HSBC Bank plc

Annual Report and Accounts 2016

HSBC

Contents

Presentation of Information

This document comprises the *Annual Report and Accounts 2016* for HSBC Bank plc ('the bank') and its subsidiaries (together 'the group'). 'We', 'us' and 'our' refer to HSBC Bank plc together with its subsidiaries. It contains the Strategic Report, the Report of the Directors, the Statement of Directors' Responsibilities and Financial Statements, together with the Independent Auditors' Report, as required by the UK Companies Act 2006. References to 'HSBC' or 'the Group' within this document mean HSBC Holdings plc together with its subsidiaries.

HM Treasury has transposed the requirements set out under CRD IV and issued the Capital Requirements Country-by-Country Reporting Regulations 2013. The legislation requires HSBC Holdings to publish additional information in respect of the year ended 31 December 2016 by 31 December 2017. This information will be available at the time on HSBC's website: www.hsbc.com. This enables HSBC Bank plc to be exempt from the reporting obligation and therefore the bank will not separately disclose this information.

Additional information, including commentary on 2015 versus 2014 and certain statistical and other information, may be found in a separate document entitled 'Additional Information 2016' and can also be found at www.hsbc.com, under Investor Relations.

Pillar 3 disclosures for the group are also available on www.hsbc.com, under Investor Relations.

All narrative disclosures, tables and graphs within the Strategic Report and Report of the Directors are unaudited unless otherwise stated.

Our reporting currency is £ sterling.

Unless otherwise specified, all $ symbols represent US dollars.

Cautionary Statement Regarding Forward-Looking Statements

This *Annual Report and Accounts 2016* contains certain forward-looking statements with respect to the financial condition, results of operations and business of the group.

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. HSBC Bank plc makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statement.

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

	Footnotes	2016	2015
For the year (£m)			
Profit before tax (reported basis)		**874**	2,971
Profit before tax (adjusted basis)	1, 2	**4,234**	4,068
Net operating income before loan impairment charges and other credit risk provisions	3	**13,305**	12,870
(Loss) / profit attributable to shareholders of the parent company		**(212)**	1,942
At year-end (£m)			
Total equity attributable to shareholders of the parent company		**39,930**	37,497
Total assets		**816,829**	727,941
Risk-weighted assets		**245,237**	229,382
Loans and advances to customers (net of impairment allowances)		**272,760**	258,506
Customer accounts		**375,252**	332,830
Capital ratios (%)	4		
Common equity tier 1		**10.2**	9.6
Tier 1		**12.3**	11.8
Total capital		**15.7**	15.5
Performance, efficiency and other ratios (annualised %)			
Return on average shareholders' equity	5	**(1.2)**	5.9
Pre-tax return on average risk-weighted assets (reported basis)		**0.4**	1.2
Pre-tax return on average risk-weighted assets (adjusted basis)		**1.7**	1.7
Cost efficiency ratio (reported basis)	6	**90.3**	73.2
Cost efficiency ratio (adjusted basis)	6	**63.9**	64.1
Jaws (adjusted basis)	7	**0.4**	0.3
Ratio of customer advances to customer accounts		**72.7**	77.7

1 *Adjusted performance is computed by adjusting reported results for the effect of significant items as detailed on pages 9 to 11.*
2 *Main adjustment relates to a £2.2bn impairment of goodwill in Global Banking and Markets ('GB&M').*
3 *Net operating income before loan impairment charges and other credit risk provisions is also referred to as revenue.*
4 *Capital ratios as detailed on the capital section on pages 55 to 57.*
5 *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.*
6 *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).*
7 *Adjusted jaws measures the difference between adjusted revenue and adjusted cost growth rates.*

Purpose and strategy

Our purpose

The purpose of HSBC Bank plc is to connect customers to opportunities, enable businesses to thrive and economies to prosper and ultimately help people to fulfil their hopes and realise their ambitions.

Geographical presence

In the group, we operate in 21 countries. Our operating entities represent the group to customers, regulators, employees and other stakeholders. Our priority markets are the UK, France and Germany.

As at 31 December 2016, the bank had 964 branches in the United Kingdom, and 13 located in the Isle of Man and the Channel Islands. The bank and its subsidiaries had further banks, branches and offices in Armenia, Belgium, Czech Republic, France, Germany, Greece, Ireland, Israel, Italy, Luxembourg, Malta, The Netherlands, Poland, Russia, South Africa, Spain, Switzerland and Turkey.

HSBC worldwide

The group is part of HSBC, which has more than 235,000 employees working around the world to provide more than 37 million customers with a broad range of banking products and services to meet their financial needs.

HSBC values

HSBC values define who we are as an organisation and what makes us distinctive.

Open

- We are open to different ideas and cultures and value diverse perspectives.

Connected

- We are connected to our customers, communities, regulators and each other, caring about individuals and their progress.

Dependable

- We are dependable, standing firm for what is right and delivering on commitments.

Our role in society

How we do business is as important as what we do. Our responsibilities to our customers, employees and shareholders as well as to wider society go far beyond simply being profitable.

We seek to build trusting and lasting relationships with our many stakeholders to generate value in society.

Our strategy

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

We 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 our 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

To facilitate international trade and capital flows and serve our clients as they grow from small enterprises into large multinationals.

Invest in wealth and retail businesses with local scale

To make the most of global social mobility, wealth creation and long-term demographic changes in our priority markets.

Our network is underpinned by our four interconnected, global businesses that share balance sheets and liquidity, in addition to strong commercial links; our businesses allow us to support clients, from retail customers to the world's largest companies.

Value of the network

HSBC's network of businesses covers the world's largest and fastest growing trade corridors and economic zones.

Services around the world

We provide products and services to meet our clients' diverse financial needs. HSBC's geographic reach and network of clients allows greater insight into the trade and capital flows across supply chains.

Business synergies

We share resources and product capabilities across our businesses and leverage these synergies when serving our customers. We are able to provide global markets products, for example, to large multinationals as well as to small businesses. We issue insurance products to individuals and corporations alike. Many of our private banking clients are business owners who we also serve as corporate clients.

Strategic actions

In June 2015, we outlined a series of strategic actions to make the most of our competitive advantages and respond to a changing environment. These actions are focused on improving efficiency in how we use our resources, and on investing for growth in line with our strategy. Each action has targets defined to the end of 2017.

Structural Reform

Policy background

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 is prohibited from engaging in significant trading activity. Ring-fencing is to be completed by 1 January 2019. The legislation also details the applicable customers to be transferred to the ring-fenced bank by reference to gross worth and enterprises 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.

Regulatory rules on ring-fencing from the Prudential Regulation Authority ('PRA') and Financial Conduct Authority ('FCA') are largely complete. The rules cover governance arrangements, ring-fencing transfer schemes, prudential requirements, intragroup arrangements and operational continuity, the use of financial market infrastructure and regulatory reporting.

Ring-fence implementation

HSBC's ring-fenced bank, HSBC UK, will be a new entity and will not be a subsidiary of HSBC Bank plc. We intend to transfer into HSBC UK the qualifying components of HSBC Bank plc's UK RBWM, CMB and GPB businesses. HSBC Bank plc's UK GB&M business will remain in HSBC Bank plc. HSBC Bank plc will remain 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 PRA and FCA provided feedback on this plan during 2016. We continue to engage and work closely with our regulators as we progress with the implementation of ring-fencing.

During 2016, we continued with implementation activities. These have included work to prepare our infrastructure for the creation of HSBC UK, the establishment of the legal entity that will become HSBC UK, the submission to the PRA and FCA of an application for a bank licence for HSBC UK, and the appointment of a skilled person who will prepare a ring-fencing transfer scheme report which will be a component of the legal process to transfer our UK RBWM, CMB and GPB businesses to HSBC UK. In addition, we intend to undertake a legal process in the first half of 2017 to convert the bank's share premium account into a distributable reserve. This conversion is a reclassification within the bank's shareholder's equity and will have no effect on the bank's capital position. We are undertaking this process in readiness for the transfer of businesses and related capital to HSBC UK.

In March 2015, Birmingham was announced as the location of the headquarters of the UK ring-fenced bank, HSBC UK. HSBC UK will build on the global connectivity and customer trust of the HSBC brand and differentiate us in a competitive market.

Implementation and operationalisation of the ServCo group

The Group has 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').

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. Following the transfers of employees and assets, further progress has been made during 2016 with the implementation and the ServCo group in the UK has started providing services to the bank. From 1 July 2016, the group recognises a management charge for the services provided by ServCo group instead of staff compensation. The implementation process is expected to complete during 2017.

Products and services

The group manages its products and services through its four businesses: RBWM; CMB; GB&M; GPB; and the Corporate Centre.

Retail Banking and Wealth Management ('RBWM')

Customers

RBWM serves customers worldwide through four main business areas: Retail Banking, Wealth Management, Asset Management and Insurance.

Products and services

RBWM provides services to individuals under the HSBC Premier and Advance propositions, targeted at mass affluent and emerging affluent customers who value international connectivity. For customers who have simpler everyday banking needs, RBWM offers a full range of banking products and services reflecting local requirements.

Business synergies

RBWM makes a significant contribution to the overall success of the group. Insurance and Asset Management provide services to clients across all of the global businesses; and the foreign exchange and wealth management needs of RBWM clients create opportunities for GB&M.

Areas of focus

RBWM's focus is on growing the business through relationship-led lending and wealth management, while transforming customer experience and cost base through investment in digital infrastructure.

Commercial Banking ('CMB')

Customers

CMB customers range from small enterprises focused primarily on their domestic markets through to corporates operating globally.

Products and services

We support our customers with tailored financial products and services to allow them to operate efficiently and to grow. We provide working capital, term loans, payment services and international trade facilitation. We offer expertise in mergers and acquisitions, and provide access to financial markets.

Business synergies

CMB is at the centre of creating revenue synergies within the group. For instance we provide trade finance, working capital and liquidity management solutions to GB&M clients. We also provide Capital Finance expertise and Insurance and Asset Management capabilities from across the group to benefit CMB clients.

Areas of focus

HSBC is focused on creating value from its network. The Group's priority markets cover both sides of 11 of the world's 15 largest trade corridors for goods and services forecast for 2030, and represent at least one side of the other four corridors.

The group is therefore investing heavily in digital and technology aspects of its core Global Liquidity and Cash Management ('GLCM') and Global Trade and Receivables Finance ('GTRF') propositions.

Global Banking and Markets ('GB&M')

Customers

GB&M supports major government, corporate and institutional clients worldwide. Our product specialists continue to deliver a comprehensive range of transaction banking, financing, advisory, capital markets and risk management services.

Products and services

GB&M's product specialists continue to deliver a comprehensive range of capital financing, advisory and transaction banking services.

Areas of focus

We have made progress on our initiatives to reduce RWAs, including managing our Markets and Capital Financing business and employing a disciplined approach to new client business.

Our focus on cost discipline will result in further simplification of the business through streamlining business lines, operations and technology.

Deepening relationships with clients in both event and transaction banking remain a priority. We are growing our business from the internationalisation of China's RMB currency and by investing in digital capabilities.

Global Private Banking ('GPB')

Customers

GPB serves high net worth individuals and families, including those with international banking needs, through 13 booking centres covering the Group's priority markets.

Products and services

Our products and services include: Investment Management, incorporating advisory, discretionary and brokerage services; Private Wealth Solutions, comprising trusts and estate planning, designed to protect wealth and preserve it for future generations; and a full range of Private Banking services.

Business synergies

GPB products are utilised within GB&M, CMB and RBWM, including asset management, research, insurance, trade finance and capital financing, to offer propositions to our clients.

Areas of focus

GPB aspires to build on HSBC's commercial banking heritage and be the leading private bank for high net worth business owners and principals.

Corporate Centre

During 2016, we realigned certain functions into a Corporate Centre, including items formerly included in 'Other' and 'Intersegment', Balance Sheet Management and certain legacy businesses. Corporate Centre also includes the results of our financing operations and central support costs with associated recoveries.

How we do business

We conduct our business intent on supporting the sustained success of our people, customers and communities. We see investment in our capabilities, employees and processes as a source of long-term competitive advantage.

How we do business strengthens the durability of our earnings and our ability to return value to shareholders.

Led by our values

HSBC values underpin how we do business. We are open to differences and believe diversity makes us stronger. We are connected to our customers, communities, regulators and each other, caring about individuals and their progress. We are dependable, standing firm for what is right and delivering on commitments.

Building lasting business relationships

The Group serves more than 37 million customers around the world, ranging from individuals to the largest companies. We are committed to conducting our business in a way that delivers fair value to customers and supports them in realising their ambitions.

Conduct and ensuring fair outcomes

Operating with high standards of conduct is central to our long-term success and ability to serve customers. In 2016, we continued to embed good conduct practice across all our businesses, with a range of initiatives to further improve the service and experience we offer to customers.

In the UK, for example, we have started to alert customers by text message when they are about to go into overdraft. As a result, customer complaints in this area have declined by 67% and customers have saved more than $129.9m (£96.3m) in fees.

Such initiatives are guided by our Conduct Framework, which focuses on delivering fair customer outcomes and improved market integrity through our behaviours. The Conduct Framework guides activities to strengthen our business, and increases our understanding and awareness of how the decisions we make affect customers and other stakeholders.

Increasing quality of service

We continue to focus on customer feedback to help us determine where we can make improvements. We use a combination of customer surveys, competitor benchmarking and brand tracking to evaluate our performance. In RBWM, we conducted more than 1.6 million customer surveys across multiple points of customer interaction, including in 2016 live online chats.

By tracking and acting on customer complaints, we improved the speed and quality of complaint resolution. In 2016, more than two-thirds of retail customer complaints were resolved on first contact, an improvement of 9% versus the previous year.

We also use customer feedback to identify root causes of complaints in order to improve our services. For example, we responded to persistent complaints related to fees and charges with increased staff training and customer communication. As a result, complaints of this type reduced significantly in a number of our markets, including a 27% reduction in France.

Innovation and technology

We continue to invest in innovation and technology to serve customers better and enhance security around financial transactions and customer data. In 2016, we introduced voice biometrics identification technology for retail customers globally. HSBC is one of the first large scale global users of this technology.

In the UK, we also launched a mobile application for commercial banking customers that allows them to digitally verify their identity with an image and identification document upload. Nearly 80% of customers have chosen to use this digital channel when available.

Sustainable finance

We recognise that reducing global carbon dioxide emissions is a critical challenge for society. We aim to support our clients in a transition to a low-carbon economy and continue to facilitate investment in areas including infrastructure and renewable energy that help lower carbon dioxide emissions. In 2016, in the UK, we provided financing and asset management expertise to support deployment of energy smart meters throughout the country.

In December, we established a team dedicated to Sustainable Finance within the business in order to engage clients more effectively in assessing and responding to potential impacts from climate change. HSBC seeks to be a leader in developing climate business opportunities with our customers and managing climate change risks.

Empowering people

Valuing diversity

Building a more diverse and inclusive workforce is critical to developing a sustainable and successful business. Our approach aims to increase and leverage diversity of thought to improve workforce agility, enhance our risk management capability, drive innovation and grow markets.

Our diversity and inclusion ambitions are focused on attracting, developing and retaining talent that reflects our customers and the communities where we do business, and deploying that talent effectively to anticipate and address expectations. A number of global employees networks support this strategy.

We have continued our focus on improving gender balance within senior leadership and all global businesses and functions are progressing actions to support those aspirations and embed more inclusive processes throughout the employee life cycle.

Supporting our employees

We believe that if someone is worth talking to, they are worth listening to. Exchange meetings are our way of doing that: meetings with no agendas and where managers are participants rather than leaders. These meetings bring people together to listen to each other, and allow people to express themselves without interruption or rebuttal. Our employee surveys indicate that Exchange participants respond positively by 11% more than others when asked if there is honest, two-way communication.

To further strengthen our culture and promote positive behaviours, we have developed culture change plans that are regularly discussed in regional and local management forums. The plans emphasise enabling a speak-up culture, principles-based judgment and other behaviours that are key to supporting the Group’s strategic objectives such as managing financial crime risk.

Our training programmes reinforce a culture grounded in our values. In 2016, we completed a three-year programme of values-led leadership training for all employees. We are building employee training centres in a number of locations. These will operate alongside HSBC University, our online training service.

We include behaviour ratings in employees’ performance reviews, and they are factored into variable pay awards.

