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Presentation of Information

This document, which should be read in conjunction with the HSBC Bank plc *Annual Report and Accounts 2016*, contains certain additional information, including commentary on the group's results for 2015 compared to 2014 and certain statistical and other information not required to be included in the group's Annual Report and Accounts by either the UK Companies Act 2006 or by International Financial Reporting Standards.

Financial highlights for the group 2015 and 2014

	2015	2014
For the year (£m)		
Profit on ordinary activities before tax (reported basis)	2,971	1,953
Total operating income	14,918	14,202
Net operating income before loan impairment charges and other credit risk provisions	12,870	11,886
Profit attributable to shareholders of the parent company	1,942	1,354
At year-end (£m)		
Total equity attributable to shareholders of the parent company	37,497	36,078
Risk weighted assets	229,382	243,652
Loans and advances to customers (net of impairment allowances)	258,506	257,252
Customer accounts	332,830	346,507
Capital ratios (%)		
Common Equity Tier 1	9.6	8.7
Tier 1 ratio	11.8	10.3
Total capital ratio	15.5	13.8
Performance ratios (%)		
Return on average shareholders' equity of the parent company ¹	5.9	4.2
Post-tax return on average total assets	0.3	0.2
Pre-tax return on average risk-weighted assets	1.2	0.8
Credit coverage ratios (%)		
Loan impairment charges as a percentage of total operating income	3.2	3.2
Loan impairment charges as a percentage of average gross customer advances	0.2	0.2
Efficiency and revenue mix ratios (%)		
Cost efficiency ratio (reported basis) ²	73.2	79.8
Cost efficiency ratio (adjusted basis) ²	64.1	64.3
As a percentage of total operating income:		
- net interest income	45.7	46.7
- net fee income	19.2	23.0
- net trading income	18.4	11.3
Financial ratios (%)		
Ratio of customer advances to customer accounts	77.7	74.2
Average total shareholders' equity to average total assets	4.3	4.2

¹ 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.

² Reported cost efficiency ratio is defined as total operating expenses (reported) divided by net operating income before loan impairment charges and other credit risk provisions (reported), while 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).

Financial summary

Summary consolidated income statement for the year ended

	2015	2014
	£m	£m
Net interest income	6,818	6,629
Net fee income	2,863	3,266
Trading income	2,751	1,609
Net income from financial instruments designated at fair value	376	371
Gains less losses from financial investments	150	321
Net insurance premium income	1,613	1,823
Other operating income	347	183
Total operating income ¹	14,918	14,202
Net insurance claims, benefits paid and movement in liabilities to policyholders	(2,048)	(2,316)
Net operating income before loan impairment and other credit risk provisions	12,870	11,886
Loan impairment charges and other credit risk provisions	(481)	(449)
Net operating income	12,389	11,437
Total operating expenses ¹	(9,420)	(9,487)
Operating profit	2,969	1,950
Share of profit in associates and joint ventures	2	3
Profit before tax	2,971	1,953
Tax expense	(997)	(564)
Profit for the year	1,974	1,389
Profit attributable to shareholders of the parent company	1,942	1,354
Profit attributable to non-controlling interests	32	35

¹ Total operating income and expenses include significant items as detailed on pages 5 and 6.

Reported Performance

Reported profit before tax was £2,971m, up by £1,018m or 52% from 2014.

Net interest income increased by £189m or 3%. This increase was primarily due to lower provisions arising from the on-going review of compliance with the CCA of £5m taken in 2015 (2014: £379m). Net interest income increased in CMB, primarily in the UK, on growth from Credit and Lending resulting from new business lending, and deposits from PCM. By contrast, excluding the on-going review of compliance with the CCA noted above, net interest income decreased in RBWM due to spread compression on mortgages and lower card balances. This was partly offset by higher deposit spread due to the reduction of interest rates paid to customers, and higher deposit volume. In addition, net interest income was also affected by adverse foreign exchange movements.

Net fee income decreased by £403m or 12%. In RBWM the reduction was mainly in the UK, due to lower overdraft fees following re-pricing and the introduction of customer overdraft text-alert service. Fees were also lower in Turkey on cards that were adversely affected by regulatory changes. In GB&M, the reduction was due to higher fees paid to HSBC entities in other regions relating to increased trading activity.

Net trading income increased by £1,142m or 71%. The increase includes a number of significant items including:

- favourable movement in the debit valuation adjustment ('DVA') on derivative contracts of £62m in GB&M compared to the adverse movements of £143m in the prior year; and
- minimal positive fair value adjustments on nonqualifying hedges of £3m, notably in our French home loan portfolio in RBWM, compared to adverse movements of £151m in the prior year.

Excluding these items, net trading income increased by £783m, predominantly in GB&M driven by Markets. Revenues increased in Equities, Foreign Exchange and Credit reflecting higher volatility and higher client flows. In addition, Equities and Rates benefited from favourable movements on own credit spread.

The funding fair value adjustment ('FFVA') on certain derivative contracts in 2014 resulted in a higher prior year charge, affecting Rates and Credit.

Net income from financial instruments designated at fair value was broadly unchanged. Favourable movements in credit spread of the group's own long-term debt and favourable foreign exchange movements on economically hedged foreign currency debt were mostly offset by the reduction in net income arising from financial assets held to meet liabilities under insurance and investment contracts, reflecting lower net investment returns in 2015.

These returns reflected weaker stock market movements notably in France and the disposal of the pension business in the UK.

Gains less losses from financial investments decreased by £171m, partly due to lower net gains on the disposal of government debt securities, notably in the UK.

Net insurance premium income decreased by £210m or 12%, including adverse foreign exchange movements. Excluding these movements, net earned insurance premiums decreased in the UK driven by lower pension premiums following a decision to exit the commercial pensions market in 2014. This was partly offset by higher sales of investment contracts in RBWM France reflecting customer demand.

