these, profit before tax increased by £387 million due to strong Markets revenue partly offset by a rise in operating expenses.

In GPB, reported profit before tax rose by £28 million due to higher revenue reflecting a partial release of provisions arising from a review of compliance with the Consumer Credit Act of £16 million in the first half of 2015 and gains on sale of a portfolio of liquid assets in the UK.

Adjusted performance

Significant revenue items by business segment – gains/(losses)

	RBWM £m	CMB £m	GB&M £m	GPB £m	Other £m	Intersegment £m	Total £m
Half year to 30 June 2015							
Reported revenue	**2,341**	**1,693**	**2,675**	**202**	**172**	**(31)**	**7,052**
Less significant revenue items	**12**	**–**	**43**	**15**	**81**	–	**151**
Change in credit spread on long-term debt	**–**	**–**	**–**	**–**	**82**	–	**82**
Debit valuation adjustment on derivative contracts	–	**–**	**52**	**–**	**–**	–	**52**
Fair value movement on non-qualifying hedges	**20**	**–**	**(9)**	**(1)**	**(1)**	–	**9**
Provisions arising from the on-going review of compliance with the CCA in the UK	**(8)**	**–**	**–**	**16**	**–**	–	**8**
Adjusted revenue	**2,329**	**1,693**	**2,632**	**187**	**91**	**(31)**	**6,901**
30 June 2014							
Reported revenue	2,084	1,699	2,185	179	4	(40)	6,111
Less significant revenue items	(282)	(8)	22	–	(38)	–	(306)
Change in credit spread on long-term debt	–	–	–	–	(38)	–	(38)
Debit valuation adjustment on derivative contracts	–	–	(47)	–	–	–	(47)
Fair value movement on non-qualifying hedges	(75)	–	69	–	–	–	(6)
Provisions arising from the on-going review of compliance with the CCA in the UK	(207)	(8)	–	–	–	–	(215)
Adjusted revenue	2,366	1,707	2,163	179	42	(40)	6,417
31 December 2014							
Reported revenue	2,124	1,735	1,494	145	320	(43)	5,775
Less significant revenue items	(210)	(7)	(162)	(26)	55	–	(350)
Change in credit spread on long-term debt	–	–	–	–	55	–	55
Debit valuation adjustment on derivative contracts	–	–	(96)	–	–	–	(96)
Fair value movement on non-qualifying hedges	(80)	1	(66)	–	–	–	(145)
Provisions arising from the on-going review of compliance with the CCA in the UK	(130)	(8)	–	(26)	–	–	(164)
Adjusted revenue	2,334	1,742	1,656	171	265	(43)	6,125

Interim Management Report: Business Review (continued)

Significant cost items by business segment – (recoveries)/charges

	RBWM £m	CMB £m	GB&M £m	GPB £m	Other £m	Intersegment £m	Total £m
Half year to 30 June 2015							
Reported operating expenses	**(1,658)**	**(723)**	**(2,047)**	**(104)**	**(226)**	**31**	**(4,727)**
Add significant cost items	**61**	**33**	**519**	**–**	**23**	**–**	**636**
UK customer redress programmes	**60**	**32**	-	**–**	**–**	**–**	**92**
Restructuring and other related costs	**1**	**1**	**8**	**–**	**23**	**–**	**33**
Madoff related litigation costs	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Settlements and provisions in connection with legal and regulatory matters	**–**	**–**	**511**	**–**	**–**	**–**	**511**
Adjusted operating expenses	**(1,597)**	**(690)**	**(1,528)**	**(104)**	**(203)**	**31**	**(4,091)**
30 June 2014							
Reported operating expenses	(1,720)	(690)	(1,396)	(107)	(176)	40	(4,049)
Add significant cost items	125	12	(67)	–	20	–	90
UK customer redress programmes	119	12	13	–	–	–	144
Restructuring and other related costs	6	–	5	–	20	–	31
Madoff related litigation costs	–	–	(85)	–	–	–	(85)
Settlements and provisions in connection with legal and regulatory matters	–	–	–	–	–	–	–
Adjusted operating expenses	(1,595)	(678)	(1,463)	(107)	(156)	40	(3,959)
31 December 2014							
Reported operating expenses	(2,114)	(845)	(2,319)	(106)	(97)	43	(5,438)
Add significant cost items	492	81	745	–	15	–	1,333
UK customer redress programmes	483	73	77	–	–	–	633
Restructuring and other related costs	9	8	9	–	15	–	41
Madoff related litigation costs	–	–	(87)	–	–	–	(87)
Settlements and provisions in connection with legal and regulatory matters	–	–	746	–	–	–	746
Adjusted operating expenses	(1,622)	(764)	(1,574)	(106)	(82)	43	(4,105)

Net impact on profit before tax by business segment

	RBWM £m	CMB £m	GB&M £m	GPB £m	Other £m	Intersegment £m	Total £m
Half year to 30 June 2015							
Reported profit/(loss) before tax	**606**	**881**	**606**	**97**	**(54)**	–	**2,136**
Less significant revenue items	**12**	**–**	**43**	**15**	**81**	–	**151**
Add significant cost items	**61**	**33**	**519**	**–**	**23**	–	**636**
Adjusted profit/(loss) before tax	**655**	**914**	**1,082**	**82**	**(112)**	–	**2,621**
Net impact on reported profit and loss	**49**	**33**	**476**	**(15)**	**(58)**	–	**485**
30 June 2014							
Reported profit/(loss) before tax	287	933	784	69	(171)	–	1,902
Less significant revenue items	(282)	(8)	22	–	(38)	–	(306)
Add significant cost items	125	12	(67)	–	20	–	90
Adjusted profit/(loss) before tax	694	953	695	69	(113)	–	2,298
Net impact on reported profit and loss	407	20	(89)	–	58	–	396
31 December 2014							
Reported profit/(loss) before tax	(74)	659	(803)	46	223	–	51
Less significant revenue items	(210)	(7)	(162)	(26)	55	–	(350)
Add significant cost items	492	81	745	–	15	–	1,333
Adjusted profit/(loss) before tax	628	747	104	72	183	–	1,734
Net impact on reported profit and loss	702	88	907	26	(40)	–	1,683

The following business commentary is on an adjusted basis. Adjusted performance is computed by adjusting reported results for the period-on-period effects of significant items, which distort period-on-period performance. Please also refer to page 18 of the *Annual Report and Accounts 2014* for a discussion of the use of non-GAAP financial measures and significant items.

Profit before tax

HBSC Bank plc and its subsidiaries recorded an adjusted profit before tax of £2,621 million, £323 million or 14 per cent higher than the first half of 2014. Overall profits in GB&M rose while RBWM and CMB reported a reduction in adjusted profits compared to the prior year.

Interim Management Report: Business Review (continued)

Revenue[1] increased from £6,417 million to £6,901 million, or 8 per cent, dampened by adverse foreign exchange movements.

The majority of the increase was in GB&M, notably in Markets, where income rose in Equities and Foreign Exchange following increased volatility in the period, with the former also benefitting from higher client flows. GB&M also recorded favourable movements on own credit spreads compared with minimal movements in the first half of 2014 and larger gains from hedging programmes than prior period. In addition Balance Sheet Management revenue increased, in part driven by higher gains on disposal of available-for-sale debt securities. These increases were partially offset by a reduction in Capital Financing, notably in Credit and Lending where we recorded revaluation losses on client positions in the current period compared to revaluation gains and income from sales and restructuring in the first half of 2014. We also experienced challenging market conditions in Debt Capital Markets ('DCM').

CMB revenue rose excluding the effects of foreign exchange movements. The increase was primarily in the UK reflecting growth in average term lending and PCM deposit balances. By contrast in France, revenue decreased due to a fall in deposit spreads, despite growth in balances.

RBWM revenue excluding the effects of foreign exchange movements increased, notably in France, in the insurance business due to favourable movements in the PVIF assets compared to adverse movements in 2014. This was driven by positive investment assumption changes due to rising interest rates in the first half of 2015 compared to falling rates in the same period in 2014. Excluding these movements, revenue increased mainly driven by higher fee income. This was partially offset by a reduction in the UK, driven by a decrease in fee income due to the re-pricing of overdraft fees and lower balances resulting from the introduction of a new customer text-alert. In addition, net interest income decreased driven by spread compression and lower average balances on mortgages. Revenue in Turkey also declined due to the adverse effect of regulatory changes relating to loans and cards.

GPB revenue was higher compared to the prior year mainly driven by gains on sale of portfolio of liquid assets in the UK.

Revenue in 'Other' increased mainly due to transfers to the income statement of previously recognised gains on cash flow hedges.

Loan impairment charges and other credit risk provisions increased by £30 million to £191 million. The increase in GB&M was driven by lower net releases on available-for-sale asset-backed securities and higher provisions for Greece-related exposures, partly offset by lower individually assessed loan provisions notably in the UK and France.

In CMB loan impairment charges increased as we recorded higher provisions for Greece-related exposures and higher individually assessed impairments in the UK, partly offset by marginal collective releases in the UK and lower individually assessed impairments in Spain.

RBWM and GPB loan impairment charges were broadly in line with the first half of 2014.

Total operating expenses increased by £132 million to £4,091 million including favourable foreign exchange movements. Operating expenses increased across GB&M, RBWM and CMB primarily due to increased regulatory programmes and compliance related costs in line with the implementation of Global Standards. In addition, GB&M expenses rose driven by higher staff costs and IT costs notably in the UK and to a lesser extent in France. GPB expenses were broadly in line with the prior year.

