HSBC Bank plc

Interim Report 2016

HSBC

Overview

Presentation of Information

This document is the *Interim Report 2016* 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. References to 'HSBC' or 'the Group' within this document mean HSBC Holdings plc together with its subsidiaries. The abbreviations '£m' and '£bn' represent millions and billions (thousands of millions) of sterling, respectively.

It contains the Interim Management Report and Condensed Consolidated 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').

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 with recent periods. This compares to the Condensed Consolidated Financial Statements and related notes, prepared in accordance with IAS 34, which include income statement period-on-period comparatives.

Unless otherwise stated, commentary on the income statement compares the six months to 30 June 2016 to the same period in the prior year. Balance sheet commentary compares the position at 30 June 2016 to 31 December 2015.

In accordance with IAS 34 the *Interim Report* is intended to provide an update on the *Annual Report and Accounts 2015* and therefore focuses on events during the first six months of 2016 rather than duplicating information previously reported.

Cautionary Statement Regarding Forward-Looking Statements

The *Interim Report 2016* 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.

Highlights

	Half-year to		
	30 Jun 2016	30 Jun 2015	31 Dec 2015
For the period (£m)			
Reported profit before tax	**1,991**	2,136	835
Adjusted profit before tax[1]	**1,810**	2,621	1,447
Net operating income before loan impairment charges and other credit risk provisions[2]	**6,737**	7,052	5,818
Profit attributable to shareholders of the parent company	**1,410**	1,529	413
At period end (£m)			
Total equity attributable to shareholders of the parent company	**40,823**	34,975	37,497
Total assets	**887,661**	749,853	727,941
Risk-weighted assets	**243,648**	234,513	229,382
Loans and advances to customers (net of impairment allowances)	**266,614**	248,042	258,506
Customer accounts	**363,651**	336,964	332,830
Capital ratios[3] (%)			
Common equity tier 1	**9.6**	9.3	9.6
Total tier 1 ratio	**11.6**	10.9	11.8
Total capital ratio	**15.3**	14.3	15.5
Performance, efficiency and other ratios (annualised %)			
Annualised return on average shareholders' equity[4]	**7.7**	9.3	2.5
Pre-tax return on average risk-weighted assets (reported basis)	**1.7**	1.7	0.7
Pre-tax return on average risk-weighted assets (adjusted basis)	**1.5**	2.1	1.2
Cost efficiency ratio (adjusted basis)[5]	**65.5**	59.3	69.9
Jaws (adjusted basis)[6]	**(9.3)**	4.2	(4.0)
Ratio of customer advances to customer accounts	**73.3**	73.6	77.7

1 *Adjusted performance is computed by adjusting reported results for the effect of significant items as detailed on pages 21 and 22.*
2 *Net operating income before loan impairment charges and other credit risk provisions is also referred to as revenue.*
3 *Capital ratios are based on transitional CRD IV rules (refer to page 14).*
4 *The return on average total shareholders' equity is defined as profit attributable to shareholders of the parent company divided by the average total shareholders' equity, adjusted for other equity instruments.*
5 *Adjusted cost efficiency ratio is defined as total operating expenses (adjusted) divided by net operating income before loan impairment charges and other credit risk provisions (adjusted). Net operating income before loan impairment charges and other credit risk provisions (adjusted) is also referred to as revenue (adjusted).*
6 *Adjusted jaws measures the difference between adjusted revenue and adjusted cost growth rates.*

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 and strategic direction is embedded in HSBC's strategy, which aims to capture value from its international network.

Our strategy is built around long-term trends and reflects our distinctive advantages.

Long-term trends

Increasing global connectivity

The international flow of goods, services and finance continues to expand, aided by the development of technology and data in personal and commercial exchanges.

Distinctive advantages

Unrivalled global presence

HSBC's network provides access to more than 90% of global trade and capital flows. We use it to enable clients to participate in global growth opportunities and offer leading product capabilities to build deeper and more enduring relationships with businesses and individuals with international needs.

Universal banking model

We serve the full range of banking customers through our four businesses, from individual savers to large multinational corporations. This universal banking model enables us to effectively meet our clients' diverse financial needs, support a strong capital and funding base, reduce risk profile and volatility, and generate stable returns for shareholders.

Long-term strategy

Develop our international network

The group derives value from HSBC's network of businesses to support future growth and increase global connectivity.

We aim to develop and leverage the presence and global reach of HSBC in our long-term commitment towards our strategic European markets.

Invest in wealth management and select retail businesses

We aim to capture opportunities arising from social mobility, wealth creation and long-term demographic changes in our priority markets where we can achieve profitable scale.

Investing in the future

We continue to focus on the long-term needs of our customers. We are investing in technology to serve our clients better through digital channels such as mobile payments. We also aim to develop and use our unique capabilities to support clients in the transition to a low carbon economy.

Strategic actions

At HSBC's Investor Update in June 2015, the Group outlined a series of strategic actions to make the most of its competitive advantages and respond to the changing environment in which it operates, many of which are applicable to the group.

These actions are focused on improving efficiency in how we use our resources and investing for growth in line with our strategy. Progress has been made against these actions, each of which has targets defined to the end of 2017:

- reduce risk weighted assets ('RWAs') across the Group;
- optimise HSBC's global network;
- set up a UK ring-fenced bank;
- deliver US$4.5–5.0bn of cost savings;
- deliver revenue growth above gross domestic product ('GDP') from HSBC's international network;
- grow business from renminbi ('RMB') internationalisation; and
- implement Global Standards.

The Group's strategic actions will help in achieving our medium-term financial targets, such as increasing our return on equity and achieving positive jaws.

Structural reform

Policy background to recovery and resolution

Following the financial crisis, G20 leaders requested that the Financial Stability Board ('FSB') establish more effective arrangements for the recovery and resolution of 30 designated global systemically important banks ('G-SIBs'), resulting in a series of policy recommendations in relation to recovery and resolution planning, cross-border cooperation agreements and measures to mitigate obstacles to resolution.

Banking structural reform and recovery and resolution planning

Globally there have been a number of developments relating to banking structural reform and the introduction of recovery and resolution regimes. As recovery and resolution planning has developed, some regulators and national authorities have also required changes to the corporate structures of banks. These include requiring the local incorporation of banks or ring-fencing of certain businesses. In the UK, ring-fencing legislation has been enacted requiring the separation of retail and small and medium-sized enterprise ('SME') banking activity from trading activity.

HSBC resolution strategy

The Group continues to work with primary regulators to develop and agree a resolution strategy for HSBC. It is viewed that a strategy by which the Group breaks up at a subsidiary bank level at the point of resolution (referred to as Multiple Point of Entry strategy) rather than being kept together as a Group at the point of resolution (referred to as a Single Point of Entry strategy) is the optimal approach as it is aligned to the Group's existing legal and business structure. Similar to all G-SIBs, the Group is working with regulators to better understand inter-dependencies between different businesses and subsidiary banking entities in the Group in order to enhance resolvability.

Implementation of the ServCo group

The Group started making changes to its corporate structure to mitigate or remove critical inter-dependencies to further facilitate the resolution of the Group. In particular, to remove operational dependencies (where one subsidiary bank provides critical services to another), the Group is in the process of transferring critical services from subsidiary banks to a separately incorporated group of service companies ('ServCo group'). The ServCo group will be separately funded to ensure continuity of services in resolution. A significant portion of the ServCo group already exists and this initiative involves transferring the remaining critical services still held by subsidiary banks into the ServCo group. The services will then be provided to the subsidiary banks by the ServCo group.

To progress implementation, certain critical assets and 15,447 employees performing shared services in the UK have been transferred from HSBC Bank plc to the ServCo group, which is not a subsidiary of HSBC Bank plc but of HSBC Holdings plc. There were no changes to employment terms and conditions or pension benefits as a result of these transfers. In July 2016, the operational aspect of payroll and expense management for these employees was transferred to the ServCo group. This will impact our reported employee-related costs and headcount data. Such costs will be recharged to the bank.

To support the creation of the ServCo group and to ensure that employees transferred retained existing pension benefits, a new section of the HSBC Bank (UK) Pension Scheme was created with segregated assets and liabilities. The new section provides ServCo group employees with their defined contribution pension and, where relevant, defined benefit pension benefits arising from future salary increases above Consumer Price Index ('CPI').

UK ring-fencing

In 2013 and 2014, UK legislation was enacted requiring large banking groups to ring-fence UK retail banking activity in a separately incorporated banking subsidiary (a ring-fenced bank) that will be prohibited from engaging in significant trading activity. Ring-fencing is to be completed by 1 January 2019. The legislation also details the applicable individual customers to be transferred to the ring-fenced bank by reference to gross worth and corporate customers to be transferred based on turnover, assets and number of employees. In addition, the legislation places restrictions on the activities and geographical scope of ring-fenced banks.

There continue to be regulatory developments related to the proposed rules on ring-fencing. During 2015, the Prudential Regulation Authority ('PRA') and other regulators issued new proposed rules on governance arrangements, ring-fencing transfer schemes, prudential requirements, intragroup arrangements and operational continuity and the use of financial market infrastructure. The regulatory landscape continues to evolve and the finalisation of rules in respect of ring-fencing is expected to continue until 2017.

The headquarters of the UK ring-fenced bank, HSBC UK, will be located in Birmingham. Our ambition is to be the bank of choice in the UK and as a name, HSBC UK will build on the global connectivity and customer trust of the HSBC brand and differentiate us in a competitive market.

The final business design provides for the transfer into HSBC UK of the qualifying components of HSBC Bank plc's UK Retail Banking and Wealth Management ('RBWM'), Commercial Banking ('CMB') and Global Private Banking ('GPB') businesses. HSBC Bank plc's UK Global Banking and Markets ('GB&M') business will remain in HSBC Bank plc. HSBC Bank plc remains the issuer under its debt issuance programmes, and outstanding securities issued under such programmes will continue to be obligations of HSBC Bank plc.

The Group presented a final ring-fencing project plan to regulators in January 2016. The plan is ultimately subject to court approval, as well as that of the PRA, Financial Conduct Authority ('FCA') and other applicable regulators.

Economic environment

UK real Gross Domestic Product ('GDP') growth accelerated to 0.6% quarter-on-quarter in the second quarter of 2016, from 0.4% quarter-on-quarter in the first quarter of the year. GDP was 2.2% higher than the same quarter a year earlier. The unemployment rate inched down to 4.9% in the three months to May. Employment as a percentage of the workforce stood at an all-time high of 74%. Wage growth has slowed from last year, but rose to 2.3% in the three months to April. The annual rate of growth of the CPI measure of inflation stood at 0.5% in June 2016. Activity in the housing market was strong in the first quarter, but slowed in the second quarter, following the imposition of higher stamp duty on buy-to-let purchases.

Following the UK's vote to leave the European Union ('EU'), the economic outlook has shifted markedly. UK real GDP is now expected to rise by 1.5% in 2016, and slow sharply in 2017, albeit narrowly avoiding a recession. Investment might be hardest hit by the uncertainty surrounding the UK's political and economic outlook. CPI inflation is expected to rise on the back of exchange rate depreciation, rising to an annual rate of 1.2% by the fourth quarter of 2016.

In the eurozone, the domestic-led cyclical recovery continued. Real GDP in the region as a whole surprised on the upside in the first quarter of 2016, growing by 0.6% after growing by 0.4% in the last quarter of 2015. Spain continued to be the strongest performer among the four largest eurozone economies, with real GDP growth of 0.8% in the first quarter, but the recovery was more broad-based, with Germany growing by 0.7% and France by 0.6%. Italy was lagging behind, with growth of 0.3%. The renewed fall in energy prices is continuing to provide a significant boost to real wages, supporting consumption, while public consumption has also been supportive of growth thanks to the reduction in interest payments brought about by the ECB's quantitative easing programme. The mild weather over the winter also boosted residential construction, particularly in countries such as Germany. Exports, however, are starting to slow, as the impact of the past euro depreciation starts to fade and global demand remains weak.

The monetary policy stance from the ECB is helping to support demand and is easing credit conditions in the eurozone. But as the impact of lower energy prices on consumer purchasing power fades, sustainable growth depends on the delivery of a broader package of investment measures to support demand and raise productivity, and a more coordinated fiscal effort. The outcome of the UK referendum on its membership of the EU is also likely to weigh on trade, and consumer and investor confidence in the eurozone. HSBC Global Research expects real GDP growth in the eurozone of 1.4% in 2016, slightly lower than the 1.6% achieved in 2015, and 1.0% in 2017, with CPI inflation remaining subdued (0.9% in 2017) after the rebound at the turn of the year due to the base effect from energy prices.

HSBC Global Research expects global GDP growth to be 2.2% in 2016, down from 2.4% in 2015.

Financial summary

Summary consolidated income statement

	Half-year to		
	30 Jun 2016	30 Jun 2015	31 Dec 2015
	£m	£m	£m
Net interest income	**3,438**	3,504	3,314
Net fee income	**1,425**	1,423	1,440
Net trading income	**2,107**	1,318	1,433
Net (expense)/income from financial instruments designated at fair value	**(811)**	838	(462)
Gains less losses from financial investments	**488**	136	14
Net earned insurance premiums	**860**	900	713
Other operating income	**42**	238	109
Total operating income[1]	**7,549**	8,357	6,561
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(812)**	(1,305)	(743)
Net operating income before loan impairment charges and other credit risk provisions	**6,737**	7,052	5,818
Loan impairment charges and other credit risk provisions	**(280)**	(191)	(290)
Net operating income	**6,457**	6,861	5,528
Total operating expenses[1]	**(4,463)**	(4,727)	(4,693)
Operating profit	**1,994**	2,134	835
Share of (loss)/profit in associates and joint ventures	**(3)**	2	—
Profit before tax	**1,991**	2,136	835
Tax expense	**(562)**	(590)	(407)
Profit for the period	**1,429**	1,546	428
Profit attributable to shareholders of the parent company	**1,410**	1,529	413
Profit attributable to non-controlling interests	**19**	17	15

1 *Total operating income and expenses include significant items as detailed on pages 22 and 23.*

Review of business performance

Reported performance

HSBC Bank plc and its subsidiaries reported a profit before tax of £1,991m in the first half of 2016, compared with a profit of £2,136m and £835m in the first and second halves of 2015 respectively.

Net interest income decreased by £66m or 2% compared with the first half of 2015. The decrease was primarily in GB&M in Legacy Credit and in RBWM due to spread compression on mortgages in the UK and lower credit card income as customers continue to de-leverage. By contrast, net interest income in CMB increased, primarily in the UK, from growth in Term Lending and Global Liquidity and Cash Management ('GLCM') deposit balances.

Net fee income increased by £2m. In GB&M, net fee income increased in Global Banking reflecting higher mergers and acquisitions activity. This increase was mostly offset by a reduction in RBWM, mainly due to lower interchange fees for credit cards in the UK following a regulatory change. Wealth Investments revenue was also adversely impacted following the migration of funds to clean share classes and re-pricing of a discretionary offering.

Net trading income increased by £789m or 60% compared with the first half of 2015. The increase was primarily due to higher favourable foreign exchange movements on trading assets held as economic hedges against issued foreign currency debt designated at fair value. By contrast, trading income decreased in our Equities and, to a lesser extent, Foreign Exchange businesses due to market volatility resulting in reduced client activity. In RBWM, net trading income decreased due to negative fair value adjustments on non-qualifying hedges of £19m, notably in our French home loan portfolio, compared with positive movements of £20m in the first half of 2015.

Net expense from financial instruments designated at fair value decreased by £1.6bn compared with the prior period. £1.3bn of this was due to adverse foreign exchange movements on economically hedged foreign currency debt in GB&M (offset from assets held as economic hedges in 'Net trading income'). In addition, income arising from financial assets held to meet liabilities under insurance and investment contracts decreased, reflecting lower net investment returns in the first half of 2016 compared with 2015. These returns reflected weaker equity markets in France and the UK.

This decrease was partly offset by higher favourable credit spread-related movements in the fair value of the group's own long-term debt of £117m.