Other operating income increased by £164m, driven by an increase in the present value of in-force ('PVIF') long term insurance business in RBWM France. This is a result of positive investment assumption changes due to rising long-term interest rates in 2015 compared to falling rates in 2014.

Net insurance claims, benefits paid and movement in liabilities to policyholders decreased by £268m, primarily due to lower investment returns on policyholder contracts where the policyholder bears investment risk due to weaker stock market performance.

Loan impairment charges and other credit risk provisions increased by £32m or 7%. This was driven by GBP due to higher individually assessed provisions and collective impairment provisions compared to releases in the prior period. In RBWM loan impairment charges also increased due to lower recoveries resulting from a lower participation in UK debt sales.

Total operating expenses decreased by £67m including favourable foreign exchange movements. Excluding these, operating expenses increased driven by a number of significant items including:

- £172m non-recurring insurance recovery in 2014 relating to Madoff litigation costs; and
- £258m of costs-to-achieve; partially offset by
- lower settlements and provisions in connection with legal and regulatory matters in GB&M (2015: £611m, 2014: £746m); and
- lower UK customer redress provisions, for possible mis-selling in previous years of payment protection insurance ('PPI') policies (2015: £359m, 2014: £583m).

Excluding these, expenses were higher reflecting an increase in compliance and regulatory programme costs across RBWM, CMB and GB&M in line with the implementation of Global Standards. In addition, GB&M expenses also increased due to higher staff and IT costs.

Tax expense totalled £997m in 2015, compared to £564m in 2014. The effective tax rate for 2015 was 33.6%, compared to 28.9% in 2014. The effective tax rate has increased since 2014 primarily due to the introduction of the 8% surcharge on UK banking profits that increased the value of deferred tax liabilities, and increased profits in France, which has a statutory tax rate of 38%. Excluding the one-off impact of the change in tax rates, the effective tax rate would be 30.8%.

Performance and Business Review

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

	RBWM	CMB	GB&M	GPB	Corporate Centre	Total
	£m	£m	£m	£m	£m	£m
31 Dec 2015¹						
Reported revenue	4,537	3,342	3,879	359	753	12,870
Significant revenue items	(2)	11	(50)	(20)	(142)	(203)
– change in credit spread on long-term debt	–	–	–	–	(143)	(143)
– debit valuation adjustment on derivative contracts	–	–	(62)	–	–	(62)
– fair value movement on non-qualifying hedges	(16)	(1)	12	1	1	(3)
– provisions arising from the ongoing review of compliance with the Consumer Credit Act in the UK	14	12	–	(21)	–	5
Adjusted revenue	4,535	3,353	3,829	339	611	12,667
31 Dec 2014¹						
Reported revenue	4,324	3,392	3,278	313	579	11,886
Significant revenue items	337	15	140	26	138	656
– change in credit spread on long-term debt	–	–	–	–	(17)	(17)
– debit valuation adjustment on derivative contracts	–	–	143	–	–	143
– fair value movement on non-qualifying hedges	–	(1)	(3)	–	155	151
– provisions arising from the ongoing review of compliance with the CCA in the UK	337	16	–	26	–	379
Adjusted revenue	4,661	3,407	3,418	339	717	12,542

¹ Restated for change in reportable segments explained as detailed on HSBC Bank plc Annual Report and Accounts 2016 page 9.

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

	RBWM	CMB	GB&M	GPB	Corporate Centre	Total
	£m	£m	£m	£m	£m	£m
31 Dec 2015¹						
Reported operating expenses	(3,523)	(1,479)	(3,609)	(211)	(598)	(9,420)
Significant cost items	397	84	646	3	170	1,300
– UK customer redress programmes	359	10	(11)	–	–	358
– restructuring and other related costs ²	1	1	8	–	22	32
– Madoff related litigation costs	–	–	–	–	–	–
– costs to achieve ²	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	–	–	611	–	–	611
Adjusted operating expenses	(3,126)	(1,395)	(2,963)	(208)	(428)	(8,120)
31 Dec 2014¹						
Reported operating expenses	(3,839)	(1,534)	(3,586)	(211)	(317)	(9,487)
Significant cost items	617	93	678	–	35	1,423
– UK customer redress programmes	602	85	90	–	–	777
– restructuring and other related costs ²	15	8	14	–	35	72
– Madoff related litigation costs	–	–	(172)	–	–	(172)
– settlements and provisions in connection with legal and regulatory matters	–	–	746	–	–	746
Adjusted operating expenses	(3,222)	(1,441)	(2,908)	(211)	(282)	(8,064)

¹ Restated for change in reportable segments explained as detailed on HSBC Bank plc Annual Report and Accounts 2016 page 9.

² Costs to achieve incorporates restructuring costs which were identified as a separate significant item prior to 1 July 2015.

Net impact on profit before tax by business segment

	RBWM £m	CMB £m	GB&M £m	GPB £m	Corporate Centre £m	Total £m
31 Dec 2015 ¹						
Reported profit/(loss) before tax	842	1,552	255	138	184	2,971
Significant revenue items	(2)	11	(50)	(20)	(142)	(203)
Significant cost items	397	84	646	3	170	1,300
Adjusted profit/(loss) before tax	1,237	1,647	851	121	212	4,068
Net impact on reported profit and loss	395	95	596	(17)	28	1,097
31 Dec 2014 ¹						
Reported profit/(loss) before tax	323	1,550	(503)	106	477	1,953
Significant revenue items	337	15	140	26	138	656
Significant cost items	617	93	678	—	35	1,423
Adjusted profit/(loss) before tax	1,277	1,658	315	132	650	4,032
Net impact on reported profit and loss	954	108	818	26	173	2,079

¹ Restated for change in reportable segments explained as detailed on HSBC Bank plc Annual Report and Accounts 2016 page 9.