---

[1] *Net operating income before loan impairment charges and other credit risk provisions, also referred to as revenue.*

Interim Management Report: Business Review (continued)

Retail Banking and Wealth Management

	Half year to		
	30 June 2015 £m	30 June 2014 £m	31 December 2014 £m
Net interest income	**1,694**	1,540	1,618
Net fee income	**554**	670	686
Trading income	**49**	(79)	(70)
Other income	**44**	(47)	(110)
Net operating income before impairments and provisions	**2,341**	2,084	2,124
Loan impairment charges and credit risk provisions	**(79)**	(78)	(84)
Net operating income	**2,262**	2,006	2,040
Total operating expenses	**(1,658)**	(1,720)	(2,114)
Operating profit/(loss)	**604**	286	(74)
Share of profit of associates and joint ventures	**2**	1	–
Profit/(loss) before tax	**606**	287	(74)

Profit/(loss) before tax – by country

	Half year to		
	30 June 2015 £m	30 June 2014 £m	31 December 2014 £m
United Kingdom	**457**	338	43
France	**185**	(23)	(90)
Germany	**8**	9	8
Turkey	**(48)**	(50)	(44)
Malta	**9**	10	6
Other	**(5)**	3	3
Profit/(loss) before tax	**606**	287	(74)

Adjusted profit/(loss) before tax

	Half year to		
	30 June 2015 £m	30 June 2014 £m	31 December 2014 £m
Reported profit/(loss) before tax	**606**	287	(74)
Net impact of significant items	**49**	407	702
Adjusted profit/(loss) before tax	**655**	694	628

Interim Management Report: Business Review (continued)

Commercial Banking

	Half year to		
	30 June 2015 £m	30 June 2014 £m	31 December 2014 £m
Net interest income	**1,097**	1,082	1,113
Net fee income	**559**	585	568
Trading income	**11**	12	9
Other income	**26**	20	45
Net operating income before impairments and provisions	**1,693**	1,699	1,735
Loan impairment charges and credit risk provisions	**(89)**	(76)	(232)
Net operating income	**1,604**	1,623	1,503
Total operating expenses	**(723)**	(690)	(845)
Operating profit	**881**	933	658
Share of profit of associates and joint ventures	**–**	–	1
Profit before tax	**881**	933	659

Profit before tax – by country

	Half year to		
	30 June 2015 £m	30 June 2014 £m	31 December 2014 £m
United Kingdom	**766**	797	580
France	**54**	74	72
Germany	**20**	23	20
Turkey	**8**	13	(11)
Malta	**11**	13	(3)
Other	**22**	13	1
Profit before tax	**881**	933	659

Adjusted profit before tax

	Half year to		
	30 June 2015 £m	30 June 2014 £m	31 December 2014 £m
Reported profit before tax	**881**	933	659
Net impact of significant items	**33**	20	88
Adjusted profit before tax	**914**	953	747

Interim Management Report: Business Review (continued)

Global Banking and Markets

	Half year to		
	30 June 2015 £m	30 June 2014 £m	31 December 2014 £m
Net interest income[1]	**694**	599	581
Net fee income	**251**	386	257
Trading income	**1,145**	578	1,059
Other income	**585**	622	(403)
Net operating income before impairments and provisions	**2,675**	2,185	1,494
Loan impairment charges and credit risk provisions	**(22)**	(5)	21
Net operating income	**2,653**	2,180	1,515
Total operating expenses	**(2,047)**	(1,396)	(2,319)
Operating profit/(loss)	**606**	784	(804)
Share of profit of associates and joint ventures	**–**	–	1
Profit before tax/(loss)	**606**	784	(803)

1 *The bank's Balance Sheet Management business, reported within Global Banking and Markets, provides funding to the trading businesses. To report Global Banking and Markets trading income on a fully funded basis, net interest income and net trading income are grossed up to reflect internal funding transactions prior to their elimination in the Inter Segment column (refer to Note 4).*

Profit/(loss) before tax – by country

	Half year to		
	30 June 2015 £m	30 June 2014 £m	31 December 2014 £m
United Kingdom	**273**	374	(1,082)
France	**158**	143	69
Germany	**49**	51	48
Turkey	**32**	21	35
Malta	**7**	9	8
Other	**87**	186	119
Profit/(loss) before tax	**606**	784	(803)

Adjusted profit / (loss) before tax

	Half year to		
	30 June 2015 £m	30 June 2014 £m	31 December 2014 £m
Reported profit/(loss) before tax	**606**	784	(803)
Net impact of significant items	**476**	(89)	907
Adjusted profit before tax	**1,082**	695	104

Interim Management Report: Business Review (continued)

Global Private Banking

	Half year to		
	30 June 2015 £m	30 June 2014 £m	31 December 2014 £m
Net interest income	**126**	113	90
Net fee income	**57**	54	58
Trading income	**5**	7	4
Other income	**14**	5	(7)
Net operating income before impairments and provisions	**202**	179	145
Loan impairment charges and credit risk provisions	**(1)**	(3)	7
Net operating income	**201**	176	152
Total operating expenses	**(104)**	(107)	(106)
Operating profit	**97**	69	46
Share of profit of associates and joint ventures	**–**	–	–
Profit before tax	**97**	69	46

Profit before tax – by country

	Half year to		
	30 June 2015 £m	30 June 2014 £m	31 December 2014 £m
United Kingdom	**84**	60	40
France	**7**	(1)	1
Germany	**8**	10	6
Other	**(2)**	–	(1)
Profit before tax	**97**	69	46

Adjusted profit before tax

	Half year to		
	30 June 2015 £m	30 June 2014 £m	31 December 2014 £m
Reported profit before tax	**97**	69	46
Net impact of significant items	**(15)**	-	26
Adjusted profit before tax	**82**	69	72

Interim Management Report: Business Review (continued)

Other

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

	Half year to		
	30 June 2015 £m	30 June 2014 £m	31 December 2014 £m
Net interest income	**(47)**	(21)	(21)
Net fee income	**2**	2	–
Trading income	**48**	(5)	29
Change in credit spread on long term debt	**82**	(38)	55
Other income	**87**	66	257
Net operating income before impairments and provisions	**172**	4	320
Loan impairment charges and credit risk provisions	**–**	1	–
Net operating income	**172**	5	320
Total operating expenses	**(226)**	(176)	(97)
Operating profit/(loss)	**(54)**	(171)	223
Share of profit of associates and joint ventures	**–**	–	–
Profit/(loss) before tax	**(54)**	(171)	223

Adjusted profit/(loss) before tax

	Half year to		
	30 June 2015 £m	30 June 2014 £m	31 December 2014 £m
Reported profit/(loss) before tax	**(54)**	(171)	223
Net impact of significant items	**(58)**	58	(40)
Adjusted profit/(loss) before tax	**(112)**	(113)	183

Statement of Directors' Responsibilities

The Directors, who are required to prepare the financial statements on the going concern basis unless it is not appropriate, are satisfied that the group and bank have the resources to continue in business for the foreseeable future and that the financial statements continue to be prepared on the going concern basis.

The Directors, the names of whom are set out below, confirm that to the best of their knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU; and
- the interim management report includes a fair review of the information required by DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year ending 31 December 2015 and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the financial year.

J R Symonds† (Chairman); J F Trueman† (Deputy Chairman); A M Keir (Chief Executive); S Assaf; S N Cooper; Dame Denise Holt†; S W Leathes†; Dame Mary Marsh†; R E S Martin†; T B Moulonguet†; and A P Simoes (Deputy Chief Executive);

On behalf of the Board
A M Keir
Chief Executive

3 August 2015

† *Independent non-executive Director*

Condensed Financial Statements (unaudited)

Consolidated income statement

for the half-year to 30 June 2015

		Half year to	
		30 June 2015	30 June 2014
	Notes	**£m**	£m
Interest income		**4,712**	4,694
Interest expense		**(1,208)**	(1,453)
Net interest income		**3,504**	3,241
Fee income		**2,110**	2,406
Fee expense		**(687)**	(709)
Net fee income		**1,423**	1,697
Trading income excluding net interest income		**1,067**	315
Net interest income on trading activities		**251**	270
Net trading income		**1,318**	585
Changes in fair value of long-term debt and related derivatives		**503**	394
Net income from other financial instruments designated at fair value		**335**	265
Net income/(expense) from financial instruments designated at fair value		**838**	659
Gains less losses from financial investments		**136**	84
Dividend income		**6**	10
Net insurance premium income		**900**	943
Other operating income		**232**	100
Total operating income		**8,357**	7,319
Net insurance claims, benefits paid and movement in liabilities to policyholders		**(1,305)**	(1,208)
Net operating income before loan impairment charges and other credit risk provisions		**7,052**	6,111
Loan impairment charges and other credit risk provisions	3	**(191)**	(161)
Net operating income		**6,861**	5,950
Employee compensation and benefits		**(2,153)**	(2,053)
General and administrative expenses		**(2,332)**	(1,735)
Depreciation and impairment of property, plant and equipment		**(122)**	(157)
Amortisation and impairment of intangible assets		**(120)**	(104)
Total operating expenses		**(4,727)**	(4,049)
Operating profit		**2,134**	1,901
Share of profit in associates and joint ventures		**2**	1
Profit before tax		**2,136**	1,902
Tax expense		**(590)**	(383)
Profit for the period		**1,546**	1,519
Profit attributable to shareholders of the parent company		**1,529**	1,499
Profit attributable to non-controlling interests		**17**	20

Consolidated statement of comprehensive income

for the half-year to 30 June 2015

	30 June 2015 £m	30 June 2014 £m
Profit for the period	**1,546**	1,519
Other comprehensive income		
Items that will be reclassified subsequently to profit or loss when specific conditions are met		
Available-for-sale investments:		
– fair value gains	**26**	415
– fair value (gains)/losses transferred to the income statement on disposal	**(122)**	61
– amounts transferred to the income statement in respect of impairment (gains)/losses	**(6)**	6
– income taxes	**13**	(154)
Cash flow hedges:		
– fair value gains	**103**	177
– fair value gains transferred to the income statement	**(344)**	(144)
– income taxes	**68**	(22)
Exchange differences and other	**(1,053)**	(471)
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of the defined benefit asset		
– before income taxes	**(1,242)**	310
– income taxes	**244**	(59)
Other comprehensive income for the period, net of tax	**(2,313)**	119
Total comprehensive income for the period	**(767)**	1,638
Total comprehensive income for the period attributable to:		
– shareholders of the parent company	**(745)**	1,630
– non-controlling interests	**(22)**	8
	(767)	1,638