In 2016, we introduced an At Our Best online recognition tool for all employees. It allows them to recognise colleagues’ actions by awarding points that are redeemed for gifts and benefits.

Whistleblowing

We operate a global whistleblowing platform, HSBC Confidential, which allows staff to report matters of concern confidentially. During 2016, employees have raised more than 1,100 cases. Common themes among the cases raised included concerns regarding staff behaviour and recruitment practices, allegations of fraud perpetrated by staff, and weaknesses in incentive arrangements and information security.

Ensuring sustainable outcomes

The Global Sustainability function works with our global businesses, global functions and regions to manage environmental and social issues which affect the Group and on which HSBC can have an impact. Key issues are reviewed below and further details are available online at hsbc.com/sustainability. Sustainability performance data for 2016 will be available in spring 2017.

Climate change

HSBC have committed to supporting the global shift to a low-carbon economy. Our award-winning Global Research team published 60 reports on sustainability topics in 2016. These included the implications of the Paris Agreement on climate change.

In light of the Paris Agreement, HSBC reviewed our mining and metals policy, and included restrictions on lending to new thermal coal mines, in addition to our existing policies on coal-fired power plants and deforestation. HSBC also added more specific guidance on human rights impacts that could arise in the mining sector.

The Group completed a number of GB&M and CMB client transactions that help lower carbon dioxide emissions in areas including infrastructure and renewable energy. In December 2016, HSBC was the third ranked bookrunner for green, social and sustainability bonds that exceeded $250m (£203m) excluding self-led transactions by Dealogic. HSBC also published a report on our own green bond, issued in 2015.

HSBC scored the highest grade in a global index run by CDP, a not-for-profit organisation that rates companies and governments on how they are tackling the climate change challenge. The Group also published an HSBC Statement on Climate Change, providing a summary of our approach and initiatives.

HSBC is reducing the amount of energy we consume, and increasing the proportion from renewable sources. By the end of 2016 more than 17% of our electricity was from wind or solar farms, compared with 9% in 2015. HSBC signed additional agreements in 2016 to increase the percentage of the electricity we use from new wind and solar sources. In total, the Group has agreements in place to meet 23% of our global energy needs from these sources by 2018.

Sustainable investment

HSBC's Global Research team has expanded its environmental, social and governance research offering, hiring analysts to specifically cover social and governance drivers and to cover the fast-growing green bond market.

HSBC's Global Asset Management business published a new climate change policy to encourage the transition to a low-carbon economy and increase the climate resilience of clients' investments.

Human rights

HSBC have issued our first statement as required by the UK’s Modern Slavery Act which can be found at www.hsbc.com.

The Group updated our supplier code of conduct to take account of revised legislation on modern slavery and human rights. More than 240 of our largest suppliers have already accepted this code.

Community investment

Thousands of HSBC employees globally are involved every year by volunteering for the Group's community investment programmes. In 2016, employees in Europe volunteered more than 49,800 hours, supporting communities' activities in work time. In 2016, charitable giving by our business in Europe totalled $18.8m (£13.9m), and in addition the Group community investment spend in Europe was $26.9m (£19.9m).

Our flagship environmental partnership, the HSBC Water Programme exceeded its five-year targets at the end of 2016. Building on this success, we are extending the programme for a further three years.

In Europe, the HSBC Water Programme supported 11 projects. With the charity Global Action Plan, for example, the $4.3m (£3.2m) Water Explorer education programme engaged and educated schoolchildren in 11 countries about the importance of water. In the UK, HSBC funded projects with the Wildfowl and Wetlands Trust, Thames21 and the RSPB which reached more than 242,000 schoolchildren, teaching them about the importance of rivers and wetlands and their role in protecting these vital resources.

In 2016, we renewed our commitments to our two flagship global education programmes, the HSBC Youth Opportunities Programme and Junior Achievement More than Money, for another three years. These programmes help young people to access education and realise their potential.

In Europe, the HSBC Youth Opportunities Programme is providing vocational training for at-risk youth in Armenia, education and life-skills support for refugee and migrant youth in the UK, and educational support to refugee families in Germany.

In April 2013, HSBC launched a three-year, £30m Opportunity Partnership to help 25,000 young people in the UK to get into education, work or training. HSBC worked with charity partners Catch22, St Giles Trust, The Prince's Trust and Tomorrow's People, which specialise in the employment, training and education of disadvantaged young people who face difficulty at school, college or work because they lack confidence, skills or the support of a stable home. In 2016, the programme wrapped up, exceeding its goal and helping more than 25,170 young people get into education, training or employment.

Further detail on these programmes is available at hsbc.com and will be updated with information for 2016 in spring 2017.

Tax

Our approach to tax

We apply the spirit as well as the letter of the law in all territories where we operate, and have adopted the UK Code of Practice for the Taxation of Banks. As a consequence, we pay our fair share of tax in the countries in which we operate. We continue to strengthen our processes to help ensure our banking services are not associated with any arrangements known or suspected to facilitate tax evasion. HSBC continues to apply global initiatives to improve tax transparency such as:

- the US Foreign Account Tax Compliance Act ('FATCA');
- the OECD Standard for Automatic Exchange of Financial Account Information (also known as the Common Reporting Standard);
- the Capital Requirements Directive IV ('CRD IV') Country by Country Reporting; and
- the OECD Base Erosion and Profit Shifting ('BEPS') initiative.

We do not expect the BEPS or similar initiatives adopted by national governments to adversely impact our results.

Key Performance Indicators

The Board of Directors tracks the group's progress in implementing its strategy with a range of financial and non-financial measures or key performance indicators ('KPIs'). Progress is assessed by comparison with the group strategic priorities, operating plan targets and historical performance.

The group reviews its KPIs regularly in light of its strategic objectives and may adopt new or refined measures to better align the KPIs to HSBC's strategy and strategic priorities.

Financial KPIs

	2016	2015
Profit before tax (reported) (£m)	**874**	2,971
Profit before tax (adjusted) (£m)	**4,234**	4,068
Jaws (adjusted) (%)	**0.4**	0.3
Cost efficiency ratio (reported) (%)	**90.3**	73.2
Cost efficiency ratio (adjusted) (%)	**63.9**	64.1
Pre-tax return on average risk-weighted asset ratio (reported) (%)	**0.4**	1.2
Pre-tax return on average risk-weighted asset ratio (adjusted) (%)	**1.7**	1.7
Common equity tier 1 ratio (%)	**10.2**	9.6

Profit before tax (reported/adjusted): Reported profit before tax is the profit as reported under IFRS. Adjusted profit before tax adjusts the reported profit for the effect of significant items as detailed on pages 9 to 12.

Outcome (reported): Reported profit before tax was lower year-on-year principally in GB&M and Corporate Centre, partially offset by higher reported profit before tax in CMB. The decrease was principally driven by higher expenses in GB&M due to the impairment of goodwill and significantly higher cost-to-achieve investment within Corporate Centre. This was partly offset by the gain on disposal of HSBC's membership interest in Visa Europe which benefited both RBWM and CMB, and stronger lending related revenues in CMB.

Outcome (adjusted): Adjusted profit before tax increase driven by higher revenue, notably in GB&M due to strong trading income and in CMB from lending. This was partially offset by an increase in operating expenses, notably due to unfavourable movements in foreign exchange.

Adjusted jaws measures the difference between adjusted revenue and adjusted cost growth rates (excluding the effects of costs-to-achieve and other significant items as detailed on pages 9 to 12). Our target is to grow revenues faster than operating expenses on an adjusted basis. This is referred to as positive jaws.

Outcome: In 2016, we grew revenue by 1.6% while our operating expenses also went up, but by 1.2%. Jaws was therefore positive 0.4%.

Adjusted revenue was up due to the favourable impact of movements in foreign exchange and higher income in Rates, Core Credit and FX in GB&M and lending in CMB, although this was partly offset by lower revenue in RBWM. Adjusted costs also increased, but to a lesser extent, entirely due to unfavourable movements in foreign exchange.

Cost efficiency ratio (adjusted) is measured as total operating expenses divided by net operating income before loan impairment and other credit risk provisions.

Outcome: The cost efficiency ratio remains broadly stable year-on-year at 63.9%.

Pre-tax return on average risk-weighted assets ratio (reported /adjusted) is measured as pre-tax profit divided by average risk-weighted assets. The group targets a return in the medium term of between 1.8% and 2.0%.

Outcome (reported): The return on average risk-weighted assets was significantly below the target range and prior year predominantly due to higher costs as a result of the impact of the impairment of GB&M goodwill and higher cost-to-achieve investment.

Outcome (adjusted): The return on average risk-weighted assets was slightly below the target range.

Common equity tier 1 capital ratio ('CET1') represents the ratio of common equity tier 1 capital comprising shareholders' equity and related non-controlling interests less regulatory deductions and adjustments, to total risk-weighted assets. The group seeks to maintain a strong capital base to support the development of its business and meet regulatory capital requirements at all times.

Outcome: The common equity tier 1 ratio increased compared to prior year due principally to new CET1 capital contributed by HSBC Holdings plc.

Non-financial KPIs

We also monitor a range of non-financial KPIs focusing on customers, people, culture and values including customer service satisfaction, employee involvement and engagement, and diversity and sustainability.

For details on customer service and satisfaction please refer below; for the remaining non-financial KPIs refer to the Corporate Governance section on pages 61 and 62.

Customer service and satisfaction

In RBWM our principal customer metric in the UK is the Customer Recommendation Index (CRI), measuring customers' likelihood to recommend HSBC products and services to friends or family. We track this measure relative to our competitors, aiming for a positive gap to market.

In the UK scores are consistent with 2015 but a one point improvement in scores among our main competitors represents a slightly weakened position in 2016. We continue to focus on making things easier for our customers, developing digital capabilities and reducing complexity of internal processes. The launch of Voice ID and Touch ID in 2016 are two major initiatives that are helping us to achieve this goal and improve customer advocacy. First Direct has achieved a 2 point improvement in scores from 2015 consolidating the brand's market leading position for customer advocacy. Customers continue to recognise the excellent service they receive and the brand remains focused on maintaining these standards and developing digital capabilities. M&S Bank saw a slight decline in scores from 2015, missing their target of a top 3 position within their competitor set by just 1 point. Digital developments will be a key focus in 2017 as the brand continues to develop as a main current account provider in the UK. In 2016 France RBWM's CRI score has remained flat compared to 2015. However the overall score shows a positive trend at the end of 2016, reflecting improvements in customer service, quality of relationship managers and reputation. In Q4, France performed above market average in terms of relationship manager satisfaction and reputation. Continuous focus is made to build a seamless experience across all devices, with the launch of Touch ID and the Personal Financial Management tool being two key milestones this year.

CMB continues to lead the market in the Large Corporate segment but lags where we would wish to be with Business Banking and Middle-Market customers. The insights we draw from our global customer engagement programme, carried out by an independent third party, and our other benchmark analysis shows that we are highly rated in terms of satisfaction with our relationship managers and this garners strong customer loyalty for the future. In order to achieve our goal of leading the market across all segments, we are investing heavily in technology and telephony, improving our mobile app, Business Internet Banking system and call centre service. We have also invested in our on-boarding processes, including the launch of our new 'selfie' app for uploading ID&V documentation from customers' smart phones, and our client planning and Management Information systems.

Economic background and outlook

UK

UK real GDP grew by 0.6% in the fourth quarter (based on preliminary data), unchanged from the Q2 and Q3 growth rate. GDP was 2.2% higher than the same quarter a year earlier. The unemployment rate stood at 4.8% in December, unchanged from the 11-year low it fell to in September. Employment as a percentage of the workforce stood at a record high of 74.6%. Annual wage growth stood at 2.6% in the three months to November. The annual rate of growth of the Consumer Price Index ('CPI') measure of inflation stood at 1.6% in December 2016. Activity in the housing market was weaker compared with the previous year, with price growth moderating but remaining positive.

Economic growth following the UK electorate's vote to leave the European Union was stronger than expected, but the outlook remains uncertain. The annual pace of UK real GDP growth is now expected to slow from 2.0% in 2016 to 1.2% in 2017, albeit avoiding a recession. Investment might be hardest hit by the uncertainty surrounding the UK's political and economic outlook. CPI inflation is expected to continue to rise, reflecting the fall in sterling's value. Wages are not expected to grow as fast as inflation, meaning a decline in real incomes, which is expected to weigh on consumption. Despite higher inflation, the Bank of England is expected to keep monetary policy unchanged over 2017 and 2018.

Eurozone

The eurozone continued on a steady growth path in 2016, with GDP increasing by 0.4% in each of the last two quarters of 2016 (Q4 is a preliminary release), with total growth for the year of 1.7%. Spain continued to be the best performer among the 'Big 4' eurozone countries, with real GDP growth of 0.7% in the fourth quarter. The other three countries registered lower growth rates, with Germany (0.4%) and France (0.4%) outpacing Italy (0.2%). Domestic consumption is likely to have remained the main driver of growth, fuelled by strong job creation. For the year as a whole, inflation was only 0.2%. Public consumption has also been supportive of growth, partly thanks to the reduction in interest payments brought about by the ECB's quantitative easing ('QE') programme. Net exports were a drag on growth in 2016, as the impact of past euro depreciation faded and global demand remained subdued.

The latest survey data points to a continuation of the positive growth momentum. Job creation remains healthy, and the outlook for the global economy appears to be improving, which together with the recent depreciation of the euro is supporting eurozone exports. In December 2016, the ECB also announced an extension of its QE programme until the end of 2017, albeit at a slightly lower pace (€60bn of asset purchases per month, compared to €80bn previously), which should continue to provide fiscal support to countries. However, investment remains subdued, and a significant fiscal expansion is unlikely. On the back of rising oil prices, inflation has already started to rise fast, to a 1.8% annual rate in January 2017. HSBC Global Research expects inflation to increase to around 2.0% in the first half of 2017, which could lead to a slowdown in domestic consumption, unless households are willing to save less. As a consequence of that, HSBC Global Research expects real GDP growth to ease to 1.2% in 2017. The eurozone is also at the beginning of a difficult political season, with general elections in the Netherlands in March, France in April/May and Germany likely in September. Early elections in Italy are also a possibility.

Financial summary

Summary consolidated income statement for the year ended

	2016 £m	2015 £m
Net interest income	**6,769**	6,818
Net fee income	**2,945**	2,863
Net trading income	**4,299**	2,751
Net (expense)/income from financial instruments designated at fair value	**(1,047)**	376
Gains less losses from financial investments	**530**	150
Net insurance premium income	**1,567**	1,613
Other operating income	**261**	347
Total operating income[1]	**15,324**	14,918
Net insurance claims, benefits paid and movement in liabilities to policyholders	**(2,019)**	(2,048)
Net operating income before loan impairment and other credit risk provisions	**13,305**	12,870
Loan impairment charges and other credit risk provisions	**(416)**	(481)
Net operating income	**12,889**	12,389
Total operating expenses[1]	**(12,011)**	(9,420)
Operating profit	**878**	2,969
Share of (loss)/profit in associates and joint ventures	**(4)**	2
Profit before tax	**874**	2,971
Tax expense	**(1,053)**	(997)
(Loss)/profit for the year	**(179)**	1,974
(Loss)/profit attributable to shareholders of the parent company	**(212)**	1,942
Profit attributable to non-controlling interests	**33**	32

1 *Total operating income and expenses includes significant items as detailed on pages 10 and 11.*

Reported Performance

Reported profit before tax was £874m, down by £2,097m or 71% from 2015.

Net interest income decreased by £49m or 1%. This decrease was primarily in RBWM due to spread compression on mortgages in the UK and France, as well as lower income on deposits and current accounts reflecting lower margins. In GB&M, there were lower earnings on capital and in the Corporate Centre income was lower in Legacy Credit. This was partly offset by higher net interest income in CMB, primarily in the UK from balance growth in Term Lending and deposit growth in Global Liquidity and Cash Management ('GLCM').

Net fee income increased by £82m or 3%. This increase was primarily in GB&M due to growth in deposits in GLCM and higher activity in Debt Capital Markets ('DCM'). In CMB, the increase was mainly in the UK driven by higher FX fee income due to market volatility following the UK's EU referendum and the US presidential election. By contrast, net fee income in RBWM decreased, mainly in the UK due to lower interchange fees following a regulatory change, lower insurance income and lower Asset Management revenue driven by lower assets under management.