Adjusted profit/(loss) for the year

	2015 ¹					
	RBWM	CMB	GB&M	GPB	Corporate Centre	Total
	£m	£m	£m	£m	£m	£m
Net interest income	3,366	2,229	881	207	140	6,823
Net fee income	1,091	1,084	592	107	(11)	2,863
Net trading income	39	17	2,273	10	347	2,686
Other income	39	23	83	15	135	295
Net operating income before loan impairment charges and other credit risk	4,535	3,353	3,829	339	611	12,667
– external	4,129	3,490	4,554	306	188	12,667
– inter-segment	406	(137)	(725)	33	423	–
Loan impairment charges and other credit risk provisions	(172)	(311)	(15)	(10)	27	(481)
Net operating income	4,363	3,042	3,814	329	638	12,186
Total operating expenses	(3,126)	(1,395)	(2,963)	(208)	(428)	(8,120)
– employee compensation and benefits	(981)	(553)	(1,088)	(88)	(1,406)	(4,116)
– general and administrative expenses	(2,044)	(808)	(1,790)	(119)	1,280	(3,481)
– depreciation and impairment of property, plant and equipment	(6)	(10)	(3)	(1)	(244)	(264)
– amortisation and impairment of intangible assets	(95)	(24)	(82)	–	(58)	(259)
Operating profit	1,237	1,647	851	121	210	4,066
Share of profit in associates and joint ventures	–	–	–	–	2	2
Adjusted profit before tax	1,237	1,647	851	121	212	4,068
	%	%	%	%		%
Adjusted cost efficiency ratio	68.9	41.6	77.4	61.4		64.1

	2014 ¹					
	RBWM	CMB	GB&M	GPB	Corporate Centre	Total
	£m	£m	£m	£m	£m	£m
Net interest income	3,495	2,188	981	222	123	7,009
Net fee income	1,356	1,135	673	112	(11)	3,265
Net trading income	(33)	19	1,672	9	236	1,903
Other income	(157)	65	92	(4)	369	365
Net operating income before loan impairment charges and other credit risk	4,661	3,407	3,418	339	717	12,542
– external	4,339	3,575	4,091	319	218	12,542
– inter-segment	322	(168)	(673)	20	499	–
Loan impairment charges and other credit risk provisions	(162)	(308)	(195)	4	212	(449)
Net operating income	4,499	3,099	3,223	343	929	12,093
Total operating expenses	(3,222)	(1,441)	(2,908)	(211)	(282)	(8,064)
– employee compensation and benefits	(1,016)	(560)	(1,050)	(97)	(1,393)	(4,116)
– general and administrative expenses	(2,123)	(850)	(1,795)	(113)	1,464	(3,417)
– depreciation and impairment of property, plant and equipment	(5)	(9)	(2)	(1)	(303)	(320)
– amortisation and impairment of intangible assets	(78)	(22)	(61)	–	(50)	(211)
Operating profit	1,277	1,658	315	132	647	4,029
Share of profit in associates and joint ventures	–	–	–	–	3	3
Adjusted profit before tax	1,277	1,658	315	132	650	4,032
	%	%	%	%		%
Adjusted cost efficiency ratio	69.1	42.3	85.1	62.2		64.3

¹ Restated for change in reportable segments explained as detailed on HSBC Bank plc Annual Report and Accounts 2016 page 9.

Adjusted performance

Our adjusted profit before tax increased by £36m or 1% compared with 2014. Overall profits in GB&M increased while RBWM, CMB and GPB recorded a reduction in adjusted profits compared to the prior year.

Adjusted revenue increased by £125m or 1%, dampened by adverse foreign exchange movements. Revenue increased in GB&M due to higher income in Equities, Foreign Exchange and Credit resulting from increased volatility and higher client flows. These were partly offset by decreases in RBWM, driven by lower income on mortgages and overdrafts in UK despite higher revenue in France.

Adjusted LICs increased by £32m or 7%. This was driven by GPB due to higher individually assessed provisions and collective impairment provisions compared to releases in the prior period. In RBWM loan impairment charges also increased due to lower recoveries resulting from lower participation in UK debt sales.

Adjusted operating expenses increased by £56m or 1% compared with 2014, although this was dampened by foreign exchange movements. The increase in operating expenses was primarily due to increased regulatory programmes and compliance related costs in line with the implementation of Global Standards. In addition, GB&M expenses increased driven by higher staff and IT costs.

Retail Banking and Wealth Management

Adjusted profit before tax of £1,237m was £40m or 3% lower than in 2014, primarily due to a reduction in revenue notably in UK and Turkey, partly offset by an increase in France. Operating expenses fell.

Revenue decreased by £126m or 3%, mainly in the UK due to lower spreads on mortgages and a reduction in overdraft fees due to repricing and a fall in overdraft balances arising from the introduction of a new overdraft text alert for customers. These were partly offset by higher spreads on savings and higher current account balances. Revenue decreased in Turkey due to the effect of regulatory changes affecting card and loan fees. By contrast, revenue increased in France, notably in the Insurance business, due to favourable movements in the PVIF driven by positive investment assumption changes.

LICs increased in the UK due to lower recoveries.

Operating expenses decreased by £96m or 3%, primarily driven by favourable foreign exchange movements in France and Turkey. In the UK, expenses increased reflecting higher costs relating to asset management, higher IT amortisation and lower capitalisation costs, pay inflation and higher bonus costs. In addition, there was an increase in regulatory programmes and compliance related costs in line with the implementation of Global Standards.

Commercial Banking

Adjusted profit before tax of £1,647m was £11m lower than in 2014, driven by lower revenue and higher loan impairment charges, partly offset by lower operating expenses.

Revenue decreased by £54m or 2% due to adverse currency movements. Adjusting for this, CMB delivered an increase in revenue, with UK balance growth in Credit and Lending and PCM being partly offset by falling deposit spreads in France.

LICs were broadly unchanged. Higher individually assessed provisions in the UK and Spain were partly offset by lower individually assessed provisions in Malta and higher collective releases in Turkey.

Operating expenses were £46m or 3% lower than 2014, primarily driven by favourable exchange movements. Excluding this, expenses increased mainly in the UK driven by increased regulatory programmes and compliance related costs.