Consolidated statement of financial position

at 30 June 2015

	Notes	30 June 2015 £m	31 December 2014 £m
ASSETS			
Cash and balances at central banks		**49,507**	42,853
Items in the course of collection from other banks		**1,413**	973
Trading assets	*5*	**129,442**	130,127
Financial assets designated at fair value	*5*	**6,891**	6,899
Derivatives	*5, 6*	**161,231**	187,736
Loans and advances to banks	*6*	**23,288**	25,262
Loans and advances to customers	*6*	**248,042**	257,252
Reverse repurchase agreements – non-trading	*6*	**38,424**	41,945
Financial investments	*5*	**67,571**	76,194
Prepayments, accrued income and other assets		**16,894**	20,319
Current tax assets		**72**	190
Interests in associates and joint ventures		**67**	69
Goodwill and intangible assets		**6,838**	7,294
Deferred tax assets		**173**	176
Total assets		**749,853**	797,289
LIABILITIES AND EQUITY			
Liabilities			
Deposits by banks	*6*	**27,481**	27,590
Customer accounts	*6*	**336,964**	346,507
Repurchase agreements – non-trading	*6*	**15,283**	23,353
Items in the course of transmission to other banks		**721**	667
Trading liabilities	*5*	**85,266**	82,600
Financial liabilities designated at fair value	*5*	**19,632**	22,552
Derivatives	*5, 6*	**159,250**	188,278
Debt securities in issue	*6*	**29,833**	27,921
Accruals, deferred income and other liabilities		**12,725**	12,417
Current tax liabilities		**222**	255
Liabilities under insurance contracts issued		**16,243**	17,522
Provisions	*8*	**1,963**	1,707
Deferred tax liabilities		**126**	364
Subordinated liabilities	*6*	**8,583**	8,858
Total liabilities		**714,292**	760,591
Equity			
Called up share capital		**797**	797
Share premium account		**20,733**	20,733
Other equity instruments		**2,196**	2,196
Other reserves		**(502)**	772
Retained earnings		**11,751**	11,580
Total shareholders' equity		**34,975**	36,078
Non-controlling interests		**586**	620
Total equity		**35,561**	36,698
Total equity and liabilities		**749,853**	797,289

Consolidated statement of cash flows

for the half-year to 30 June 2015

	30 June 2015 £m	30 June 2014 £m
Cash flows from operating activities		
Profit before tax	**2,136**	1,902
Adjustments for:		
– non-cash items included in profit before tax	**1,022**	813
– change in operating assets	**23,075**	(32,657)
– change in operating liabilities	**(19,655)**	(4,861)
– elimination of exchange differences	**4,885**	2,645
– net gain from investing activities	**(137)**	(91)
– share of profit in associates and joint ventures	**(2)**	(1)
– contributions paid to defined benefit plans	**(62)**	(93)
– tax paid	**(441)**	(307)
Net cash generated from/ (used in) operating activities	**10,821**	(32,650)
Cash flows from investing activities		
Purchase of financial investments	**(13,873)**	(18,421)
Proceeds from the sale and maturity of financial investments	**18,984**	16,597
Purchase of property, plant and equipment	**(140)**	(138)
Proceeds from the sale of property, plant and equipment	**14**	13
Purchase of goodwill and intangible assets	**(98)**	(93)
Proceeds from the sale of intangible assets	**1**	–
Net cash outflow from acquisition of businesses and subsidiaries	**(8)**	–
Purchase of HSBC Holdings plc shares to satisfy share-based payment transactions	**–**	(10)
Net cash generated from/ (used in) investing activities	**4,880**	(2,052)
Cash flows from financing activities		
Subordinated loan capital repaid	**–**	(29)
Net cash inflow from change in stake of subsidiaries	**2**	–
Dividends paid to shareholders	**(377)**	(630)
Dividends paid to non-controlling interests	**(12)**	(14)
Net cash used in financing activities	**(387)**	(673)
Net increase/ (decrease) in cash and cash equivalents	**15,314**	(35,375)
Cash and cash equivalents at 1 January	**71,500**	108,769
Effect of exchange rate changes on cash and cash equivalents	**(2,316)**	(1,637)
Cash and cash equivalents at 30 June	**84,498**	71,757

Condensed Financial Statements (unaudited) (continued)

Consolidated statement of changes in equity

for the half-year to 30 June 2015

					Other reserves					
	Called up share capital £m	Share premium £m	Other equity instru-ments	Retained earnings £m	Available-for-sale fair value reserve £m	Cash flow hedging reserve £m	Foreign exchange reserve £m	Total share-holders' equity £m	Non-controlling interests £m	Total equity £m
At 1 January 2015	**797**	**20,733**	**2,196**	**11,580**	**1,070**	**176**	**(474)**	**36,078**	**620**	**36,698**
Profit for the period	**–**	**–**	**–**	**1,529**	**–**	**–**	**–**	**1,529**	**17**	**1,546**
Other comprehensive income (net of tax)	**–**	**–**	**–**	**(1,000)**	**(86)**	**(173)**	**(1,015)**	**(2,274)**	**(39)**	**(2,313)**
Available-for-sale investments	**–**	**–**	**–**	**–**	**(86)**	**–**	**–**	**(86)**	**(3)**	**(89)**
Cash flow hedges[1]	**–**	**–**	**–**	**–**	**–**	**(173)**	**–**	**(173)**	**–**	**(173)**
Remeasurement of defined benefit asset/liability	**–**	**–**	**–**	**(1,000)**	**–**	**–**	**–**	**(1,000)**	**2**	**(998)**
Exchange differences and other	**–**	**–**	**–**	**–**	**–**	**–**	**(1,015)**	**(1,015)**	**(38)**	**(1,053)**
Total comprehensive income for the period	**–**	**–**	**–**	**529**	**(86)**	**(173)**	**(1,015)**	**(745)**	**(22)**	**(767)**
Dividends to shareholders	**–**	**–**	**–**	**(377)**	**–**	**–**	**–**	**(377)**	**(12)**	**(389)**
Net impact of equity-settled share-based payments	**–**	**–**	**–**	**20**	**–**	**–**	**–**	**20**	**–**	**20**
Change in business combinations and other movements	**–**	**–**	**–**	**(1)**	**–**	**–**	**–**	**(1)**	**–**	**(1)**
At 30 June 2015	**797**	**20,733**	**2,196**	**11,751**	**984**	**3**	**(1,489)**	**34,975**	**586**	**35,561**
At 1 January 2014	797	20,427	–	10,225	634	(13)	300	32,370	549	32,919
Profit for the period	–	–	–	1,499	–	–	–	1,499	20	1,519
Other comprehensive income (net of tax)	–	–	–	253	323	11	(456)	131	(12)	119
Available-for-sale investments	–	–	–	–	323	–	–	323	5	328
Cash flow hedges	–	–	–	–	–	11	–	11	–	11
Remeasurement of defined benefit asset/liability	–	–	–	253	–	–	–	253	(2)	251
Exchange differences and other	–	–	–	–	–	–	(456)	(456)	(15)	(471)
Total comprehensive income for the period	–	–	–	1,752	323	11	(456)	1,630	8	1,638
Dividends to shareholders	–	–	–	(630)	–	–	–	(630)	(14)	(644)
Net impact of equity-settled share-based payments	–	–	–	24	–	–	–	24	–	24
Change in business combinations and other movements	–	–	–	–	–	–	–	–	16	16
At 30 June 2014	797	20,427	–	11,371	957	(2)	(156)	33,394	559	33,953

Note 1 Includes £103 million transferred to the income statement of previously recognised gains on cash flow hedges determined not to meet the hedge accounting criteria under IAS 39.

Notes on the Condensed Financial Statements (unaudited)

1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

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

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

Standards adopted during the period ended 30 June 2015

There were no new standards adopted during the period ended 30 June 2015.

During the half year ended 30 June 2015, the group applied a number of interpretations and amendments to standards which had an insignificant effect on the interim consolidated financial statements.

(b) Use of estimates and judgments

Management believes that the group's critical accounting estimates and judgements are those which relate to impairment of loans and advances, goodwill impairment, the valuation of financial instruments and provisions for liabilities. There was no change in the current period to the critical accounting estimates and judgements applied in 2014, which are stated on page 115 of the *Annual Report and Accounts 2014*.

(c) Composition of group

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

(d) Future accounting developments

Information on future accounting developments and their potential effect on the financial statements of the group are provided on pages 113 and 114 of the *Annual Report and Accounts 2014*.

(e) Going concern

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

(f) Accounting policies

The accounting policies applied by the group for these interim consolidated financial statements are consistent with those described on pages 113 to 195 of the *Annual Report and Accounts 2014*, as are the methods of computation.

2 Dividends

HSBC Bank plc dividends paid to shareholders of the parent company were as follows:

Dividends declared on ordinary shares

	Half year to					
	30 June 2015		30 June 2014		31 December 2014	
	£ per share	**Total £m**	£ per share	Total £m	£ per share	Total £m
Second interim dividend in respect of 2013	–	–	0.79	630	–	–
First interim dividend in respect of 2014	–	–	–	–	0.75	600
Second interim dividend in respect of 2014	**0.40**	**315**	–	–	–	–
Total	**0.40**	**315**	0.79	630	0.75	600

Dividends on preference shares classified as equity

An annual dividend of £1.16 per share, totalling £41 million, on the HSBC Bank plc non-cumulative third dollar preference shares was paid in the second half of 2014.

Other equity instruments

Total coupons on capital securities classified as equity

		Half-year to		
		30 June 2015	30 June 2014	31 December 2014
	First call date	**Total £m**	Total £m	Total £m
Undated Subordinated additional Tier 1 Instruments				
– £1,096m	Dec 2019	**31**	–	–
– £1,100m	Dec 2024	**31**	–	–
Total		**62**	–	–

Discretionary coupons are paid quarterly.