Net trading income increased by £1,548m or 56%. Of this, £1.3bn was due to favourable foreign exchange movements on assets held as economic hedges of debt designated at fair value in GB&M (offset in 'Net expense from financial instruments designated at fair value'). Excluding this item, net trading income increased by £248m, primarily in GB&M driven by Markets. Revenue increased in Rates, Foreign Exchange and Credit reflecting higher client activity and more favourable market conditions. This was partly offset by a decrease in Equity revenue due to uncertainty in global equity markets and reduced investor confidence in the first half of the year, resulting in lower client volumes.

Net income from financial instruments designated at fair value decreased from £376m in 2015 to a net expense of £1,047m in 2016, a decrease of £1,423m. Of this, £1.3bn 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').

Gains less losses from financial investments increased by £380m, mainly due to a gain on the disposal of our membership interest in Visa Europe of £416m.

Net insurance premium income decreased by £46m or 3%. This was driven by reduced volumes in France in response to low interest rates and market volatility, and by the UK following the disposal of our pensions business in 2015.

Other operating income decreased by £86m or 25%. This was largely due to negative interest rate-driven assumption updates to the present value of in-force long-term insurance business ('PVIF') in France, compared with positive updates in 2015.

Net insurance claims, benefits paid and movement in liabilities to policyholders were broadly in line with 2015.

Loan impairment charges and other credit risk provisions ('LICs') decreased by £65m or 14%. This reflected lower LICs in GB&M due to net releases of individual and collectively assessed impairments compared with charges in 2015, and in Corporate Centre reflecting higher net releases of credit risk provisions on available-for-sale asset backed securities in the UK. These were partly offset by an increase in LICs in CMB, due to higher impairment in the UK (in the shipping sector) and Armenia (in the Real Estate sector), partly offset by lower LICs in France.

Total operating expenses increased by £2,591m or 28%, driven by a number of significant items including:

- a £2.2bn impairment of goodwill in GB&M;
- an increase of £711m in costs-to-achieve, comprising specific costs relating to the achievement of the strategic

actions set out at the Group's investor update in June 2015;

- costs to establish the UK ring-fenced bank increased by £105m compared with 2015;
- higher UK customer redress provisions, notably in estimated redress or possible mis-selling of payment protection insurance ('PPI') policies of £381m in previous years; and
- partly offset by lower settlements and provisions in connection with legal and regulatory matters, down by £570m, primarily in GB&M.

Excluding these items, operating expenses were higher by £94m.

For further details of significant items affecting revenues and costs, please refer to significant revenue/cost items by business segment on page 10.

Tax expense totalled £1,053m in 2016 compared with £997m in 2015. The effective rate for 2016 was 120.5% compared with 33.6% in 2015. The effective rate has increased since 2015 primarily due to an impairment of goodwill which is not deductible for tax purposes and the introduction of the 8% surcharge on UK banking profits. Excluding the one-off impact of the goodwill impairment, the effective tax rate would be 34.5%.

Adjusted Performance

Use of non-GAAP financial measures

Our reported results are prepared in accordance with IFRSs, as detailed in the Financial Statements starting on page 67. In measuring our performance, the financial measures that we use include those derived from our reported results in order to eliminate factors that distort period-on-period comparisons. These are considered non-GAAP financial measures.

Non-GAAP financial measures are described and reconciled to the closest reported financial measure when used.

The global business segmental results on pages 10 to 14 are presented on an adjusted basis in accordance with IFRS 8 'Operating Segments' as detailed in the 'Basis of preparation'.

Adjusted performance

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

We use 'significant items' to describe collectively the group of individual adjustments excluded from reported results when arriving at adjusted performance. These items, which are detailed below, are ones that management and investors would ordinarily identify and consider separately when assessing performance to understand better the underlying trends in the business.

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

Change in reportable segments

During 2016, management made the decision to realign certain functions to a Corporate Centre. These include balance sheet management, legacy businesses and interests in associates and joint ventures. It also includes the results of our financing operations and central support costs with associated recoveries.

The group has reviewed central costs previously reported in Other and reallocated these costs to the global businesses where appropriate. Residual costs are reported within the Corporate Centre.

Comparative data have been re-presented accordingly.

Basis of preparation

Global businesses are our reportable segments under IFRS 8.

The global business results are assessed by the chief operating decision maker on the basis of adjusted performance that removes the effects of significant items from reported results. We therefore present these results on an adjusted basis.

Reconciliations of reported and adjusted performance are presented on pages 8 to 14.

Our operations are closely integrated and, accordingly, the presentation of data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and global functions to the extent that they can be meaningfully attributed to operational business lines. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity. Costs which are not allocated to global businesses are included in Corporate Centre.

Where relevant, income and expense amounts presented include the results of inter-segment funding along with inter-company and inter-business line transactions. All such transactions are undertaken on arm's length terms. The intra-group elimination items are presented in the Corporate Centre.

A description of the Global businesses is provided in the Strategic Report, pages 3 and 4.

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

(Audited)

	RBWM £m	CMB £m	GB&M £m	GPB £m	Corporate Centre £m	Total £m
31 Dec 2016						
Reported revenue	**4,524**	**3,702**	**4,120**	**327**	**632**	**13,305**
Significant revenue items	**(247)**	**(164)**	**(19)**	**(1)**	**6**	**(425)**
– change in credit spread on long-term debt	**—**	**—**	**—**	**—**	**4**	**4**
– debit valuation adjustment on derivative contracts	**—**	**—**	**(33)**	**—**	**—**	**(33)**
– fair value movement on non-qualifying hedges	**5**	**—**	**14**	**—**	**2**	**21**
– provisions arising from on-going review of compliance with the CCA in the UK	**—**	**—**	**—**	**(1)**	**—**	**(1)**
– gain on disposal of HSBC's membership in Visa Europe	**(252)**	**(164)**	**—**	**—**	**—**	**(416)**
Adjusted revenue	**4,277**	**3,538**	**4,101**	**326**	**638**	**12,880**
31 Dec 2015[1]						
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 ongoing review of compliance with the CCA in the UK	14	12	—	(21)	—	5
Adjusted revenue	4,535	3,353	3,829	339	611	12,667

1 *Restated for change in reportable segments explained on page 9.*

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

(Audited)

	RBWM £m	CMB £m	GB&M £m	GPB £m	Corporate Centre £m	Total £m
31 Dec 2016						
Reported operating expenses	**(3,591)**	**(1,501)**	**(5,328)**	**(227)**	**(1,364)**	**(12,011)**
Significant cost items	**474**	**52**	**2,407**	**2**	**850**	**3,785**
– impairment of Global Banking & Markets goodwill	**—**	**—**	**2,182**	**—**	**—**	**2,182**
– costs to achieve[2]	**93**	**26**	**144**	**2**	**704**	**969**
– costs to establish UK ring-fenced bank	**—**	**—**	**—**	**—**	**146**	**146**
– UK customer redress programmes	**381**	**26**	**20**	**—**	**—**	**427**
– settlements and provisions in connection with legal and regulatory matters	**—**	**—**	**41**	**—**	**—**	**41**
– Madoff-related litigation costs	**—**	**—**	**20**	**—**	**—**	**20**
– restructuring and other related costs[2]	**—**	**—**	**—**	**—**	**—**	**—**
Adjusted operating expenses	**(3,117)**	**(1,449)**	**(2,921)**	**(225)**	**(514)**	**(8,226)**
31 Dec 2015[1]						
Reported operating expenses	(3,523)	(1,479)	(3,609)	(211)	(598)	(9,420)
Significant cost items	397	84	646	3	170	1,300
– costs to achieve[2]	37	73	38	3	107	258
– costs to establish UK ring-fenced bank	—	—	—	—	41	41
– UK customer redress programmes	359	10	(11)	—	—	358
– settlements and provisions in connection with legal and regulatory matters	—	—	611	—	—	611
– Madoff-related litigation costs	—	—	—	—	—	—
– restructuring and other related costs[2]	1	1	8	—	22	32
Adjusted operating expenses	(3,126)	(1,395)	(2,963)	(208)	(428)	(8,120)

1 *Restated for change in reportable segments explained on 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

(Audited)

	RBWM £m	CMB £m	GB&M £m	GPB £m	Corporate Centre £m	Total £m
31 Dec 2016						
Reported profit/(loss) before tax	**746**	**1,828**	**(1,156)**	**105**	**(649)**	**874**
Significant revenue items	**(247)**	**(164)**	**(19)**	**(1)**	**6**	**(425)**
Significant cost items	**474**	**52**	**2,407**	**2**	**850**	**3,785**
Adjusted profit/(loss) before tax	**973**	**1,716**	**1,232**	**106**	**207**	**4,234**
Net impact on reported profit and loss	**227**	**(112)**	**2,388**	**1**	**856**	**3,360**
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

1 *Restated for change in reportable segments explained on page 9.*

By operating segment:

Adjusted profit/(loss) for the year

(Audited)

	2016					
	RBWM £m	**CMB £m**	**GB&M £m**	**GPB £m**	**Corporate Centre £m**	**Total £m**
Net interest income	**3,282**	**2,343**	**936**	**196**	**12**	**6,769**
Net fee income	**1,022**	**1,142**	**675**	**110**	**(4)**	**2,945**
Net trading income	**57**	**10**	**2,547**	**7**	**1,666**	**4,287**
Other income	**(84)**	**43**	**(57)**	**13**	**(1,036)**	**(1,121)**
Net operating income before loan impairment charges and other credit risk	**4,277**	**3,538**	**4,101**	**326**	**638**	**12,880**
– external	**3,896**	**3,652**	**4,994**	**267**	**71**	**12,880**
– inter-segment	**381**	**(114)**	**(893)**	**59**	**567**	**—**
Loan impairment charges and other credit risk provisions	**(187)**	**(373)**	**52**	**5**	**87**	**(416)**
Net operating income	**4,090**	**3,165**	**4,153**	**331**	**725**	**12,464**
Total operating expenses	**(3,117)**	**(1,449)**	**(2,921)**	**(225)**	**(514)**	**(8,226)**
– employee compensation and benefits	**(978)**	**(496)**	**(1,011)**	**(86)**	**(524)**	**(3,095)**
– general and administrative expenses	**(2,124)**	**(939)**	**(1,905)**	**(138)**	**544**	**(4,562)**
– depreciation and impairment of property, plant and equipment	**(6)**	**(14)**	**(3)**	**(1)**	**(305)**	**(329)**
– amortisation and impairment of intangible assets	**(9)**	**—**	**(2)**	**—**	**(229)**	**(240)**
Operating profit	**973**	**1,716**	**1,232**	**106**	**211**	**4,238**
Share of profit in associates and joint ventures	**—**	**—**	**—**	**—**	**(4)**	**(4)**
Adjusted profit before tax	**973**	**1,716**	**1,232**	**106**	**207**	**4,234**
	%	**%**	**%**	**%**		**%**
Adjusted cost efficiency ratio	**72.9**	**41.0**	**71.2**	**69.0**		**63.9**

	2015[1]					
	RBWM £m	CMB £m	GB&M £m	GPB £m	Corporate Centre £m	Total £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

1 *Restated for change in reportable segments explained on page 9.*

Adjusted Performance

Our adjusted profit before tax increased by £166m or 4% compared with 2015. This reflected higher revenue and lower LICs, partly offset by higher operating expenses.

Adjusted Revenue increased by £213m or 2%, due to favourable movements in foreign exchange. Excluding this, revenue decreased primarily due to lower revenue in RBWM. Revenue was lower in Insurance due to adverse movements in PVIF compared with favourable movements in 2015, and in Retail due to lower margins on Mortgages, Current Accounts and Savings in France, as well as lower fees on credit cards resulting from the introduction of interchange fees cap in the UK. These were partly offset by higher revenue in GB&M in Rates reflecting higher client flows and an increase in market share, and higher income in Foreign Exchange following the UK's EU referendum which resulted in an increase in client demand for hedging products. Revenue increased in CMB reflecting balance growth in term lending and deposit growth in GLCM and Credit & Lending. Revenue also increased in Corporate Centre in Balance Sheet Management ('BSM') which included a gain from a discontinuation of a macro cash flow hedge in France.

Adjusted LICs were £65m or 14% lower than in 2015. This reflected lower LICs in GB&M due to net releases of individual and collectively assessed impairments compared with charges in 2015, and lower LICs in Corporate Centre reflecting higher releases on available-for-sale asset backed securities in Legacy Credit in 2016. This was partly offset by an increase in LICs in CMB due to higher impairments in the UK (in the Shipping sector) and Armenia (in the Real Estate sector).

Adjusted Operating expenses were £106m or 1% higher than in 2015 due to by unfavourable movements in foreign exchange. Excluding this, operating expenses decreased primarily driven by lower staff costs and IT costs, notably in GB&M and RBWM. These were partly offset by increased cost relating to the ongoing implementation of our Global Standards programme to enhance our financial crime risk controls and capabilities, and to meet our external commitments.

Retail Banking and Wealth Management

Adjusted profit before tax of £973m was £264m or 21% lower than in 2015 as lower revenue and higher LICs was partly offset by lower operating expenses.

Revenue decreased by £258m or 6%, mainly in France and to a lesser extent in the UK. Revenue decreased in France, notably in the insurance business due to adverse movements in the PVIF driven by investment assumption changes following a fall in long-term interest rates in 2016 compared with 2015.

Net Interest Income decreased, mainly due to a reduction in mortgage margins in the UK and France, and lower deposit margins and insurance investment returns in France. This is partly offset by increased income on Personal Loans due to increased volumes.

Net Fee Income decreased, mainly in the UK due to lower interchange fees following a regulatory change and the impact of the disposal of the UK pensions business. Revenue decreased in Asset Management due to lower assets under management.

LICs increased by £15m or 9%, mainly due to higher individually assessed provisions compared to a prior-year release of surplus mortgage provisions following a model change in the UK. This was partly offset by lower provisions in Cards and Personal Loans in Turkey and a provision release in Greece.

Operating expenses were £9m lower than 2015, reflecting lower staff costs, lower IT and operations' costs.

Commercial Banking

Adjusted profit before tax of £1,716m was £69m or 4% higher than in 2015, driven by higher revenue partly offset by higher loan impairment charges, notably in the UK, and higher operating expense.

Revenue increased by £185m, with UK balance growth in term lending and deposit growth in GLCM. In addition, higher FX income was driven by market volatility following the UK's EU referendum and the US presidential election.

LICs increased by £62m, primarily in the UK (in the Shipping sector), Armenia (in the Real Estate sector) and Turkey (in the Mid-Market and Business Banking segments). This was partly offset by lower LICs in France across all segments and products.

Operating expenses increased by £54m, due to an adverse movement in foreign exchange.

Global Banking and Markets

Adjusted profit before tax of £1,232m was £381m or 45% higher than in 2015, due to higher revenue, loan impairment provision releases and lower operating expenses.

Revenue increased by £272m or 7%, notably in Markets where income from Rates and FX increased due to higher client activity as a result of macro-economic factors. Revenue in Core Credit also increased reflecting improved market conditions in comparison to the prior year. This was partly offset by a decrease in the Equity business revenue due to uncertainty in global equity markets and reduced investor confidence in the first half of the year, resulting in lower client volumes.

LICs decreased by £67m, notably in the UK, mainly driven by higher collectively assessed provision releases compared with charges in 2015.

Operating expenses were £42m or 1% lower than 2015, reflecting reduced performance-related pay, disciplined cost management, efficiency improvements in technology, and FTE reductions.

Global Private Banking

Adjusted profit before tax of £106m was £15m or 12% lower than in 2015, primarily due to lower revenue and higher operating expenses, partly offset by lower LICs.

Revenue decreased by £13m, primarily due to lower average lending balances following the exit from a Commercial Real Estate book in the UK and lower income on deposits in Germany. In addition, investment revenue was lower in both Germany and France due to lower client activity.

LICs decreased by £15m, notably in the UK mainly driven by net releases of individually and collectively assessed impairments compared with net charges in the prior year.

Operating expenses increased by £17m, which was mainly due to unfavourable movements in foreign exchange, partly offset by lower operating expenses in France and Turkey.

Corporate Centre

During 2016, we realigned certain functions into a Corporate Centre, including items formerly included in BSM, legacy businesses and interests in associates and joint ventures. Corporate Centre also includes the results of our financing operations, central support costs with associated recoveries, certain property transactions and movements in fair value of own debt.