Gains less losses from financial investments increased by £352m. This was primarily due to a gain on disposal of our membership interest in Visa Europe of £416m in the first half of 2016. Excluding this, gains less losses from financial investments decreased by £64m mainly in GB&M due to lower available-for-sale gains in Balance Sheet Management, notably in the UK.

Net insurance premium income decreased by £40m mainly in the UK due to lower pension premiums following the sale of the pension business in the second half of 2015. There was also lower income from the sale of investment contracts in RBWM France driven by the low returns available in the low interest rate environment.

Other operating income decreased by £196m or 82%. This was due to a decrease in the present value of in-force ('PVIF') long-term insurance business in RBWM France, driven by investment assumption changes following a fall in long term interest rates and equity market performance in 2016 compared to 2015.

Net insurance claims and benefits paid and movement in liabilities to policyholders decreased by £493m. This reflected lower investment returns on assets held to support liabilities under contracts where the policyholder bears investment risk. This decrease was due to weaker equity market movements in the first half of 2016 compared with 2015 in the UK and France.

Loan impairment charges and other credit risk provisions ('LICs') increased by £89m. This increase was primarily in CMB due to higher collectively assessed impairments in the UK and higher individually assessed impairments in the UK (notably in the oil and gas and, to a lesser extent, shipping sectors) and Spain (in the construction sector). This was partly offset by lower individually assessed impairments in France.

In GB&M, loan impairment charges decreased due to net releases of individually and collectively assessed impairments compared with net charges in the prior year. This was partly offset by lower net releases on available-for-sale asset-backed securities.

RBWM and GPB loan impairment charges were broadly unchanged compared with the first half of 2016.

Total operating expenses decreased by £264m or 6%. The decrease included a number of significant items including:

- lower settlements and provisions in connection with legal and regulatory matters, down by £436m, primarily in GB&M;
- lower UK customer redress provisions, notably in estimated redress for possible mis-selling of payment protection insurance ('PPI') policies in previous years (nil provision in the first half of 2016 compared to £60m booked for the same period in 2015); partly offset by
- costs-to-achieve (as defined on page 21) of £309m; and
- Madoff litigation costs in the first half of 2016 of £20m.

Excluding these items, expenses were lower by £111m mainly driven by a reduction in IT costs in RBWM and GB&M and lower staff costs across all of the global businesses. This was partly offset by a marginal increase in CMB due to an increase in customer redress provisions.

For further details of significant items affecting revenues and costs, please refer to disclosure note on pages 22 and 23.

Tax expense of £562m was £28m lower than in the first half of 2015. The effective tax rate for the first half of 2016 was 28.2%, compared with 27.6% for the same period in 2015.

Excluding significant items (notably non-taxable gain on disposal of Visa Europe in 2016 and settlements and provisions in connection with foreign exchange investigations in 2015), the effective tax rate for the first half of 2016 was 30.3% compared to 24.8% in 2015. The increase was mainly attributable to the 8% surcharge on UK banking profits, which became effective from 1 January 2016.

Summary consolidated balance sheet

At 30 June 2016

	30 Jun 2016 £m	31 Dec 2015 £m
Assets		
Cash and balances at central banks	**55,147**	39,749
Trading assets	**142,356**	110,585
Financial assets designated at fair value	**7,337**	6,829
Derivative Assets	**238,906**	166,785
Loans and advances to banks	**21,113**	23,222
Loans and advances to customers	**266,614**	258,506
Reverse repurchase agreements – non-trading	**47,164**	30,537
Financial investments	**83,561**	71,352
Other	**25,463**	20,376
Total assets	**887,661**	727,941
Liabilities and Equity		
Liabilities		
Deposits by banks	**28,986**	24,202
Customer accounts	**363,651**	332,830
Repurchase agreements – non-trading	**27,408**	17,000
Trading liabilities	**107,968**	73,489
Financial liabilities designated at fair value	**19,419**	19,001
Derivatives Liabilities	**234,698**	162,864
Debt securities in issue	**25,215**	26,069
Liabilities under insurance contracts issued	**18,940**	16,664
Other liabilities	**19,827**	17,697
Total liabilities	**846,112**	689,816
Equity		
Total shareholders' equity	**40,823**	37,497
Non-controlling interests	**726**	628
Total equity	**41,549**	38,125
Total liabilities and equity	**887,661**	727,941

Review of business position

Total reported assets were 22% higher than at 31 December 2015.

The group maintained a strong and liquid balance sheet with the ratio of customer advances to customer accounts reducing 4.4% to 73.3% (31 December 2015: 77.7%).

The group's Common Equity Tier 1 ratio remained unchanged at 9.6% (31 December 2015: 9.6%). Risk-weighted assets of £243,648m were 6% higher than at 31 December 2015, principally due to movements in foreign exchange rates.

The primary effect of the UK referendum on its membership of the EU on the group's reported balance sheet was an increase in the value of derivative positions and related cash collateral, and an increase in the value of non-sterling denominated balance sheet items on translation. Increased trading assets were also a key driver of overall balance sheet growth, reflecting a seasonal increase in activity.

Assets

Cash and balances at central banks increased by 39% as the group held more cash in the run up to, and immediately following, the EU referendum.

Trading assets increased by 29% primarily due to an increase in market activity relative to year end and changes in asset prices.

Derivative assets increased by 43% primarily due to a downwards shift in major yield curves and movements in foreign exchange rates.

Loans and advances to customers increased by 3% due to growth in corporate term lending and foreign exchange movements. This was partly offset by a reduction in gross corporate overdrafts, with a corresponding marginal reduction in customer accounts, following an initiative with clients to settle positions in notional pools.

Reverse repurchase agreements – non-trading increased by 54% reflecting reduced market activity at year end.

Financial investments increased by 17% principally due to an increase in the balance of highly liquid assets.

Other assets increased by 25% due to a range of factors, but predominantly due to a rise in precious metal prices.

Liabilities

Customer accounts increased by 9%, due to growth in retail and corporate balances, an increase in placements by HSBC Holdings, and foreign exchange movements. This was partly offset by a reduction in gross customer deposits as part of an initiative to reduce balances in notional pooling accounts (see loans and advances). The increase in placements by HSBC Holdings resulted from the Group's plan to downstream Total Loss Absorbing Capacity ('TLAC') to its subsidiaries. It is expected that these placements will be transformed into debt compliant with the Minimum Requirements for own funds and Eligible Liabilities ('MREL') in due course.

Repurchase agreements – non-trading increased by 61% in line with reverse repurchase agreements.

Trading liabilities increased by 47% in line with trading assets.

Financial liabilities designated at fair value and debt securities in issue increased by 2% and reduced by 3% respectively, as the group's external debt profile remained broadly stable.

Derivative liabilities increased by 44%, broadly in line with derivative assets as the underlying risk is broadly matched.

Liabilities under insurance contracts issued increased by 14% primarily due to foreign exchange movements.

Equity

Total shareholders' equity increased by 9%. The increase in retained earnings from profit generated was supported by an increase in the foreign exchange reserve and actuarial gains on defined benefit pension plans.

Risk

Managing risk

The group's risk profile is underpinned by its core philosophy of maintaining a strong balance sheet, robust liquidity position and capital strength. The group continued to have a conservative risk profile during the first half of 2016.

As a provider of banking and financial services, the firm runs risk at the core of its day-to-day activities. While the group's strategy, risk appetite, plans and performance targets are set top-down, day-to-day responsibility for risk management is cascaded through the delegation of individual accountability, with reporting and escalation facilitated through risk governance structures. Policies, procedures and limits are defined to ensure activities remain within an understood and appropriate level of risk. Identification, measurement, monitoring and reporting of risks are essential to inform regular and strategic decision making. This is supported by an effective system of controls to ensure compliance.

The risk management framework promotes a strong risk culture which is 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 on page 19 of the *Annual Report and Accounts 2015*. There have been no material changes to our policies and practices regarding risk management and governance as described in the *Annual Report and Accounts 2015*.

Top and emerging risks

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

The group continuously monitors and identifies risks. This process, which is informed by an assessment of its risk factors and the results of stress testing, 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.

In addition, on a forward-looking basis, the group aims to identify, monitor and, where possible, measure and mitigate large scale events or sets of circumstances that may have the potential to have a material impact on our financial results or reputation and the sustainability of our long-term business model. These events, giving rise to additional principal banking risks noted above, are captured together as the top and emerging risks.

During the first half of 2016, the group made a number of changes to its top and emerging risks to reflect its revised assessment of their effect on the group and changes in the scope of risk definitions, to ensure appropriate focus.

Within externally driven risks, 'Risk of the UK exit from EU' has been added as a standalone item, having previously been included within both 'Geopolitical risk' and 'Economic outlook and capital flows'. 'Cyber threats and unauthorised access to systems' replaces 'System resilience'. 'Increasing regulatory expectations' replaces 'Regulatory developments with adverse impact on business model and profitability', reflecting the broader impact of enhanced regulatory expectations. 'Financial Crime Compliance' now includes 'US Deferred Prosecution Agreement ('DPA') and related agreements and consent orders', with 'Market illiquidity and volatility' replacing 'Economic outlook and capital flows', with other risks covering specific aspects of the economic outlook.

Within internally driven risks, 'IT systems infrastructure and resilience' has been added to reflect the need to ensure that our core banking systems remain robust as digital and mobile banking services continue to evolve. 'Model Risk' is also a new addition to this set, reflecting the regulatory challenges to model governance in an increasing and varied regulatory environment.

Further details on the group's top and emerging risks are set out on the following page.

Top and Emerging risks

	Risk	Trend	Mitigants
	Externally driven		
*	UK exit from EU	↑	We planned and managed the immediate aftermath of the vote successfully. We undertook scenario analyses and stress tests, and closely engaged with the PRA on liquidity planning in the lead up to, and following, the UK referendum on EU membership to identify vulnerabilities in the event of a 'leave' vote and potential mitigating actions. However, negotiation of the UK's exit agreement might take years to resolve. Until the terms of exit are known, we cannot fully determine the impact on HSBC. We will continue to work with regulators, governments and our customers to manage risks as they arise, particularly across those sectors most impacted by the outcome.
	Geopolitical risk	↑	Geopolitical unrest across a number of regions has led to heightened risk across Europe. We continue to monitor the situations closely.
	Turning of the credit cycle	→	Stress tests were conducted on our oil and gas portfolio on US$25 and US$20 per barrel price scenarios, as well as on the metals and mining portfolio. These sectors remain under enhanced monitoring with risk appetite and new lending significantly curtailed.
†	Cyber threat and unauthorised access to systems	→	We continue to improve our governance and controls framework to protect HSBC information and technical infrastructure against ever-increasing and sophisticated cyber-threats.
†	Increasing regulatory expectations	→	We actively engaged with regulators and policy makers to help ensure that new regulatory requirements, such as the recent Basel Commission on Banking Supervision consultation on reducing variation on credit risk RWAs, are considered fully and can be implemented in an effective manner.
	Regulatory focus on conduct of business and financial crime	→	We further enhanced our management of conduct in areas including the treatment of potentially vulnerable customers, market surveillance, employee training and performance.
†	Financial Crime Compliance	↑	We are continuing to take concerted action to remediate Anti-Money Laundering and Sanctions compliance deficiencies and to implement Global Standards. We also continue to embed Affiliate Risk management to further mitigate financial crime risk issues arising from operations conducted within the HSBC network.
†	Market illiquidity and volatility	→	Several initiatives are in place including the eTrading platform. We monitor risks closely and report regularly on illiquidity and concentration risks to the PRA.
	Internally driven		
*	IT systems infrastructure and resilience	↑	We are investing in specialist teams and our systems capability to help ensure strong digital capabilities, delivery quality and resilience within our customer journeys.
	People risk	→	We have increased our focus on resource planning and employee retention and are developing initiatives to equip line managers with skills to both manage change and support their employees.
	Execution risk	→	We have strengthened our prioritisation and governance processes for significant strategic, regulatory and compliance projects.
*	Model risk	↑	The scope of regulatory development is ever increasing, leading to challenges in model governance which may have an impact on our RWAs and hence capital demand. We have created centralised global analytical functions and recruited additional subject matter experts in our modelling and independent model review teams. A new global policy on model risk management has been implemented and an enhanced model governance framework is also being rolled out globally to address key internal and regulatory requirements.
	Data management	→	We continued to enhance our data governance, quality and architecture to help enable consistent data aggregation, reporting and management.

↑ Risk heightened during first half of 2016
→ Risk remained at the same level as 31 December 2015
† Thematic risk renamed during the first half of 2016
* New risk introduced during the first half of 2016

Areas of special interest

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. These include investigations related to compliance with anti-money laundering and sanctions laws and regulations giving rise to the US Deferred Prosecution Agreement ('US DPA'), mis-selling in the UK of Payment Protection Insurance ('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 12 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 below.

The level of inherent compliance risk remained high in the first half of 2016 as the industry continued to experience greater regulatory scrutiny and heightened levels of regulatory oversight and supervision.

The Monitor

Under the agreements entered into with the US Department of Justice ('DoJ') and the UK Financial Conduct Authority ('FCA') in 2012, including the five-year US DPA, an independent compliance monitor ('the Monitor') was appointed to produce annual assessments of the effectiveness of the Group's anti-money laundering ('AML') and sanctions compliance programme. The work of the Monitor is described on page 20 of the *Annual Report and Accounts 2015*.

HSBC is working to implement the agreed recommendations flowing from the Monitor's reviews. The Monitor's third annual follow-up review is under way.

Regulatory stress tests

Stress testing and scenario analysis form a key component of HSBC Bank plc's integrated risk management framework. They provide a forward-looking assessment of risk and identify key fault lines under a range of scenarios. This facilitates the monitoring of top and emerging risks and the development of appropriate mitigating actions and contingency plans, across a range of stressed conditions. Stress testing also informs business, capital planning and strategic decision making, allowing the group to formulate responses and mitigate risks in advance of actual conditions exhibiting the stresses identified in the scenarios.

HSBC Bank plc and the Group have taken part in the Prudential Regulation Authority's ('PRA') 2016 concurrent stress test exercise involving the major UK banks. The scenario for the 2016 stress test incorporated a synchronised global downturn in output growth particularly affecting Hong Kong and China; UK economic growth was significantly impacted with property prices falling by almost a third and unemployment increasing materially. The Group's results for the PRA's 2016 stress test will be published by the Bank of England alongside the Financial Stability Report in the fourth quarter of 2016.

A summary of our approach to stress testing and scenario analysis is provided on page 20 of the *Annual Report and Accounts 2015*.

UK Referendum on European Union Membership

Following the UK electorate's vote to leave the EU in a national referendum, there has been a period of volatility against a backdrop of uncertainty, which is likely to continue for some time. We were aware of the potential for market disruption in the aftermath of a vote to leave the EU and took steps to plan for this outcome.

During 2015 and the first half of 2016, we undertook a number of different analyses including stress tests to consider the potential impacts of a vote to leave the EU on capital positions, key portfolios, liquidity and our customers.

As the referendum approached, our priority was to ensure that we had adequate liquidity in each operating currency across all businesses. We also focused on operational and IT infrastructure resilience in anticipation of higher volumes and potential collateral calls immediately following the referendum. In addition, our global functions were engaged throughout and provided guidance on several issues including the standards of conduct to be maintained during a period of heightened volatility.

We are actively monitoring our portfolio to identify areas of stress, supported by stress testing analyses. Over the coming weeks and months, we intend to continue to work with regulators, governments and our customers in an effort to manage risks as they arise, particularly across those sectors most impacted by the outcome. We will also continue to focus on serving and supporting our customers, and delivering on our strategy.

Negotiation of the UK's exit agreement, its future relationship with the EU and its trading relationship with the rest of the world might take a considerable number of years to resolve. During this time, uncertainty as to the precise terms of these arrangements and the future legal and regulatory landscape may lead to uncertain economic conditions and market volatility. This may lead to reduced economic growth which may affect both HSBC and our clients. Among other issues, the UK's future relationship with the EU may have implications for the future business model for the group's London-based European cross-border banking operations, which relies on unrestricted access to the European financial services market.