3 Loan impairment charges and other credit risk provisions

	Half year to	
	30 June 2015 £m	30 June 2014 £m
Loan impairment charges on loans and advances		
– new allowances net of allowance releases	**313**	450
– recoveries of amounts previously written off	**(99)**	(164)
	214	286
Impairment releases on debt securities and other credit risk provisions	**(23)**	(125)
	191	161

Movement in impairment allowances on loans and advances

	Individually assessed £m	**Collectively assessed £m**	**Total £m**
At 1 January 2015	**1,894**	**926**	**2,820**
Amounts written off	**(202)**	**(148)**	**(350)**
Recoveries of amounts previously written off	**13**	**86**	**99**
Charge to income statement	**126**	**88**	**214**
Foreign exchange and other movements	**(81)**	**(48)**	**(129)**
At 30 June 2015	**1,750**	**904**	**2,654**
At 1 January 2014	2,423	934	3,357
Amounts written off	(567)	(293)	(860)
Recoveries of amounts previously written off	8	156	164
Charge to income statement	196	90	286
Foreign exchange and other movements	(51)	(9)	(60)
At 30 June 2014	2,009	878	2,887

Notes on the Condensed Financial Statements (unaudited) (continued)

4 Segmental analysis

	RBWM £m	CMB £m	GB&M £m	GPB £m	Other £m	Inter-segment £m	Total £m
Net operating income[1]							
Half year to 30 June 2015							
Net operating income	**2,341**	**1,693**	**2,675**	**202**	**172**	**(31)**	**7,052**
External	**2,147**	**1,774**	**3,073**	**183**	**(125)**	**–**	**7,052**
Inter segment	**194**	**(81)**	**(398)**	**19**	**297**	**(31)**	**–**
Half year to 30 June 2014							
Net operating income	2,084	1,699	2,185	179	4	(40)	6,111
External	1,926	1,788	2,484	169	(256)	–	6,111
Inter segment	158	(89)	(299)	10	260	(40)	–
Profit before tax							
Half year to 30 June 2015	**606**	**881**	**606**	**97**	**(54)**	**–**	**2,136**
Half year to 30 June 2014	287	933	784	69	(171)	–	1,902
Balance sheet information							
At 30 June 2015							
Total assets	**149,580**	**79,478**	**577,837**	**14,902**	**11,987**	**(83,931)**	**749,853**
Total liabilities	**140,228**	**71,911**	**563,309**	**14,136**	**8,639**	**(83,931)**	**714,292**
At 31 December 2014							
Total assets	153,325	74,996	608,140	15,905	14,811	(69,888)	797,289
Total liabilities	143,616	67,141	593,122	15,107	11,493	(69,888)	760,591
Average number of persons employed by the group							
Half year to 30 June 2015	**28,987**	**8,768**	**7,337**	**778**	**22,045**	**–**	**67,915**
Half year to 30 June 2014	29,239	8,893	6,958	863	22,227	–	68,180

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

5 Credit quality of financial instruments

The five credit quality classifications set out and defined on page 43 of the *Annual Report and Accounts 2014* describe the credit quality of the group's lending, debt securities portfolios and derivatives. These classifications each encompass a range of more granular, internal credit rating grades assigned to wholesale and retail lending businesses, as well as the external ratings attributed by external agencies to debt securities. There is no direct correlation between internal and external ratings at granular level, except to the extent each falls within a single credit quality classification.

The tables set out the group's distribution of financial instruments by credit quality classification:

	30 June 2015							
	Neither past due nor impaired							
		Medium						
	Strong	Good	Satisfactory	Sub-standard	Past due not impaired	Impaired	Impairment allowances	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Cash and balances at central banks	49,507	–	–	–				49,507
Items in the course of collection from other banks	1,413	–	–	–				1,413
Trading assets[1]	58,552	13,243	12,126	447				84,368
– treasury and other eligible bills	695	192	60	–				947
– debt securities	30,241	4,376	3,580	124				38,321
– loans and advances to banks	13,386	2,997	4,695	257				21,335
– loans and advances to customers	14,230	5,678	3,791	66				23,765
Financial assets designated at fair value[1]	540	165	279	7				991
– treasury and other eligible bills	–	–	–	–				–
– debt securities	540	165	180	7				892
– loans and advances to banks	–	–	99	–				99
Derivatives	130,075	25,920	4,760	476				161,231
Loans and advances held at amortised cost	156,251	53,014	52,338	5,436	1,054	5,891	(2,654)	271,330
– loans and advances to banks	18,328	3,094	1,818	46	–	15	(13)	23,288
– loans and advances to customers	137,923	49,920	50,520	5,390	1,054	5,876	(2,641)	248,042
Reverse repurchase agreements - non-trading	30,449	5,446	2,529	–	–	–	–	38,424
Financial investments[1]	57,579	4,859	2,097	1,015	–	1,080	–	66,630
– treasury and other similar bills	1,249	1,573	122	–	–	–	–	2,944
– debt securities	56,330	3,286	1,975	1,015	–	1,080	–	63,686
Other assets	3,915	479	1,455	202	7	6	–	6,064
– endorsements and acceptances	176	30	334	–	–	–	–	540
– accrued income and other	3,739	449	1,121	202	7	6	–	5,524
At 30 June 2015	488,281	103,126	75,584	7,583	1,061	6,977	(2,654)	679,958

1 *Excluding equity securities*

Notes on the Condensed Financial Statements (unaudited) (continued)

	31 December 2014							
	Neither past due nor impaired							
		Medium						
	Strong £m	Good £m	Satisfactory £m	Sub-standard £m	Past due not impaired £m	Impaired £m	Impairment allowance £m	Total £m
Cash and balances at central banks	42,853	–	–	–				42,853
Items in the course of collection from other banks	973	–	–	–				973
Trading assets[1]	62,694	14,479	8,410	302				85,885
– treasury and other eligible bills	249	375	29	–				653
– debt securities	39,880	6,410	3,568	138				49,996
– loans and advances to banks	10,064	2,387	3,117	72				15,640
– loans and advances to customers	12,501	5,307	1,696	92				19,596
Financial assets designated at fair value[1]	640	152	247	5				1,044
– treasury and other eligible bills	3	–	–	–				3
– debt securities	637	152	193	5				987
– loans and advances to banks	–	–	54	–				54
Derivatives	150,733	28,532	8,015	456				187,736
Loans and advances held at amortised cost	164,304	57,006	49,776	6,286	1,547	6,415	(2,820)	282,514
– loans and advances to banks	19,541	3,612	2,020	92	–	17	(20)	25,262
– loans and advances to customers	144,763	53,394	47,756	6,194	1,547	6,398	(2,800)	257,252
Reverse repurchase agreements - non-trading	31,177	5,856	3,891	1,021	–	–	–	41,945
Financial investments[1]	63,823	6,340	2,197	1,410	–	1,415	–	75,185
– treasury and other similar bills	760	2,054	35	–	–	–	–	2,849
– debt securities	63,063	4,286	2,162	1,410	–	1,415	–	72,336
Other assets	5,711	442	1,670	147	6	4	–	7,980
– endorsements and acceptances	250	29	312	–	–	–	–	591
– accrued income and other	5,461	413	1,358	147	6	4	–	7,389
At 31 December 2014	522,908	112,807	74,206	9,627	1,553	7,834	(2,820)	726,115

1 *Excluding equity securities*

6 Fair values of financial instruments carried at fair value

The accounting policies, control framework and the hierarchy used to determine fair values are consistent with those applied for the *Annual Report and Accounts 2014*.

Financial instruments carried at fair value

	Valuation techniques			
	Level 1 quoted market price £m	Level 2 using observable inputs £m	Level 3 with significant unobservable inputs £m	Total £m
At 30 June 2015				
Assets				
Trading assets	**73,011**	**54,767**	**1,664**	**129,442**
Financial assets designated at fair value	**6,696**	**192**	**3**	**6,891**
Derivatives	**3,952**	**155,399**	**1,880**	**161,231**
Financial investments: available-for-sale	**50,624**	**15,906**	**1,041**	**67,571**
Liabilities				
Trading liabilities	**17,443**	**66,854**	**969**	**85,266**
Financial liabilities designated at fair value	**1,162**	**18,467**	**3**	**19,632**
Derivatives	**3,751**	**154,609**	**890**	**159,250**
At 31 December 2014				
Assets				
Trading assets	83,749	44,225	2,153	130,127
Financial assets designated at fair value	6,618	276	5	6,899
Derivatives	1,949	184,173	1,614	187,736
Financial investments: available-for-sale	56,996	17,652	1,546	76,194
Liabilities				
Trading liabilities	22,669	58,638	1,293	82,600
Financial liabilities designated at fair value	1,107	21,440	5	22,552
Derivatives	1,935	185,122	1,221	188,278

Financial instruments measured at fair value using a valuation technique with significant unobservable inputs – Level 3

	Assets				Liabilities		
	Available for sale £m	Held for trading £m	At fair value £m	Derivatives £m	Held for trading £m	At fair value £m	Derivatives £m
At 30 June 2015							
Private equity investments	**562**	**105**	**–**	**–**	**21**	**–**	**–**
Asset-backed securities	**464**	**261**	**–**	**–**	**–**	**–**	**–**
Structured notes	**–**	**–**	**–**	**–**	**948**	**–**	**–**
Derivatives	**–**	**–**	**–**	**1,880**	**–**	**–**	**890**
Other portfolios	**15**	**1,298**	**3**	**–**	**–**	**3**	**–**
	1,041	**1,664**	**3**	**1,880**	**969**	**3**	**890**
At 31 December 2014							
Private equity investments	595	96	–	–	28	–	–
Asset-backed securities	934	275	–	–	–	–	–
Structured notes	–	–	–	–	1,265	–	–
Derivatives	–	–	–	1,614	–	–	1,221
Other portfolios	17	1,782	5	–	–	5	–
	1,546	2,153	5	1,614	1,293	5	1,221

Notes on the Condensed Financial Statements (unaudited) (continued)