Adjusted profit before tax of £207m was £5m or 3% lower than in 2015, primarily due to higher operating expenses, partly offset by higher revenue and higher loan impairment provision releases.

Revenue increased by £27m, mainly due to a gain in BSM relating to an accounting adjustment on cash flow hedging in France, and in the UK due to a positive fair value movement from the ineffectiveness of hedging of interest and exchange rates on our long-term debt. This was partly offset by lower revenue in Legacy Credit.

LICs decreased by £60m, mainly driven by higher net releases of credit risk provisions on available-for-sale asset backed securities in the UK.

Operating expenses increased by £86m, mainly driven by higher charges from global services and technology centres from increased activity relating to the transformation of the group in both IT and process improvements.

Dividends

The consolidated reported loss for the year attributable to the shareholders of the bank was £212m.

Interim dividends of £272m, in lieu of a final dividend in respect of the previous financial year, and £255m in respect of 2016 were paid on the ordinary share capital during the year. A second interim dividend, in lieu of a final dividend, of £415m was declared after 31 December 2016, payable at the end of February 2017.

Further information about the results is given in the consolidated income statement on page 68.

Review of business position

Summary consolidated balance sheet as at 31 Dec

	2016 £m	2015 £m
Total assets	**816,829**	727,941
– cash and balances at central banks	**54,278**	39,749
– trading assets	**125,069**	110,585
– financial assets designated at fair value	**8,345**	6,829
– derivative assets	**199,419**	166,785
– loans and advances to banks	**21,363**	23,222
– loans and advances to customers	**272,760**	258,506
– reverse repurchase agreements – non-trading	**31,660**	30,537
– financial investments	**83,135**	71,352
– other	**20,800**	20,376
Total liabilities	**776,204**	689,816
– deposits by banks	**23,682**	24,202
– customer accounts	**375,252**	332,830
– repurchase agreements – non-trading	**19,709**	17,000
– trading liabilities	**93,934**	73,489
– financial liabilities designated at fair value	**18,486**	19,001
– derivative liabilities	**190,092**	162,864
– debt securities in issue	**16,140**	26,069
– liabilities under insurance contracts issued	**19,724**	16,664
– other	**19,185**	17,697
Total equity	**40,625**	38,125
– total shareholders' equity	**39,930**	37,497
– non-controlling interests	**695**	628

By operating segment:

Adjusted balance sheet information

(Audited)

	RBWM £m	CMB £m	GB&M £m	GPB £m	Corporate Centre £m	Total £m
Year ended 31 Dec 2016						
Loans and advances to customers	**111,692**	**80,969**	**67,416**	**7,050**	**5,633**	**272,760**
Customer accounts	**148,469**	**97,630**	**89,115**	**14,279**	**25,759**	**375,252**
Year ended 31 Dec 2015[1]						
Loans and advances to customers	105,358	73,564	69,873	7,479	2,232	258,506
Customer accounts	135,234	87,970	86,826	12,543	10,257	332,830

1 *Restated for change in reportable segments explained on page 9.*

There are no reconciling items between the adjusted and reported view of the balance sheet for 2016 and 2015.

Total reported assets were 12% higher than at 31 December 2015. The group maintained a strong and liquid balance sheet with the ratio of customer advances to customer accounts decreasing by 5% to 72.7% (31 December 2015: 77.7%).

Assets

Cash and balances at central banks increased by 37% as surplus deposits were deployed into central bank reserves in line with the liquidity and funding risk management framework.

Trading assets increased by 13% primarily due to increases in asset values as well as a growth in collateral posted driven by higher gross derivative values.

Derivative assets increased by 20% largely due to downward shifts in major yield curves and movements in foreign exchange rates. This was partly offset by higher levels of IFRS eligible netting.

Loans and advances to customers increased by 6% largely as a result of increased corporate and retail mortgage lending as well as 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.

Financial investments increased by 17% primarily due to an increase in the balance of high quality liquid assets.

Liabilities

Customer accounts increased by 13% due to growth in corporate and retail balances, an increase in placements by HSBC Holdings plc, 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 plc 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.

Trading liabilities increased by 28% in line with trading assets.

Financial liabilities designated at fair value and debt securities in issue reduced by 3% and 38% respectively. The reduction is due to maturing issuances being replaced by term funding from HSBC Holdings plc in relation to its TLAC plans.

Derivative liabilities increased by 17% and this is in line with derivative assets as the underlying risk is broadly matched.

Equity

Total shareholders' equity increased by 7%, the increase was driven primarily by foreign currency movements and a new CET1 capital contribution by HSBC Holdings plc without new issuance of share capital.

Reported performance by country

Profit before tax – by country

	RBWM	CMB	GB&M	GPB	Corporate Centre	Total
	£m	£m	£m	£m	£m	£m
31 Dec 2016						
United Kingdom	**710**	**1,632**	**514**	**94**	**(681)**	**2,269**
France	**114**	**144**	**218**	**6**	**(31)**	**451**
Germany	**17**	**50**	**105**	**5**	**10**	**187**
Turkey	**(106)**	**(20)**	**102**	**–**	**10**	**(14)**
Other[2]	**11**	**22**	**(2,095)**	**–**	**43**	**(2,019)**
Profit before tax	**746**	**1,828**	**(1,156)**	**105**	**(649)**	**874**
31 Dec 2015[1]						
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

1 *Restated for change in reportable segments explained on page 9.*
2 *GB&M includes goodwill impairment of £2,182m.*

Turkey

The agreed strategy to restructure the business, by maintaining our wholesale business and refocusing our retail banking network, was largely executed in 2016. A number of projects will continue in 2017 to complete the restructuring, most notably the replacement of the core banking system. We continue to review the ownership structure within HSBC.

The group entered into a management services agreement with HSBC Bank Middle East Limited in respect of the management oversight of HSBC Bank A.S. (Turkey).

The results of Turkey continue to be presented in the relevant global business.

Risk overview

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

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

In addition to these banking risks, we have identified top and emerging risks with the potential to have a material impact on our financial results or reputation and the sustainability of our long-term business model.

The exposure to our risks and risk management of these are explained in more detail in the Risk section of the Report of the Directors on pages 16 to 33.

During 2016, a number of changes to our top and emerging risks have been made, to reflect the revised assessment of their effect on the group.

	Risk		Mitigants
Externally driven			
†	UK exit from EU	▲	The British Prime Minister has stated an intention to trigger Article 50 by March 2017, indicating that the UK will exit the EU by the Summer of 2019. We will continue to work with regulators, governments and our customers to manage the risks of the UK's exit from the EU (and the current period of uncertainty) as they arise, particularly across those sectors most impacted.
	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 $25 and $20 per barrel price scenarios in 2016, as well as on the metals and mining portfolio. These sectors remain under enhanced monitoring with risk appetite and new lending to weaker segments controlled.
†	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 engage with regulators and policy makers to help ensure that new regulatory requirements, such as the 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	▶	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	▶	We monitor risks closely and report regularly on illiquidity and concentration risks to the PRA.
Internally driven			
•	IT systems infrastructure and resilience	▲	We are part way through a multi-year programme that is transforming how technology is developed, delivered and maintained, with a particular focus on providing high quality, stable and secure services. As part of this, we are simplifying our service proposition and replacing outdated infrastructure and applications, which will improve systems delivery, quality and resilience.
	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	▲	We have recruited additional subject matter experts in our modelling and independent model review teams.
	Data management	▶	We continued to enhance our data governance, quality and architecture to help enable consistent data aggregation, reporting and management.

▲ Risk has heightened during 2016

▶ Risk remains at the same level as 2015

† New risk introduced during 2016

• Thematic risk renamed during 2016

On behalf of the Board

A P S Simoes, *Director*

21 February 2017

Registered number 14259

Risk

Our risk appetite

Throughout its history, HSBC has maintained a conservative risk profile. It is central to our business and strategy. The following principles express the group's overarching risk appetite and fundamentally drive how the business and risks are managed:

Financial position

- Strong capital position, defined by regulatory and internal ratios.
- Liquidity and funding management for each entity on a stand-alone basis.

Operating model

- Returns generated in line with risk taken.
- Sustainable and diversified earnings mix, delivering consistent return for shareholders.

Business practice

- Zero tolerance for knowingly engaging in any business, activity or association where foreseeable reputational risk or damage has not been considered and/or mitigated.
- No appetite for deliberately or knowingly causing detriment to consumers arising from our products and services or incurring a breach of the letter or spirit of regulatory requirements.
- No appetite for inappropriate market conduct by a member of staff or by any group business.

Top and emerging risks

Top and emerging risks are those that may impact on the financial results, reputation or business model of the bank. If these risks were to occur, they could have a material effect on the group.

The exposure to these risks and our risk management approach are explained in more detail below.

Externally driven

Process of UK withdrawal from the European Union

The UK electorate's vote to leave the European Union (EU) caused significant market volatility in its immediate aftermath and since then sterling has depreciated against major currencies.

Uncertainty regarding the terms of the UK's exit agreement, its future relationship (including trading) with both the EU and the rest of the world is expected to continue for the next few years at least. This may lead to economic uncertainty, and we expect market volatility to persist after filing of the UK's Article 50 notice to leave the EU, and during the UK's negotiations with the EU and its potential future trading partners around the world. Throughout this period, we will continually update our assessment of potential consequences for our customers, products and banking model and re-evaluate our mitigating actions accordingly.

The scale and nature of the impact on HSBC will depend on the precise terms on which HSBC and its customers will be able to conduct cross-border business following the UK's departure from the EU. Changes to the UK's current trade relationships could require changes to HSBC's banking model to ensure we continue to comply with law and regulation in meeting the needs of our customers and conducting our business. Such changes could, among other things, increase our operating costs and require us to relocate staff and businesses to other jurisdictions. In addition, any negative impact on the economy, demand for borrowing and capital flows as a result of the aforementioned uncertainty, volatility or result of UK negotiations could have a consequential negative impact on HSBC.

Mitigating actions

- We have undertaken a comprehensive impact assessment to understand the range of potential implications for our customers, our products and our business. We have identified options to ensure we can continue to serve our customers across the UK and Europe, and we will continue to update these options as the negotiations with the EU develop.
- We actively monitor our portfolio to identify areas of stress, supported by stress testing analyses. Vulnerable sectors will be subject to management review to determine if any adjustments to risk policy or appetite are required.
- We will continue to work with regulators, governments and our clients in an effort to manage risks as they arise, particularly across the most impacted sectors.

Geopolitical risk

Our operations, portfolios, staff and other assets are exposed to risks arising from political instability, civil unrest and military conflict in many parts of the world. Our results are therefore subject to the risk of loss from physical conflicts or terrorist attacks, unfavourable political developments, currency fluctuations, social instability and changes in government policies in the jurisdictions in which we operate.

In the Middle East, the terrorist group Daesh has come under increasing pressure as the international coalition recaptured territory across Syria and Iraq. Despite this, Daesh has proved capable of carrying out terrorist attacks both in neighbouring countries and further afield.

In Europe, there is an uncertain economic and political outlook. France, Germany and the Netherlands all have elections in 2017 and in Turkey there has been a reaction to the coup attempt in 2016, with action taken against opposition supporters. The EU's future relationship with the UK is still yet to be determined.

Mitigating actions

- We continually monitor the geopolitical outlook, in particular in countries where we have material exposures and/or a physical presence. Where necessary, we adjust our country limits and exposures to reflect our risk appetite and mitigate risks as appropriate.
- We run internal stress tests and scenario analyses, including reverse stress tests, on our portfolios that take into account adverse geopolitical scenarios.

Turning of the credit cycle

The credit environment remained challenging in 2016 and there is a risk that it could turn sharply in 2017 if economic and/or geopolitical shocks unfold. Sentiment towards mainland China could deteriorate amid concerns over its increasing debt burden, or political events in the US and EU could deliver negative outcomes. Expectations of the UK's economic outlook have shifted following the vote to leave the EU, with 2017 likely to feature a reduction in growth rates and an increase in inflation.

Impairment allowances or losses could begin to rise from recent historical lows if the credit quality of our customers is affected by less favourable global economic conditions in some markets, geographies or industry sectors. Certain portfolios, such as oil and gas, and construction may also come under particular strain, which is partly cyclical and partly driven by geopolitical concerns.

For further details on oil and gas refer to page 19 in Areas of special interest.

Mitigating actions

- We closely monitor economic developments in key markets and sectors, taking portfolio actions where necessary, including enhanced monitoring or reducing limits and exposures.
- Where customers are either individually or collectively assessed, regular portfolio reviews are undertaken for sensitive portfolios to ensure that individual customers or portfolio risks are understood, and that the level of facilities offered and our assistance in helping to manage through any downturn are appropriate.

Cyber threat and unauthorised access to systems

HSBC and other public and private organisations continue to be the targets of increasing and more sophisticated cyber attacks that may disrupt customer services.

Mitigating actions

- The security of our information and technology infrastructure is crucial for maintaining our banking applications, processes, protecting our customers and the HSBC brand. We continue to strengthen and significantly invest in our ability to prevent, detect and respond to the ever-increasing and sophisticated threat of cyber attacks.
- Cyber risk is a top priority of the Operations and Technology Committee (OPTEC) of the Board and is regularly reported to ensure appropriate visibility, governance and executive support for our on going cyber security programme.

Increasing regulatory expectations

Financial service providers continue to face stringent and costly regulatory and supervisory requirements, particularly in the areas of capital and liquidity management, conduct of business, financial crime, operational structures and the integrity of financial services delivery. Regulatory changes may affect our activities, both of the group as a whole and of some or all of our principal subsidiaries. The potential impacts could affect the way in which we conduct our activities, how the group is structured, and the curtailment of the types of business we could undertake due to increased costs. This may adversely affect future profitability, while the requirements for higher levels of capital or TLAC may increase funding costs for the group and reduce our return on equity.

Mitigating actions

- We are engaged closely with governments and regulators in the countries in which we operate, to help ensure that the new requirements are considered properly and can be implemented in an effective manner.
- We continue to enhance and strengthen governance and resourcing more generally around regulatory change management and the implementation of required measures to actively address this ongoing and significant agenda of regulatory change.

Regulatory focus on conduct of business

Financial institutions remain under considerable scrutiny regarding conduct of business, particularly in relation to fair outcomes for customers and orderly and transparent operations in financial markets. Regulators, prosecutors, the media and the public all have heightened expectations as to the behaviour and conduct of financial institutions, and any shortcomings or failure to demonstrate adequate controls are in place to mitigate such risks could result in regulatory sanctions or fines. This could also lead to an increase in civil litigation arising from or relating to issues that are subject to regulatory investigation, sanction or fine.

Mitigating actions

- We have continued to enhance our management of conduct in areas including the treatment of potentially vulnerable customers, market surveillance, employee training and performance management (see 'Regulatory compliance risk management' on page 30).

Financial Crime Compliance

An independent compliance monitor ('the Monitor') was appointed in 2013 under the 2012 agreements entered into with the US DoJ and the UK FCA to produce annual assessments of the effectiveness of our Anti-Money Laundering ('AML') and sanctions compliance programme. Additionally, the Monitor is serving as HSBC's independent consultant under the consent order of the Federal Reserve Board ('FRB'). HSBC Bank USA is also subject to an agreement entered into with the Office of the Comptroller of the Currency ('OCC') in December 2012.

The design and execution of AML and sanctions remediation plans are complex and require major investments in people, systems and other infrastructure. This complexity creates significant execution risks, which could affect our ability to effectively identify and manage financial crime risk, and remedy AML and sanctions compliance deficiencies in a timely manner. This could, in turn, impact our ability to satisfy the Monitor or comply with the terms of the US DPA and related agreements and consent orders, and may require us to take additional remedial measures in the future.

Under the terms of the US DPA, upon notice and an opportunity to be heard, the DoJ has sole discretion to determine whether HSBC has breached the US DPA. Potential consequences of breaching the US DPA could include the imposition of additional terms and conditions on HSBC, which could, in turn, entail further financial penalties and collateral consequences. A breach could also result in restrictions on performing dollar-clearing functions through HSBC Bank USA or revocation of bank licences.

Mitigating actions

- We are continuing to take concerted action to remedy AML and sanctions compliance deficiencies and to implement Global Standards. We are also working to implement the agreed recommendations flowing from the Monitor's previous reviews, and will implement the agreed recommendations from the 2016 review.