Until the terms and timing of the UK's exit from the EU are confirmed, including the terms on which UK financial institutions will conduct cross border business post-exit, it is not possible to fully determine the impact on HSBC.

Foreign Exchange

In the first half of 2016 there was a marked decline in the value of sterling compared to US dollars and euros. While this depreciation in sterling value has not had a material impact on our businesses, it has impacted the value of our non-sterling denominated businesses on translation. This effect is most relevant to our reported balance sheet and capital ratios. Details of the group's structural exposure to foreign currencies can be found in Note 10 (page 45).

Oil and gas prices

Oil and gas prices have remained low since the middle of 2014 as a result of existing global supply and demand imbalances, with significant price declines in late 2015 and early 2016. While some price recovery has been seen recently, this has tended to be driven by unexpected supply outages rather than genuine market forces driving supply and demand back into balance. Continued lower oil prices cause increased credit risks within oil-related industries together with fiscal and financing challenges for the energy exporters.

Oil and gas related counterparties have responded rapidly to the changing economic outlook, cutting back on capital expenditure as well as reducing operating expenses in order to manage cash flows and sustain profitability. Large integrated producers have remained resilient. Oil field services companies have proved to be more vulnerable given the scale back in capital expenditure.

It is not expected that growth in the global demand for oil will be sufficient on its own to bring the market into balance. Price recovery over the medium term therefore remains dependent on the reduction of excess supply. We continue to manage the portfolio carefully and selectively.

Capital

Our objective in managing the group's capital is to maintain appropriate levels of capital to support our business strategy and meet regulatory and stress testing related requirements.

We manage group capital to ensure we exceed current regulatory requirements and respect the payment priority of our capital providers. Throughout the six months to 30 June 2016, we complied with the PRA's regulatory capital adequacy requirements, including those relating to stress testing.

The group's approach to managing its capital position has been to ensure the bank, its regulated subsidiaries and the group exceed current regulatory requirements and are well placed to meet expected future capital requirements.

A summary of our policies and practices regarding capital management, measurement and allocation is provided on page 72 of the Annual Report and Accounts 2015.

Regulatory developments

Throughout the six months to June 2016, there were a series of documents issued by the Basel Committee on Banking Supervision which proposed significant changes to the regulatory framework. The key publications proposed changes to:

- the framework for credit risk capital requirements under both the internal model and standardised approaches;
- the operational risk framework;
- the credit valuation adjustment capital framework;
- the scope of consolidation to include entities giving rise to 'step-in risk'; and
- the leverage ratio exposure calculation and buffers.

The final impact of these and other proposals will depend on the outcome of the consultation processes and quantitative impact studies, and any changes would need to be transposed into law before coming into effect. This includes the finalised changes that relate to the market risk, counterparty risk and securitisation regimes. In the UK, the Bank of England's Financial Policy Committee ('FPC') has indicated that there will be an offset with the PRA's Pillar 2 capital framework as a result of these changes, but the full scope and size of this offset is currently uncertain.

The FPC also, in July 2016, decided to keep the UK countercyclical capital buffer requirement at 0% until at least June 2017, having previously planned to raise it to 0.5% in March 2017. Furthermore, the FPC recommended that the PRA buffer requirements reduce in line with this decision. The PRA did this with immediate effect.

As part of Recovery and Resolution frameworks, the international standard for TLAC was finalised by the Financial Stability Board. The Bank of England expects to implement this through the EU's MREL framework, which it has consulted on but has yet to finalise.

Capital overview

Capital ratios

	30 Jun 2016	31 Dec 2015
	%	%
CRD IV transitional		
Common equity tier 1 ratio[1]	**9.6**	9.6
Tier 1 ratio	**11.6**	11.8
Total capital ratio	**15.3**	15.5

Total regulatory capital and risk-weighted assets

	30 Jun 2016	31 Dec 2015
	£m	£m
CRD IV transitional		
Common equity tier 1 capital[1]	**23,466**	21,939
Additional tier 1 capital	**4,873**	5,078
Tier 2 capital	**9,042**	8,586
Total regulatory capital	**37,381**	35,603
Risk-weighted assets	**243,648**	229,382

RWAs by risk type

	RWAs	Capital required[2]
	£m	£m
Credit risk	**165,996**	**13,280**
Counterparty credit risk	**31,575**	**2,526**
Market risk	**23,415**	**1,873**
Operational risk	**22,662**	**1,813**
At 30 Jun 2016	**243,648**	**19,492**

1 *Since 1 January 2015 the CRD IV transitional CET1 and end point CET1 capital ratios have become aligned for HSBC Bank plc.*
2 *In this and all following tables where the term appears, 'Capital required' represents the Pillar 1 capital charge at 8% of RWAs.*

Risk-weighted assets

RWA and Capital requirements for credit risk and information on risk exposures

Credit risk RWAs by exposure class

	At 30 Jun 2016		
	Exposure value	RWAs	Capital required
	£m	£m	£m
IRB Advanced approach	320,966	99,981	7,998
Retail:			
– secured by mortgages on immovable property SME	1,453	348	28
– secured by mortgages on immovable property non-SME	93,318	4,792	383
– qualifying revolving retail	22,438	4,337	347
– other SME	7,813	3,775	302
– other non-SME	18,225	4,048	324
Total retail	143,247	17,300	1,384
Central governments and central banks	21,745	3,255	260
Institutions	12,478	3,294	263
Corporates[1]	143,496	76,132	6,091
IRB Securitisation positions	23,553	15,235	1,219
IRB Non-credit obligation assets	7,824	3,760	301
IRB Foundation approach	22,109	14,020	1,122
Institutions	28	7	1
Corporates	22,081	14,013	1,121
Standardised approach	150,796	33,000	2,640
Central governments and central banks[2]	104,674	1,559	125
Institutions	9,769	2,414	193
Corporates	24,368	21,157	1,693
Retail	2,995	2,170	174
Secured by mortgages on immovable property	2,846	984	79
Exposures in default	929	1,210	97
Equity[3]	997	1,968	157
Items associated with particularly high risk	727	1,090	87
Claims in the form of collective investments undertakings	39	39	3
International organisations	2,045	—	—
Other items	1,407	409	32
Total credit risk	525,248	165,996	13,280

1 *'Corporates' includes specialised lending exposures subject to supervisory slotting approach of £14,036m and RWAs of £9,910m.*
2 *'Central governments and central banks' under the standardised approach includes exposures to regional governments and public sector entities.*
3 *'Equity' includes investment in insurance companies which are risk weighted at 250%.*

Counterparty credit risk RWAs by exposure class

	At 30 Jun 2016	
	RWAs	Capital required
	£m	£m
IRB Advanced approach	18,556	1,485
Central governments and central banks	496	40
Institutions	7,387	591
Corporates	10,673	854
IRB Foundation approach	1,260	101
Corporates	1,260	101
Standardised approach	3,938	315
Institutions	3,288	263
Corporates	650	52
CVA advanced	3,231	258
CVA standardised	3,816	305
CCP standardised	774	62
Total counterparty credit risk	31,575	2,526

Market risk – RWAs and capital required

	At 30 Jun 2016	
	RWAs	Capital required
	£m	£m
Internal model based	20,220	1,617
VaR	4,747	379
Stressed VaR	6,507	521
Incremental risk charge	3,388	271
Other VaR and stressed VaR	5,578	446
Standardised approach	3,195	256
Interest rate position risk	917	73
Equity position risk	650	52
Commodity position risk	7	1
Securitisation positions	1,621	130
Total market risk	23,415	1,873

Capital

Transitional own funds disclosure

*Ref **		*Ref †*	At 30 Jun 2016	CRD IV prescribed residual amount	Final CRD IV text
			£m	£m	£m
	Common equity tier 1 ('CET1') capital: instruments and reserves				
1	Capital instruments and the related share premium accounts		21,100		21,100
	Of which: ordinary shares	a	21,100		21,100
2	Retained earnings	b	11,919		11,919
3	Accumulated other comprehensive income (and other reserves)	c	1,697		1,697
5	Minority interests (amount allowed in consolidated CET1)	d	306		306
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend	b	1,261		1,261
6	**Common equity tier 1 capital before regulatory adjustments**		36,283		36,283
	Common equity tier 1 capital: regulatory adjustments				
7	Additional value adjustments		(757)		(757)
8	Intangible assets (net of related deferred tax liability)	e	(7,102)		(7,102)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	f	(29)		(29)
11	Fair value reserves related to gains or losses on cash flow hedges	g	(351)		(351)
12	Negative amounts resulting from the calculation of expected loss amounts	h	(1,081)		(1,081)
14	Gains or losses on liabilities at fair value resulting from changes in own credit standing		(440)		(440)
15	Defined-benefit pension fund assets	i	(3,057)		(3,057)
28	**Total regulatory adjustments to common equity tier 1**		(12,817)		(12,817)
29	**Common equity tier 1 capital**		23,466		23,466
	Additional tier 1 ('AT1') capital: instruments				
30	Capital instruments and the related share premium accounts		3,584		3,584
31	Of which: classified as equity under IFRSs	j	3,584		3,584
33	Amount of qualifying items and the related share premium accounts subject to phase out from AT1	k	1,389	(1,389)	—
36	**Additional tier 1 capital before regulatory adjustments**		4,973	(1,389)	3,584
	Additional tier 1 capital: regulatory adjustments				
37	Direct and indirect holdings of own AT1 instruments		(45)		(45)
41b	Residual amounts deducted from AT1 capital with regard to deduction from tier 2 ('T2') capital during the transitional period		(55)	55	—
	Of which: direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities		(55)	55	—
43	**Total regulatory adjustments to additional tier 1 capital**		(100)	55	(45)
44	**Additional tier 1 capital**		4,873	(1,334)	3,539
45	**Tier 1 capital (T1 = CET1 + AT1)**		28,339	(1,334)	27,005

Ref *		Ref †	At 30 Jun 2016	CRD IV prescribed residual amount	Final CRD IV text
			£m	£m	£m
	Tier 2 capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	l	7,969		7,969
47	Amount of qualifying items and the related share premium accounts subject to phase out from T2	m	1,124	(1,124)	—
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in CET1 or AT1) issued by subsidiaries and held by third parties		199	(199)	—
49	Of which: instruments issued by subsidiaries subject to phase out	n	199	(199)	—
51	**Tier 2 capital before regulatory adjustments**		9,292	(1,323)	7,969
	Tier 2 capital: regulatory adjustments				
52	Direct and indirect holdings of own T2 instruments		(30)		(30)
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)		(220)	(55)	(275)
57	**Total regulatory adjustments to tier 2 capital**		(250)	(55)	(305)
58	**Tier 2 capital**		9,042	(1,378)	7,664
59	**Total capital (TC = T1 + T2)**		37,381	(2,712)	34,669
60	**Total risk-weighted assets**		243,648		243,648
	Capital ratios and buffers				
61	Common equity tier 1		9.6%		
62	Tier 1		11.6%		
63	Total capital		15.3%		
64	Institution specific buffer requirement		0.633%		
	Of which:				
65	– capital conservation buffer requirement		0.625%		
66	– countercyclical buffer requirement		0.008%		
68	Common equity tier 1 available to meet buffers[1]		5.1%		
	Amounts below the threshold for deduction (before risk weighting)				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		1,228		
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		647		
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)		612		
	Applicable caps on the inclusion of provisions in tier 2				
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		464		
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		916		
	Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)				
82	Current cap on AT1 instruments subject to phase out arrangements		1,389		
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		225		
84	Current cap on T2 instruments subject to phase out arrangements		1,777		
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		—		

* *The references identify the lines prescribed in the EBA template which are applicable and where there is a value.*

† *The references (a) – (n) identify balance sheet components on page 19 which are used in the calculation of regulatory capital.*

1 *Common equity tier 1 available to meet buffers after Pillar 1 capital requirements.*

A list of the features of our capital instruments in accordance with Annex III of the Commission Implementing Regulation 1423/2013 is also being published on HSBC's website with reference to our balance sheet at 30 June 2016, along with the full terms and conditions.

Leverage ratio

The Basel III leverage ratio has been implemented in the EU for reporting and disclosure purposes but, at this stage, has not been set as a binding requirement. However in December 2015, the PRA published rules on a UK leverage ratio framework, which includes binding requirements. These requirements are super-equivalent to the Basel and EU regimes, and came into force on 1 January 2016.

Although there is currently no binding leverage ratio requirement under CRD IV and the PRA's UK leverage ratio requirements are not binding on the group, the leverage exposure measure is calculated by the group each month, and presented to our Asset & Liability Management Committee ('ALCO'), which monitors the risk of excess leverage. Leverage ratio is currently monitored on a transitional basis and is presented on this basis in the tables below.

Our leverage ratio of 3.7% was down from 4.0% at the end of 2015. This was mainly as a result of the increase in the size of the balance sheet.

Summary reconciliation of accounting assets and leverage ratio exposures

*Ref **		*Ref †*	At 30 Jun 2016
			£m
1	Total assets as per published financial statements	o	887,661
	Adjustments for:		
2	– entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	o	(24,665)
4	– derivative financial instruments		(167,673)
5	– securities financing transactions		4,807
6	– off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)		63,027
7	– other adjustments		3,106
8	**Total leverage ratio exposure**		**766,263**

Leverage ratio common disclosure

*Ref **		At 30 Jun 2016
	On-balance sheet exposures (excluding derivatives and securities financing transactions ('SFT')	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	582,028
2	(Asset amounts deducted in determining Tier 1 capital)	(12,378)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**569,650**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	18,957
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	66,773
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to IFRSs	3,061
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(25,689)
8	(Exempted CCP leg of client-cleared trade exposures)	(1,468)
9	Adjusted effective notional amount of written credit derivatives	153,106
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(143,627)
11	**Total derivative exposures**	**71,113**
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	93,825
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(36,159)
14	Counterparty credit risk exposure for SFT assets	4,807
16	**Total securities financing transaction exposures**	**62,473**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	170,137
18	(Adjustments for conversion to credit equivalent amounts)	(107,110)
19	**Total off-balance sheet exposures**	**63,027**
	Capital and total exposures	
20	**Tier 1 capital**	**28,339**
21	**Total leverage ratio exposure**	**766,263**
22	**Leverage ratio**	**3.7%**
EU-23	Choice on transitional arrangements for the definition of the capital measure	**Transitional**

* *The references identify the lines prescribed in the EBA template which are applicable and where there is a value.*

† *The reference (o) identifies balance sheet components on page 19.*

Regulatory balance sheet

Regulatory and accounting consolidations

The basis of consolidation for the purpose of financial accounting under IFRSs, described in Note 1 on the Financial Statements, differs from that used for regulatory purposes. The following table provides a reconciliation of the financial accounting balance sheet to the regulatory scope of consolidation.

Interests in banking associates are equity accounted in the financial accounting consolidation, whereas their exposures are proportionally consolidated for regulatory purposes by including our share of assets, liabilities, profit and loss and RWAs in accordance with the PRA's application of Capital Requirements Directive ('CRD IV').

Subsidiaries engaged in insurance activities are excluded from the regulatory consolidation by excluding assets, liabilities and post-acquisition reserves, leaving the investment of these insurance subsidiaries to be recorded at cost and deducted from CET1 (subject to thresholds).

The regulatory consolidation also excludes special purpose entities ('SPEs') where significant risk has been transferred to third parties. Exposures to these SPEs are risk-weighted as securitisation positions for regulatory purposes.