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

	Assets				Liabilities		
	Available-for-sale £m	Held for trading £m	Designated at fair value through profit or loss £m	Derivatives £m	Held for trading £m	Designated at fair value through profit or loss £m	Derivatives £m
At 1 January 2015	**1,546**	**2,153**	**5**	**1,614**	**1,293**	**5**	**1,221**
Total gains or losses recognised in profit or loss	**(5)**	**(16)**	**–**	**275**	**(77)**	**–**	**(331)**
- trading income excluding net interest income	**–**	**(16)**	**–**	**275**	**(77)**	**–**	**(331)**
- gains less losses from financial investments	**(5)**	**–**	**–**	**–**	**–**	**–**	**–**
Total gains or losses recognised in other comprehensive income	**37**	**(14)**	**–**	**(19)**	**(5)**	**–**	**(3)**
- available-for-sale investments: fair value gains/(losses)	**43**	**–**	**–**	**–**	**–**	**–**	**–**
- exchange differences	**(6)**	**(14)**	**–**	**(19)**	**(5)**	**–**	**(3)**
Purchases	**123**	**10**	**–**	**–**	**–**	**–**	**–**
Issues	**–**	**–**	**–**	**–**	**8**	**–**	**–**
Sales	**(173)**	**(738)**	**(2)**	**–**	**(7)**	**(2)**	**–**
Settlements	**(10)**	**(39)**	**–**	**3**	**(151)**	**–**	**13**
Transfer out	**(682)**	**(18)**	**–**	**(32)**	**(128)**	**–**	**(21)**
Transfer in	**205**	**326**	**–**	**39**	**36**	**–**	**11**
At 30 June 2015	**1,041**	**1,664**	**3**	**1,880**	**969**	**3**	**890**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 June	**10**	**(6)**	**(1)**	**307**	**(52)**	**(1)**	**(249)**
- trading income excluding net interest income	**–**	**(6)**	**–**	**307**	**(52)**	**–**	**(249)**
- net (expense) from other financial instruments designated at fair value	**–**	**–**	**(1)**	**–**	**–**	**(1)**	**–**
- loan impairment charges and other credit risk provisions	**10**	**–**	**–**	**–**	**–**	**–**	**–**
At 1 January 2014	1,653	1,562	–	1,072	1,361	–	1,297
Total gains or losses recognised in profit or loss	1	–	–	131	11	–	(64)
- trading income excluding net interest income	–	–	–	134	11	–	(64)
- gains less losses from financial investments	1	–	–	(3)	–	–	–
Total gains or losses recognised in other comprehensive income							
- available-for-sale investments: fair value gains/(losses)	41	–	–	–	–	–	–
Purchases	531	54	–	–	(18)	–	–
Issues	–	–	–	–	423	–	–
Sales	(150)	(128)	–	–	–	–	–
Settlements	(41)	(14)	–	7	(331)	–	(75)
Transfer out	(206)	(9)	–	(73)	(73)	–	(113)
Transfer in	267	110	–	71	–	–	54
Exchange differences	(17)	(7)	–	(6)	23	–	(3)
At 30 June 2014	2,079	1,568	–	1,202	1,396	–	1,096
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 June	(8)	2	–	152	53	–	69
- trading income excluding net interest income	–	2	–	152	53	–	69
- loan impairment charges and other credit risk provisions	(8)	–	–	–	–	–	–

Effects of changes in significant unobservable assumptions to reasonably possible alternatives

	Reflected in profit or loss		Reflected in other comprehensive income	
	Favourable changes £m	Unfavourable changes £m	Favourable changes £m	Unfavourable changes £m
At 30 June 2015				
Derivatives/trading assets/trading liabilities[1]	**120**	**(88)**	**–**	**–**
Financial investments: available-for-sale	**6**	**(3)**	**49**	**(49)**
At 31 December 2014				
Derivatives/trading assets/trading liabilities[1]	161	(140)	–	–
Financial assets and liabilities designated at fair value	–	(1)	–	–
Financial investments: available-for-sale	11	(7)	73	(95)

1 *Derivatives, trading assets and trading liabilities are presented as one category to reflect the manner in which these financial instruments are risk-managed.*

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions by instrument type

	Reflected in profit or loss		Reflected in other comprehensive income	
	Favourable changes £m	Unfavourable changes £m	Favourable changes £m	Unfavourable changes £m
At 30 June 2015				
Private equity investments	**7**	**(8)**	**33**	**(33)**
Asset-backed securities	**18**	**(3)**	**15**	**(15)**
Structured notes	**10**	**(9)**	**–**	**–**
Derivatives	**45**	**(48)**	**–**	**–**
Other portfolios	**46**	**(23)**	**1**	**(1)**
At 31 December 2014				
Private equity investments	6	(6)	38	(60)
Asset–backed securities	28	(11)	35	(35)
Structured notes	6	(6)	–	–
Derivatives	69	(75)	–	–
Other portfolios	63	(50)	–	–

When the fair value of a financial instrument is affected by more than one unobservable assumption, the above table reflects the most favourable or most unfavourable change from varying the assumptions individually.

Key unobservable inputs to Level 3 financial instruments

The table on the next page lists key unobservable inputs to level 3 financial instruments, and provides the range of those inputs as at 30 June 2015. The categories of key unobservable inputs are described further on pages 147 to 148 of the *Annual Report and Accounts 2014.*

Notes on the Condensed Financial Statements (unaudited) (continued)

Quantitative information about significant unobservable inputs in level 3 valuations

	Fair value Assets £m	Fair value Liabilities £m	Valuation technique	Key unobservable inputs	Full range of inputs Lower	Full range of inputs Higher	Core range of inputs Lower	Core range of inputs Higher
At 30 June 2015								
Private equity including strategic investments	**667**	**21**	See notes below[1]		n/a	n/a	n/a	n/a
Asset–backed securities	**725**	**-**						
CLO/CDO[2]	**292**	**-**	Market proxy	Bid quotes	0	100	31	95
Other ABSs	**433**	**-**	Market proxy	Bid quotes	0	101	60	69
Structured notes	**-**	**948**						
Equity–linked notes	**-**	**509**	Model – option model	Equity volatility	11%	79%	15%	47%
				Equity correlation	36%	85%	44%	82%
Fund–linked notes	**-**	**247**	Model – option model	Fund volatility	6%	8%	6%	8%
FX–linked notes	**-**	**88**	Model – option model	FX volatility	1%	27%	1%	27%
Other	**-**	**104**						
Derivatives	**1,880**	**890**						
Interest rate derivatives:								
– securitisation swaps	**465**	**410**	Model – DCF[3]	Prepayment rate	0%	58%	5%	57%
– long–dated swaptions	**888**	**101**	Model – option model	IR volatility	11%	58%	20%	41%
– other	**177**	**47**						
Foreign exchange derivatives:								
– Foreign exchange options	**105**	**63**	Model – option model	FX volatility	0%	27%	9%	18%
Equity derivatives:								
– long–dated single stock options	**139**	**187**	Model – option model	Equity volatility	10%	70%	16%	47%
– other	**55**	**50**						
Credit derivatives:	**51**	**32**						
Other portfolios	**1,316**	**3**						
– structured certificates	**991**	**-**	Model – DCF[3]	Credit volatility	2%	4%	2%	4%
– other	**325**	**3**						
	4,588	**1,862**						

1 *Further described on pages 147 to 148 of the Annual Report and Accounts 2014.*
2 *Collateralised loan obligation/ collateralised debt obligation*
3 *Discounted cash flow*

7 Fair values of financial instruments not carried at fair value

The basis for measuring the fair values of loans and advances to banks and customers, financial investments, deposits by banks, customer accounts, debt securities in issue and subordinated liabilities is explained on pages 149 and 150 of the *Annual Report and Accounts 2014*.

Fair values of financial instruments not carried at fair value

	30 June 2015 Carrying amount £m	**30 June 2015** Fair Value £m	31 December 2014 Carrying amount £m	31 December 2014 Fair Value £m
Assets				
Loans and advances to banks	**23,288**	**23,288**	25,262	25,262
Loans and advances to customers	**248,042**	**248,778**	257,252	259,514
Reverse repurchase agreements – non–trading	**38,424**	**38,424**	41,945	41,945
Liabilities				
Deposits by banks	**27,481**	**27,481**	27,590	27,590
Customer accounts	**336,964**	**336,962**	346,507	346,545
Repurchase agreements – non–trading	**15,283**	**15,283**	23,353	23,353
Debt securities in issue	**29,833**	**29,838**	27,921	27,925
Subordinated liabilities	**8,583**	**8,299**	8,858	8,695

The fair values in this note are stated at a specific date and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of the instruments. In many cases, it would not be possible to realise immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent the value of these financial instruments to the group as a going concern.

8 Provisions

Provisions of £1,963 million (31 December 2014: £1,707 million) include £841 million (31 December 2014: £1,041 million) in respect to customer redress programmes and £926 million (31 December 2014: £456 million) in respect of litigation and regulatory investigations. An increase in provisions of £615 million was recognised during the half year to 30 June 2015. The most significant of these provisions are as follows and relate to the bank and the group, except where stated:

£573 million (31 December 2014: £704 million) relating to the estimated liability for redress in respect of the possible mis–selling of Payment Protection Insurance ('PPI') policies in previous years. An increase in provisions of £60 million was recognised during the half year to 30 June 2015 primarily reflecting higher expected levels of inbound complaints by Claims Management Companies compared to previous forecasts.

The estimated liability for redress is calculated on the basis of the total premiums paid by the customer plus simple interest of 8 per cent per annum (or the rate inherent in the related loan product where higher). The basis for calculating the redress liability is the same for single premium and regular premium policies. Future estimated redress levels are based on the historically observed redress per policy.

A total of 5.4 million PPI policies have been sold by the group since 2000, which generated estimated gross written premiums of approximately £3.2 billion and revenues of approximately £2.6 billion. At 30 June 2015, the estimated total complaints expected to be received were 2.0 million, representing 36 per cent of total policies sold. It is estimated that contact will be made with regard to 2.3 million policies, representing 43 per cent of total policies sold. This estimate includes inbound complaints as well as HSBC's proactive contact exercise on certain policies ('outbound contact').

The following table details the cumulative number of complaints received at 30 June 2015 and the number of claims expected in the future:

	Cumulative to 30 June	Future expected
Inbound complaints[1] (000s of policies)	**1,293**	**300**
Outbound contact (000s of policies)	**571**	**167**
Response rate to outbound contact	**51%**	**51%**
Average uphold rate per claim[2]	**73%**	**73%**
Average redress per upheld claim	**£1,704**	**£1,710**

1 Excludes invalid claims where the complainant has not held a PPI policy.
2 Claims include inbound and responses to outbound contact.

The main assumptions involved in calculating the redress liability are the volume of inbound complaints, the projected period of inbound complaints, the decay rate of complaint volumes, the population identified as systemically mis-sold, the redress cost per policy and the number of policies per customer complaint. The main assumptions are likely to evolve over time as root cause analysis continues, more experience is available regarding customer initiated complaint volumes received, and we handle responses to our ongoing outbound contact.

A 2014 decision of the UK Supreme Court ('Plevin') held that, judged on its own facts, non-disclosure of the amount of commissions payable in connection with the sale of payment protection insurance ('PPI') to a customer created an unfair relationship under the provisions of the UK Consumer Credit Act. The FCA is considering whether additional rules and/or guidance are required to deal with the impact of the Plevin decision on complaints about PPI, and the Financial Ombudsman Service is reviewing the impact on complaints referred to it. HSBC is assessing any possible impact of the case on its historical sales of PPI; as at 30 June 2015 no adjustment to the PPI provision has been recorded in relation to the matter.

A 100,000 increase/decrease in the total inbound complaints would increase/decrease the redress provision by approximately £123 million. Each 1% increase/decrease in the response rate to our outbound contact exercise would increase/decrease the redress provision by approximately £8 million.