- We continue to embed policies and procedures, introduce new technology solutions and support the cultural change needed to effectively manage financial crime risk.

Market illiquidity and volatility

Market liquidity, as defined by the ability to trade the desired volume of a financial security in a timely manner, continues to be sporadic. Liquidity remains challenging due to multiple factors: regulatory demands such as increased capital requirements constraining the overall balance sheet size of financial institutions, the implementation of the Volcker rule, which prohibits certain trading activities, and the impact of revised collateral requirements.

This is a market-wide issue, where HSBC may suffer further losses or incur lower revenue due to higher volatility.

Mitigating actions

- We continually monitor our illiquid positions and concentration risks adjusting our market risk limits where appropriate.

Internally driven

IT systems infrastructure and resilience

Inadequate IT system resilience could lead to failures in the operation and performance of critical systems and services, which may have associated negative impacts on our customers as well as business operations.

Poor performance or a failure of a critical system may result in reputational damage across our customer base, with the regulators and the banking industry as a whole. This may lead to potential financial loss for the group due to expensive remediation, customer redress costs or operational losses.

Mitigating actions

- We continue to invest in systems, people and infrastructure and have implemented enhanced management of our technology controls environment.

People risk

Significant demands continue to be placed on our staff. Increasingly complex and conflicting demands continue to be placed on our workforce, where the expertise is often in short supply and globally mobile. These demands arise from our regulatory reform and remediation programmes, together with those related to the delivery of our strategy.

The Senior Managers and Certification regimes and the related Rules of Conduct, which came into force in 2016 for other employees, sets clear expectations of the accountabilities and behaviour of both senior and more junior employees.

Organisational changes to support the group’s strategy, including the relocation of the HSBC UK head office to Birmingham and the implementation of regulatory reform programmes have the potential to lead to increased staff turnover.

Following the referendum on the UK’s membership of the EU and vote to leave, there are increased people risks for the UK to be assessed.

Mitigating actions

- We continue to increase the level of specialist resources in key areas and to engage with our regulators as they finalise new regulations.
- Risks related to organisational change and disposals are subject to close management oversight, especially in those countries where staff turnover is particularly high.
- Transition plans to support the move of the HSBC UK head office to Birmingham are being developed. The potential impacts resulting from the UK exit from the EU are being reviewed and action plans created.

Execution risk

Execution risk remained heightened during 2016 as we continued to work towards delivering the group's performance against the 10 strategic actions announced at the Investor Update in June 2015, including the implementation of the Ring Fenced Bank. These, along with regulatory and Monitor commitments, require the management of significant projects that are resource intensive and time sensitive. Current major projects include Global Standards, the implementation of IFRS 9, and the RBWM Digital Transformation programme. Risks arising from the volume, magnitude and complexity of the projects underway to meet these demands may include regulatory censure, reputational damage or financial losses.

Mitigating actions

- Our prioritisation and governance processes for significant projects are monitored by the group's Executive Commitee. Within HSBC Bank plc, the Board's Operations and Technology sub-committee (‘OPTEC’) has visibility of and provides input to regional priorities.
- We continue to invest in our project implementation and IT capabilities and remain focused on resource management.
- Risks related to disposals are carefully assessed and monitored and are subject to close management oversight.

Model risk

The scope of regulatory development is ever-increasing, leading to challenges to both model governance and to the number of portfolios where the use of internal models are permitted, which may have an impact on our RWAs and capital demand.

We could incur losses, be required to hold additional capital, fail to meet regulatory standards or incur higher operating expenses due to the use of inappropriate models or poor model risk management.

Supervisory concerns over the internal models and assumptions used by banks in the calculation of regulatory capital have led to the imposition of floors in risk weight and model parameters. Such changes have the potential to increase our capital requirement and/or make it more volatile.

Our reputation may be adversely affected due to our inability to comply with specific modelling and model risk management requirements.

Mitigating actions

- We have created centralised global analytical functions and enhanced the capability and expertise of our modelling and independent model review teams.
- A new global policy on model risk management has been implemented in 2016 and an enhanced model governance framework is also being rolled out globally to address key internal and regulatory requirements.

Data management

Regulators require more frequent and granular data submissions, which must be produced on a consistent, accurate and timely basis. As a global systemically important bank (‘G-SIB’), HSBC must comply with the principles for effective risk data aggregation and risk reporting, as set out by the Basel Committee.

Ineffective data management capabilities could impact our ability to aggregate and report complete, accurate and consistent data to regulators, investors and senior management on a timely basis. It could also affect our ability to service customers more effectively or improve our product offerings.

Financial institutions that fail to meet their Basel Committee data obligations by the required deadline may face supervisory measures.

Mitigating actions

- We have set a data strategy for the Group and defined Group-level principles, standards and policies to enable high quality of data, consistent data aggregation, reporting and management.
- We continue to focus on enhancing data governance, quality and architecture to support the group's objectives of ensuring reliability of information used in support of internal controls and external financial reporting.
- A number of key initiatives and projects to implement our data strategy and work towards meeting our Basel Committee data obligations are in progress.

Areas of special interest

Process of UK withdrawal from the European Union

The period of uncertainty and market volatility which followed the UK's decision to leave the EU is likely to continue until the UK's future relationship with the EU and the rest of the world is clearer. Given the time-frame and the complex negotiations involved, a clearer picture is not expected to emerge for some time. HSBC is working with customers as they adapt to this new environment and plan for what might follow.

Meeting our customers' needs following the UK's departure from the EU will likely require adjustments to our cross-border banking model. However, with Article 50 not yet invoked and formal negotiations not yet initiated, it is too early to determine precisely what will be required or what the likely effects on HSBC might be. Despite this uncertainty, use of HSBC's existing subsidiaries in France, Germany, Malta and Poland should help us more quickly and seamlessly adapt our banking model to this new landscape.

Through this period of uncertainty, our priorities are to continue to support our customers, take appropriate actions to mitigate risks and maintain stability, and deliver on our strategy. We are actively monitoring our portfolio to identify areas of stress, with vulnerable sectors subject to management review to determine if any adjustments to our risk policy or appetite is required. As the UK's negotiating priorities and likelihood of achieving them become clearer, we will continue to monitor developments and take actions required to meet these priorities.

Oil and gas prices

Oil and commodity prices have remained low since the middle of 2014 as a result of existing global supply and demand imbalances, with significant price declines in 2015 and early 2016. Prices remain subdued despite discussions on supply side reductions between the largest global producers. That said, oil prices have improved throughout the latter part of 2016 and early 2017, particularly after OPEC agreed to cut supply levels. The medium to long-term outlook remains uncertain as technological change impacts the supply side through cheaper methods of extraction and the demand side through the development of renewable energy sources. The sector remains under enhanced monitoring with risk appetite carefully calibrated towards areas of resilience within the industry as a whole.

The overall portfolio of exposures directly exposed to oil and gas companies has drawn risk exposures amounting to about $7.3bn (£5.9bn), a reduction of $1.5bn (£1.2bn) from 2015.

The credit quality of the oil and gas portfolio remains good with 80% of the portfolio made up of 'strong, good and satisfactory' customers with total allowances of $121m (£98m) as at 31 December 2016.

Risk management

As a provider of banking and financial services, the group actively manages risk as a core part of its day-to-day activities. It continues to maintain a strong liquidity position and is well positioned for the evolving regulatory landscape. The group also maintained its conservative risk profile in 2016.

Our risk management framework

An established risk governance framework and ownership structure ensures oversight of, and accountability for, the effective management of risk. The group's risk management framework fosters the continuous monitoring of the risk environment and an integrated evaluation of risks and their interactions. Integral to the group's risk management framework are risk appetite, stress testing and the identification of emerging risks.

The bank's Risk Committee focuses on risk governance and provides a forward-looking view of risks and their mitigation. The Risk Committee is a committee of the Board and has responsibility for oversight and advice to the Board on, inter alia, the bank's risk appetite, tolerance and strategy, systems of risk management, internal control and compliance. Additionally, members of the Risk Committee attend meetings of the Chairman's Nominations and Remuneration Committee at which the alignment of the reward structures to risk appetite is considered.

In carrying out its responsibilities, the Risk Committee is closely supported by the Chief Risk Officer, the Chief Financial Officer, the Head of Internal Audit and the Heads of Compliance, together with other business functions on risks within their respective areas of responsibility.

Three lines of defence

We use an activity-based three lines of defence model to delineate management accountabilities and responsibilities for risk management. This creates a robust control environment in which to manage inherent residual risks.

The model underpins our approach to risk management by clarifying responsibility, encouraging collaboration and enabling efficient coordination of risk and control activities. The three lines are summarised below:

- The first line of defence owns the risks and is responsible for identifying, recording, reporting and managing them, and ensuring that the right controls and assessments are in place to mitigate them.
- The second line of defence sets the policy and guidelines for managing the risks and provides advice, guidance and challenge to the first line of defence on effective risk management.
- The third line of defence is our Internal Audit function, which provides independent and objective assurance of the adequacy of the design and operational effectiveness of the group's risk management framework and control governance process.

Our risk culture

All employees are required to identify, assess and manage risk within the scope of their assigned responsibilities. Global Standards set the tone from the top and are central to the group's approach to balancing risk and reward.

Personal accountability is reinforced by the HSBC Values, with employees expected to act with courageous integrity in conducting their duties.

Employees are supported by a disclosure line that enables them to raise concerns in a confidential manner. The group also has in place a suite of mandatory training to ensure a clear and consistent attitude is communicated to staff. Mandatory training not only focuses on the technical aspects of risk but also on the group's attitude towards risk and the behaviours expected.

The risk culture is reinforced by the Group's approach to remuneration; individual awards are based on the achievement of both financial and non-financial (relating to the HSBC Values) objectives that are aligned to the global strategy.

Risks are assumed by the Businesses in accordance with their risk appetite and managed at global business and regional levels. Risks are identified through the group's risk map process, which sets out the group's risk profile in relation to key risk categories.

Risk appetite

The group's Risk Appetite Statement describes the types and levels of risk that the group is prepared to accept in executing its strategy. Quantitative and qualitative metrics are assigned to 13 key categories, including: earnings, capital and leverage, liquidity and funding, interest rate risk in the banking book, credit risk, traded risk, operational risk, financial crime compliance and regulatory compliance.

Measurement against the metrics:

- guides underlying business activity;
- informs risk-adjusted remuneration;
- enables the key underlying assumptions to be monitored and, where necessary, adjusted through subsequent business planning cycles; and
- promptly identifies business decisions needed to mitigate risk.

The Risk Appetite Statement is approved by the Board following advice from the Risk Committee. It is central to the annual planning process, in which global businesses, geographical regions and functions are required to articulate their individual risk appetite statements. These are aligned with the group strategy, and provide a risk profile of each global business, region or function in the context of the individual risk categories.

Whistleblowing

We operate a global whistleblowing platform, HSBC Confidential, allowing staff to report matters of concern confidentially. We also maintain an external email address for concerns about accounting and internal financial controls or auditing matters (accountingdisclosures@hsbc.com).

The group has a strict policy prohibiting retaliation against those who raise concerns by this route. All allegations of retaliation are escalated to senior management.

For further details, see page 5 of the How we do Business section.

Stress testing

Stress testing is an important tool for banks and regulators to assess vulnerabilities in individual banks and/or the financial banking sector under hypothetical adverse scenarios. The results of stress testing are used to assess banks' resilience to a range of adverse shocks and to assess their capital adequacy.

HSBC Bank plc is subject to regulatory stress testing in several jurisdictions. These requirements are increasing in frequency and granularity. They include the programmes of the Bank of England ('BoE'), Prudential Regulation Authority ('PRA') and the European Banking Authority ('EBA'). Assessment by regulators is on both a quantitative and qualitative basis, the latter focusing on our portfolio quality, data provision, stress testing capability and capital planning processes.

A number of internal macroeconomic and event-driven scenarios specific to the European region were considered and reported to senior management during the course of the year. The group also conducts Reverse Stress Testing. This exercise requires a firm to assess scenarios and circumstances that would render its business model unviable, thereby identifying potential business vulnerabilities.

In 2016, the group participated in the successful completion of the 2016 BoE concurrent stress testing exercise. This scenario incorporates a synchronised global downturn affecting Asia and the UK in particular, combined with amplifying global disinflationary pressures. Financial markets come under severe stress with a reduction in global risk appetite and reductions in market liquidity. The UK experiences a slowdown driven by the downturn in its trading partners, fall in confidence and correction in market risk appetite. Additional monetary stimulus is pursued in the UK and elsewhere, lowering and flattening yield curves further.

The BoE published the results of the 2016 Concurrent Stress Test in November 2016, confirming that these tests did not reveal any capital inadequacies for the HSBC Group.

The group participated in the EBA EU-wide stress testing exercise in 2016, the results of which were published in July 2016. The exercise does not contain a CET1 capital ratio threshold, and is instead designed to be used as an input into the 2016 Supervisory Review and Evaluation Process ('SREP') and to allow supervisors to assess the banks' ability to meet applicable minimum and additional capital requirements under stress. The results demonstrate HSBC's continuing capital strength.

In October 2015, the BoE announced the main features of the stress testing framework from 2016 to 2018. As part of this approach, the BoE set out its intention to include two scenarios. In addition to the Annual Cyclical Scenario, which is intended to assess the risks to the banking system emanating from the financial cycle, there will be an additional 'exploratory' scenario. This will assess the banks' resilience to a wider range of emerging or latent threats to financial stability. The BoE will publish the Exploratory Scenario, alongside the 2017 Annual Cyclical Scenario, in the first quarter of 2017.

Our material banking and insurance risks

The material risk types associated with our banking and insurance manufacturing operations are described in the following tables.

Description of risks – banking operations

Risks	Arising from	Measurement, monitoring and management of risk
Credit risk (see page 22)		
The risk of financial loss if a customer or counterparty fails to meet an obligation under a contract.	Credit risk arises principally from direct lending, trade finance and leasing business, but also from certain other products such as guarantees and derivatives.	Credit risk is: • **measured** as the amount that could be lost if a customer or counterparty fails to make repayments; • **monitored** within limits approved by individuals within a framework of delegated authorities; and • **managed** through a robust risk control framework that outlines clear and consistent policies, principles and guidance for risk managers and risk owners.
Liquidity and funding risk (see page 25)		
Liquidity Risk is the risk that we do not have sufficient financial resources to meet our obligations as they fall due or that we can only do so at an excessive cost. Funding Risk is the risk that funding considered to be sustainable, and therefore used to fund assets, is not sustainable over time.	Liquidity risk arises from mismatches in the timing of cash flows. Funding risk arises when illiquid asset positions cannot be funded at the expected terms and when required.	Liquidity and funding risk is: • **measured** using a range of different metrics including the liquidity coverage ratio and net stable funding ratio; • **monitored** against the group's liquidity and funding risk framework; and • **managed** on a stand-alone basis with no reliance on any group entity (unless pre-committed) or central bank unless this represents routine established business-as-usual market practice.
Market risk (see page 26)		
The risk that movements in market factors will reduce our income or the value of our portfolios.	Exposure to market risk is separated into two portfolios: • trading portfolios; and • non-trading portfolios. Market risk exposures arising from our insurance operations are discussed on page 52.	Market risk is: • **measured** in terms of value at risk ('VaR'), which measures the potential losses on risk positions over a specified time horizon for a given level of confidence, and assessed using stress testing; • **monitored** using VaR, stress testing and other measures, including the sensitivity of net interest income and the sensitivity of structural foreign exchange; and • **managed** using risk limits approved by the risk management meeting (RMM) and the RMM in various global businesses.
Operational risk (see page 29)		
The risk to achieving our strategy or objectives as a result of inadequate or failed internal processes, people and systems or from external events.	Operational risk arises from day-to-day operations or external events, and is relevant to every aspect of our business. Regulatory compliance risk and financial crime compliance risk are discussed below.	Operational risk is: • **measured** using the risk and control assessment process, which assesses the level of risk and effectiveness of controls; • **monitored** using key indicators and other internal control activities; and • **managed** primarily by global business and functional managers that identify and assess risks, implement controls to manage them and monitor the effectiveness of these controls utilising the operational risk management framework.
Regulatory compliance risk (see page 30)		
The risk that we fail to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice, and incur fines and penalties and suffer damage to our business as a consequence.	Regulatory compliance risk is part of operational risk, and arises from the risks associated with breaching our duty to customers and other counterparties, inappropriate market conduct and breaching other regulatory standards.	Regulatory compliance risk is: • **measured** by reference to identified metrics, incident assessments, regulatory feedback and the judgement and assessment of our Regulatory Compliance teams; • **monitored** against our regulatory compliance risk assessments and metrics, the results of the monitoring and control activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections; and • **managed** by establishing and communicating appropriate policies and procedures, training employees in them, and monitoring activity to assure their observance. Proactive risk control and/or remediation work is undertaken where required.
Financial crime compliance risk (see page 30)		
The risk that we knowingly or unknowingly help parties to commit or to further potentially illegal activity through the group.	Financial crime compliance risk is part of operational risk and arises from day-to-day banking operations.	Financial crime compliance risk is: • **measured** by reference to identified metrics, incident assessments, regulatory feedback and the judgement and assessment of our Financial Crime Compliance teams; • **monitored** against our financial crime compliance risk appetite statement and metrics, the results of the monitoring and control activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections; and • **managed** by establishing and communicating appropriate policies and procedures, training employees in them, and monitoring activity to ensure their observance. Proactive risk control and/or remediation work is undertaken where required.