Reconciliation of balance sheets – financial accounting to regulatory scope of consolidation

	Ref †	Accounting balance sheet £m	De-consolidation of insurance/ other entities £m	Consolidation of banking associates £m	Regulatory balance sheet £m
Assets					
Cash and balances at central banks		55,147	—	73	55,220
Items in the course of collection from other banks		1,202	—	—	1,202
Trading assets		142,356	316	95	142,767
Financial assets designated at fair value		7,337	(7,337)	—	—
Derivatives		238,906	(120)	—	238,786
Loans and advances to banks		21,113	(799)	10	20,324
Loans and advances to customers		266,614	(4,141)	—	262,473
Of which:					
– impairment allowances on IRB portfolios	h	(1,838)	—	—	(1,838)
– impairment allowances on standardised portfolios		(816)	—	—	(816)
Reverse repurchase agreements – non-trading		47,164	335	—	47,499
Financial investments		83,561	(12,462)	94	71,193
Assets held for sale		27	—	—	27
Capital invested in insurance and other entities		—	598	—	598
Current tax assets		116	(5)	—	111
Prepayments, accrued income and other assets		16,099	(739)	39	15,399
Of which:					
– retirement benefit assets	i	4,069	—	—	4,069
Interests in associates and joint ventures		287	(1)	(235)	51
Of which:					
– positive goodwill on acquisition	e	48	—	(48)	—
Goodwill and intangible assets	e	7,620	(521)	3	7,102
Deferred tax assets	f	112	128	4	244
Total assets at 30 Jun 2016	o	887,661	(24,748)	83	862,996

	Ref †	Accounting balance sheet	De-consolidation of insurance/ other entities	Consolidation of banking associates	Regulatory balance sheet
		£m	£m	£m	£m
Liabilities and equity					
Deposits by banks		28,986	(15)	53	29,024
Customer accounts		363,651	1,212	—	364,863
Repurchase agreements – non-trading		27,408	—	—	27,408
Items in the course of transmission to other banks		718	—	—	718
Trading liabilities		107,968	520	1	108,489
Financial liabilities designated at fair value		19,419	(1,007)	—	18,412
Of which:					
– term subordinated debt included in tier 2 capital	l,m	1,583	—	—	1,583
– preferred securities included in tier 1 capital	k	310	—	—	310
Derivatives		234,698	160	—	234,858
Debt securities in issue		25,215	(5,132)	—	20,083
Current tax liabilities		269	(78)	1	192
Liabilities under insurance contracts		18,940	(18,940)	—	—
Accruals, deferred income and other liabilities		6,853	(897)	26	5,982
Of which:					
– retirement benefit liabilities		383	(2)	7	388
Provisions		2,110	(7)	2	2,105
Of which:					
– contingent liabilities and contractual commitments		23	—	—	23
Of which:					
– credit-related provisions on IRB portfolios	h	20	—	—	20
– credit-related provisions on standardised portfolios		3	—	—	3
Deferred tax liabilities		766	—	—	766
Subordinated liabilities		9,111	—	—	9,111
Of which:					
– preferred securities included in tier 1 capital	k	700	—	—	700
– perpetual subordinated debt included in tier 2 capital	l,n	3,297	—	—	3,297
– term subordinated debt included in tier 2 capital	l,m,n	4,382	—	—	4,382
Total liabilities at 30 Jun 2016		846,112	(24,184)	83	822,011
Called up share capital	a	797	—	—	797
Share premium account	a,k	20,733	—	—	20,733
Other equity instruments	j	3,584	—	—	3,584
Other reserves	c,g	1,510	—	—	1,510
Retained earnings	b,c	14,199	(564)	—	13,635
Total shareholders' equity		40,823	(564)	—	40,259
Non-controlling interests	d,k	726	—	—	726
Of which:					
– non-cumulative preference shares issued by subsidiaries included in tier 1 capital	k	150	—	—	150
Total equity at 30 Jun 2016		41,549	(564)	—	40,985
Total liabilities and equity at 30 Jun 2016		887,661	(24,748)	83	862,996

† *The references (a) – (n) identify balance sheet components which are used in the calculation of regulatory capital on page 16. The reference (o) identifies balance sheet component used in the calculation of the Leverage ratio on page 18.*

Performance and business review

Profit/(loss) on ordinary activities before tax

	Half-year to		
	30 Jun 2016	30 Jun 2015	31 Dec 2015
	£m	£m	£m
Retail Banking and Wealth Management	**678**	606	260
Commercial Banking	**962**	881	716
Global Banking and Markets	**429**	606	28
Global Private Banking	**72**	97	48
Other	**(150)**	(54)	(217)
	1,991	2,136	835

Total assets

	At		
	30 Jun 2016	30 Jun 2015	31 Dec 2015
	£m	£m	£m
Retail Banking and Wealth Management	**158,391**	149,580	150,270
Commercial Banking	**83,686**	79,478	80,919
Global Banking and Markets	**722,578**	577,837	543,803
Global Private Banking	**16,278**	14,902	15,044
Other	**(93,272)**	(71,944)	(62,095)
	887,661	749,853	727,941

Reported performance

HSBC Bank plc reported a profit before tax of £1,991m, £145m or 7% lower than the first half of 2015.

In RBWM, reported profit before tax increased by £72m primarily due to lower expenses reflecting lower customer redress charges and a gain on disposal of our membership interest in Visa Europe partly offset by lower revenue mainly due to adverse movements in the PVIF long-term insurance business in France.

In CMB, reported profit before tax rose by £81m, due to higher revenue arising from a gain on disposal of our membership interest in Visa Europe, partly offset by higher loan impairment charges in the UK and Spain.

In GB&M reported profit before tax decreased by £177m, mainly from lower revenue in Markets compared with a strong performance in the first half of 2015, partly offset by lower costs from settlements and provisions in connection with legal and regulatory matters.

In GPB, reported profit before tax decreased by £25m reflecting lower revenue due to the non-recurrence of a prior year gain on the sale of a portfolio of liquid assets in the UK.

In Other, reported loss before tax increased by £96m mainly driven by higher costs, notably costs-to-achieve, partly offset by favourable credit-spread-related movements in the fair value of the group's own long-term debt.

Use of non-GAAP financial measures

Our reported results are prepared in accordance with IFRSs as detailed in the Financial Statements starting on page 30. In measuring our business performance, the primary financial measure that we use is 'adjusted performance', which has been derived from our reported results in order to eliminate factors which distort year-on-year comparisons. This is considered to be a non-GAAP financial measure.

Adjusted performance

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

'Significant items' are excluded from adjusted performance because management and investors would ordinarily identify and consider them separately in order to better understand the underlying trends in the business.

In 2015, two new categories of significant items in relation to expenses have been added, namely costs-to-achieve ('CTA') and costs to establish the UK ring-fenced bank. CTA comprise those specific costs relating to the achievement of strategic actions set out in the Investor Update in June 2015. These are costs incurred between 1 July 2015 and 31 December 2017, and do not include ongoing initiatives such as Global Standards. Any costs arising within this category have been incurred as part of a significant transformation programme and are included within significant items. CTA include restructuring costs which were identified as a separate significant item prior to 1 July 2015.

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

A reconciliation to the adjusted basis is given in the tables below.

Business Commentary

The following business commentary is on an adjusted basis unless stated otherwise.

Profit before tax

HSBC Bank plc recorded an adjusted profit before tax of £1,810m, £811m or 31% lower than the first half of 2015. Overall profits in GB&M, RBWM and CMB fell compared with the same period in 2015.

Revenue decreased by £828m or 12% compared with the first half of 2015. This was primarily driven by lower revenue in GB&M, notably in Equities, Foreign Exchange and Credit reflecting challenging and uncertain market conditions. Revenue also fell in RBWM due to adverse movements in PVIF long-term insurance business compared with favourable movements in the first half of 2015 in France and lower fees on credit cards resulting from the introduction of the interchange fees cap in the UK. These reductions were partly offset by higher revenue in CMB, reflecting balance growth in Term Lending and deposit growth in GLCM.

LICs increased by £89m or 47% driven by CMB, where we recorded higher collectively assessed impairments in the UK and higher individually assessed impairments in the UK and Spain. This was partly offset by a reduction in GB&M reflecting a lower available-for-sale releases in 2016 compared with the first half of 2015.

Total operating expenses decreased by £111m to £3,980m. The decrease in operating expenses was primarily due to lower IT costs notably in RBWM and GB&M as well as a reduction in staff costs across all of the global businesses.

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

	RBWM	CMB	GB&M	GPB	Other	Intersegment	Total
Half-year to	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
30 Jun 2016							
Reported revenue	**2,310**	**1,932**	**2,069**	**172**	**289**	**(35)**	**6,737**
Significant revenue items	**(233)**	**(160)**	**(74)**	**(1)**	**(196)**	**—**	**(664)**
Change in credit spread on long-term debt	**—**	**—**	**—**	**—**	**(199)**	**—**	**(199)**
Debit valuation adjustments on derivatives	**—**	**—**	**(77)**	**—**	**—**	**—**	**(77)**
Fair value movement on non-qualifying hedges	**19**	**4**	**3**	**—**	**3**	**—**	**29**
Losses arising from a review of compliance with the UK Consumer Credit Act	**—**	**—**	**—**	**(1)**	**—**	**—**	**(1)**
Gain on disposal of HSBC's membership interest in Visa Europe	**(252)**	**(164)**	**—**	**—**	**—**	**—**	**(416)**
Adjusted revenue	**2,077**	**1,772**	**1,995**	**171**	**93**	**(35)**	**6,073**
30 Jun 2015							
Reported revenue	2,341	1,693	2,675	202	172	(31)	7,052
Significant revenue items	(12)	—	(43)	(15)	(81)	—	(151)
Change in credit spread on long-term debt	—	—	—	—	(82)	—	(82)
Debit valuation adjustments on derivatives	—	—	(52)	—	—	—	(52)
Fair value movement on non-qualifying hedges	(20)	—	9	1	1	—	(9)
Losses arising from a review of compliance with the Consumer Credit Act in the UK	8	—	—	(16)	—	—	(8)
Adjusted revenue	2,329	1,693	2,632	187	91	(31)	6,901
31 Dec 2015							
Reported revenue	2,212	1,695	1,675	166	135	(65)	5,818
Significant revenue items	10	11	(7)	(5)	(61)	—	(52)
Change in credit spread on long-term debt	—	—	—	—	(61)	—	(61)
Debit valuation adjustments on derivatives	—	—	(10)	—	—	—	(10)
Fair value movement on non-qualifying hedges	4	(1)	3	—	—	—	6
Losses arising from a review of compliance with the Consumer Credit Act in the UK	6	12	—	(5)	—	—	13
Adjusted revenue	2,222	1,706	1,668	161	74	(65)	5,766

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

Half-year to	RBWM £m	CMB £m	GB&M £m	GPB £m	Other £m	Intersegment £m	Total £m
30 Jun 2016							
Reported operating expenses	**(1,556)**	**(751)**	**(1,646)**	**(106)**	**(439)**	**35**	**(4,463)**
Significant costs items	**28**	**27**	**165**	**1**	**262**	**—**	**483**
UK customer redress programmes	**—**	**11**	**13**	**—**	**—**	**—**	**24**
Restructuring and other related costs	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Madoff related litigation costs	**—**	**—**	**20**	**—**	**—**	**—**	**20**
Costs-to-achieve	**28**	**16**	**57**	**1**	**207**	**—**	**309**
Costs to establish UK ring-fenced bank	**—**	**—**	**—**	**—**	**55**	**—**	**55**
Settlements and provisions in connection with legal and regulatory matters	**—**	**—**	**75**	**—**	**—**	**—**	**75**
Adjusted operating expenses	**(1,528)**	**(724)**	**(1,481)**	**(105)**	**(177)**	**35**	**(3,980)**
30 Jun 2015							
Reported operating expenses	(1,658)	(723)	(2,047)	(104)	(226)	31	(4,727)
Significant costs 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	—	—	—	—	—	—	—
Costs-to-achieve	—	—	—	—	—	—	—
Costs to establish UK ring-fenced bank	—	—	—	—	—	—	—
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)
31 Dec 2015							
Reported operating expenses	(1,859)	(757)	(1,680)	(109)	(353)	65	(4,693)
Significant costs items	336	51	127	3	147	—	664
UK customer redress programmes	299	(22)	(11)	—	—	—	266
Restructuring and other related costs	—	—	—	—	(1)	—	(1)
Madoff related litigation costs	—	—	—	—	—	—	—
Costs-to-achieve	37	73	38	3	107	—	258
Costs to establish UK ring-fenced bank	—	—	—	—	41	—	41
Settlements and provisions in connection with legal and regulatory matters	—	—	100	—	—	—	100
Adjusted operating expenses	(1,523)	(706)	(1,553)	(106)	(206)	65	(4,029)

Net impact on profit before tax by business segment

Half-year to	RBWM £m	CMB £m	GB&M £m	GPB £m	Other £m	Intersegment £m	Total £m
30 Jun 2016							
Reported profit/(loss) before tax	**678**	**962**	**429**	**72**	**(150)**	**—**	**1,991**
Significant revenue items	**(233)**	**(160)**	**(74)**	**(1)**	**(196)**	**—**	**(664)**
Significant cost items	**28**	**27**	**165**	**1**	**262**	**—**	**483**
Adjusted profit/(loss) before tax	**473**	**829**	**520**	**72**	**(84)**	**—**	**1,810**
Net impact on reported profit and loss	**(205)**	**(133)**	**91**	**—**	**66**	**—**	**(181)**
30 Jun 2015							
Reported profit/(loss) before tax	606	881	606	97	(54)	—	2,136
Significant revenue items	(12)	—	(43)	(15)	(81)	—	(151)
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
31 Dec 2015							
Reported profit/(loss) before tax	260	716	28	48	(217)	—	835
Significant revenue items	10	11	(7)	(5)	(61)	—	(52)
Significant cost items	336	51	127	3	147	—	664
Adjusted profit/(loss) before tax	606	778	148	46	(131)	—	1,447
Net impact on reported profit and loss	346	62	120	(2)	86	—	612

Retail Banking and Wealth Management

	Half-year to		
	30 Jun 2016	30 Jun 2015	31 Dec 2015
	£m	£m	£m
Net interest income	**1,659**	1,694	1,658
Net fee income	**495**	554	537
Trading income	**(6)**	49	22
Other income	**162**	44	(5)
Net operating income before impairments and provisions	**2,310**	2,341	2,212
Loan impairment charges and other credit risk provisions	**(77)**	(79)	(92)
Net operating income	**2,233**	2,262	2,120
Total operating expenses	**(1,556)**	(1,658)	(1,859)
Operating profit	**677**	604	261
Share of profit in associates and joint ventures	**1**	2	(1)
Profit before tax	**678**	606	260

Profit before tax – by country

	Half-year to		
	30 Jun 2016	30 Jun 2015	31 Dec 2015
	£m	£m	£m
United Kingdom	**692**	457	259
France	**6**	185	68
Germany	**7**	8	7
Turkey	**(37)**	(48)	(53)
Other	**10**	4	(21)
Profit before tax	**678**	606	260

Review of reported performance

Profit before tax (£m)

RBWM reported a profit before tax of £678m, £72m higher than 2015. This was primarily due to lower operating expenses mainly reflecting a reduction in customer redress provisions of £60m, lower IT and staff costs. By contrast, revenue fell mainly driven by adverse insurance market conditions in France, partly offset by a gain on sale of our membership interest in Visa Europe.

Adjusted profit before tax

	Half-year to		
	30 Jun 2016	30 Jun 2015	31 Dec 2015
	£m	£m	£m
Reported profit before tax	**678**	606	260
Net impact of significant items	**(205)**	49	346
Adjusted profit before tax	**473**	655	606

Profit before tax (£m)

On an adjusted basis, RBWM profit before tax was £473m compared with £655m in 2015, primarily due to a reduction in revenue, partly offset by a decrease in operating expenses.

Revenue decreased by £252m mainly in France and to a lesser extent in the UK. Revenue decreased in France, notably due to adverse movements in the PVIF long-term insurance business compared to favourable movements in 2015. This was driven by investment assumption changes following a fall in long-term interest rates and equity market performance in 2016 compared to 2015.

Net interest income decreased due to a reduction in mortgage margins in the UK and France, a decrease in UK credit card income as customers continue to de-leverage, and lower deposit margins in France mainly due to the impact of low interest rates on hedges. This is partly offset by increased current account income in the UK due to continued balance growth.