In addition to these factors and assumptions, the extent of the required redress will also depend on the facts and circumstances of each individual customer's case. For these reasons, there is currently a high level of uncertainty as to the eventual costs of redress.

At 30 June 2015 a provision of £133 million (31 December 2014: £200 million) was held relating to the estimated liability for redress in respect of the possible mis-selling of interest rate derivatives in the UK. The provision relates to the estimated redress payable to customers in respect of historical payments under derivative contracts, the expected write-off by the bank of open derivative contract balances and estimated project costs. There has been no increase to the provision recorded in the period (30 June 2014: £25 million charge).

The group has undertaken a review of compliance with the fixed-sum unsecured loan agreement requirements of the UK Consumer Credit Act (CCA). £210 million has been recorded within 'Accruals, deferred income and other liabilities' for the repayment of interest to customers (31 December 2014: £243 million) for the repayment of interest to customers, primarily where annual statements did not remind them of their right to partially prepay the loan, notwithstanding that the customer loan documentation did refer to this right. The cumulative liability to date is £371 million (31 December 2014: £379 million), of which payments of £161 million (30 June 2014: nil) have been made to customers. There is uncertainty as to whether other technical requirements of the CCA have been met.

Further details of legal proceedings and regulatory matters are set out in Note 10. Legal proceedings include civil court, arbitration or tribunal proceedings brought against the group (whether by way of claim or counterclaim) or civil disputes that may, if not settled, result in court, arbitration or tribunal proceedings.

9 Contingent liabilities, contractual commitments and guarantees

	At 30 June 2015 £m	At 31 December 2014 £m
Guarantees and other contingent liabilities		
Guarantees	**17,104**	17,012
Other credit related contingent liabilities	**90**	71
	17,194	17,083
Commitments		
Documentary credits and short-term trade-related transactions	**3,173**	3,073
Forward asset purchases and forward deposits placed	**193**	335
Undrawn formal standby facilities, credit lines and other commitments to lend	**120,113**	132,114
	123,479	135,522

The above table discloses the nominal principal amounts of commitments, guarantees and other contingent liabilities. They are mainly credit-related instruments which include both financial and non-financial guarantees and commitments to extend credit. Nominal principal amounts represent the amounts at risk should contracts be fully drawn upon and clients default. As a significant proportion of guarantees and commitments are expected to expire without being drawn upon, the total of the nominal principal amounts is not representative of future liquidity requirements. Non-credit related contingent liabilities are disclosed in Note 8 'Provisions' and Note 10 'Legal proceedings, investigations and regulatory matters'.

10 Legal proceedings, investigations and regulatory matters

The group is party to legal proceedings, investigations and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, the group considers that none of these matters are material. While the outcome of legal proceedings and regulatory matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters as at 30 June 2015 (see Note 8). Where an individual provision is material, the fact that a provision has been made is stated and quantified. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of the potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

Bernard L. Madoff Investment Securities LLC

Bernard L. Madoff ('Madoff') was arrested in December 2008, and ultimately pleaded guilty to running a Ponzi scheme. He has acknowledged, in essence, that while purporting to invest his customers' money in securities, he in fact never invested in securities and used other customers' money to fulfil requests to return investments. His firm, Bernard L. Madoff Investment Securities LLC ('Madoff Securities'), is being liquidated in the US by a trustee (the 'Trustee').

Various non-US HSBC companies provided custodial, administration and similar services to a number of funds incorporated outside the US whose assets were invested with Madoff Securities. Based on information provided by Madoff Securities, as at 30 November 2008, the purported aggregate value of these funds was US$8.4 billion, an amount that includes fictitious profits reported by Madoff. Based on information available to HSBC, we have estimated that the funds' actual transfers to Madoff Securities minus their actual withdrawals from Madoff Securities during the time that HSBC serviced the funds totalled approximately US$4 billion. Various HSBC companies have been named as defendants in lawsuits arising out of Madoff Securities' fraud.

US/UK Litigation: The Trustee has brought suits against various HSBC companies in the US Bankruptcy Court and in the English High Court. The Trustee's US actions included common law claims, alleging that HSBC aided and abetted Madoff's fraud and breach of fiduciary duty. Those claims were dismissed on grounds of lack of standing. The Trustee's remaining US claims seek recovery of prepetition transfers pursuant to US bankruptcy law. The amount of these remaining claims has not been pleaded or determined as against HSBC.

Alpha Prime Fund Ltd ('Alpha Prime') and Senator Fund SPC ('Senator'), co-defendants in the Trustee's US actions, have brought cross-claims against HSBC. These funds have also sued HSBC in Luxembourg (discussed below).

The Trustee's English action seeks recovery of unspecified transfers from Madoff Securities to or through HSBC. HSBC has not yet been served with the Trustee's English action. The Trustee's deadline for serving the claim has been extended through the third quarter of 2015.

Fairfield Sentry Limited, Fairfield Sigma Limited, and Fairfield Lambda Limited (collectively 'Fairfield'), funds whose assets were invested with Madoff Securities, commenced multiple suits in the US and the British Virgin Islands (the 'BVI') against fund shareholders, including various HSBC companies that acted as nominees for HSBC clients, seeking restitution of payments made in connection with share redemptions. The US actions brought by Fairfield are stayed pending the outcome of the Fairfield cases in the BVI (discussed below).

In September 2013, the US Court of Appeals for the Second Circuit ('Court of Appeals') affirmed the dismissal of purported class action claims against HSBC and others brought by investors in three Madoff-invested funds on grounds of *forum non conveniens*. The plaintiffs filed petitions for certiorari to the US Supreme Court which were denied in March 2015. In May 2015, plaintiffs filed a motion asking the Court of Appeals to restore their class action claims on the basis of an alleged change of law governing the claims. In June 2015, the Court of Appeals denied plaintiffs' motion.

In December 2014, three new Madoff-related actions were filed in the US. The first is a purported class action brought in the New York federal court by direct investors in Madoff Securities who were holding their investments as of December 2008, asserting various common law claims and seeking to recover damages lost to Madoff Securities' fraud on account of HSBC's purported knowledge and alleged furtherance of the fraud. This matter has been stayed pending the outcome of a similar case not involving HSBC. The other two actions were filed by SPV Optimal SUS Ltd ('SPV OSUS'), the purported assignee of the Madoff Securities-invested company, Optimal Strategic US Equity Ltd. One of these actions was filed in New York state court and the other in New York federal court. In January 2015, SPV OSUS dismissed its federal lawsuit against HSBC. The state court action against HSBC remains pending.

In May 2015, a new action was filed in New York federal court by two investors in Hermes International Fund Limited ('Hermes') asserting various common law claims against HSBC and seeking to recover damages lost to Madoff Securities' fraud. A preliminary conference is scheduled to take place in October 2015.

BVI Litigation: Beginning in October 2009, the Fairfield funds, whose assets were directly or indirectly invested with Madoff Securities, commenced multiple suits in the BVI against numerous fund shareholders, including various HSBC companies that acted as nominees for clients of HSBC's private banking business and other clients who invested in the Fairfield funds. The Fairfield funds are seeking restitution of redemption payments made by the funds to defendants on the grounds that they were mistakenly based on inflated net asset values. In April 2014, the UK Privy Council issued a ruling on two preliminary issues in favour of other defendants in the BVI actions, and issued its order in October 2014. A motion was also brought by other defendants before the BVI court challenging the Fairfield liquidator's authorisation to pursue its claims in the US. That motion was heard in March 2015 and judgement is pending.

Bermuda Litigation: Thema Fund Limited ('Thema') and Hermes, funds invested with Madoff Securities, each also brought three actions in Bermuda in 2009. The first set of actions were brought against HSBC Institutional Trust Services (Bermuda) Limited and seek recovery of funds in frozen accounts held at HSBC. The second set of actions asserts liability against HSBC Institutional Trust Services (Bermuda) Limited in relation to claims for mistake, recovery of fees, and damages for breach of contract. The third set of actions seeks return of fees from HSBC Bank Bermuda Limited and HSBC Securities Services (Bermuda). There has been little progress in these actions for several years, although in January 2015, Thema and Hermes served notice of intent to proceed in respect of the second set of actions referred to above. A hearing has not yet been scheduled.

Cayman Islands Litigation: In February 2013, Primeo Fund, a Cayman Islands-based fund invested in Madoff Securities, brought an action against the fund administrator, Bank of Bermuda (Cayman), and the fund custodian, HSBC Securities Services (Luxembourg) ('HSSL'), alleging breaches of contract. Primeo Fund claims damages from defendants to compensate it for alleged losses, including loss of profit and any liability to the Trustee. Trial is scheduled to begin in November 2016

Luxembourg Litigation: In April 2009, Herald Fund SPC ('Herald') (in official liquidation since July 2013) commenced action against HSSL before the Luxembourg District Court seeking restitution of all cash and securities Herald purportedly lost because of Madoff Securities' fraud, or in the alternative, damages in the same amount. In March 2013, the Luxembourg District Court dismissed Herald's restitution claim for the return of the securities. Herald's restitution claim for return of the cash and claim for damages were reserved. Herald appealed this judgement in May 2013. In May 2015, the Luxembourg Court of Appeal held that Herald must pay security for costs before its claim can be pursued on appeal. Herald filed a request for correction of material errors with respect to the amount of the security, to which HSSL has responded. The parties are awaiting a hearing on Herald's request. Proceedings on the reserved restitution claim were suspended pending resolution of the appeal.

In October 2009, Alpha Prime commenced an action against HSSL before the Luxembourg District Court, alleging breach of contract and negligence in the appointment of Madoff Securities as a sub-custodian of Alpha Prime's assets. Alpha Prime was ordered to provide a judicial bond. Alpha Prime requested a stay of the proceedings pending its negotiations with the Trustee in the US proceedings. The matter has been temporarily suspended. The parties are awaiting the next hearing date.

In March 2010, Herald (Lux) SICAV ('Herald (Lux)') (in official liquidation since April 2009) commenced an action against HSSL before the Luxembourg District Court seeking restitution of securities, or the cash equivalent, or damages in the alternative. Herald (Lux) also requested the restitution of fees paid to HSSL as custodian and service agent of the fund. The next preliminary hearing is scheduled to take place in September 2015.

In December 2014, Senator commenced an action against HSSL before the Luxembourg District Court, seeking the restitution of securities held as of the latest net asset value statement from November 2008, or, in the alternative, money damages. The matter has been temporarily suspended at Senator's request. The parties are awaiting the next hearing date.