Other material risks

Risks	Arising from	Measurement, monitoring and management of risk
Reputational risk (see page 32)		
The risk of failure to meet stakeholder expectations as a result of any event, behaviour, action or inaction, either by the group itself, our employees or those with whom we are associated, that might cause stakeholders to form a negative view of the group.	Primary reputational risks arise directly from an action or inaction by HSBC, its employees or associated parties that are not the consequence of another type of risk. Secondary reputational risks are those arising indirectly and are a result of a failure to control any other risks.	Reputational risk is: • **measured** by reference to our reputation as indicated by our dealings with all relevant stakeholders, including media, regulators, customers and employees; • **monitored** through a reputational risk management framework that is integrated into the group's broader risk management framework; and • **managed** by every member of staff, and covered by a number of policies and guidelines. There is a clear structure of committees and individuals charged with mitigating reputational risk.
Pension risk (see page 32)		
The risk of increased costs to the group from the post-employment benefit plans that the group has established for its employees.	Pension risk arises from investments delivering an inadequate return, adverse changes in interest rates or inflation, or members living longer than expected. Pension risk also includes the operational and reputational risk of sponsoring pension plans.	Pension risk is: • **measured** in terms of the schemes' ability to generate sufficient funds to meet the cost of their accrued benefits; • **monitored** through the specific risk appetite that has been developed at both Group and regional levels; and • **managed** locally through the HBEU Pension Oversight Forum and ultimately through the group's RMM.

Our insurance manufacturing subsidiaries are regulated separately from our banking operations. Risks in our insurance entities are managed using methodologies and processes that are subject to Group oversight. Our insurance operations are also subject to some of the same risks as our banking operations, which are covered by the group's risk management processes.

Description of risks – insurance manufacturing operations

Risks	Arising from	Measurement, monitoring and management of risk
Financial risks (see page 52)		
Our ability to effectively match liabilities arising under insurance contracts with the asset portfolios that back them is contingent on the management of financial risks and the extent to which these are borne by policyholders.	Exposure to financial risks arises from: • market risk affecting the fair values of financial assets or their future cash flows; • credit risk; and • liquidity risk of entities not being able to make payments to policyholders as they fall due.	Financial risk is: • **measured** (i) for credit risk, in terms of economic capital and the amount that could be lost if a counterparty fails to make repayments; (ii) for market risk, in terms of economic capital, internal metrics and fluctuations in key financial variables; and (iii) for liquidity, in terms of internal metrics, including stressed operational cash flow projections; • **monitored** through a framework of approved limits and delegated authorities; and • **managed** through a robust risk control framework that outlines clear and consistent policies, principles and guidance. This includes using product design and asset liability matching and bonus rates.
Insurance risk (see page 54)		
The risk that, over time, the cost of the contract, including claims and benefits may exceed the total amount of premiums and investment income received.	The cost of claims and benefits can be influenced by many factors, including mortality and morbidity experience, as well as lapse and surrender rates.	Insurance risk is: • **measured** in terms of life insurance liabilities and economic capital allocated to insurance underwriting risk; • **monitored** though a framework of approved limits and delegated authorities; and • **managed** through a robust risk control framework that outlines clear and consistent policies, principles and guidance. This includes using product design, underwriting, reinsurance and claims-handling procedures.

Credit Risk Management

(Audited)

Of the risks in which we engage, credit risk generates the largest regulatory capital requirements.

The principal objectives of our credit risk management are:

- to maintain across the group a strong culture of responsible lending and a robust risk policy and control framework;
- to both partner and challenge Global Businesses in defining, implementing, and continually re-evaluating our risk appetite under actual and scenario conditions; and
- to ensure there is independent, expert scrutiny of credit risks, their costs and mitigation.

Within the bank, the Credit Risk function is headed by the European Chief Risk Officer who reports to the Chief Executive Officer, with a functional reporting line to the Group Chief Risk Officer. Its responsibilities are:

- to formulate credit policy. Compliance, subject to approved dispensations, is mandatory for all operating companies which must develop local credit policies consistent with group policies that very closely reflect Group policy;
- to guide operating companies on the group's appetite for credit risk exposure to specified market sectors, activities and banking products and controlling exposures to certain higher-risk sectors;
- to undertake an independent review and objective assessment of risk. Credit risk assesses all credit facilities and exposures over designated limits, prior to the facilities being committed to customers or transactions being undertaken;

- to monitor the performance and management of portfolios across the group;
- to control exposure to sovereign entities, banks and other financial institutions, as well as debt securities which are not held solely for the purpose of trading;
- to set policy on large credit exposures, ensuring that concentrations of exposure by counterparty, sector or geography do not become excessive in relation to the group's capital base, and remain within internal and regulatory limits;
- to maintain and develop the group's risk rating framework and systems through the Regional Model Oversight Committees ('RMOC'), for the wholesale businesses and the Credit Risk Analytical Oversight Committee ('CRAOC') for the retail businesses, both of which oversee risk rating system governance;
- to report on retail portfolio performance, high risk portfolios, risk concentrations, large impaired accounts, impairment allowances and stress testing results and recommendations to the group's RMM, the group's Risk Committee and the Board; and
- to act on behalf of the group as the primary interface, for credit-related issues, with the BoE, the PRA, local regulators, rating agencies, analysts and counterparts in major banks and non-bank financial institutions.

Concentration of credit risk exposure

(Audited)

Concentrations of credit risk arise when a number of counterparties or exposures have comparable economic characteristics, or are engaged in similar activities, or operate in the same geographical areas/industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions. The group uses a number of controls and measures to minimise undue concentration of exposure in the group's portfolios across industry, country and customer groups. These include portfolio and counterparty limits, approval and review controls, and stress testing.

Wrong-way risk occurs when a counterparty's exposures are adversely correlated with its credit quality. There are two types of wrong-way risk:

- general wrong-way risk occurs when the probability of counterparty default is positively correlated with general risk factors such as where the counterparty is resident and/or incorporated in a higher-risk country and seeks to sell a non-domestic currency in exchange for its home currency; and
- specific wrong-way risk occurs in self-referencing transactions. These are transactions in which exposure is driven by capital or financing instruments issued by the counterparty and occurs where exposure from HSBC's perspective materially increases as the value of the counterparty's capital or financing instruments referenced in the contract decreases. It is HSBC policy that specific wrong-way risk transactions are approved on a case-by-case basis.

We use a range of procedures to monitor and control wrong-way risk, including requiring entities to obtain prior approval before undertaking wrong-way risk transactions outside pre-agreed guidelines.

Credit quality of financial instruments

(Audited)

Our credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss. In the case of individually significant accounts, risk ratings are reviewed regularly and any amendments are implemented promptly. Within the group's retail business, risk is assessed and managed using a wide range of risk and pricing models to generate portfolio data.

Our risk rating system facilitates the internal ratings-based approach under the Basel framework adopted by the Group to support calculation of the minimum credit regulatory capital requirement.

Special attention is paid to problem exposures in order to accelerate remedial action. Where appropriate, operating companies use specialist units to provide customers with support to help them avoid default returning to sound trading wherever possible.

The Credit Review and Risk Identification team reviews the robustness and effectiveness of key management, monitoring and control activities.

Risk rating scales

The Customer Risk Rating ('CRR') 10-grade scale below summarises a more granular underlying 23-grade scale of obligor probability of default ('PD'). All distinct HSBC customers are rated using one of these two PD scales, depending on the degree of sophistication of the Basel II approach adopted for the exposure.

Each CRR band is associated with an external rating grade by reference to long-run default rates for that grade, represented by the average of issuer-weighted historical default rates. This mapping between internal and external ratings is an indication only and may vary over time.

The Expected Loss ('EL') 10-grade scale for retail business summarises a more granular underlying EL scale for these customer segments; this combines obligor and facility/product risk factors in a composite measure. For debt securities and certain other financial instruments, external ratings have been aligned to the five quality classifications based upon the mapping of related CRR to external credit grades.

For the purpose of the following disclosure, retail loans which are past due up to 89 days and are not otherwise classified as EL9 or EL10, are not disclosed within the EL grade to which they relate, but are separately classified as past due but not impaired. The following tables set out the group's distribution of financial instruments by measures of credit quality.

The five credit quality classifications defined each encompasses a range of granular internal credit rating grades assigned to wholesale and retail lending businesses and the external ratings attributed by external agencies to debt securities.

For debt securities and certain other financial instruments, external ratings have been aligned to the five quality classifications based upon the mapping of related CRR to external credit ratings. The mapping is reviewed on a regular basis and the most recent review resulted in sovereign BBB+ and BBB exposures previously mapped to Credit Quality band 'Good' being mapped to Credit Quality band 'Strong'. Sovereign BB+ and BB exposures previously mapped to Credit Quality band 'Satisfactory' were mapped to Credit Quality band 'Good'. This represents a change in disclosure mapping unrelated to changes in counterparty creditworthiness. Had this mapping been applied in 2015, sovereign exposures would have changed as follows 'Satisfactory' £28m decrease, 'Good' £1,382m decrease and 'Strong' £1,410m increase.

Credit quality classification

	Sovereign debt securities and bills	Other debt securities and bills	Wholesale lending and derivatives		Retail lending	
	External credit rating	External credit rating	Internal credit rating	12-month probability of default %	Internal credit rating	Expected loss %
Quality classification						
Strong	BBB and above	A- and above	CRR1 to CRR2[1]	0 – 0.169	EL1 to EL2[2]	0 – 0.999
Good	BB to BBB-	BBB+ to BBB-	CRR3	0.170 – 0.740	EL3	1.000 – 4.999
Satisfactory	BB- to B and unrated	BB+ to B and unrated	CRR4 to CRR5	0.741 – 4.914	EL4 to EL5	5.000 – 19.999
Sub–standard	B- to C	B- to C	CRR6 to CRR8	4.915 – 99.999	EL6 to EL8	20.000 – 99.999
Impaired	Default	Default	CRR9 to CRR10	100	EL9 to EL10	100+ or defaulted[3]

1 *Customer risk rating ('CRR').*
2 *Expected loss ('EL').*
3 *The EL percentage is derived through a combination of Probability of Default ('PD') and Loss Given Default ('LGD') and may exceed 100% in circumstances where the LGD is above 100% reflecting the cost of recoveries.*

Quality classification definitions

- 'Strong': Exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss. Retail accounts operate within product parameters and only exceptionally show any period of delinquency.
- 'Good': Exposures require closer monitoring and demonstrate a good capacity to meet financial commitments, with low default risk. Retail accounts typically show only short periods of delinquency, with any losses expected to be minimal following the adoption of recovery processes.
- 'Satisfactory': Exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk. Retail accounts typically show only short periods of delinquency, with any losses expected to be minor following the adoption of recovery processes.
- 'Sub-standard': Exposures require varying degrees of special attention and default risk is of greater concern. Retail portfolio segments show longer delinquency periods of generally up to 90 days past due and/or expected losses are higher due to a reduced ability to mitigate these through security realisation or other recovery processes.
- 'Impaired': Exposures have been assessed, individually or collectively, as impaired.

Renegotiated loans and forbearance

A range of forbearance strategies are employed to improve the management of customer relationships, maximise collection opportunities and, if possible, avoid default, foreclosure or repossession. They include extended payment terms, a reduction in interest or principal repayments, approved external debt management plans, debt consolidations, the deferral of foreclosures and other forms of loan modifications and re-ageing.

The group's policies and practices are based on criteria which enable local management to judge whether repayment is likely to continue. These typically provide a customer with terms and conditions that are more favourable than those provided initially. Loan forbearance is only granted in situations where the customer has showed a willingness to repay their loan and is expected to be able to meet the revised obligations.

Refinance risk

Personal lending

Interest only mortgages lending incorporate bullet payments at the point of final maturity. In the UK, interest only lending is recognised as a niche product that meets a valid customer need. To reduce refinance risk, an initial on-boarding assessment of customers' affordability is made on a capital repayment basis and every customer has a credible defined repayment strategy. Additionally the customer is contacted at least once during the mortgage term to check the status of the repayment strategy. In situations where it is identified that a borrower is expected not to be able either to repay a bullet/balloon payment then the customer will either default on the repayment or it is likely that the bank may need to apply forbearance to the loan. In either circumstance this gives rise to a loss event and an impairment allowance will be considered where appropriate.

Wholesale lending

Many types of wholesale lending incorporate bullet/balloon payments at the point of final maturity; often, the intention or assumption is that the borrower will take out a new loan to settle the existing debt. Where this is true the term refinance risk refers generally to the possibility that, at the point that such a repayment is due, a borrower cannot refinance by borrowing to repay existing debt. In situations where it is identified that a borrower is expected not to be able either to repay a bullet/balloon payment or to be capable of refinancing their existing debt on commercial terms then the customer will either default on the repayment or it is likely that the bank may need to refinance the loan on terms it would not normally offer in the ordinary course of business. In either circumstance this gives rise to a loss event and an impairment allowance will be considered.

Impairment assessment

(Audited)

It is the group's policy that each operating company creates allowances for impaired loans promptly and consistently.

Impairment allowances may be assessed and created either for individually significant relationships or, on a collective basis, where no evidence of impairment has been individually identified or for high-volume groups of homogeneous loans that are not considered individually significant.

When impairment losses occur, we reduce the carrying amount of loans and advances through the use of an allowance account. When impairment of available-for-sale financial assets and held-to-maturity financial investments occurs, the carrying amount of the asset is reduced directly. For further details on the accounting policy for impairment of available-for-sale debt and equity securities, see Note 1.2 (e) on the Financial Statements.

Write-off of loans and advances

(Audited)

For details of our accounting policy on the write-off of loans and advances, see Note 1.2 (d) on the Financial Statements.

Personal lending

Property collateral for residential mortgages is repossessed and sold on behalf of the borrower only when all normal debt recovery procedures have been unsuccessful. The carrying amounts of residential mortgages in excess of net realisable value are fully provided for, from 150 days contractually past due in the UK and 180 days contractually past due for the rest of the group. We regularly obtain new appraisals for loans and adjust carrying value to the most recent appraisal as the best estimate of the cash flows that will be received on the disposal of the collateral for these collateral dependent loans.

Unsecured personal facilities, including credit cards, are generally written off at between 150 and 210 days past due, the standard period being the end of the month in which the account becomes 180 days contractually delinquent.

In exceptional circumstances write-off periods may be extended to 360 days past due. In countries where local regulations or legislation constrain earlier write-off, or in instances where the realisation of collateral in secured lending takes longer, the period may extend beyond 360 days past due.

In retail lending, final write-off should occur within 60 months of the default at the latest.

Wholesale Lending

Wholesale loans and advances are written off where normal collection procedures have been unsuccessful to the extent that there appears no realistic prospect of repayment. These procedures may include a referral of the business relationship to a debt recovery company. Debt reorganisation will be considered at all times and may involve, in exceptional circumstances and in the absence of any viable alternative, a partial write-off in exchange for a commitment to repay the remaining balance.

In the event of bankruptcy or analogous proceedings, write-off for both personal and wholesale lending may occur earlier than at the periods stated above. Collections procedures may continue after write-off.