In addition, fee income decreased in Cards mainly due to lower interchange fees following a regulatory change. Wealth Investments performance has been adversely impacted following the migration of funds to clean share classes and re-pricing of a discretionary offering.

LICs were broadly unchanged. Lower provisions in cards and personal loans in Turkey and provision releases in Greece were offset by higher charges in the UK. The higher charges in the UK were due to a prior-year release of surplus mortgage provisions following revisions to certain assumptions used in our mortgage provision calculations.

Operating expenses were £69m or 4% lower than 2015, due to lower staff costs reflecting lower employee numbers, lower IT and operations costs.

Commercial Banking

	Half-year to		
	30 Jun 2016	30 Jun 2015	31 Dec 2015
	£m	£m	£m
Net interest income	**1,172**	1,097	1,148
Net fee income	**569**	559	542
Trading income	**8**	11	8
Other income	**183**	26	(3)
Net operating income before impairments and provisions	**1,932**	1,693	1,695
Loan impairment charges and other credit risk provisions	**(214)**	(89)	(222)
Net operating income	**1,718**	1,604	1,473
Total operating expenses	**(751)**	(723)	(757)
Operating profit	**967**	881	716
Share of profit in associates and joint ventures	**(5)**	—	—
Profit before tax	**962**	881	716

Profit before tax – by country

	Half-year to		
	30 Jun 2016	30 Jun 2015	31 Dec 2015
	£m	£m	£m
United Kingdom	**829**	766	648
France	**96**	54	45
Germany	**25**	20	23
Turkey	**1**	8	7
Other	**11**	33	(7)
Profit before tax	**962**	881	716

Review of reported performance

Profit before tax (£m)

CMB reported a profit before tax of £962m, £81m or 9% higher than 2015. This was driven by higher revenue arising from a gain on sale of our membership interest in Visa Europe, partly offset by higher loan impairment charges in the UK and Spain.

Adjusted profit before tax

	Half-year to		
	30 Jun 2016	30 Jun 2015	31 Dec 2015
	£m	£m	£m
Reported profit before tax	**962**	881	716
Net impact of significant items	**(133)**	33	62
Adjusted profit before tax	**829**	914	778

Profit before tax (£m)

On an adjusted basis, CMB profit before tax was £829m compared with £914m in 2015, a decrease of £85m or 9%. This decrease was driven by higher loan impairment charges notably in the UK and Spain.

Revenue increased by £79m, mainly in the UK reflecting balance growth from new business inflows in Credit and Lending and deposit growth in GLCM. This was partly offset by lower insurance and investments revenue following the sale of the pension business in the second half of 2015.

LICs increased reflecting higher collectively assessed provisions in the UK and higher individually assessed provisions in the UK (in the oil and gas and, to a lesser extent, shipping sectors) and Spain (in the construction sector). This was partly offset by lower individually assessed amounts in France.

Operating expenses were £34m higher compared with 2015. This was mainly due to an increase in customer remediation provision in the UK.

Global Banking and Markets

	Half-year to		
	30 Jun 2016	30 Jun 2015	31 Dec 2015
	£m	£m	£m
Net interest income[1]	**595**	694	480
Net fee income	**307**	251	312
Trading income[1]	**2,001**	1,145	1,325
Other income	**(834)**	585	(442)
Net operating income before impairments and provisions	**2,069**	2,675	1,675
Loan impairment charges and other credit risk provisions	**5**	(22)	32
Net operating income	**2,074**	2,653	1,707
Total operating expenses	**(1,646)**	(2,047)	(1,680)
Operating profit	**428**	606	27
Share of profit in associates and joint ventures	**1**	—	1
Profit before tax	**429**	606	28

1 *The bank's Balance Sheet Management business, reported within GB&M, provides funding to the trading businesses. To report GB&M trading income on a fully funded basis, net interest income and net trading income are grossed up to reflect internal funding transactions prior to their elimination in the 'inter-segment' column (see Note 4).*

Profit before tax – by country

	Half-year to		
	30 Jun 2016	30 Jun 2015	31 Dec 2015
	£m	£m	£m
United Kingdom	**146**	273	(74)
France	**93**	158	(86)
Germany	**66**	49	54
Turkey	**41**	32	29
Other	**83**	94	105
Profit before tax	**429**	606	28

Review of reported performance

Profit before tax (£m)

GB&M reported a profit before tax of £429m, compared with £606m in 2015, a decrease of £177m. Market uncertainty adversely impacted revenue, however this was partly offset by lower costs booked in the first half of 2016.

Adjusted profit before tax

	Half-year to		
	30 Jun 2016	30 Jun 2015	31 Dec 2015
	£m	£m	£m
Reported profit before tax	**429**	606	28
Net impact of significant items	**91**	476	120
Adjusted profit before tax	**520**	1,082	148

Profit before tax (£m)

On an adjusted basis, GB&M profit before tax was £520m compared with £1,082m in 2015, a decrease of £562m primarily due to decreased revenue compared with a strong performance in the first half of 2015, partly offset by lower operating expenses and loan impairment charges.

Revenue decreased by £637m, notably in Markets, where income fell in Equities and Foreign Exchange reflecting market volatility, which led to reduced client activity.

In addition, Balance Sheet Management revenue fell due to lower gains on disposal of available-for-sale debt securities and gains from hedging programmes in the first half of 2015.

LICs decreased mainly driven by net releases of individually and collectively assessed impairments compared with net charges in the prior year. This was partly offset by lower net releases on available-for-sale asset-backed securities.

Operating expenses were £47m lower mainly due to lower staff and IT costs, notably in the UK.

Global Private Banking

	Half-year to		
	30 Jun 2016	30 Jun 2015	31 Dec 2015
	£m	£m	£m
Net interest income	**99**	126	107
Net fee income	**52**	57	50
Trading income	**7**	5	8
Other income	**14**	14	1
Net operating income before impairments and provisions	**172**	202	166
Loan impairment charges and other credit risk provisions	**6**	(1)	(9)
Net operating income	**178**	201	157
Total operating expenses	**(106)**	(104)	(109)
Operating profit	**72**	97	48
Share of profit in associates and joint ventures	**—**	—	—
Profit before tax	**72**	97	48

Profit before tax – by country

	Half-year to		
	30 Jun 2016	30 Jun 2015	31 Dec 2015
	£m	£m	£m
United Kingdom	**65**	84	41
France	**3**	7	2
Germany	**4**	8	5
Other	**—**	(2)	—
Profit before tax	**72**	97	48

Review of reported performance

Profit before tax (£m)

GPB reported a profit before tax of £72m, £25m lower than 2015, mainly due to lower revenue as a result of the repositioning of the business.

Adjusted profit before tax

	Half-year to		
	30 Jun 2016	30 Jun 2015	31 Dec 2015
	£m	£m	£m
Reported profit before tax	**72**	97	48
Net impact of significant items	**—**	(15)	(2)
Adjusted profit before tax	**72**	82	46

Profit before tax (£m)

GPB adjusted profit before tax was £72m compared with £82m in 2015, a decrease of £10m.

Revenue fell by £16m due to lower average lending balances reflecting the repositioning of the business and the non-recurrence of a gain on the sale of bonds in the first half of 2015.

LICs decreased mainly due to lower collectively assessed provisions.

Operating expenses were broadly unchanged.

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 Jun 2016	30 Jun 2015	31 Dec 2015
	£m	£m	£m
Net interest income	**(17)**	(47)	(16)
Net fee income	**2**	2	(1)
Trading income	**27**	48	7
Change in Credit Spread on long-term debt	**199**	82	61
Other income	**78**	87	84
Net operating income before impairments and provisions	**289**	172	135
Loan impairment charges and other credit risk provisions	**—**	—	1
Net operating income	**289**	172	136
Total operating expenses	**(439)**	(226)	(353)
Operating loss	**(150)**	(54)	(217)
Share of profit in associates and joint ventures	**—**	—	—
Loss before tax	**(150)**	(54)	(217)

Review of reported performance

Loss before tax (£m)

Other reported a loss before tax of £150m compared with a loss of £54m in 2015. This was mainly due to higher costs, notably costs-to-achieve and costs to establish the UK ring-fenced bank, partly offset by favourable credit-spread-related movements in the fair value of the group's own long-term debt.

Adjusted loss before tax

	Half-year to		
	30 Jun 2016	30 Jun 2015	31 Dec 2015
	£m	£m	£m
Reported loss before tax	**(150)**	(54)	(217)
Net impact of significant items	**66**	(58)	86
Adjusted loss before tax	**(84)**	(112)	(131)

Loss before tax (£m)

Other adjusted loss was £84m compared with a loss of £112m in 2015, a decrease of £28m.

Revenue remained broadly unchanged compared with the prior year.

Operating expenses decreased by £26m compared with 2015, mainly driven by a release of a provision relating to the 2015 bonus accrual in the UK.

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 2016 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 P S Simoes (Chief Executive); J Coyle[†]; Dame Denise Holt[†]; S W Leathes[†]; D Lister[†]; Dame Mary Marsh[†]; and T B Moulonguet[†].

On behalf of the Board

A P S Simoes

3 August 2016

Chief Executive

† *Independent non-executive Director*

Financial Statements

Consolidated income statement

for the half-year to 30 June 2016

		Half-year to	
		30 Jun 2016	30 Jun 2015
	Notes	**£m**	£m
Interest income		**4,714**	4,712
Interest expense		**(1,276)**	(1,208)
Net interest income		**3,438**	3,504
Fee income		**2,067**	2,110
Fee expense		**(642)**	(687)
Net fee income		**1,425**	1,423
Trading income excluding net interest income		**1,920**	1,067
Net interest income on trading activities		**187**	251
Net trading income		**2,107**	1,318
Changes in fair value of long-term debt issued and related derivatives		**(738)**	503
Net (expense)/income from other financial instruments designated at fair value		**(73)**	335
Net (expense)/income from financial instruments designated at fair value		**(811)**	838
Gains less losses from financial investments		**488**	136
Dividend income		**5**	6
Net earned insurance premiums		**860**	900
Other operating income		**37**	232
Total operating income		**7,549**	8,357
Net insurance claims and benefits paid and movement in liabilities to policyholders		**(812)**	(1,305)
Net operating income before loan impairment charges and other credit risk provisions		**6,737**	7,052
Loan impairment charges and other credit risk provisions	*3*	**(280)**	(191)
Net operating income		**6,457**	6,861
Employee compensation and benefits		**(2,076)**	(2,153)
General and administrative expenses		**(2,133)**	(2,332)
Depreciation and impairment of property, plant and equipment		**(145)**	(122)
Amortisation and impairment of intangible assets		**(109)**	(120)
Total operating expenses		**(4,463)**	(4,727)
Operating profit		**1,994**	2,134
Share of (loss)/profit in associates and joint ventures		**(3)**	2
Profit before tax		**1,991**	2,136
Tax expense		**(562)**	(590)
Profit for the period		**1,429**	1,546
Profit attributable to shareholders of the parent company		**1,410**	1,529
Profit attributable to non-controlling interests		**19**	17

Consolidated statement of comprehensive income

for the half-year to 30 June 2016

	Half-year to	
	30 Jun 2016	30 Jun 2015
	£m	£m
Profit for the period	**1,429**	1,546
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Available-for-sale investments	**(173)**	(89)
– fair value gains	**336**	26
– fair value gains reclassified to the income statement	**(500)**	(122)
– amounts reclassified to the income statement in respect of impairment losses/(gains)	**13**	(6)
– income taxes	**(22)**	13
Cash flow hedges	**310**	(173)
– fair value gains	**61**	103
– fair value losses/(gains) reclassified to the income statement	**366**	(344)
– income taxes	**(117)**	68
Exchange differences and other	**1,648**	(1,053)
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of the defined benefit asset	**419**	(998)
– before income taxes	**564**	(1,242)
– income taxes	**(145)**	244
Other comprehensive income/(expense) for the period, net of tax	**2,204**	(2,313)
Total comprehensive income/(expense) for the period	**3,633**	(767)
Attributable to:		
– shareholders of the parent company	**3,562**	(745)
– non-controlling interests	**71**	(22)
Total comprehensive income/(expense) for the period	**3,633**	(767)

Consolidated statement of financial position

at 30 June 2016

	Notes	30 Jun 2016 £m	31 Dec 2015 £m
Assets			
Cash and balances at central banks		**55,147**	39,749
Items in the course of collection from other banks		**1,202**	1,328
Trading assets		**142,356**	110,585
Financial assets designated at fair value		**7,337**	6,829
Derivatives		**238,906**	166,785
Loans and advances to banks	*5*	**21,113**	23,222
Loans and advances to customers	*5*	**266,614**	258,506
Reverse repurchase agreements – non-trading		**47,164**	30,537
Financial investments		**83,561**	71,352
Prepayments, accrued income and other assets		**16,413**	11,801
Current tax assets		**116**	126
Goodwill and intangible assets	*8*	**7,620**	7,011
Deferred tax assets		**112**	110
Total assets		**887,661**	727,941
Liabilities and equity			
Liabilities			
Deposits by banks		**28,986**	24,202
Customer accounts		**363,651**	332,830
Repurchase agreements – non-trading		**27,408**	17,000
Items in the course of transmission to other banks		**718**	583
Trading liabilities		**107,968**	73,489
Financial liabilities designated at fair value		**19,419**	19,001
Derivatives		**234,698**	162,864
Debt securities in issue		**25,215**	26,069
Accruals, deferred income and other liabilities		**6,853**	5,775
Current tax liabilities		**269**	249
Liabilities under insurance contracts		**18,940**	16,664
Provisions	*9*	**2,110**	2,057
Deferred tax liabilities		**766**	506
Subordinated liabilities		**9,111**	8,527
Total liabilities		**846,112**	689,816
Equity			
Called up share capital		**797**	797
Share premium account		**20,733**	20,733
Other equity instruments		**3,584**	3,584
Other reserves		**1,510**	(216)
Retained earnings		**14,199**	12,599
Total shareholders’ equity		**40,823**	37,497
Non-controlling interests		**726**	628
Total equity		**41,549**	38,125
Total liabilities and equity		**887,661**	727,941

Consolidated statement of cash flows

for the half-year to 30 June 2016

	Half-year to	
	30 Jun 2016	30 Jun 2015
	£m	£m
Cash flows from operating activities		
Profit before tax	**1,991**	2,136
Adjustments for:		
– non-cash items included in profit before tax	**914**	1,022
– change in operating assets	**(6,931)**	23,075
– change in operating liabilities	**48,421**	(19,655)
– elimination of exchange differences	**(9,178)**	4,885
– net gain from investing activities	**(490)**	(137)
– share of profit in associates and joint ventures	**3**	(2)
– contributions paid to defined benefit plans	**(32)**	(62)
– tax paid	**(592)**	(441)
Net cash generated from operating activities	**34,106**	10,821
Cash flows from investing activities		
Purchase of financial investments	**(20,503)**	(13,873)
Proceeds from the sale and maturity of financial investments	**14,449**	18,984
Purchase of property, plant and equipment	**(143)**	(140)
Proceeds from the sale of property, plant and equipment	**14**	14
Purchase of goodwill and intangible assets	**(96)**	(98)
Proceeds from the sale of intangible assets	**1**	1
Net cash outflow from acquisition of businesses and subsidiaries	**—**	(8)
Net cash (used in)/generated from investing activities	**(6,278)**	4,880
Cash flows from financing activities		
Subordinated loan capital issued	**54**	—
Subordinated loan capital repaid	**(176)**	—
Net cash inflow from change in stake of subsidiaries	**40**	2
Dividends paid to shareholders	**(335)**	(377)
Dividends paid to non-controlling interests	**(14)**	(12)
Net cash used in financing activities	**(431)**	(387)
Net increase in cash and cash equivalents	**27,397**	15,314
Cash and cash equivalents at 1 Jan	**62,995**	71,500
Effect of exchange rate changes on cash and cash equivalents	**5,196**	(2,316)
Cash and cash equivalents at 30 Jun	**95,588**	84,498