In April 2015, Senator commenced an action against the Luxembourg branch of HSBC Bank plc before the Luxembourg District Court asserting identical claims to those asserted in Senator's action against HSSL. This action is at an early stage.

HSSL has been sued in various actions by the shareholders in the Primeo Select Fund, Herald, Herald (Lux), and Hermes. These actions are in different stages, most of which are dismissed suspended or postponed.

Ireland Litigation: In November 2013, Defender Limited, a fund invested with Madoff securities, commenced an action against HSBC Institutional Trust Services (Ireland) Limited ('HTIE'), alleging breach of the custodian agreement and claiming damages and indemnification for claims against Defender Limited for fund losses. The action also includes four non-HSBC parties, who served as directors and investment managers to Defender Limited. This matter is ongoing.

In July 2013 and December 2013, settlements were reached in respect of claims filed against HTIE in the Irish High Court by Thema International Fund plc ('Thema International') and Alternative Advantage Plc ('AA'), respectively. Two actions by individual Thema International shareholders against HTIE and Thema International remain active. A hearing on preliminary matters relating to the plaintiffs' entitlement to bring the actions is scheduled for December 2015.

In December 2014, a new proceeding against HTIE and HSBC Securities Services (Ireland) Limited was brought by SPV OSUS alleging breach of the custodian agreement and claiming damages and indemnification for fund losses.

There are many factors that may affect the range of possible outcomes, and the resulting financial impact, of the various Madoff-related proceedings described above, including but not limited to the multiple jurisdictions in which the proceedings have been brought and the number of different plaintiffs and defendants in such proceedings. Based upon the information currently available, management's estimate of possible aggregate damages that might arise as a result of all claims in the various Madoff-related proceedings is up to or exceeding US$800 million. Due to uncertainties and limitations of this estimate, the ultimate damages could differ significantly from this amount.

Anti-money laundering and sanctions-related investigations

In October 2010, HSBC Bank USA N.A. ('HSBC Bank USA') entered into a consent cease-and-desist order with the Office of the Comptroller of the Currency ('OCC'), and HSBC North America Holdings ('HNAH') entered into a consent cease-and-desist order with the Federal Reserve Bureau ('FRB') (the 'Orders'). These Orders required improvements to establish an effective compliance risk management programme across HSBC's US businesses, including risk management related to US Bank Secrecy Act (the 'BSA') and anti-money laundering ('AML') compliance. Steps continue to be taken to address the requirements of the Orders.

In December 2012, HSBC Holdings plc ('HSBC Holdings'), HNAH and HSBC Bank USA entered into agreements with US and UK government agencies regarding past inadequate compliance with the BSA, AML and sanctions laws. Among those agreements, HSBC Holdings and HSBC Bank USA entered into a five-year deferred prosecution agreement with the US Department of Justice ('DoJ'), the US Attorney's Office for the Eastern District of New York, and the US Attorney's Office for the Northern District of West Virginia (the 'US DPA'); HSBC Holdings entered into a two-year deferred prosecution agreement with the New York County District Attorney (the 'DANY DPA'); and HSBC Holdings consented to a cease and desist order and HSBC Holdings and HNAH consented to a civil money penalty order with the FRB. In addition, HSBC Bank USA entered into a civil money penalty order with a bureau of the US Treasury Department known as the Financial Crimes Enforcement Network ('FinCEN') and a separate civil money penalty order with the OCC. HSBC Holdings also entered into an agreement with the Office of Foreign Assets Control ('OFAC') regarding historical transactions involving parties subject to OFAC sanctions and an undertaking with the UK Financial Conduct Authority (the 'FCA'), to comply with certain forward-looking AML and sanctions-related obligations.

Under these agreements, HSBC Holdings and HSBC Bank USA made payments totalling US$1.9 billion to US authorities and are continuing to comply with ongoing obligations. In July 2013, the US District Court for the Eastern District of New York approved the US DPA and retained authority to oversee implementation of that agreement. Under the agreements with the DoJ, FCA, and FRB, an independent monitor (who is, for FCA purposes, a 'skilled person' under Section 166 of the Financial Services and Markets Act) is evaluating and regularly assessing the effectiveness of HSBC's AML and sanctions compliance function and HSBC's progress in implementing its remedial obligations under the agreements.

HSBC Holdings has fulfilled all of the requirements imposed by the DANY DPA, which expired by its terms at the end of the two year period of that agreement in December 2014. If HSBC Holdings and HSBC Bank USA fulfil all of the requirements imposed by the US DPA, the DoJ charges against those entities will be dismissed at the end of the five-year period of that agreement. The DoJ may prosecute HSBC Holdings or HSBC Bank USA in relation to any matters that are the subject of the US DPA if HSBC Holdings or HSBC Bank USA breaches the terms of the US DPA.

HSBC Bank USA also entered into a separate consent order with the OCC requiring it to correct the circumstances and conditions as noted in the OCC's then most recent report of examination, and imposing certain restrictions on HSBC Bank USA directly or indirectly acquiring control of, or holding an interest in, any new financial subsidiary, or commencing a new activity in its existing financial subsidiary, unless it receives prior approval from the OCC. HSBC Bank USA also entered into a separate consent order with the OCC requiring it to adopt an enterprise-wide compliance programme.

These settlements with US and UK authorities have led to private litigation, and do not preclude further private litigation related to HSBC's compliance with applicable BSA, AML and sanctions laws or other regulatory or law enforcement actions for BSA, AML, sanctions or other matters not covered by the various agreements.

In November 2014, a complaint was filed in the US District Court for the Eastern District of New York on behalf of representatives of US persons killed or injured in Iraq between April 2004 and November 2011. The complaint was filed against HSBC Holdings, HSBC Bank plc, HSBC Bank USA and HSBC Bank Middle East, as well as other non-HSBC banks and the Islamic Republic of Iran (together, the 'Defendants'). The plaintiffs allege that defendants conspired to violate the US Anti-Terrorism Act, by altering or falsifying payment messages involving Iran, Iranian parties and Iranian banks for transactions processed through the US. Plaintiffs filed an amended complaint in April 2015. Defendants' filed a motion to dismiss in May 2015. The motion will be fully briefed in August 2015.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of these private lawsuits, including the timing or any possible impact on HSBC, which could be significant.

London interbank offered rates, European interbank offered rates and other benchmark interest rate investigations and litigation

Various regulators and competition and law enforcement authorities around the world including in the UK, the US, the EU, Switzerland and elsewhere, are conducting investigations and reviews related to certain past submissions made by panel banks and the processes for making submissions in connection with the setting of London interbank offered rates ('Libor'), European interbank offered rates ('Euribor') and other benchmark interest rates. As certain HSBC companies are members of such panels, HSBC has been the subject of regulatory demands for information and is cooperating with those investigations and reviews.

In December 2013, the European Commission (the 'Commission') announced that it had imposed fines on eight financial institutions under its cartel settlement procedure for their participation in illegal activity related to euro interest rate derivatives and/or yen interest rate derivatives. Although HSBC was not one of the financial institutions fined, the Commission announced that it had opened proceedings against HSBC in connection with its Euribor-related investigation of euro interest rate derivatives only. This investigation will continue under the standard Commission cartel procedure. In May 2014, HSBC received a Statement of Objections from the Commission alleging anti-competitive practices in connection with the pricing of euro interest rate derivatives. The Statement of Objections sets out the Commission's preliminary views and does not prejudge the final outcome of its investigation. HSBC responded to the Commission's Statement of Objections in March 2015. The hearing before the Commission took place in June 2015

In addition, HSBC and other US dollar Libor panel banks have been named as defendants in a number of private lawsuits filed in the US with respect to the setting of US dollar Libor. The complaints assert claims under various US laws, including US antitrust and racketeering laws, the US Commodity Exchange Act ('CEA'), and state law. The lawsuits include individual and putative class actions, most of which have been transferred and/or consolidated for pre-trial purposes before the New York District Court.

In March 2013, the New York District Court overseeing the consolidated proceedings related to US dollar Libor issued a decision in the six oldest actions, dismissing the plaintiffs' federal and state antitrust claims, racketeering claims and unjust enrichment claims in their entirety, but allowing certain of their CEA claims that were not barred by the applicable statute of limitations to proceed. Some of those plaintiffs appealed the New York District Court's decision to the US Court of Appeals for the Second Circuit, which later dismissed those appeals. In January 2015, the US Supreme Court reversed the Court of Appeals' decision and remanded the case to the Court of Appeals for consideration of the merits of the plaintiffs' appeal. Briefing is ongoing in the Court of Appeals.

Other plaintiffs sought to file amended complaints in the New York District Court to assert additional allegations. In June 2014, the New York District Court issued a decision that, amongst other things, denied the plaintiffs' request for leave to amend their complaints to assert additional theories of Libor manipulation against HSBC and certain non-HSBC banks, but granted leave to assert such manipulation claims against two other banks; and granted defendants' motion to dismiss certain additional claims under the CEA as barred by the applicable statute of limitations. Proceedings with respect to all other actions in the consolidated proceedings were stayed pending this decision. The stay was lifted in September 2014. Amended complaints were filed in previously stayed non-class actions in October 2014; and amended complaints were filed in several of the previously stayed class actions in November 2014. Motions to dismiss were filed in November 2014 and January 2015, respectively, and remain pending.

Separately, HSBC and other panel banks have also been named as defendants in a putative class action filed in the New York District Court on behalf of persons who transacted in euroyen futures and options contracts related to the euroyen Tokyo interbank offered rate ('Tibor'). The complaint alleges, amongst other things, misconduct related to euroyen Tibor, although HSBC is not a member of the Japanese Bankers Association's euroyen Tibor panel, as well as Japanese yen Libor, in violation of US antitrust laws, the CEA, and state law. In March 2014, the New York District Court issued an opinion dismissing the plaintiffs' claims under US antitrust law and state law, but sustaining their claims under the CEA. In June 2014, the plaintiffs moved for leave to file a third amended complaint. That motion was denied in March 2015, except insofar as it granted leave to add certain defendants not affiliated with HSBC and reserving on the question of whether the California State Teachers Retirement System may be added as a plaintiff.

In November 2013, HSBC and other panel banks were also named as defendants in a putative class action filed in the New York District Court on behalf of persons who transacted in euro futures contracts and other financial instruments related to Euribor.