Global Banking and Markets

Adjusted profit before tax of £851m was £537m or 170% higher than 2014, primarily due to higher revenue and lower LICs, which was partly offset by higher operating expenses.

Revenue increased by £411m or 12%, notably in Markets, where income from Equities, Foreign Exchange and Credit increased following increased volatility and higher client flows. Rates revenue increased due to a number of valuation movements. In 2014, we revised our estimation methodology for valuing uncollateralised derivative portfolios, resulting in a higher FFVA charge. The Rates business also benefited from favourable movements on own credit spread on structured liabilities compared with 2014. These movements contributed to increased revenue although client activity remained subdued. In addition, revenue in 2015 was favourably impacted in the UK and adversely affected in France in respect of cash flow and foreign exchange hedging programmes, assessed as not satisfying all the accounting requirements of hedge accounting.

LICs decreased by £180m or 92%, mainly due to lower individually assessed provisions across UK, Spain and Russia.

Operating expenses increased by £55m or 2%, primarily reflecting an increase in regulatory programmes and compliance related costs along with an increase in staff costs. Staff costs increased notably in UK, and to a lesser extent in France.

Global Private Banking

Adjusted profit before tax of £121m was £11m or 8% lower than in 2014.

Revenue was broadly unchanged year-on-year.

LICs increased by £14m, due to higher individually assessed provisions in 2015 and collective impairment provision releases in 2014.

Operating expenses were broadly in line with 2014.

Corporate Centre

Adjusted profit before tax of £212m was £438m or 67% lower than in 2014, primarily due to higher operating expenses, lower revenue and lower LICs releases.

Revenue decreased by £106m or 15%, primarily driven by losses on Legacy Credit disposals in 2015 and the non-repeat of 2014 gains, partly offset by higher revenue in BSM in 2015.

LICs releases decreased by £185m, primarily due to a lower net release of credit risk provisions on available-for-sale asset backed securities in the UK in 2015.

Operating expenses increased by £146m which was mainly due to intragroup charges and an increase in regulatory programmes and compliance related costs.

Profit on ordinary activities before tax

Profit before tax – by country

	RBWM	CMB	GB&M	GPB	Corporate Centre	Total
	£m	£m	£m	£m	£m	£m
31 Dec 2015						
United Kingdom	712	1,386	(107)	118	123	2,232
France	235	85	53	9	33	415
Germany	15	43	89	13	(4)	156
Turkey	(102)	15	34	1	23	(29)
Other	(18)	23	186	(3)	9	197
Profit before tax	842	1,552	255	138	184	2,971
31 Dec 2014 ¹						
United Kingdom	380	1,355	(1,092)	91	692	1,426
France	1	131	192	–	(200)	124
Germany	17	42	85	16	9	169
Turkey	(96)	2	27	–	28	(39)
Other	21	20	285	(1)	(52)	273
Profit before tax	323	1,550	(503)	106	477	1,953

¹ Restated for change in reportable segments explained as detailed on HSBC Bank plc Annual Reports and Accounts 2016 page 9.

Review of business position

Summary consolidated balance sheet

	2015	2014
	£m	£m
Total assets	727,941	797,289
Cash and balances at central banks	39,749	42,853
Trading assets	110,585	130,127
Financial assets designated at fair value	6,829	6,899
Derivative assets	166,785	187,736
Loans and advances to banks	23,222	25,262
Loans and advances to customers	258,506	257,252
Reverse repurchase agreements – non-trading	30,537	41,945
Financial investments	71,352	76,194
Other	20,376	29,021
Total liabilities	689,816	760,591
Deposits by banks	24,202	27,590
Customer accounts	332,830	346,507
Repurchase agreements – non-trading	17,000	23,353
Trading liabilities	73,489	82,600
Financial liabilities designated at fair value	19,001	22,552
Derivative liabilities	162,864	188,278
Debt securities in issue	26,069	27,921
Liabilities under insurance contracts issued	16,664	17,522
Other	17,697	24,268
Total equity	38,125	36,698
Total shareholders' equity	37,497	36,078
Non-controlling interests	628	620

Movements in 2015

Total reported assets were 8.7% lower than at 31 December 2014, while the ratio of customer advances to customer accounts increased to 77.7% (2014: 74.2%).

The group's Common Equity Tier 1 ratio increased to 9.6% (2014: 8.7%). Risk-weighted assets of £229m were 6% lower than at 31 December 2014, principally due to the disposal of sensitisation exposures and reductions in counterparty credit risk exposures combined with use of better rated counterparties.

Assets

Cash and balances at central banks reduced by 7% as the group looked to optimise the balance sheet, reducing sources of liquidity risk and improving the coordination of funding.

Trading assets decreased by 15% as the group reduced its trading inventory in line with the group's risk appetite.

Derivative assets decreased by 11% primarily due to the upwards shift in major yield curves. This was partially offset by a reduction in the level of allowable derivative netting. The group changed its presentation of variation margin received from clearing houses to offset against derivative assets in 2015.

Loans and advances to customers remained broadly flat as a reduction in gross corporate overdrafts was offset by increases in commercial customer lending. The reduction in gross corporate overdrafts had a corresponding reduction in customer accounts and was driven by an initiative with clients to settle positions in notional pooling accounts, reducing balance sheet usage.

Reverse repurchase agreements – non-trading reduced by 27% due to reduced client demand from bank counterparties.

Financial investments reduced by 6% principally due to legacy assets, as the group looks to optimise its RWA usage.

Other assets reduced by 30% primarily due to the sale of the UK pension insurance business which had been reported as held for sale in 2014. There was an additional reduction following the group's change in presentation to offset variation margin placed with clearing houses against derivative liabilities from 2015.

Liabilities

Customer accounts decreased by 4%. The decline was driven by a reduction in gross customer deposits as part of an initiative to reduce balances in notional pooling accounts (see loans and advances to customers). The group also saw a reduction in non-core customer liabilities driven by evolving liquidity and capital regulations. These targeted reductions were partially offset by an increase in core customer deposits.