Consolidated statement of changes in equity

for the half-year to 30 June 2016

	Called up share capital	Share premium	Other equity instruments	Retained earnings	Other reserves: Available-for-sale fair value reserve	Other reserves: Cash flow hedging reserve	Other reserves: Foreign exchange reserve	Total share-holders' equity	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2016	**797**	**20,733**	**3,584**	**12,599**	**979**	**43**	**(1,238)**	**37,497**	**628**	**38,125**
Profit for the period	**—**	**—**	**—**	**1,410**	**—**	**—**	**—**	**1,410**	**19**	**1,429**
Other comprehensive income (net of tax)	**—**	**—**	**—**	**425**	**(172)**	**310**	**1,589**	**2,152**	**52**	**2,204**
– available-for-sale investments	**—**	**—**	**—**	**—**	**(172)**	**—**	**—**	**(172)**	**(1)**	**(173)**
– cash flow hedges	**—**	**—**	**—**	**—**	**—**	**310**	**—**	**310**	**—**	**310**
– remeasurement of defined benefit asset/liability	**—**	**—**	**—**	**425**	**—**	**—**	**—**	**425**	**(6)**	**419**
– exchange differences and other	**—**	**—**	**—**	**—**	**—**	**—**	**1,589**	**1,589**	**59**	**1,648**
Total comprehensive income for the period	**—**	**—**	**—**	**1,835**	**(172)**	**310**	**1,589**	**3,562**	**71**	**3,633**
Dividends to shareholders	**—**	**—**	**—**	**(335)**	**—**	**—**	**—**	**(335)**	**(14)**	**(349)**
Net impact of equity-settled share based payments	**—**	**—**	**—**	**63**	**—**	**—**	**—**	**63**	**—**	**63**
Change in business combinations and other movements	**—**	**—**	**—**	**(6)**	**(1)**	**—**	**—**	**(7)**	**41**	**34**
Tax on items taken directly to equity	**—**	**—**	**—**	**43**	**—**	**—**	**—**	**43**	**—**	**43**
At 30 Jun 2016	**797**	**20,733**	**3,584**	**14,199**	**806**	**353**	**351**	**40,823**	**726**	**41,549**
At 1 Jan 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	—	—	—	—	—	(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
Changes in business combinations and other movements	—	—	—	(1)	—	—	—	(1)	—	(1)
At 30 Jun 2015	797	20,733	2,196	11,751	984	3	(1,489)	34,975	586	35,561

Notes on the Financial Statements

1 Basis of preparation and significant accounting policies

(a) Compliance with International Financial Reporting Standards

The interim condensed consolidated financial statements of HSBC Bank plc ('the bank') and its subsidiaries (together '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' as issued by the International Accounting Standards Board ('IASB') and as endorsed by the EU. These interim condensed consolidated financial statements should be read in conjunction with the *Annual Report and Accounts 2015*.

At 30 June 2016, there were no unendorsed standards effective for the half-year to 30 June 2016 affecting these interim condensed 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 applied during the half-year to 30 June 2016

There were no new standards applied during the half-year to 30 June 2016. During the period, the group applied a number of interpretations and amendments to standards which had an insignificant effect on these interim condensed consolidated financial statements.

(b) Use of estimates and judgements

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. There was no change in the current period to the critical accounting estimates and judgements applied in 2015, which are stated on page 104 of the *Annual Report and Accounts 2015*.

(c) Composition of Group

There were no material changes in the composition of the group in the half-year to 30 June 2016.

(d) Future accounting developments

Information on future accounting developments and their potential effect on the financial statements of the group are provided on pages 102 to 104 of the *Annual Report and Accounts 2015*. The IFRS 9 programme's focus continues to be on developing the impairment models and processes, which are needed for the parallel run during 2017 in accordance to the project plan, and finalising implementation of the more complex requirements. Until sufficient models have been developed and tested, we will not have a reliable understanding of the potential impact on the financial statements and any consequential effects on regulatory capital requirements.

(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 102 to 186 of the *Annual Report and Accounts 2015*, as are the methods of computation.

2 Dividends

Dividends paid to shareholders of the parent company were as follows:

Dividends to shareholders of the parent company

	Half-year to					
	30 Jun 2016		30 Jun 2015		31 Dec 2015	
	Per share	**Total**	Per share	Total	Per share	Total
	£	**£m**	£	£m	£	£m
Dividends paid on ordinary shares						
– Second interim dividend in respect of 2014	**—**	**—**	0.40	315	—	—
– First interim dividend in respect of 2015	**—**	**—**	—	—	0.67	540
– Second interim dividend in respect of 2015	**0.34**	**272**	—	—	—	—
Total	**0.34**	**272**	0.40	315	0.67	540

Dividends on preference shares classified as equity

An annual dividend of £1.23 per share, totalling £43m, on the HSBC Bank plc non-cumulative third dollar preference shares was paid in the second half of 2015.

Total coupons on capital securities classified as equity

		Half-year to		
		30 Jun 2016	30 Jun 2015	31 Dec 2015
	First call date	**Total**	Total	Total
		£m	£m	£m
Undated Subordinated additional Tier 1 Instruments[1]				
– £1,096m	Dec 2019	**31**	31	31
– £1,100m	Dec 2024	**32**	31	33
Total		**63**	62	64

1 *Discretionary coupons are paid quarterly.*

3 Loan impairment charges and other credit risk provisions

	Half-year to	
	30 Jun 2016	30 Jun 2015
Loan impairment charges on loans and advances		
– new allowances net of allowance releases	**396**	313
– recoveries of amounts previously written off	**(104)**	(99)
	292	214
Impairment releases on debt securities and other credit risk provisions	**(12)**	(23)
	280	191

Movement in impairment allowances on loans and advances

	Individually assessed	Collectively assessed	Total
	£m	£m	£m
At 1 Jan 2016	**1,788**	**815**	**2,603**
Amounts written off	**(304)**	**(195)**	**(499)**
Recoveries of amounts previously written off	**12**	**92**	**104**
Charge to income statement	**197**	**95**	**292**
Foreign exchange and other movements	**112**	**42**	**154**
At 30 Jun 2016	**1,805**	**849**	**2,654**
At 1 Jan 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 Jun 2015	1,750	904	2,654

4 Segmental analysis

	RBWM	CMB	GB&M	GPB	Other	Inter-segment	Total
	£m	£m	£m	£m	£m	£m	£m
Net operating income[1]							
Half-year to 30 Jun 2016							
Net operating income	**2,310**	**1,932**	**2,069**	**172**	**289**	**(35)**	**6,737**
External	**2,079**	**1,988**	**2,530**	**140**	**—**	**—**	**6,737**
Inter-segment	**231**	**(56)**	**(461)**	**32**	**289**	**(35)**	**—**
Half-year to 30 Jun 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)	—
Profit before tax							
Half-year to 30 Jun 2016	**678**	**962**	**429**	**72**	**(150)**	**—**	**1,991**
Half-year to 30 Jun 2015	606	881	606	97	(54)	—	2,136
Balance sheet information							
At 30 Jun 2016							
Total assets	**158,391**	**83,686**	**722,578**	**16,278**	**7,862**	**(101,134)**	**887,661**
Total liabilities	**146,893**	**74,740**	**707,325**	**15,396**	**2,892**	**(101,134)**	**846,112**
At 31 Dec 2015							
Total assets	150,270	80,919	543,803	15,044	10,484	(72,579)	727,941
Total liabilities	140,573	73,096	528,784	14,247	5,695	(72,579)	689,816
Average number of persons employed by the group[2]							
Half-year to 30 Jun 2016	**27,524**	**8,096**	**7,207**	**764**	**20,906**	**—**	**64,497**
Half-year to 30 Jun 2015	28,987	8,768	7,337	778	22,045	—	67,915

1 *Net operating income before loan impairment charges and other credit risk provisions.*
2 *Employees include staff transferred to the ServCo but seconded back to HSBC Bank plc.*

5 Credit quality of financial instruments

The five credit quality classifications set out and defined on page 32 of the *Annual Report and Accounts 2015* 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 following tables set out the group's distribution of financial instruments by credit quality classification:

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

	Neither past due nor impaired								
		Medium							
	Strong	Good	Satisfactory	Sub-standard	Past due not impaired	Impaired	Total gross amount	Impairment allowances	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 30 Jun 2016	**632,349**	**99,613**	**83,548**	**8,337**	**1,354**	**7,433**	**832,634**	**(2,654)**	**829,980**
At 31 Dec 2015	497,085	85,038	69,179	7,760	1,307	7,598	667,967	(2,603)	665,364
	%	%	%	%	%	%	%		
At 30 Jun 2016	**75.9**	**12.0**	**10.0**	**1.0**	**0.2**	**0.9**	**100.0**		
At 31 Dec 2015	74.4	12.7	10.4	1.2	0.2	1.1	100.0		

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

	Neither past due nor impaired								
		Medium							
	Strong	Good	Satisfactory	Sub-standard	Past due not impaired	Impaired	Total gross amount	Impairment allowances	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 30 Jun 2016									
Loans and advances to customers	**148,996**	**49,259**	**56,931**	**6,182**	**1,347**	**6,553**	**269,268**	**(2,654)**	**266,614**
– personal	**99,580**	**6,286**	**2,482**	**467**	**834**	**1,779**	**111,428**	**(643)**	**110,785**
– corporate and commercial	**32,246**	**39,115**	**50,959**	**5,658**	**510**	**4,576**	**133,064**	**(1,852)**	**131,212**
– non-banking financial institutions	**17,170**	**3,858**	**3,490**	**57**	**3**	**198**	**24,776**	**(159)**	**24,617**
Loans and advances to banks	**17,711**	**1,831**	**1,488**	**83**	**—**	**—**	**21,113**	**—**	**21,113**
At 31 Dec 2015									
Loans and advances to customers	149,911	45,236	52,595	5,693	1,302	6,372	261,109	(2,603)	258,506
– personal	96,569	6,271	2,043	466	778	1,641	107,768	(635)	107,133
– corporate and commercial	34,993	35,442	48,287	5,138	514	4,538	128,912	(1,837)	127,075
– non-banking financial institutions	18,349	3,523	2,265	89	10	193	24,429	(131)	24,298
Loans and advances to banks	19,975	1,833	1,351	63	—	—	23,222	—	23,222

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 2015.*

Financial instruments carried at fair value and bases of valuation

		Valuation techniques		
	Quoted market price	Using observable inputs	With significant unobservable inputs	
Recurring fair value measurements	**Level 1**	**Level 2**	**Level 3**	**Total**
At 30 Jun 2016	**£m**	**£m**	**£m**	**£m**
Assets				
Trading assets	**67,962**	**71,943**	**2,451**	**142,356**
Financial assets designated at fair value	**6,999**	**337**	**1**	**7,337**
Derivatives	**626**	**235,960**	**2,320**	**238,906**
Financial investments: available for sale	**69,245**	**13,277**	**1,038**	**83,560**
Liabilities				
Trading liabilities	**24,991**	**81,822**	**1,155**	**107,968**
Financial liabilities designated at fair value	**3,329**	**16,089**	**1**	**19,419**
Derivatives	**1,417**	**231,693**	**1,588**	**234,698**
At 31 Dec 2015				
Assets				
Trading assets	67,879	40,264	2,442	110,585
Financial assets designated at fair value	6,516	311	2	6,829
Derivatives	549	164,778	1,458	166,785
Financial investments: available for sale	55,682	14,205	1,465	71,352
Liabilities				
Trading liabilities	18,343	54,649	497	73,489
Financial liabilities designated at fair value	2,972	16,027	2	19,001
Derivatives	922	161,197	745	162,864

There were no transfers between Level 1 and Level 2 during the period (30 June 2015: nil). A portfolio of AFS debt securities, with a value of £978m and previously reported as Level 2, were reclassified as Level 1 at 30 June 2016.

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

	Assets				Liabilities		
	Available for sale	Held for trading	Designated at fair value through profit or loss	Derivatives	Held for trading	Designated at fair value through profit or loss	Derivatives
	£m	£m	£m	£m	£m	£m	£m
Private equity investments	**432**	**37**	**—**	**—**	**36**	**—**	**—**
Asset-backed securities	**579**	**428**	**—**	**—**	**—**	**—**	**—**
Structured notes	**—**	**3**	**—**	**—**	**1,119**	**—**	**—**
Derivatives	**—**	**—**	**—**	**2,320**	**—**	**—**	**1,588**
Other portfolios	**27**	**1,983**	**1**	**—**	**—**	**1**	**—**
At 30 Jun 2016	**1,038**	**2,451**	**1**	**2,320**	**1,155**	**1**	**1,588**
Private equity investments	737	24	—	—	24	—	—
Asset-backed securities	706	250	—	—	—	—	—
Structured notes	—	3	—	—	473	—	—
Derivatives	—	—	—	1,458	—	—	745
Other portfolios	22	2,165	2	—	—	2	—
At 31 Dec 2015	1,465	2,442	2	1,458	497	2	745

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

	Assets				Liabilities		
	Available for sale	Held for trading	Designated at fair value through profit or loss	Derivatives	Held for trading	Designated at fair value through profit or loss	Derivatives
	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2016	**1,465**	**2,442**	**2**	**1,458**	**497**	**2**	**745**
Total gains recognised in profit or loss	**—**	**100**	**—**	**978**	**196**	**—**	**845**
– trading income excluding net interest income	**—**	**100**	**—**	**978**	**196**	**—**	**845**
– gains less losses from financial investments	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total gains or losses recognised in other comprehensive income	**173**	**21**	**—**	**30**	**25**	**—**	**3**
– available-for-sale investments: fair value gains	**120**	**—**	**—**	**—**	**—**	**—**	**—**
– exchange differences	**53**	**21**	**—**	**30**	**25**	**—**	**3**
Purchases	**83**	**49**	**—**	**—**	**—**	**—**	**—**
Issues	**—**	**—**	**—**	**—**	**619**	**—**	**—**
Sales	**(487)**	**(731)**	**(1)**	**—**	**(11)**	**(1)**	**—**
Settlements	**(25)**	**(10)**	**—**	**(69)**	**(98)**	**—**	**(147)**
Transfer out	**(398)**	**(25)**	**—**	**(83)**	**(74)**	**—**	**(82)**
Transfer in	**227**	**605**	**—**	**6**	**1**	**—**	**224**
At 30 Jun 2016	**1,038**	**2,451**	**1**	**2,320**	**1,155**	**1**	**1,588**
Unrealised gains recognised in profit or loss relating to assets and liabilities held at 30 June 2016	**2**	**25**	**—**	**829**	**163**	**—**	**165**
– trading income excluding net interest income	**—**	**25**	**—**	**829**	**163**	**—**	**165**
– net income from other financial instruments designated at fair value	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– loan impairment charges and other credit risk provisions	**2**	**—**	**—**	**—**	**—**	**—**	**—**
At 1 Jan 2015	1,546	2,153	5	1,614	1,293	5	1,221
Total (losses)/gains 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/(losses) recognised in other comprehensive income	37	(14)	—	(19)	(5)	—	(3)
– available-for-sale investments: fair value gains	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 Jun 2015	1,041	1,664	3	1,880	969	3	890
Unrealised (losses)/gains recognised in profit or loss relating to assets and liabilities held at 30 Jun 2015	(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)	—	—	—	—	—	—

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

The following tables show the sensitivity of Level 3 fair values to reasonably possible alternative assumptions:

By accounting classification

	Reflected in profit or loss		Reflected in other comprehensive income	
	Favourable changes	**Unfavourable changes**	**Favourable changes**	**Unfavourable changes**
	£m	**£m**	**£m**	**£m**
Derivatives, trading assets and trading liabilities[1]	**121**	**(132)**	**—**	**—**
Financial assets and liabilities designated at fair value	**10**	**(10)**	**—**	**—**
Financial investments: available for sale	**11**	**(3)**	**66**	**(66)**
At 30 Jun 2016	**142**	**(145)**	**66**	**(66)**
Derivatives, trading assets and trading liabilities[1]	98	(82)	—	—
Financial assets and liabilities designated at fair value	—	(1)	—	—
Financial investments: available for sale	7	(4)	86	(86)
At 31 Dec 2015	105	(87)	86	(86)