Liquidity and funding risk management

Liquidity and funding risk management framework

The objective of the group's internal liquidity and funding risk management framework ('LFRF') is to allow it to withstand very severe liquidity stresses and be adaptable to changing business models, markets and regulations.

The group does not manage liquidity risk and funding risk centrally on a group consolidated basis. It is managed by each operating entity on a stand-alone basis with no implicit reliance assumed on any other Group entity unless pre-committed. HSBC general policy is that each defined operating entity should be self-sufficient in funding its own activities.

All operating entities are required to manage liquidity risk and funding risks in accordance with the LFRF, which includes having established Asset and Liability Committees ('ALCO') who are responsible for monitoring and controlling liquidity and funding.

Key developments in 2016

On 1 January 2016, the Group implemented a new LFRF. It uses the liquidity coverage ratio ('LCR') and net stable funding ratio ('NSFR') regulatory framework as a foundation, but adds extra metrics, limits and overlays to address the risks that are considered to not be adequately reflected by the regulatory framework.

The LFRF is delivered using the following key aspects:

- stand-alone management of liquidity and funding by operating entity;
- operating entity classification by inherent liquidity risk ('ILR') categorisation;
- minimum LCR requirement depending on ILR categorisation;
- minimum NSFR requirement depending on ILR categorisation;
- legal entity depositor concentration limit;
- three-month and 12-month cumulative rolling term contractual maturity limits covering deposits from banks, deposits from non-bank financial institutions and securities issued;
- annual individual liquidity adequacy assessment ('ILAA') by principal operating entity;
- minimum LCR requirement by currency;
- intra-day liquidity; and
- forward-looking funding assessments.

The new internal LFRF and the risk tolerance limits were approved by the Group Board on the basis of recommendations made by the Group Risk Committee.

Our ILAA process aims to:

- identify risks that are not reflected in the LFRF, and, where required, to assess additional limits required locally; and
- validate the risk tolerance at the operating entity level by demonstrating that reverse stress testing scenarios are acceptably remote and ensuring vulnerabilities have been assessed through the use of severe stress scenarios.

Management of liquidity and funding risk

Liquidity coverage ratio

The LCR metric is designed to promote the short-term resilience of a bank's liquidity profile, and became a minimum regulatory standard from 1 October 2015, under European Commission ('EC') Delegated Regulation 2015/61.

It aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30-calendar-day liquidity stress scenario. HQLA consists of cash or assets that can be converted into cash very quickly with little or no loss of value in the markets.

The calculation of the LCR metric, involves an assumption on operational deposits. Operational deposits are principally defined as transactional accounts arising from the provision of custody services by HSBC Security Services or Global Liquidity and Cash Management. To make an assessment of operational deposits both the balance history as well as the values of debits and credits over an account over a period time are referenced.

Net stable funding ratio

The NSFR is designed to promote the long-term stability of a bank by requiring it to fund its long-term illiquid assets with commensurately stable funding; this reflects the bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR.

The European calibration of NSFR is pending following the Basel Committee's final recommendation in October 2014. The group calculates NSFR in line with Basel Committee on Banking Supervision's publication number 295 ('BCBS295'), pending its implementation in Europe. This calculation requires various interpretations of the text, and therefore the group's NSFR may not be directly comparable with the ratios of other institutions.

Liquid assets

Liquid assets are held and managed on a stand-alone operating entity basis. Most are held directly by each operating entity's Balance Sheet Management ('BSM') department, primarily for the purpose of managing liquidity risk in line with the LFRF.

The liquid asset buffer may include securities in held-to-maturity portfolios. For held-to-maturity portfolios to qualify as part of the liquid asset buffer they must have a deep and liquid repo market in the underlying security.

Liquid assets also include any unencumbered liquid assets held outside BSM departments for any other purpose. The LFRF gives ultimate control of all unencumbered assets and sources of liquidity to BSM.

Inherent liquidity risk categorisation

Each operating entity within the Group internally is assigned an inherent liquidity risk ('ILR') categorisation that is subjectively applied considering political, economic and regulatory factors within the host country and factors specific to the operating entities themselves, such as their local market, market share and balance sheet strength. The ILR is used to determine in part, risk appetite and the prescribed stress scenarios that each operating entity has to be able to withstand and manage.

Sources of funding

Customer deposits in the form of current and savings accounts, payable on demand or at short notice, form a significant part of the group's stable funding. Therefore, the group places considerable importance on maintaining their stability. For deposits, stability depends upon numerous factors, including maintaining depositor confidence in our capital and liquidity strength.

Wholesale funding markets are accessed by issuing senior debt securities and borrowing from secured markets; this is to align asset and liability maturities, to correct currency mismatches and to maintain a presence in wholesale markets.

Additional sources of funding includes ordinary share capital, non-core capital instruments and term funding from HSBC Holdings plc in relation to its total loss absorbing capacity ('TLAC') plans.

Liquidity behaviouralisation

All stable deposits are assumed under the Group's frameworks to have a liquidity behaviouralised life beyond one year and to represent a homogeneous source of stable funding. The behaviouralisation of assets is far more granular and seeks to define the period for which it is assumed stable funding will be required for that asset.

Funds transfer pricing

The group separately manages interest rate risk and liquidity and funding risk under different assumptions. They have been developed to be consistent with the group's risk management framework. The group is required to apply HSBC Group's transfer pricing policy framework to determine, for each material currency, the most appropriate interest rate risk transfer pricing curve and a liquidity premium curve. The liquidity premium curve reflects the assessed cost of paying for term debt and stable funding more broadly. This cost is charged to the assets that require stable funding and then credited to the deposits that provide stable funding after external debt costs are paid for. The liquidity premium process supports the creation of assets and liabilities that meet the requirements of the NSFR regulation. In addition to this, where an asset or liability generates an outflow that requires HQLA to be held, it is charged the cost of holding the HQLA which is the difference between the assumed yield of the HQLA and the interest rate transfer pricing curve.

Liquidity Stress Testing

The group undertakes liquidity stress testing to confirm that its risk appetite is correct, to validate that it can continue to operate under various stress scenarios and to confirm that the stress assumptions within the LCR scenario are appropriate and conservative enough for the group's business. The group also conducts reverse stress testing with the specific aim of reviewing the remoteness of the scenarios that would lead the group to exhaust its liquidity resources. If the scenarios are not deemed remote enough, then corrective action is taken.

Several different stress testing scenarios are run that test the quality of liquidity resources under stresses of varying durations and nature. As part of this exercise, various assumptions are used which are approved by the the relevant ALCO and Board and the results of the stress testing are presented through the ILAAP to the Board and on a quarterly basis to the relevant ALCO.

Market risk management

Where appropriate, we apply similar risk management policies and measurement techniques to both trading and non-trading portfolios. Our objective is to manage and control market risk exposures to optimise return on risk while maintaining a market profile consistent with our status as one of the world's largest banking and financial services organisations.

The nature of the hedging and risk mitigation strategies performed across the group corresponds to the market risk management instruments available within each operating jurisdiction. These strategies range from the use of traditional market instruments, such as interest rate swaps, to more sophisticated hedging strategies to address a combination of risk factors arising at portfolio level.

Market risk governance

(Audited)

Market risk is managed and controlled through limits approved by the RMM of the Group Management Board ('GMB') for HSBC Holdings and the global businesses. These limits are allocated across business lines and agreed with the Group's legal entities, including HSBC Bank plc.

The management of market risk is principally undertaken in Markets using risk limits allocated from the risk appetite, which is subject to the Group RMM ratification. Limits are set for portfolios, products and risk types, with market liquidity being a primary factor in determining the level of limits set.

Global Risk is responsible for setting market risk management policies and measurement techniques. Each major operating entity has an independent market risk management and control function which is responsible for measuring market risk exposures in accordance with the policies defined by Global Risk, and monitoring and reporting these exposures against the prescribed limits on a daily basis.

Each operating entity is required to assess the market risks arising on each product in its business and to transfer them to either its local Markets unit for management, or to separate books managed under the supervision of the local ALCO.

The aim is to ensure that all market risks are consolidated within operations which have the necessary skills, tools, management and governance to manage them professionally. In certain cases where the market risks cannot be fully transferred, the group identifies the impact of varying scenarios on valuations or on net interest income resulting from any residual risk positions.

Model risk is governed through Model Oversight Committees ('MOC's) at the regional and global Wholesale Credit and Market Risk levels. They have direct oversight and approval responsibility for all traded risk models utilised for risk measurement and management and stress testing. The MOCs prioritise the development of models, methodologies and practices used for traded risk management within the Group and ensure that they remain within our risk appetite and business plans. The Markets MOC reports into the Group MOC, which oversees all model risk types at Group level. Group MOC informs the Group RMM about material issues at least on a bi-annual basis. The RMM is the Group's 'Designated Committee' according to regulatory rules and has delegated day-to-day governance of all traded risk models to the Markets MOC.

The control of market risk in the trading and non-trading portfolios is based on a policy restricting individual operations to trading within a list of permissible instruments authorised for each site by Global Risk, enforcing new product approval procedures, and restricting trading in the more complex derivative products only to offices with appropriate levels of product expertise and robust control systems.

Market risk measures

Monitoring and limiting market risk exposures

Our objective is to manage and control market risk exposures while maintaining a market profile consistent with the group's risk appetite.

We use a range of tools to monitor and limit market risk exposures including sensitivity analysis, value at risk ('VaR'), and stress testing.

Sensitivity analysis

Sensitivity analysis measures the impact of individual market factor movements on specific instruments or portfolios, including interest rates, foreign exchange rates, credit spreads and equity prices, such as the effect of a one basis point change in yield. We use sensitivity measures to monitor the market risk positions within each risk type. Sensitivity limits are set for portfolios, products and risk types, with the depth of the market being one of the principal factors in determining the level of limits set.

Value at risk

VaR is a technique that estimates the potential losses on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The use of VaR is integrated into market risk management and is calculated for all trading positions regardless of how the group capitalises those exposures. Where there is not an approved internal model, the group uses the appropriate local rules to capitalise exposures.

In addition, the group calculates VaR for non-trading portfolios in order to have a complete picture of risk. The models are predominantly based on historical simulation. VaR is calculated at a 99% confidence level for a one-day holding period. Where VaR is not calculated explicitly, alternative tools are used. Where we do not calculate VaR explicitly, we use alternative tools as summarised in the Market Risk Stress testing section.

The VaR models used by us are based predominantly on historical simulation. These models derive plausible future scenarios from past series of recorded market rates and prices, taking into account inter-relationships between different markets and rates such as interest rates and foreign exchange rates. The models also incorporate the effect of option features on the underlying exposures.

The historical simulation models used incorporate the following features:

- historical market rates and prices are calculated with reference to foreign exchange rates and commodity prices, interest rates, equity prices and the associated volatilities;
- potential market movements utilised for VaR are calculated with reference to data from the past two years; and
- VaR measures are calculated to a 99% confidence level and use a one-day holding period.

The nature of the VaR models means that an increase in observed market volatility will most likely lead to an increase in VaR without any changes in the underlying positions.

VaR model limitations

Although a valuable guide to risk, VaR should always be viewed in the context of its limitations. For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a holding period assumes that all positions can be liquidated or the risks offset during that period. This may not fully reflect the market risk arising at times of severe illiquidity, when the holding period may be insufficient to liquidate or hedge all positions fully;
- the use of a 99% confidence level, by definition does not take into account losses that might occur beyond this level of confidence; and
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

Risk not in VaR framework

Other basis risks which are not completely covered in VaR, such as the Libor tenor basis, are complemented by our risk not in VaR ('RNIV') calculations, and are integrated into our capital framework.

Risk factors are reviewed on a regular basis and either incorporated directly in the VaR models, where possible, or quantified through the VaR-based RNIV approach or a stress test approach within the RNIV framework. The outcome of the VaR-based RNIV is included in the VaR calculation and back-testing; a stressed VaR RNIV is also computed for the risk factors considered in the VaR-based RNIV approach.

Stress-type RNIVs include a gap risk exposure measure to capture risk on non-recourse margin loans and a de-peg risk measure to capture risk to pegged and heavily managed currencies.

Stress testing

Stress testing is an important procedure that is integrated into our market risk management tool to evaluate the potential impact on portfolio values of more extreme, although plausible, events or movements in a set of financial variables. In such scenarios, losses can be much greater than those predicted by VaR modelling.

Stress testing is implemented at legal entity, regional and overall Group levels. A standard set of scenarios is utilised consistently across all regions within the Group. Scenarios are tailored to capture the relevant events or market movements at each level. The risk appetite around potential stress losses for the group is set and monitored against referral limits.

Market risk reverse stress tests are undertaken on the premise that there is a fixed loss. The stress testing process identifies which scenarios lead to this loss. The rationale behind the reverse stress test is to understand scenarios which are beyond normal business settings that could have contagion and systemic implications.

Stressed VaR and stress testing, together with reverse stress testing and the management of gap risk, provide management with insights regarding the 'tail risk' beyond VaR for which the group's appetite is limited.

Trading portfolios

Back-testing

We routinely validate the accuracy of our VaR models by back-testing them against both actual and hypothetical profit and loss against the corresponding VaR numbers. Hypothetical profit and loss excludes non-modelled items such as fees, commissions and revenues of intra-day transactions.

We would expect on average to see two or three profits and two or three losses in excess of VaR at the 99% confidence level over a one-year period. The actual number of profits or losses in excess of VaR over this period can therefore be used to gauge how well the models are performing.

We back-test our VaR at various levels which reflect a full legal entity scope of HSBC, including entities that do not have local permission to use VaR for regulatory purposes.

Non-trading portfolios

Non-trading VaR also includes the interest rate risk of non-trading financial instruments held by the global businesses and transferred into portfolios managed by BSM or local treasury functions. In measuring, monitoring and managing risk in our non-trading portfolios, VaR is just one of the tools used. The management of interest rate risk in the banking book is described further in 'Non-trading interest rate risk' below, including the role of BSM.

Non-trading VaR excludes equity risk on available-for-sale securities, structural foreign exchange risk, and interest rate risk on fixed rate securities issued by the group, the scope and management of which are described in the relevant sections below.

The group's control of market risk in the non-trading portfolios is based on transferring the assessed market risk of non-trading assets and liabilities created outside BSM or Markets, to the books managed by BSM, provided the market risk can be neutralised. The net exposure is typically managed by BSM through the use of fixed rate government bonds (liquid asset held in available-for-sale books) and interest rate swaps. The interest rate risk arising from fixed rate government bonds held within available-for-sale portfolios is reflected within the group's non-traded VaR. Interest rate swaps used by BSM are typically classified as either a fair value hedge or a cash flow hedge and included within the group's non-traded VaR. Any market risk that cannot be neutralised in the market is managed by local ALCO in segregated ALCO books.

Structural foreign exchange exposure

Structural foreign exchange exposures represent the group's net investments in subsidiaries, branches and associates, the functional currencies of which are currencies other than sterling. An entity's functional currency is that of the primary economic environment in which the entity operates.

Unrealised gains or losses due to revaluations of structured foreign exchange exposures are recognised in other comprehensive income, whereas other unrealised gains or losses arising from revaluations of foreign exchange positions are reflected in the income statement.

The group's structural foreign exchange exposures are managed with the primary objective of ensuring, where practical, that the group's consolidated capital ratios and the capital ratios of individual banking subsidiaries are largely protected from the effect of changes in exchange rates. This is usually achieved by ensuring that, for each subsidiary bank, the ratio of structural exposures in a given currency to risk-weighted assets denominated in that currency is broadly equal to the capital ratio of the subsidiary in question.

Interest rate risk in the banking book

Interest rate risk in the banking book ('IRRBB') arises principally from mismatches between the future yield on assets and their funding cost, as a result of interest rate changes. Analysis of this risk is complicated for products where the contractual terms do not determine either the economic duration or the price of the balance due to embedded customer optionality as an example. For these products assumptions are used to allow accurate analysis.

The Asset, Liability and Capital Management ('ALCM') function is responsible for measuring and controlling IRRBB under the supervision of the RMM.

The banking book interest rate risk created outside of Balance Sheet Management ('BSM') or Global Markets that can be economically neutralised is transferred to BSM. The banking book interest rate risk is reflected in the group's non-traded VaR measure.

BSM is overseen by the Market Risk and Product Control functions in exactly the same way as Global Markets.