Repurchase agreements – non-trading reduced by 27% in line with reverse repurchase agreements.

Trading liabilities decreased by 11% broadly in line with trading assets.

Financial liabilities designated at fair value and debt securities in issue reduced by 16% and 7% respectively, due to a reduction in short-term wholesale funding requirements as the group's core funding base continued to improve in 2015.

Derivative liabilities reduced by 13%, broadly in line with derivative assets as the underlying risk is broadly matched.

Other liabilities reduced by 27% primarily due to the sale of the UK pension insurance business which had been reported as held for sale in 2014. There was an additional reduction following the group's change in presentation to offset variation margin received with clearing houses against derivative assets from 2015.

Equity

Total shareholders' equity increased by 4% due to an increase in retained earnings and the issuance of new additional tier 1 capital instruments.

Average balance sheet and net interest income

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

Assets

	2016			2015			2014		
	Average balance	Interest income	Yield	Average balance	Interest income	Yield	Average balance	Interest income	Yield
Summary	£m	£m	%	£m	£m	%	£m	£m	%
Interest-earning assets measured at amortised cost (itemised below)	434,686	8,877	2.04	399,773	9,218	2.31%	426,150	9,249	2.17
Trading assets and financial assets designated at fair value	82,609	1,401	1.70	78,270	1,307	1.67%	92,827	1,725	1.86
Impairment provisions	(2,744)	—	—	(2,690)	—	—	(3,042)	—	—
Non-interest-earning assets	333,169	—	—	293,330	—	—	264,712	—	—
Total assets and interest income	847,720	10,278	1.21	768,683	10,525	1.37%	780,647	10,974	1.41
Short-term funds and loans and advances to banks									
HSBC Bank ¹	50,242	94	0.19	51,324	498	0.97%	58,080	550	0.95
HSBC France	4,629	10	0.22	3,537	26	0.74%	4,526	40	0.88
Other	5,784	12	0.21	5,347	69	1.29%	5,242	65	1.24
	60,655	116	0.19	60,208	593	0.98%	67,848	655	0.97
Loans and advances to customers									
HSBC Bank ¹	175,322	5,494	3.13	159,337	5,128	3.22%	155,288	4,876	3.14
HSBC France	34,625	730	2.11	27,836	819	2.94%	28,060	843	3.00
Other	40,140	1,463	3.64	38,851	1,484	3.82%	38,834	1,531	3.94
	250,087	7,687	3.07	226,024	7,431	3.29%	222,182	7,250	3.26
Reverse repurchase agreements									
HSBC Bank	36,161	226	0.62	35,457	187	0.53%	40,910	146	0.36
HSBC France	8,909	(145)	(1.63)	9,054	8	0.09%	19,397	37	0.19
Other	163	9	5.52	834	50	6.00%	1,390	127	9.14
	45,233	90	0.20	45,345	245	0.54%	61,697	310	0.50
Financial investments									
HSBC Bank	41,517	551	1.33	34,661	308	0.89%	38,122	414	1.09
HSBC France	11,970	2	0.02	9,181	15	0.16%	8,006	69	0.86
HSBC Assurance Vie	11,686	355	3.04	10,209	345	3.38%	10,567	389	3.68
Other	13,218	67	0.51	13,845	220	1.59%	16,816	147	0.88
	78,391	975	1.24	67,896	888	1.31%	73,511	1,019	1.39
Other interest-earning assets									
HSBC Bank	27	3	11.11	29	5	17.24%	26	5	19.23
HSBC France	206	—	—	165	54	32.73%	146	8	5.48
Other	87	6	6.90	106	2	1.89%	740	2	0.27
	320	9	2.81	300	61	20.33%	912	15	1.64
Total interest-earning assets									
HSBC Bank	303,269	6,368	2.10	280,808	6,126	2.18%	292,426	5,991	2.05
HSBC France	60,339	597	0.99	49,773	922	1.85%	60,135	997	1.66
Other	71,078	1,912	2.69	69,192	2,170	3.14%	73,589	2,261	3.07
	434,686	8,877	2.04	399,773	9,218	2.31%	426,150	9,249	2.17

¹ Interest income on short-term funds and loans and advances to banks in 2015 and 2014 contained interest related to cash-flow hedging that in 2016 has been allocated against loans and advances to customers. The related interest income was £213m in 2015 and £243m in 2014.