The complaint alleges, amongst other things, misconduct related to Euribor in violation of US antitrust laws, the CEA, and state law. The plaintiffs filed a second and later third amended complaint in May 2014 and October 2014. The court previously stayed proceedings until May 2015. The court has set a deadline for plaintiffs to file a fourth amended complaint in August 2015, and for defendants to respond in September 2015.

In September and October 2014, HSBC Bank plc and other panel banks were named as defendants in a number of putative class actions that were filed and consolidated in the New York District Court on behalf of persons who transacted in interest rate derivative transactions or purchased or sold financial instruments that were either tied to USD ISDAfix rates or were executed shortly before, during, or after the time of the daily ISDAfix setting window. The complaint alleges, amongst other things, misconduct related to these activities in violation of US antitrust laws, the CEA, and state law. In October 2014 the plaintiffs filed a consolidated amended complaint, and in February 2015, plaintiffs filed a second consolidated amended complaint, replacing HSBC Bank plc with HSBC Bank USA. A motion to dismiss that complaint was filed in April 2015 and remains pending.

There are many factors that may affect the range of possible outcomes, and the resulting financial impact, of these private lawsuits. Based upon the information currently available, it is possible that any liabilities that might arise as a result of the claims in these actions could be significant.

Foreign exchange rate investigations and litigation

Various regulators and competition and law enforcement authorities around the world including in the US, the EU, Brazil, South Korea and elsewhere, are conducting investigations and reviews into a number of firms, including HSBC, related to trading on the foreign exchange markets. These include a criminal investigation in the US, as well as investigations by the civil competition authorities in the EU, Brazil and South Korea.

HSBC has been cooperating with these ongoing investigations. In May 2015, the DoJ resolved its ongoing investigations against five non-HSBC financial institutions, resulting in four pleading guilty to a criminal charge for collusive efforts to influence foreign exchange benchmark rates and agreeing to pay criminal fines of more than US$2.5 billion. Additional penalties were imposed by the Board of Governors of the US Federal Reserve ('FRB') at the same time. HSBC was not a party to these resolutions, and investigations into HSBC by the DoJ, FRB and other authorities around the world continue.

In addition, in late 2013 and early 2014, HSBC Holdings, HSBC Bank plc, HNAH and HSBC Bank USA were named as defendants, amongst other banks, in various putative class actions filed in the New York District Court. In March 2014, the plaintiffs filed a consolidated amended complaint alleging, amongst other things, that defendants conspired to manipulate the WM/Reuters foreign exchange benchmark rates by sharing customers' confidential order flow information, thereby injuring plaintiffs and others by forcing them to pay artificial and non-competitive prices for products based on these foreign currency rates ('the Consolidated Action'). Separate putative class actions were also brought on behalf of non-US plaintiffs (the 'Foreign Actions'). Defendants moved to dismiss all actions. In January 2015, the court denied defendants' motion to dismiss as to the Consolidated Action, but granted defendants' motion to dismiss as to the Foreign Actions. Five additional putative class actions were subsequently filed in the New York District Court making similar allegations on behalf of persons who engaged in foreign exchange futures transactions on a US exchange. An additional putative class action was filed in the New York District Court making similar allegations on behalf of ERISA plan participants, and one was filed in California District Court that is similar to the Consolidated Action. HSBC has not yet responded to the new actions.

As at 30 June 2015, we have recognised a provision in the amount of £0.8 billion in respect of these ongoing investigations and other actions. There are many factors that may affect the range of outcomes, and the resulting financial impact, of these matters. Due to uncertainties and limitations of these estimates, the ultimate penalties could differ significantly from the amount provided.

Precious metals fix-related litigation and investigations

Since March 2014, numerous putative class actions have been filed in the US District Courts for the Southern District of New York, the District of New Jersey and the Northern District of California naming HSBC Bank USA, HSBC Bank plc, HSBC Securities (USA) Inc. ('HSI') and other members of The London Gold Market Fixing Limited as defendants. The complaints allege that, from January 2004 to the present, defendants conspired to manipulate the price of gold and gold derivatives during the afternoon London gold fix in order to reap profits on proprietary trades. These actions have been assigned to and consolidated in the New York District Court. An amended consolidated class action complaint was filed in December 2014, and defendants filed a consolidated response in February 2015. A second consolidated amended complaint was filed in March 2015. Defendants filed a consolidated response in April 2015.

Since July 2014, putative class actions were filed in the US District Court for the Southern District of New York and the Eastern District of New York naming HSBC Holdings, HNAH, HSBC Bank USA, HSBC USA Inc. and other members of The London Silver Market Fixing Ltd as defendants. The complaints allege that, from January 2007 to the present, defendants conspired to manipulate the price of physical silver and silver derivatives for their collective benefit in violation of US antitrust laws and the CEA. These actions have been assigned to and consolidated in the New York District Court. An amended consolidated class action complaint was filed in January 2015, and defendants filed a consolidated response in March 2015. Plaintiffs filed a second amended complaint in April 2015. Defendants' consolidated response was filed in May 2015.

Between late 2014 and early 2015, numerous putative class actions were filed in the New York District Court naming HSBC Bank USA and other members of The London Platinum and Palladium Fixing Company Limited as defendants. The complaints allege that, from January 2007 to the present, defendants conspired to manipulate the price of physical Platinum Group Metals ('PGM') and PGM-based financial products for their collective benefit in violation of the US antitrust laws and the CEA. An amended consolidated class action complaint was filed in April 2015. Defendants' consolidated response was filed in June 2015.

Various regulators and competition and law enforcement authorities in the US and the EU are conducting investigations and reviews related to HSBC's precious metals operations. In November 2014, the DoJ issued a document request to HSBC Holdings seeking the voluntary production of certain documents relating to a criminal antitrust investigation that the DoJ is conducting in relation to precious metals. In January 2015, the CFTC issued a subpoena to HSBC Bank USA seeking the production of certain documents related to HSBC Bank USA's precious metals trading operations. In April 2015, the European Commission issued a request for information seeking certain information related to HSBC's precious metals operations. HSBC is cooperating with the authorities.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of these matters, including the timing or any possible impact on HSBC, which could be significant.

Credit default swap regulatory investigation and litigation

In July 2013, HSBC received a Statement of Objections from the Commission relating to its ongoing investigation of alleged anti-competitive activity by a number of market participants in the credit derivatives market between 2006 and 2009. The Statement of Objections sets out the Commission's preliminary views and does not prejudge the final outcome of its investigation. HSBC has submitted a response and attended an oral hearing in May 2014. Following the oral hearing the Commission decided to conduct a further investigation phase before deciding whether or how to proceed with the case. HSBC is cooperating with this further investigation. There are many factors that may affect the range of possible outcomes, and the resulting financial impact, of this matter. The amounts of any fines and/or penalties, however, could be significant.

In addition, HSBC Bank USA, HSBC Holdings and HSBC Bank plc have been named as defendants, amongst others, in numerous putative class actions filed in the New York District Court and the Illinois District Court. These class actions allege that the defendants, which include ISDA, Markit and several other financial institutions, conspired to restrain trade in violation of US antitrust laws by, amongst other things, restricting access to credit default swap pricing exchanges and blocking new entrants into the exchange market, with the purpose and effect of artificially inflating the bid/ask spread paid to buy and sell credit default swaps in the US. The plaintiffs in these suits purport to represent a class of all persons who purchased credit default swaps from or sold credit default swaps to defendants primarily in the US.

In October 2013 these cases were consolidated in the New York District Court. An amended consolidated complaint was filed in January 2014 naming HSBC Bank USA and HSBC Bank plc as defendants, amongst other non-HSBC defendants. Following the filing of defendants' initial motions to dismiss in March 2014, plaintiffs filed a second amended consolidated complaint, which defendants also moved to dismiss. In September 2014, the court granted in part and denied in part the defendants' motion to dismiss. Discovery is in process.

There are many factors that may affect the range of possible outcomes, and the resulting financial impact, of these private lawsuits. Any liabilities that might arise as a result of the claims in these actions could, however, be significant.

11 Transactions with related parties

There were no changes in the related party transactions described in the Annual Report and Accounts 2014 that have had a material effect on the financial position or performance of the group in the six months to 30 June 2015. All related party transactions taken place in the period ended 30 June 2015 were similar in nature to those disclosed in the Annual Report and Accounts 2014.

12 Events after the balance sheet date

A first interim dividend for the financial year ending 31 December 2015 of £540 million was declared by the Directors after 30 June 2015.

13 Interim Report 2015 and statutory accounts

The information in this *Interim Report 2015* is unaudited and does not constitute statutory accounts within the meaning of section 434(3) of the Companies Act 2006. The *Interim Report 2015* was approved by the Board of Directors on 3 August 2015. The statutory accounts for the year ended 31 December 2014 have been delivered to the Registrar of Companies in England and Wales in accordance with section 446 of the Companies Act 2006. The group's previous auditor, KPMG Audit Plc reported on those accounts. Their report was unqualified, did not include a reference to any matters to which they drew attention by way of emphasis without qualifying their report, and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Independent Review Report by PricewaterhouseCoopers LLP to HSBC Bank plc

Our conclusion
We have reviewed the condensed interim financial statements, defined below, in the Interim Report of HSBC Bank plc for the six months ended 30 June 2015. Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

This conclusion is to be read in the context of what we say in the remainder of this report.

What we have reviewed
The condensed interim financial statements, which are prepared by HSBC Bank plc comprise:

- the consolidated statement of financial position as at 30 June 2015;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated statement of cash flows for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the condensed interim financial statements.

As disclosed in note 1, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The condensed interim financial statements included in the Interim Report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What a review of condensed financial statements involves
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed interim financial statements.

Responsibilities for the condensed interim financial statements and the review

Our responsibilities and those of the directors
The Interim Report, including the condensed interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express to the company a conclusion on the condensed interim financial statements in the Interim report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
3 August 2015
London, United Kingdom

Notes *The maintenance and integrity of the HSBC Bank plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.*

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

HSBC Bank plc
Incorporated in England with limited liability. Registered in England: number 14259

REGISTERED OFFICE
8 Canada Square, London E14 5HQ, United Kingdom
Web: www.hsbc.co.uk

HSBC Bank plc
8 Canada Square
London E14 5HQ
United Kingdom
Telephone: 44 020 7991 8888
www.hsbc.co.uk