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

By Level 3 instrument type

	Reflected in profit or loss		Reflected in other comprehensive income	
	Favourable changes	**Unfavourable changes**	**Favourable changes**	**Unfavourable changes**
	£m	**£m**	**£m**	**£m**
Private equity including strategic investments	**6**	**(6)**	**31**	**(31)**
Asset-backed securities	**15**	**(6)**	**35**	**(35)**
Structured notes	**6**	**(6)**	**—**	**—**
Derivatives	**79**	**(89)**	**—**	**—**
Other portfolios	**36**	**(38)**	**—**	**—**
At 30 Jun 2016	**142**	**(145)**	**66**	**(66)**
Private equity including strategic investments	4	(4)	52	(52)
Asset-backed securities	8	(3)	34	(34)
Structured notes	7	(7)	—	—
Derivatives	13	(13)	—	—
Other portfolios	73	(60)	—	—
At 31 Dec 2015	105	(87)	86	(86)

Key unobservable inputs to Level 3 financial instruments and inter-relationships

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 below lists key unobservable inputs to Level 3 financial instruments, and provides the range of those inputs as at 30 June 2016. The categories of key unobservable inputs are described further on pages 135 to 136 of the *Annual Report and Accounts 2015.*

Quantitative information about significant unobservable inputs in Level 3 valuations

	Fair value							
	Assets	Liabilities		Key unobservable	Full range of inputs		Core range of inputs	
	£m	£m	Valuation technique	inputs	Lower	Higher	Lower	Higher
Private equity including strategic investments	469	36	See notes[2]	See notes[2]	n/a	n/a	n/a	n/a
Asset-backed securities	1,007	—						
– CLO/CDO[1]	169	—	Market proxy	Prepayment rate	0	100	19	90
– other ABSs	838	—	Market proxy	Bid quotes	0	99	50	88
Structured notes	3	1,119						
– equity-linked notes	—	816	Model – option model	Equity volatility	12%	83%	15%	37%
			Model – option model	Equity correlation	40%	94%	47%	85%
– fund-linked notes	—	10	Model – option model	Fund volatility	7%	11%	7%	11%
– FX-linked notes	—	47	Model – option model	FX volatility	8%	30%	8%	29%
– other	3	246						
Derivatives	2,320	1,588						
Interest rate derivatives:								
– securitisation swaps	423	750	Model – discounted cash flow	Prepayment rate	1%	90%	21%	74%
– long-dated swaptions	1,399	89	Model – option model	IR volatility	7%	209%	16%	36%
– other	39	27						
FX derivatives:								
– FX options	160	130	Model – option model	FX volatility	1%	30%	13%	17%
Equity derivatives:								
– long-dated single stock options	250	195	Model – option model	Equity volatility	10%	97%	15%	30%
– other	6	55						
Credit derivatives:								
– other	43	342						
Other portfolios	2,011	1						
– structured certificates	1,161	—	Model – discounted cash flow	Credit volatility	2%	4%	2%	4%
– other	850	1						
At 30 Jun 2016	**5,810**	**2,744**						

1 *Collateralised loan obligation/collateralised debt obligation.*
2 *See notes on pages 135 to 136 of the* Annual Report and Accounts 2015.

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 page 138 of the *Annual Report and Accounts 2015.*

Fair values of financial instruments which are not carried at fair value on the balance sheet

	At			
	30 Jun 2016		31 Dec 2015	
	Carrying amount	**Fair value**	Carrying Amount	Fair value
	£m	**£m**	£m	£m
Assets				
Loans and advances to banks	**21,113**	**21,113**	23,222	23,222
Loans and advances to customers	**266,614**	**266,969**	258,506	258,743
Reverse repurchase agreements – non-trading	**47,164**	**47,164**	30,537	30,537
Financial investments: debt securities	**1**	**1**	—	—
Liabilities				
Deposits by banks	**28,986**	**28,986**	24,202	24,202
Customer accounts	**363,651**	**363,690**	332,830	332,875
Repurchase agreements – non-trading	**27,408**	**27,408**	17,000	17,000
Debt securities in issue	**25,215**	**25,215**	26,069	26,067
Subordinated liabilities	**9,111**	**8,979**	8,527	8,251

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 Goodwill

Impairment testing

As described on page 149 of the *Annual Report and Accounts 2015*, goodwill is tested for impairment at 1 July each year and whenever there is an indication that goodwill may be impaired. At 30 June 2016, we reviewed the inputs used in our most recent impairment test in the light of current economic and market conditions, and identified an indicator of impairment for the one cash-generating unit ('CGU') disclosed as sensitive in the *Annual Report and Accounts 2015*.

The indicator related to the perceived increase in the cost of equity for UK and European banks following the UK electorate's vote to leave the EU. As a result, an impairment test was performed for Global Banking and Markets at 30 June 2016. The key assumptions and result of this test are included in the disclosure below. There were no indicators of impairment in respect of the other CGUs.

The discount rate used for Global Banking and Markets includes a 100 basis point uplift to reflect the increased risk in European markets following the UK's referendum on membership of the EU. Given the proximity of the referendum to the end of the reporting period, and the subsequent market volatility, the adjustment represents management's judgement based on the latest available information, including the latest broker reports. Furthermore, the test was based on recently updated internal forecasts, which include a preliminary assessment of the impact of the referendum result. All of these factors could impact on the headroom of this CGU in the future.

Key assumptions in the VIU calculation

	Goodwill at 30 Jun 2016	Discount rate	Nominal growth rate beyond initial cash flow projections
Cash-generating unit	**£m**	**%**	**%**
Global Banking and Markets	**2,099**	**10.7**	**3.8**

Sensitivities of key assumptions in calculating VIU

At 30 June 2016, Global Banking and Markets was not impaired, but was sensitive to reasonably possible changes in the key assumptions supporting the recoverable amount. In making an estimate of reasonably possible changes to assumptions, management considers the available evidence in respect of each input to the model. These include the external range of observable discount rates, historical performance against forecast, and risks attaching to the key assumptions underlying cash flow projections.

Reasonably possible changes in key assumptions

Cash-generating unit	Input	Key assumptions	Associated risks	Reasonably possible change
Global Banking and Markets	Cash flow projections	Level of interest rates, and recovery of European markets over the forecast period.	Deferral or non-occurrence of forecast interest rate rises, lower than expected growth in key markets, and the impact of regulatory changes, including the ring fencing of the UK retail bank.	Cash flow projections decrease by 20%.
	Discount rate	Discount rate used is a reasonable estimate of a suitable market rate for the profile of the business.	External evidence arises to suggest that the rate used is not appropriate to the business.	Discount rate increases by 100 basis points, based on the high end of the range of broker estimates for comparator European banks with significant investment banking operations.
	Long-term growth rates	Business growth will reflect GDP growth rates in the long term.	Growth does not match GDP or GDP forecasts fall.	Real GDP growth does not occur or is not reflected in performance.

The following table presents the change required to the current assumptions to reduce headroom to nil (breakeven).

Changes to current assumptions to achieve nil headroom as at 30 June 2016

	Increase/(decrease)		
	Discount rate	Cash flow	Long-term growth rate
Cash-generating unit	**%**	**%**	**%**
Global Banking and Markets	**0.70**	**(9.17)**	**(0.93)**

9 Provisions

	Customer remediation	Legal proceedings and regulatory matters	Restructuring costs	Other	Total
	£m	**£m**	**£m**	**£m**	**£m**
At 1 Jan 2016	**868**	**884**	**162**	**143**	**2,057**
Additional provisions/increase in provisions	**79**	**102**	**52**	**33**	**266**
Provisions utilised	**(241)**	**(3)**	**(36)**	**(29)**	**(309)**
Amounts reversed	**(9)**	**(3)**	**(4)**	**(31)**	**(47)**
Exchange and other movements	**1**	**109**	**4**	**29**	**143**
At 30 Jun 2016	**698**	**1,089**	**178**	**145**	**2,110**
At 1 Jan 2015	1,041	456	52	158	1,707
Additional provisions/increase in provisions	94	502	22	33	651
Provisions utilised	(291)	(3)	(9)	(15)	(318)
Amounts reversed	(1)	(13)	(1)	(21)	(36)
Exchange and other movements	(1)	(16)	(15)	(9)	(41)
At 30 Jun 2015	842	926	49	146	1,963

Customer remediation

Provisions include £698m (31 December 2015: £868m) in respect of customer redress programmes. The most significant of these provisions are as follows:

Payment Protection Insurance

£536m (31 December 2015: £701m) relating to the estimated liability for redress in respect of the possible mis-selling of Payment Protection Insurance ('PPI') policies in previous years. There has been no additional charge or release recorded in the six months to 30 June 2016 for PPI.

Cumulative provisions made since the Judicial Review ruling in the first half of 2011 amount to £2,937m of which £2,463m has been paid as at 30 June 2016.

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

A total of 5.4 million PPI policies have been sold by the group since 2000, which generated estimated gross written premiums of approximately £3.2bn and revenues of approximately £2.6bn. At 30 June 2016, the estimated total complaints expected to be received were 2.0 million, representing 36% of total policies sold. It is estimated that contact will be made with regard to 2.3 million policies, representing 43% of total policies sold. This estimate includes inbound complaints as well as HSBC's proactive contact exercise on certain policies ('outbound contact').

The following table details the cumulative number of complaints received at 30 June 2016 and the number of claims expected in the future:

	Cumulative to 30 Jun 2016	Future expected
Inbound complaints (000s of policies)[1]	**1,289**	**285**
Outbound contact (000s of policies)	**725**	**1**
Response rate to outbound contact	**42%**	**37%**
Average uphold rate per claim[2]	**75%**	**85%**
Average redress per claim	**1,972**	**2,006**
Complaints to the Financial Ombudsman Service ('FOS') ('000s of policies)	**130**	**41**
Average uphold rate per FOS complaint	**40%**	**61%**

1 *Excludes invalid claims where complainant has not held a PPI policy and FOS complaints.*
2 *Claims include inbound and responses to outbound contact, but exclude FOS complaints.*

A 100,000 increase/decrease in the total inbound complaints would increase/decrease the redress provision by approximately £148m. Each 1% increase/decrease in the response rate to our outbound contact exercise would increase/decrease the redress provision by approximately £9m.

Interest Rate Derivatives

At 30 June 2016, a provision of £54m (31 December 2015: £59m) 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.

Legal proceedings and regulatory matters

Further details of legal proceedings and regulatory matters are set out in Note 12. Legal proceedings include civil court, arbitration or tribunal proceedings brought against HSBC companies (whether by way of claim or counterclaim), or civil disputes that may, if not settled, result in court, arbitration or tribunal proceedings. Regulatory matters refer to investigations, reviews and other actions carried out by, or in response to the actions of, regulatory or law enforcement agencies in connection with alleged wrongdoing.

10 Foreign exchange exposures

The group's structural foreign exchange exposure is represented by the net asset value of its foreign currency equity and subordinated debt investments in subsidiary undertakings, branches, joint ventures and associates.

The group's management of structural foreign exchange exposures is discussed in the risk section in the Report of Directors on page 62 of the *Annual Report and Accounts 2015*.

Net structural foreign exchange exposures

Currency of structural exposure

	30 Jun 2016	31 Dec 2015
	£m	£m
Euro	**12,962**	11,313
US dollars	**958**	800
Turkish lira	**749**	679
South African rand	**227**	180
Russian rouble	**173**	123
Others, each less than £100m	**340**	289
Total	**15,409**	13,384

11 Contingent liabilities, contractual commitments and guarantees

	30 Jun 2016	31 Dec 2015
	£m	£m
Guarantees and contingent liabilities		
Guarantees	**19,422**	18,196
Other contingent liabilities	**252**	210
	19,674	18,406
Commitments		
Documentary credits and short-term trade-related transactions	**3,092**	2,898
Forward asset purchases and forward deposits placed	**343**	216
Undrawn formal standby facilities, credit lines and other commitments to lend	**135,757**	128,519
	139,192	131,633

The above table discloses the nominal principal amounts of commitments, guarantees and other contingent liabilities. Contingent liabilities arising from legal proceedings, regulatory and other matters against the group are disclosed in Note 12. 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 indicative of future liquidity requirements.

Capital commitments

In addition to the commitments disclosed above, at 30 June 2016 the group had £7m (31 December 2015: £17m) of capital commitments contracted but not provided for and £24m (31 December 2015: £26m) of capital commitments authorised but not contracted for.

12 Legal proceedings and regulatory matters

The group is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, the group considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 27 of the *Annual Report and Accounts 2015.* 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 2016 (see Note 9). Where an individual provision is material, the fact that a provision has been made is stated and quantified, except to the extent doing so would be seriously prejudicial. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

Bernard L. Madoff Investment Securities LLC

Bernard L. Madoff ('Madoff') was arrested in December 2008 and later pleaded guilty to running a Ponzi scheme. His firm, Bernard L. Madoff Investment Securities LLC ('Madoff Securities'), is being liquidated in the US by a trustee (the 'Trustee').

Various non-US HSBC companies provided custodial, administration and similar services to a number of funds incorporated outside the US whose assets were invested with Madoff Securities. Based on information provided by Madoff Securities, as at 30 November 2008, the purported aggregate value of these funds was US$8.4bn, including 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 HSBC serviced the funds totalled approximately US$4bn. Various HSBC companies have been named as defendants in lawsuits arising out of Madoff Securities' fraud.

US/UK litigation: The Trustee has brought lawsuits against various HSBC companies in the US Bankruptcy Court and in the English High Court, seeking recovery of transfers from Madoff Securities to HSBC in an amount not yet pleaded or determined. HSBC and other parties to the action have moved to dismiss the Trustee's US actions. The deadline by which the Trustee must serve HSBC with his English action has been extended to the end of the third quarter of 2016.

Alpha Prime Fund Ltd ('Alpha Prime') and Senator Fund SPC ('Senator'), co-defendants in one of the Trustee's US actions, have each brought cross-claims against certain HSBC defendants. HSBC has moved to dismiss those cross-claims.

Fairfield Sentry Limited, Fairfield Sigma Limited and Fairfield Lambda Limited (together, 'Fairfield') (in liquidation since July 2009) have brought lawsuits in the US and the British Virgin Islands ('BVI') against fund shareholders, including HSBC companies that acted as nominees for clients, seeking restitution of redemption payments. Fairfield's US actions are stayed pending the outcome of the action in the BVI (see below).

In December 2014, three additional actions were filed in the US. A purported class of direct investors in Madoff Securities asserted common law claims against various HSBC companies in the United States District Court for the Southern District of New York (the 'New York District Court'). Two investors in Hermes International Fund Limited ('Hermes') also asserted common law claims against various HSBC companies in the New York District Court. HSBC has moved to dismiss both actions. In addition, SPV Optimal SUS Ltd ('SPV OSUS'), the purported assignee of the Madoff-invested company, Optimal Strategic US Equity Ltd, filed a lawsuit in New York state court against various HSBC companies and others, seeking damages on various alleged grounds including breach of fiduciary duty and breach of trust.

BVI litigation: Beginning in October 2009, liquidators for Fairfield ('Fairfield Liquidators') commenced lawsuits against fund shareholders, including HSBC companies that acted as nominees for clients, seeking recovery of redemption payments. In March 2016, the BVI court denied a motion brought by certain non-HSBC defendants challenging the Fairfield Liquidators' authorisation to pursue their US claims, which those defendants have appealed.

Cayman Islands litigation: In February 2013, Primeo Fund Limited ('Primeo') (in liquidation since April 2009) brought an action against HSBC Securities Services Luxembourg ('HSSL') and The Bank of Bermuda (Cayman), alleging breach of contract and breach of fiduciary duty, and claiming damages and equitable compensation. Trial is scheduled to begin in November 2016.