Total equity and liabilities

	2016			2015			2014		
	Average balance £m	Interest expense £m	Cost %	Average balance £m	Interest expense £m	Cost %	Average balance £m	Interest expense £m	Cost %
Summary									
Interest bearing liabilities measured at amortised cost (itemised below)	399,531	2,098	0.53	375,903	2,400	0.64	411,406	2,810	0.68
Trading liabilities and financial liabilities designated at fair value (excluding own debt)	78,230	912	1.17	72,269	784	1.08	81,652	1,177	1.44
Non-interest bearing current accounts	39,754	–	–	37,506	–	–	32,832	–	–
Total equity and other non-interest bearing liabilities	330,205	–	–	283,005	–	–	254,757	–	–
Total equity and liabilities	847,720	3,010	0.36	768,683	3,184	0.41	780,647	3,987	0.51
Deposits by banks									
HSBC Bank	10,406	54	0.52	12,461	61	0.49	15,410	118	0.77
HSBC France	6,135	20	0.33	4,976	27	0.54	4,026	32	0.79
Other	1,513	24	1.59	1,932	23	1.19	2,189	27	1.23
	18,054	98	0.54	19,369	111	0.57	21,625	177	0.82
Financial liabilities designated at fair value – own debt issued									
HSBC Bank	11,249	151	1.34	13,282	197	1.48	16,503	243	1.47
HSBC France	7,157	11	0.15	5,716	20	0.35	5,281	40	0.76
Other	275	14	5.09	293	10	3.41	349	13	3.72
	18,681	176	0.94	19,291	227	1.18	22,133	296	1.34
Customer accounts									
HSBC Bank	244,007	1,098	0.45	221,644	1,032	0.47	211,906	878	0.41
HSBC France	11,925	58	0.49	10,728	76	0.71	13,465	114	0.85
Other	41,981	300	0.71	35,652	396	1.11	39,110	685	1.75
	297,913	1,456	0.49	268,024	1,504	0.56	264,481	1,677	0.63
Repurchase agreements									
HSBC Bank	26,509	148	0.56	23,445	88	0.38	45,359	116	0.26
HSBC France	8,271	(126)	(1.52)	7,722	6	0.08	18,951	35	0.18
Other	175	40	22.86	201	46	22.89	50	13	26.00
	34,955	62	0.18	31,368	140	0.45	64,360	164	0.26
Debt securities in issue									
HSBC Bank	17,392	187	1.08	21,690	149	0.69	22,448	234	1.04
HSBC France	6,062	6	0.10	8,352	27	0.32	6,958	31	0.45
Regency Assets Limited	4,045	10	0.25	5,471	16	0.29	5,770	21	0.37
Other (includes intercompany)	1,323	47	3.55	1,163	100	8.61	1,902	148	7.75
	28,822	250	0.87	36,676	292	0.80	37,078	434	1.17
Other interest-bearing liabilities									
HSBC Bank	11	4	36.36	28	18	64.29	44	5	11.36
HSBC France	275	–	–	341	63	18.48	348	13	3.74
Other	820	52	6.34	806	45	5.71	1,337	44	3.29
	1,106	56	5.06	1,175	126	10.81	1,729	62	3.59
Total interest-bearing liabilities									
HSBC Bank	309,574	1,642	0.53	292,550	1,545	0.53	311,670	1,594	0.51
HSBC France	39,825	(31)	(0.08)	37,835	219	0.58	49,029	265	0.54
Other	50,132	487	0.97	45,518	636	1.40	50,707	951	1.88
	399,531	2,098	0.53	375,903	2,400	0.64	411,406	2,810	0.68

Distribution of average total assets

	2016 %	2015 %	2014 %
HSBC Bank	78.4	77.5	73.4
HSBC France	16.2	16.5	18.9
Other	5.4	6.0	7.7
At 31 Dec	100.0	100.0	100.0

Analysis of changes in net interest income

The following table allocates changes in net interest income between volume and rate for 2016 compared to 2015, and for 2015 compared to 2014.

	Increase/(decrease) in 2016 compared with 2015			Increase/(decrease) in 2015 compared with 2014			2014 £m
	2016 £m	Volume £m	Rate £m	2015 £m	Volume £m	Rate £m	
Interest income							
Short-term funds and loans and advances to banks							
– HSBC Bank	94	(10)	(394)	498	(64)	12	550
– HSBC France	10	8	(24)	26	(9)	(5)	40
– Other	12	6	(63)	69	1	3	65
	116	4	(481)	593	(72)	10	655
Loans and advances to customers							
– HSBC Bank	5,494	514	(148)	5,128	127	125	4,876
– HSBC France	730	200	(289)	819	(7)	(17)	843
– Other	1,463	49	(70)	1,484	1	(48)	1,531
	7,687	791	(535)	7,431	121	60	7,250
Reverse repurchase agreements							
– HSBC Bank	226	4	35	187	–	41	146
– HSBC France	(145)	–	(153)	8	–	(29)	37
– Other	9	(40)	(1)	50	(51)	(26)	127
	90	(1)	(154)	245	(51)	(14)	310
Financial investments							
– HSBC Bank	551	61	182	308	(38)	(68)	414
– HSBC France	2	5	(18)	15	10	(64)	69
– HSBC Assurance Vie	355	50	(40)	345	(13)	(31)	389
– Other	67	(10)	(143)	220	(26)	99	147
	975	137	(50)	888	(67)	(64)	1,019
Interest expense							
Deposits by banks							
– HSBC Bank	54	(10)	3	61	(23)	(34)	118
– HSBC France	20	6	(13)	27	8	(13)	32
– Other	24	(5)	6	23	(3)	(1)	27
	98	(8)	(5)	111	(18)	(48)	177
Customer accounts							
– HSBC Bank	1,098	104	(38)	1,032	40	114	878
– HSBC France	58	8	(26)	76	(23)	(15)	114
– Other	300	70	(166)	396	(61)	(228)	685
	1,456	168	(216)	1,504	(44)	(129)	1,677
Financial liabilities designated at fair value–own debt issued							
– HSBC Bank	151	(30)	(16)	197	(47)	1	243
– HSBC France	11	5	(14)	20	3	(23)	40
– Other	14	(1)	5	10	(2)	(1)	13
	176	(7)	(44)	227	(46)	(23)	296
Repurchase agreements							
– HSBC Bank	148	12	48	88	–	(28)	116
– HSBC France	(126)	–	(132)	6	–	(29)	35
– Other	40	(6)	–	46	39	(6)	13
	62	16	(94)	140	39	(63)	164
Debt securities in issue							
– HSBC Bank	187	(30)	68	149	(8)	(77)	234
– HSBC France	6	(7)	(14)	27	6	(10)	31
– Regency Assets Limited	10	(4)	(2)	16	(1)	(4)	21
– Other	47	14	(67)	100	(57)	9	148
	250	(63)	21	292	(60)	(82)	434

Net interest margin

	2016 %	2015 %	2014 %
Net interest margin	1.56	1.71	1.51
– HSBC Bank	1.56	1.63	1.50
– HSBC France	1.04	1.41	1.22
– Other	2.00	2.22	1.78

In-country foreign currency and cross-border amounts outstanding

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

	Banks £m	Government and official institutions £m	Other £m	Total £m
At 31 Dec 2016				
US	7,584	10,589	17,211	35,384
UK	4,944	727	21,020	26,691
France	1,019	2,011	6,658	9,688
Germany	7,788	7,639	6,119	21,546
Turkey	2,935	945	4,206	8,086
Netherlands	1,374	1,461	8,563	11,398
Japan	592	2,640	6,665	9,897
Ireland	433	226	8,299	8,958

At 31 Dec 2015				
US	7,639	7,527	18,358	33,524
UK	5,862	556	17,863	24,281
France	1,313	2,140	5,830	9,283
Germany	7,442	7,161	4,831	19,434
Turkey	2,363	951	4,747	8,061
Cayman Islands	—	—	5,609	5,609
Netherlands	1,674	1,565	6,210	9,449
Japan	897	2,148	7,319	10,364
Ireland	419	288	8,754	9,461

At 31 Dec 2014				
US	8,821	7,810	23,981	40,612
UK	7,268	956	22,015	30,239
France	2,250	1,169	4,876	8,295
Germany	7,518	11,077	3,559	22,154
Turkey	2,296	1,658	4,350	8,304
Cayman Islands	22	—	7,539	7,561
Netherlands	1,708	1,845	7,657	11,210
Japan	469	2,125	8,269	10,863
Ireland	800	121	5,057	5,978

Contractual obligations

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

	Payments due by period			
	Total £m	Less than 1 year £m	1 to 5 years £m	More than 5 years £m
Long-term debt obligations	45,962	15,903	18,500	11,559
Term deposits and certificates of deposit	68,716	62,856	5,581	279
Capital (finance) lease obligations	1	1	—	—
Operating lease obligations	1,305	169	574	562
Purchase obligations	13	13	—	—
Short positions in debt securities and equity shares	25,558	25,551	7	—
Current tax liability	400	400	—	—
Pension/health care obligation	1,032	156	570	306
At 31 Dec 2016	142,987	105,049	25,232	12,706

Loan maturity and interest rate sensitivity analysis

At 31 December 2016 the analysis of loan maturity and interest rate sensitivity by loan type on a contractual repayment basis was as follows:

	At 31 Dec 2016 £m
Maturity of 1 year or less	
Loans and advances to banks	19,536
Commercial loans to customers	77,830
– manufacturing and international trade and services	34,636
– real estate and other property related	7,610
– non-bank financial institutions	15,606
– governments	529
– other commercial	19,449
Maturity after 1 year but within 5 years	
Loans and advances to banks	1,617
Commercial loans to customers	63,780
– manufacturing and international trade and services	26,201
– real estate and other property related	13,489
– non-bank financial institutions	8,758
– governments	1,062
– other commercial	14,270
Interest rate sensitivity of loans and advances to banks and commercial loans to customers	
– fixed interest rate	11,535
– variable interest rate	53,862
	65,397
Maturity after 5 years	
Loans and advances to banks	210
Commercial loans to customers	19,393
– manufacturing and international trade and services	7,170
– real estate and other property related	2,041
– non-bank financial institutions	4,083
– governments	756
– other commercial	5,343
Interest rate sensitivity of loans and advances to banks and commercial loans to customers	
– fixed interest rate	3,971
– variable interest rate	15,632
	19,603

Deposits

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

	2016		2015		2014	
	Average balance £m	Average rate %	Average balance £m	Average rate %	Average balance £m	Average rate %
Deposits by banks	32,229	—	29,317	—	31,616	
– demand and other non-interest bearing	14,175	—	9,948	—	9,650	—
– demand interest bearing	5,114	0.2	3,572	0.3	3,531	0.4
– time	6,730	0.5	6,446	0.9	8,644	1.0
– other	6,210	1.2	9,351	0.8	9,791	0.9
Customer accounts	341,672	—	308,467		301,478	
– demand and other non-interest bearing	43,759	—	40,444	—	35,952	—
– demand interest bearing	231,577	0.3	205,872	0.4	189,915	0.4
– savings	31,259	1.0	31,045	1.3	33,873	1.5
– time	20,960	0.8	21,151	0.9	24,383	1.1
– other	14,117	2.6	9,955	1.9	17,355	0.9
CDs and other money market instruments	16,768	0.5	14,935	0.5	12,949	0.4

Certificates of deposit and other time deposits

At 31 December 2016, the maturity analysis of CDs and other wholesale time deposits, by remaining maturity, was as follows:

	At 31 Dec 2016				
	3 months or less	After 3 months but within 6 months	After 6 months but within 12 months	After 12 months	Total
Certificates of deposit	886	1,033	2,496	—	4,415
Time deposits					
– banks	21,399	908	396	4,410	27,113
– customers	32,278	1,630	1,830	1,450	37,188

Short-term borrowings

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

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

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

Repos and short-term bonds

	2016 £m	2015 £m	2014 £m
Securities sold under agreements to repurchase			
Outstanding at 31 Dec	20,271	17,332	25,692
Average amount outstanding during the year	35,616	32,596	75,492
Maximum quarter-end balance outstanding during the year	27,575	28,773	84,740
Weighted average interest rate during the year	0.3%	0.3%	0.2%
Weighted average interest rate at the year-end	0.4%	0.7%	0.6%
Short-term bonds			
Outstanding at 31 Dec	10,334	16,576	12,917
Average amount outstanding during the year	11,141	15,460	15,247
Maximum quarter-end balance outstanding during the year	10,334	16,576	15,608
Weighted average interest rate during the year	1.1%	0.8%	0.1%
Weighted average interest rate at the year-end	1.1%	0.7%	0.7%

Financial investments

Carrying amounts of financial investments

	2016 £m	2015 £m	2014 £m
Available for sale securities at fair value			
Treasury and other eligible bills	3,859	3,155	2,849
Debt securities	78,515	67,088	72,336
Equity securities	761	1,109	1,009
At 31 Dec	83,135	71,352	76,194

Financial investments at fair value

	2016 £m	2015 £m	2014 £m
US Treasury	8,028	4,355	4,304
UK Government	16,660	13,219	16,627
Other government	25,841	24,273	25,254
Asset-backed securities	7,456	8,834	12,025
Corporate debt and other securities	24,389	19,562	16,976
Equities	761	1,109	1,008
At 31 Dec	83,135	71,352	76,194