Luxembourg litigation: In April 2009, Herald Fund SPC ('Herald') (in liquidation since July 2013) brought an action against HSSL before the Luxembourg District Court, seeking restitution of cash and securities Herald purportedly lost because of Madoff Securities' fraud, or money damages. The Luxembourg District Court dismissed Herald's securities restitution claim, but reserved Herald's cash restitution claim and its claim for money damages. Herald has appealed this judgement.

In March 2010, Herald (Lux) SICAV ('Herald (Lux)') (in liquidation since April 2009) brought an action against HSSL before the Luxembourg District Court, seeking restitution of securities, or the cash equivalent, or money damages. Herald (Lux) has also requested the restitution of fees paid to HSSL.

Alpha Prime and Senator have each brought an action against HSSL before the Luxembourg District Court, seeking the restitution of securities, or the cash equivalent, or money damages. Both matters have been temporarily suspended at the request of Alpha Prime and Senator, respectively. In April 2015, Senator commenced an action against the Luxembourg branch of HSBC Bank plc asserting identical claims before the Luxembourg District Court.

HSSL has also been named as a defendant in various actions by shareholders in Primeo Select Fund, Herald, Herald (Lux), and Hermes. Most of these actions have been dismissed, suspended or postponed.

Ireland litigation: In November 2013, Defender Limited brought an action against HSBC Institutional Trust Services (Ireland) Limited ('HTIE') and others, alleging breach of contract and claiming damages and indemnification for fund losses. A trial date has not yet been scheduled.

In May 2016, following a hearing on two preliminary issues, HTIE was successful in obtaining an order dismissing two remaining claims by purported shareholders in Thema International Fund plc.

SPV OSUS's action against HTIE and HSBC Securities Services (Ireland) Limited alleging breach of contract and claiming damages and indemnification for fund losses was dismissed in October 2015. SPV OSUS's appeal is scheduled for hearing in January 2017.

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

Anti-money laundering and sanctions-related matters

In October 2010, HSBC Bank USA N.A. ('HSBC Bank USA') entered into a consent order with the Office of the Comptroller of the Currency ('OCC'), and HSBC North America Holdings ('HNAH') entered into a consent order with the Federal Reserve Bureau ('FRB') (each an 'Order' and together, the 'Orders'). These Orders required improvements to establish an effective compliance risk management programme across HSBC's US businesses, including risk management related to the Bank Secrecy Act ('BSA') and anti-money laundering ('AML') AML compliance. HSBC Bank USA is not currently in compliance with the OCC Order. Steps are being 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, among others, the US Department of Justice ('DoJ') (the 'US DPA'); and HSBC Holdings consented to a cease-and-desist order, and HSBC Holdings and HNAH consented to a civil money penalty order with the FRB. HSBC Holdings also entered into an agreement with the Office of Foreign Assets Control ('OFAC') regarding historical transactions involving parties subject to OFAC sanctions, as well as an undertaking with the UK Financial Conduct Authority (the 'FCA'), to comply with certain forward-looking AML and sanctions-related obligations. In addition, HSBC Bank USA entered into civil money penalty orders with the Financial Crimes Enforcement Network of the US Treasury Department and the OCC.

Under these agreements, HSBC Holdings and HSBC Bank USA made payments totalling US$1.9bn to US authorities and undertook various further obligations, including, among others, to continue to cooperate fully with the DoJ in any and all investigations, not to commit any crime under US federal law subsequent to the signing of the agreement, and to retain an independent compliance monitor (the 'Monitor'). In January 2016, the Monitor delivered his second annual follow-up review report. Through his country-level reviews, the Monitor identified potential anti-money laundering and sanctions compliance issues that the DoJ and HSBC are reviewing further. Additionally, as discussed elsewhere in this Note, HSBC is the subject of other ongoing investigations and reviews by the DoJ. The potential consequences of breaching the US DPA, as well as the role of the Monitor and his second annual review, are discussed on pages 20 and 23 of the *Annual Report and Accounts 2015*.

HSBC Bank USA also entered into two consent orders with the OCC. These required HSBC Bank USA to correct the circumstances noted in the OCC's report and to adopt an enterprise-wide compliance programme, and imposed restrictions on acquiring control of, or holding an interest in, any new financial subsidiary, or commencing a new activity in its existing financial subsidiary, without the OCC's prior approval.

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 alleged to have been 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. The plaintiffs allege that defendants violated the US Anti-Terrorism Act ('US ATA') by altering or falsifying payment messages involving Iran, Iranian parties and Iranian banks for transactions processed through the US. Defendants filed a motion to dismiss in May 2015.

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

Mossack Fonseca & Co.

HSBC has received requests for information from various regulatory and law enforcement authorities around the world concerning persons and entities believed to be linked to Mossack Fonseca & Co., a service provider of personal investment companies. HSBC is cooperating with the relevant authorities.

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

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

Various regulators and competition and law enforcement authorities around the world, including in the UK, the US, the EU and Switzerland, are conducting investigations and reviews related to certain past submissions made by panel banks and the processes for making submissions in connection with the setting of 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 May 2014, HSBC received a Statement of Objections from the European Commission (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, and a hearing before the Commission took place in June 2015. A decision by the Commission is pending.

US dollar Libor: Beginning in 2011, HSBC and other panel banks have been named as defendants in a number of private lawsuits filed in the US with respect to the setting of US dollar Libor. The complaints assert claims under various US laws, including US antitrust and racketeering laws, the US Commodity Exchange Act ('US CEA'), and state law. The lawsuits include individual and putative class actions, most of which have been transferred and/or consolidated for pre-trial purposes before the New York District Court.

The New York District Court has issued decisions dismissing certain of the claims in response to motions filed by the defendants. Those decisions resulted in the dismissal of the plaintiffs' federal and state antitrust claims, racketeering claims, and unjust enrichment claims. Dismissal of certain of these claims was appealed to the US Court of Appeals for the Second Circuit, which reversed the New York District Court's dismissal of plaintiffs' antitrust claims in May 2016.

Euroyen Tokyo interbank offered rate ('Tibor') and/or Japanese yen Libor: In April 2012 and July 2015, HSBC and other panel banks were named as defendants in putative class actions filed in the New York District Court on behalf of persons who transacted in financial instruments allegedly related to the euroyen Tibor and/or Japanese yen Libor. The complaints allege, among 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 US CEA, and state law. In May 2016, HSBC reached an agreement in principle with plaintiffs to resolve both of these actions, subject to court approval. The court granted preliminary approval of the settlement in June 2016, and HSBC made payment of the agreed settlement amount into an escrow account. The final settlement approval hearing is scheduled for November 2016.

Euribor: In November 2013, HSBC and other panel banks were named as defendants in a putative class action filed in the New York District Court on behalf of persons who transacted in euro futures contracts and other financial instruments allegedly related to Euribor. The complaint alleges, among other things, misconduct related to Euribor in violation of US antitrust laws, the US CEA and state law. In May 2016, HSBC reached an agreement in principle with plaintiffs to resolve this action, subject to court approval.

Singapore Interbank Offered Rate ('SIBOR') and/or Singapore Swap Offer Rate ('SOR'): In July 2016, HSBC and other panel banks were named as defendants in a putative class action filed in the New York District Court on behalf of persons who transacted in products related to SIBOR and/or SOR. The complaint alleges, among other things, misconduct related to SIBOR and/or SOR in violation of US antitrust and racketeering laws, and state law. This matter is at an early stage.

US dollar International Swaps and Derivatives Association fix ('ISDAfix'): In September 2014, HSBC and other panel banks were named as defendants in a number of putative class actions consolidated in the New York District Court on behalf of persons who transacted in interest rate derivatives or purchased or sold financial instruments that were either tied to ISDAfix rates or were executed shortly before, during, or after the time of the daily ISDAfix setting window. The consolidated complaint alleges, among other things, misconduct related to these activities in violation of US antitrust laws, the US CEA and state law. HSBC's motion to dismiss the complaint was denied in March 2016.

There are many factors that may affect the range of outcomes, and the resulting financial impact, of these matters, which 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 and South Korea, are conducting investigations and reviews into trading by HSBC and others on the foreign exchange markets. HSBC is cooperating with these investigations and reviews.

In May 2015, the DoJ resolved its investigations with respect to five non-HSBC financial institutions, four of whom agreed to plead guilty to criminal charges of conspiring to manipulate prices in the foreign exchange spot market, and resulting in the imposition of criminal fines in the aggregate of more than US$2.5bn. Additional penalties were imposed at the same time by the FRB and other banking regulators. HSBC was not a party to these resolutions, and investigations into HSBC by the DoJ, FRB and others around the world continue.

In late 2013 and early 2014, HSBC and other banks were named as defendants in various putative class actions consolidated in the New York District Court. The consolidated complaint alleged, among other things, that the defendants conspired to manipulate the WM/Reuters foreign exchange benchmark rates. In September 2015, HSBC reached an agreement with plaintiffs to resolve the consolidated action, subject to court approval. In December 2015, the court granted preliminary approval of the settlement, and HSBC made payment of the agreed settlement amount into an escrow account. The court has not yet set a date for the final approval hearing.

In June 2015, a putative class action was filed in the New York District Court making similar allegations on behalf of Employee Retirement Income Security Act of 1974 ('ERISA') plan participants, and another complaint was filed in the US District Court for the Northern District of California in May 2015. HSBC filed a motion to transfer the California action to New York, which was granted in November 2015.

In September 2015, two additional putative class actions making similar allegations under Canadian law were issued in Canada against various HSBC companies and other financial institutions.

As at 30 June 2016, HSBC has recognised a provision in the amount of £927m. There are many factors that may affect the range of outcomes, and the resulting financial impact, of these matters. Due to uncertainties and limitations of these estimates, the ultimate penalties could differ significantly from the amount provided.

Precious metals fix-related investigations and litigation

Various regulators and competition and law enforcement authorities, including in the US and the EU, are conducting investigations and reviews relating to HSBC's precious metals operations and trading. HSBC is cooperating with these investigations and reviews. In November 2014, the Antitrust Division and Criminal Fraud Section of the DoJ issued a document request to HSBC Holdings, seeking the voluntary production of certain documents in connection with a criminal investigation that the DoJ is conducting of alleged anti-competitive and manipulative conduct in precious metals trading. In January 2016, the Antitrust Division of the DoJ informed HSBC that it was closing its investigation; however, the Criminal Fraud Section's investigation remains ongoing.

Gold: Beginning in March 2014, numerous putative class actions were filed in the New York District Court and the US District Courts for the District of New Jersey and the Northern District of California, naming HSBC and other members of The London Gold Market Fixing Limited as defendants. The complaints allege that, from January 2004 to the present, defendants conspired to manipulate the price of gold and gold derivatives for their collective benefit in violation of US antitrust laws, the US CEA and New York state law. The actions were consolidated in the New York District Court. Defendants moved to dismiss the consolidated action and a hearing took place in April 2016.

In December 2015, a putative class action under Canadian law was filed in the Ontario Superior Court of Justice against various HSBC companies and other financial institutions. Plaintiffs allege that, from January 2004 to March 2014, defendants conspired to manipulate the price of gold and gold-related investment instruments in violation of the Canadian Competition Act and common law.

Silver: Beginning in July 2014, numerous putative class actions were filed in the US District Courts for the Southern and Eastern Districts of New York, naming HSBC and other members of The London Silver Market Fixing Ltd as defendants. The complaints allege that, from January 1999 to the present, defendants conspired to manipulate the price of silver and silver derivatives for their collective benefit in violation of US antitrust laws, the US CEA and New York state law. The actions were consolidated in the New York District Court. Defendants moved to dismiss the consolidated action and a hearing took place in April 2016.

In April 2016, two putative class actions under Canadian law were filed in the Ontario and Quebec Superior Courts of Justice against various HSBC companies and other financial institutions. Plaintiffs in both actions allege that from January 1999 to

August 2014 defendants conspired to manipulate the price of silver and silver-related investment instruments in violation of the Canadian Competition Act and common law. These actions are at an early stage.

Platinum and palladium: Between late 2014 and early 2015, numerous putative class actions were filed in the New York District Court, naming HSBC and other members of The London Platinum and Palladium Fixing Company Limited as defendants. The complaints allege that, from January 2008 to the present, defendants conspired to manipulate the price of platinum group metals ('PGM') and PGM-based financial products for their collective benefit in violation of US antitrust laws and the US CEA. Defendants have moved to dismiss the action.

There are many factors that may affect the range of outcomes, and the resulting financial impact, of these matters, which could be significant.

Credit default swap litigation

Various HSBC companies, among other financial institutions, ISDA, and Markit, were named as defendants in numerous putative class actions filed in the New York District Court and the Illinois District Court. The actions alleged that the defendants, violated US antitrust laws by, among other things, conspiring to restrict access to credit default swap pricing exchanges and block new entrants into the exchange market. The actions were subsequently consolidated in the New York District Court. In September 2015, the HSBC defendants reached an agreement with plaintiffs to resolve the consolidated action, and final court approval of that settlement was granted in April 2016.

Interest rate swap litigation

In February 2016, various HSBC companies, among others, were added as defendants to a pending putative class action filed in the New York District Court. The amended complaint, along with other complaints filed in the New York District Court and the Illinois District Court, alleged that the defendants violated US antitrust laws by, among other things, conspiring to boycott and eliminate various entities and practices that would have brought exchange trading to buy-side investors in the interest rate swaps marketplace. In June 2016, the actions were consolidated in the New York District Court. This matter is at an early stage.

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

Fédération Internationale de Football Association ('FIFA') related investigations

HSBC has received inquiries from the DoJ regarding its banking relationships with certain individuals and entities that are or may be associated with FIFA. The DoJ is investigating whether multiple financial institutions, including HSBC, permitted the processing of suspicious or otherwise improper transactions, or failed to observe applicable AML laws and regulations. HSBC is cooperating with the DoJ's investigation.

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

13 Transactions with related parties

There were no changes in the related party transactions described in Note 38 of the *Annual Report and Accounts 2015* that have had a material effect on the financial position or performance of HSBC in the half-year to 30 June 2016. All related party transactions that took place in the half-year to 30 June 2016 were similar in nature to those disclosed in the *Annual Report and Accounts 2015.*

14 Events after the balance sheet date

A first interim dividend for the financial year ending 31 December 2016 of £255m was declared by the Directors on 3 August 2016.

The group agreed to dispose of its interest in Vocalink, formerly an associate undertaking, on 21 July 2016. The gain on sale, of approximately £60m, is likely to be recognised in early 2017, upon completion of regulatory approvals and other customary closing conditions.

15 *Interim Report 2016* and statutory accounts

The information in this *Interim Report 2016* is unaudited and does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The *Interim Report 2016* was approved by the Board of Directors on 3 August 2016. The statutory accounts for the year ended 31 December 2015 have been delivered to the Registrar of Companies in England and Wales in accordance with section 447 of the Companies Act 2006. The group's auditor, PricewaterhouseCoopers LLP ('PWC') has reported on those accounts. Its report was unqualified; did not include a reference to any matters to which PWC drew attention by way of emphasis without qualifying their report; and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Independent review report to HSBC Bank plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed HSBC Bank plc's condensed consolidated interim financial statements (the 'interim financial statements') in the interim report of HSBC Bank plc for the six-month period ended 30 June 2016. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

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

What we have reviewed

The condensed consolidated interim financial statements, which are prepared by HSBC Bank plc comprise:

- the consolidated statement of financial position as at 30 June 2016;
- 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 consolidated interim financial statements.

As disclosed in Note 1 to the interim financial statements, 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 consolidated 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 Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What a review of interim financial statements involves

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

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

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

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the Directors[1,2]

The interim report, including the condensed consolidated interim financial statements, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the condensed consolidated 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 Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
London, United Kingdom

3 August 2016

1 *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 interim financial statements since they were initially presented on the website.*

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

HSBC Bank plc

Incorporated in England with limited liability. Registered in England: number 14259

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