Contractual maturities and weighted average yields of investment debt securities at 31 December 2016

	Within one year		After one year but within five years		After five years but within ten years		After ten years	
	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %
Available for sale								
US Treasury	821	2.1	2,620	1.6	4,030	1.8	–	–
UK Government	2,286	1.2	4,715	1.0	8,221	1.2	444	3.4
Other government	6,010	2.3	12,553	1.6	2,528	2.4	631	4.1
Asset-backed securities	33	1.8	665	1.2	971	1.6	6,484	2.0
Corporate debt and other securities	3,033	2.5	14,445	1.6	2,644	3.3	2,424	3.8
Total amortised cost	12,183		34,998		18,394		9,983	
Total fair value	12,654		36,756		19,481		9,624	

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

Further analysis of credit risk

Gross loans and advances by industry sector

	2016		2015		2014		2013		2012	
	Amount £m	%	Amount £m	%	Amount £m	%	Amount £m	%	Amount £m	%
Personal	114,314	38.53	107,768	37.90	107,390	37.64	109,139	36.37	105,766	36.79
Corporate and commercial	132,556	44.68	128,912	45.34	135,932	47.64	145,382	48.44	139,310	48.44
Financial	28,447	9.59	24,429	8.59	16,730	5.86	22,537	7.51	23,965	8.33
Total gross loans and advances to customers at 31 Dec	275,317	92.80	261,109	91.83	260,052	91.14	277,058	92.32	269,041	93.56
Gross loans and advances to banks	21,363	7.20	23,222	8.17	25,282	8.86	23,035	7.68	18,512	6.44
Total gross loans and advances	296,680	100.00	284,331	100.00	285,334	100.00	300,093	100.00	287,553	100.00
Impaired loans and advances to customers	6,810		6,372		6,398		7,869		6,778	
as a percentage of total gross loans and advances to customers		2.47		2.44		2.46		2.84		2.52
Loan impairment charge	479		494		647		1,102		2,639	
– new allowance net of allowance releases	676		747		828		1,508		2,424	
– recoveries	(197)		(253)		(181)		(406)		215	

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

	2016	2015	2014	2013	2012
	%	%	%	%	%
Net allowances net of allowances releases	0.27	0.33	0.36	0.67	0.53
Recoveries	(0.08)	(0.11)	(0.08)	(0.18)	(0.08)
Total charge for impairment losses	0.19	0.22	0.28	0.49	0.45
Amount written off net of recoveries	0.28	0.26	0.49	0.43	0.46

Loan impairment charges by industry sector over five years

	2016	2015	2014	2013	2012
	£m	£m	£m	£m	£m
Loan impairment charge					
Personal	189	171	148	215	250
– residential mortgages	(4)	(6)	(45)	(9)	(34)
– other personal	193	177	193	224	284
Corporate and commercial	266	315	472	921	974
– manufacturing and international trade and services	52	137	306	518	420
– commercial real estate and other property-related	(12)	21	50	276	279
– other commercial	226	157	116	127	275
Financial	24	8	27	(34)	(11)
Year ended 31 Dec	479	494	647	1,102	1,213
Loan loss rates					
Personal	0.17%	0.16%	0.14%	0.20 %	0.24 %
Corporate and commercial	0.20%	0.24%	0.35%	0.63 %	0.70 %
Financial	0.08%	0.03%	0.16%	(0.15)%	(0.05)%

Movement in impairment allowances over five years

	2016	2015	2014	2013	2012
	£m	£m	£m	£m	£m
Impairment allowances at 1 Jan	2,603	2,820	3,357	3,270	3,381
Amounts written off	(909)	(859)	(1,285)	(1,386)	(1,475)
Personal	(348)	(407)	(435)	(559)	(499)
– residential mortgages	(8)	(8)	(13)	(53)	(17)
– other personal ¹	(340)	(399)	(422)	(506)	(482)
Corporate and commercial	(560)	(444)	(728)	(801)	(902)
– manufacturing and international trade and services	(293)	(154)	(443)	(430)	(416)
– commercial real estate and other property-related	(82)	(158)	(208)	(184)	(238)
– other commercial	(185)	(132)	(77)	(187)	(248)
Financial ¹	(1)	(8)	(122)	(26)	(74)
Recoveries of amounts written off in previous years	197	253	181	406	214
Personal	171	219	162	374	180
– residential mortgages	2	4	1	16	21
– other personal ¹	169	215	161	358	159
Corporate and commercial	25	32	17	32	32
– manufacturing and international trade and services	11	10	12	11	11
– commercial real estate and other property-related	6	16	6	4	6
– other commercial	8	6	(1)	17	15
Financial ¹	1	2	2	–	2
Charge to the income statement	479	494	647	1,102	1,213
Exchange and other movements	187	(105)	(80)	(35)	(63)
Impairment allowances at 31 Dec	2,557	2,603	2,820	3,357	3,270
Impairment allowances – banks:					
– individually assessed	–	–	20	21	24
Impairment allowances – customers:					
– individually assessed	1,729	1,788	1,874	2,402	2,327
– collectively assessed	828	815	926	934	919
Impairment allowances at 31 Dec	2,557	2,603	2,820	3,357	3,270

¹ Includes movements in impairment allowances against banks.

Risk elements in the loan portfolio

	2016	2015	2014	2013	2012
	£m	£m	£m	£m	£m
Impaired loans	6,810	6,372	6,415	7,893	6,818
Unimpaired loans contractually past 90 days or more as to principal or interest	—	4	3	14	23
Troubled debt restructuring (not included in the classification above)	1,541	1,009	1,059	863	789

The interest that would have been recognised under the original terms of impaired and restructured loans amounted to approximately £140m in 2016 (2015: £181m). Interest income from such loans of approximately £52m was recorded in 2016 (2015: £60m).