The price at which interest rate risk is transferred to BSM is determined by the prevailing interest rate risk transfer pricing curve defined by the relevant Asset and Liability Management Committee ('ALCO'), in accordance with the Group's funds transfer pricing policies. The transfer price seeks to reflect the price at which BSM could economically neutralise the risk in the market at the point of transfer.

Interest rate risk behaviouralisation

In assessing the banking book interest rate risk, interest rate repricing behaviouralisation is applied where contractual terms do not necessarily define the interest rate risk profile of the banking book assets and liabilities. This assessed market interest rate risk is then transferred to BSM.

Behaviouralisation is set in accordance with Group HSBC policies and approved by the relevant ALCO. Behaviouralisation is applied in three key areas:

- the assessed repricing frequency of managed rate balances;
- the assessed duration of non-interest bearing balances, typically capital and current accounts; and
- the base case expected prepayment behaviour or pipeline take-up rate for fixed-rate balances with embedded optionality.

The extent to which balances can be behaviouralised is driven by:

- the balance that can be assessed as constant under business-as-usual conditions; and
- for managed rate balances, the historical market interest rate re-pricing behaviour observed; or
- for non-interest bearing balances, the duration for which the balance is expected to remain under business-as-usual conditions. This assessment is often driven by the re-investment tenors available to BSM to neutralise the risk.

Measurement of interest rate risk in the banking book

IRRBB is measured and controlled using three metrics:

- non-traded VaR;
- net interest income sensitivity; and
- economic value of equity.

Non-traded VaR excludes the banking book interest rate risk not transferred to BSM.

Net interest income ('NII') sensitivity captures the expected impact of changes in interest rates on base case projected net interest income.

Economic value of equity ('EVE') captures the expected impact of changes in interest rates on base case economic value. It captures all non-traded items irrespective of the profit and loss accounting treatment.

Balance sheet management

Effective governance across BSM is supported by the dual reporting lines it has to the CEO of GB&M and to the Group Treasurer. In each operating entity, BSM is responsible for managing liquidity under the supervision of the local ALCO. It also manages the non-trading interest rate positions transferred to it within a Global Markets limit structure.

In executing the management of the liquidity risk on behalf of ALCO, and managing the banking book interest rate positions transferred to it, BSM invests in highly rated liquid assets in line with the Group's liquid asset policy. The majority of the liquidity is invested in central bank deposits and government, supranational and agency securities with most of the remainder held in short-term interbank and central bank loans.

BSM is permitted to use derivatives as part of its mandate to manage interest rate risk. Derivative activity is predominantly through the use of vanilla interest rate swaps.

Credit risk in BSM is predominantly limited to short-term bank exposure created by interbank lending, exposure to central banks and high quality sovereigns, supranationals or agencies which constitute the majority of BSM's liquidity portfolio. BSM does not manage the structural credit risk of any Group entity balance sheets.

BSM is permitted to enter into single name and index credit derivatives activity, but it does so to manage credit risk on the exposure specific to its securities portfolio in limited circumstances only. The risk limits are extremely limited and closely monitored. At 31 December 2016 BSM had no open credit derivative index risk.

VaR is calculated on both trading and banking book positions held in BSM. It is calculated by applying the same methodology used for the Markets business and utilised as a tool for market risk control purposes. BSM holds trading portfolio instruments in only very limited circumstances.

Net interest income sensitivity

A principal part of the management of IRRBB is to monitor the sensitivity of expected NII under varying interest rate scenarios (simulation modelling), where all other economic variables are held constant. This monitoring is undertaken by the relevant ALCO.

The group applies a combination of scenarios and assumptions relevant to their local businesses, and standard scenarios which are required throughout HSBC.

Projected NII sensitivity figures represent the effect of the pro forma movements in projected yield curves based on a static balance sheet assumption (other than instances where the assets or liabilities require it) and where non-traded VaR is assumed to contractually run off. This analysis, however, does not incorporate actions which would be taken by BSM or in the business units to mitigate the effect of yield curve changes and the interest rate risks. In reality, BSM proactively seeks to change the interest rate risk profile to minimise losses and optimise net revenues.

Economic value of equity ('EVE')

EVE represents the present value of future banking book cash flows that could be distributed to equity providers under a managed run-off scenario. This represents the current book value of equity plus the present value of future net interest income under a managed run-off scenario. The present value of net interest income under a managed run-off and under any interest rate scenario can therefore be assessed by deducting the book value of equity from the EVE value calculated under that interest rate scenario.

An EVE sensitivity is the extent to which the EVE value will change due to a pre-specified movement in interest rates, where all other economic variables are held constant. It essentially shows how sensitive discounted net interest income is to a pre-specified movement in interest rates in relation to the amount of equity the bank holds.

Defined benefit pension scheme

Market risk also arises within the group's defined benefit pension schemes to the extent that the obligations of the schemes are not fully matched by assets with determinable cash flows. Refer to Pension Risk section on page 32 for additional information.

Operational risk management

Overview

The objective of our operational risk management is to manage and control operational risk in a cost-effective manner within targeted levels of operational risk consistent with the Group's risk appetite, as defined by the GMB.

Key developments in 2016

HSBC's operational risk management framework ('ORMF') is our overarching approach for managing operational risk, the purpose of which is to:

- identify and manage our non-financial operational risks in an effective manner;
- remain within the Group's operational risk appetite, which helps the organisation understand the level of risk it is willing to accept; and
- drive forward-looking risk awareness and assist management focus during 2016.

Activity to strengthen our risk culture and better embed the use of the ORMF was further implemented in 2016. In particular, the use of the activity-based three lines of defence model, which sets out roles and responsibilities for managing operational risks on a daily basis.

Further information on the 'three lines of defence' model can be found in the Risk management section on page 19.

Governance and structure

The ORMF defines minimum standards and processes, and the governance structure for the management of operational risk and internal control in our geographical regions, global businesses and global functions. The ORMF has been codified in a high-level standards manual, supplemented with detailed policies, which describes our approach to identifying, assessing, monitoring and controlling operational risk and gives guidance on mitigating action to be taken when weaknesses are identified.

Operational risk is organised as a specific risk discipline within Global Risk, and a formal governance structure provides oversight over its management. The Operational Risk function supports the Chief Risk Officer and the Global Operational Risk Committee. It is responsible for leading the embedding of the ORMF and assurance of adherence to associated policies and processes across first and second lines. It is also responsible for escalating operational risk matters to the RMM in its second line capacity. The RMM meets regularly to discuss key risk issues and review the effective implementation of the ORMF.

Key risk management processes

Business managers are responsible for maintaining an acceptable level of internal control commensurate with the scale and nature of operations, and for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls. The ORMF helps managers to fulfil these responsibilities by defining a standard risk assessment methodology and providing a tool for the systematic reporting of operational loss data.

A centralised database is used to record the results of the operational risk management process. Operational risk and control self-assessments are input and maintained by business units. Business and functional management and business risk and control managers monitor the progress of documented action plans to address shortcomings. To ensure that operational risk losses are consistently reported and monitored, all Group companies are required to report individual losses when the net loss is expected to exceed $10,000, and to aggregate all other operational risk losses under $10,000. Losses are entered into the Group operational risk database and are reported to the HBEU RMM on a monthly basis.

For further details, see the Pillar 3 Disclosures 2016 report.

Legal risk

Global businesses and functions must establish procedures required by the Global legal function and conforming to Group standards, including procedures to manage Legal Risk. Legal Risk falls within the definition of Operational Risk and includes:

- contractual risk, which is the risk of a member of the HSBC Group suffering financial loss, legal or regulatory action or reputational damage because its rights and/or obligations under a contract to which it is a party are technically defective;
- dispute adjudication risk, which is the risk of a member of the HSBC Group suffering financial loss or reputational damage due to an adverse dispute environment and/or the mis-management of disputes;
- legislative risk, which is the risk that a Group member fails to or is unable to identify, analyse, track, impact assess or correctly interpret applicable legislation, case law or regulation, or new regulatory legislative or doctrinal interpretation of existing laws or regulations or decisions in the Courts or regulatory bodies; and
- non-contractual rights risk, which is the risk that a Group member's assets are not properly owned or protected or are infringed by others, or the infringement by a Group member of another party's rights.

The group has a legal function, headed by the General Counsel for Global Businesses and Regions, which is responsible for providing and managing legal services to members of the group, thereby facilitating its business and protecting the group from Legal Risk. The function provides legal advice, including support in managing claims against the group's companies, as well as in respect of non-routine debt recoveries or other litigation against third parties.

The Group's operating companies must notify the relevant legal department immediately of all actual or threatened litigation, all significant contentious regulatory matters and all criminal proceedings against a Group entity, Group executive or employee. Local legal departments must provide appropriate notifications, monthly reports and semi-annual returns to their regional legal departments in relation to actual or threatened litigation, significant contentious regulatory matters and criminal proceedings. Regional legal departments are in turn required to provide appropriate notifications, monthly reports and semi-annual returns to the Group legal function in relation to actual or threatened litigation, significant contentious regulatory matters and criminal proceedings.

These notifications, monthly reports and semi-annual returns are used for reporting to various committees within the Group.

Group security and fraud risk

Security and Fraud Risk, Europe, which has responsibility for physical risk, fraud, information and contingency risk, takes functional direction from Group Security and Fraud Risk. This enables management to identify and mitigate the permutations of these and other non-financial risks across the countries in which the group operates. All group companies manage their risk in accordance with standards set by Security and Fraud Risk, Europe, which also provide expert advice and support.

Regulatory compliance risk management

Overview

The Regulatory Compliance sub-function ('RC') provides independent, objective oversight and challenge and promotes a compliance-orientated culture, supporting the business in delivering fair outcomes for customers and maintaining the integrity of financial markets and achieving HSBC's strategic objectives.

Key developments in 2016

In 2016, we restructured part of our Global Risk function. The Financial Crime Compliance sub-function became part of our new Financial Crime Risk function, which reports directly to the Group Chief Executive, for further details refer to the 'Financial crime risk management' section below. The RC sub-function remains part of Global Risk, and continues to oversee management of regulatory compliance risk.

Governance and structure

The Global Head of RC reports to the Group Chief Risk Officer. To align with our global business structure and help ensure coverage of local regulatory requirements, RC is structured as a global function with regional and country RC teams, who support and advise global businesses and functions in their respective regions and countries.

Key risk management processes

We regularly review our policies and procedures. Global policies and procedures require the prompt identification and escalation of any actual or potential regulatory breach to RC.

Reportable events of group significance are escalated to the bank's RMM. Matters relating to regulatory conduct of business are reported to the Conduct & Values Committee.

Conduct of business

In 2016, we continued to take steps to raise our standards relating to conduct, which included:

- designing further global mandatory conduct training for delivery to all employees in 2017;
- incorporating the assessment of expected values and behaviours as key determinants in recruitment, performance appraisal and remuneration processes;
- improving our markets surveillance capability;
- introducing policies and procedures to strengthen support for potentially vulnerable customers;
- enhancing the quality and depth of conduct management information and how it is used across the group;
- implementing an assessment process to check the effectiveness of our conduct initiatives across the group; and
- assessing conduct standards and practices within our key third-party suppliers and distributors.

Throughout 2016, Management maintained oversight of conduct matters through the Conduct & Values Committee.

Further information on our conduct is provided in the Strategic Report on page 4 and www.hsbc.com/conduct, and for conduct-related costs relating to significant items, see page 10.

Financial crime risk management

Overview

In 2016, the Group established a Financial Crime Risk ('FCR') function and appointed a Group Head of FCR, who reports to the Group Chief Executive and chairs the Global Standards Steering Meeting. FCR is a global function that brings together all areas of financial crime risk management at HSBC and is dedicated to implementing the most effective global standards to combat financial crime. The function has been set up to enable us to build on our achievements in managing financial crime risk effectively across the bank and to continue to strengthen financial crime detection, anti-money laundering, sanctions and anti-bribery and corruption compliance.

Key developments in 2016

The FCR function encompasses FCR Assurance, Financial Crime Compliance (FCC), Financial Crime Threat Mitigation, the Global Standards programme, the Monitor Liaison Office, FCR Strategy Implementation, FCR Chief of Staff and FCR COO.

The structure is being designed around the following key principles:

- FCR sets policy and standards, provides subject matter expertise and guidance, drives execution at country level via regions, and maintains line of business expertise in support of the global businesses.
- Country-level execution accountability is driven by a common set of global principles with material variations managed by exception.
- Sub-functions within FCR are leveraged across the global function, ensuring consistency and utilising expertise and resourcing.

Key risk management processes

We continue to embed policies and procedures, introduce new technology solutions and support the cultural change needed to effectively manage financial crime risk. During 2016 we deployed our new Customer Due Diligence (CDD) tool in 20 markets in the group. This, along with the enhanced financial crime risk training that we have taken a number of senior leaders through, will ensure our people have the guidance and tools that they need.

The Head of FCC attends the Risk Committee, RMM, and provides reports to the Board on matters relating to financial crime and financial system abuse and provides a forward-looking perspective on financial crime risk.

Throughout the year, the Board received regular reports from the CEO, country chief executives and the Head of FCR on the actions being taken by management to address local financial crime risk issues and vulnerabilities, and also received reports on specific issues such as Tax Transparency and Bearer Shares.

The Monitor

In December 2012, HSBC Holdings, HSBC North America Holdings Inc. ('HNAH') and HSBC Bank USA, N.A. ('HSBC Bank USA') entered into agreements with US and UK authorities regarding past inadequate compliance with AML and sanctions laws. Among these agreements, HSBC Holdings and HSBC Bank USA entered into a five-year deferred prosecution agreement ('US DPA') with the US Department of Justice ('DoJ'). HSBC Holdings also entered into an undertaking with the FSA (the 'FCA Direction') to comply with certain forward-looking obligations with respect to AML and sanctions requirements. In addition, HSBC Holdings entered into a cease and desist order with the US FRB with respect to compliance with US AML and sanctions requirements. The agreements with the DoJ and the FRB and the FCA Direction require us to retain an independent monitor to evaluate our progress in fully implementing our obligations. The Monitor was appointed in 2013 to produce annual assessments of the effectiveness of the Group's AML and sanctions compliance.

Throughout 2016, HSBC received regular reports from the Monitor and from the DoJ on the progress of the US DPA. The Monitor's second annual review was received by HSBC, and it received regular updates from the Monitor on the preliminary findings arising from the Monitor's third annual review. The Monitor's fourth annual follow-up review is underway.

Insurance manufacturing operations risk management

Details of changes in our insurance manufacturing operations risk profile in 2016 can be found on page 51 in 'Insurance manufacturing operations risk in 2016'.

There were no material changes to our policies and practices for the management of risks arising in our insurance manufacturing operations in 2016.

Governance

(Audited)

Insurance risks are managed to a defined risk appetite, which is aligned to the bank's risk appetite and risk management framework, including the three lines of defence model. For details on the governance framework, see page 19. The Group Insurance Risk Management Meeting oversees the control framework globally and is accountable to the RBWM Risk Management Meeting on risk matters relating to the insurance business.

The monitoring of the risks within the insurance operations is carried out by insurance risk teams. Specific risk functions, including Wholesale Credit & Market Risk, Operational Risk, Information Security Risk and Financial Crime Risk, support Insurance Risk teams in their respective areas of expertise.

Stress and scenario testing

(Audited)

Stress testing forms a key part of the risk management framework for the insurance business. We participate in local and group-wide regulatory stress tests, including the Bank of England stress test of the banking system, the European Insurance and Occupational Pensions Authority stress test, and individual country insurance regulatory stress tests.

These have highlighted that a key risk scenario for the insurance business is a prolonged low interest rate environment. In order to mitigate the impact of this scenario, the insurance operations have a range of strategies that could be employed including the hedging of investment risk, repricing current products to reflect lower interest rates, improving risk diversification, moving towards less capital intensive products and developing investment strategies to optimise the expected returns against the cost of economic capital.

Management and mitigation of key risk types

Market risk

All our insurance manufacturing subsidiaries have market risk mandates which specify the investment instruments in which they are permitted to invest and the maximum quantum of market risk which they may retain. They manage market risk by using, among others, some or all of the techniques listed below, depending on the nature of the contracts written:

- For products with discretionary participating features ('DPF'), adjusting bonus rates to manage the liabilities to policyholders. The effect is that a significant portion of the market risk is borne by the policyholder.
- Asset and liability matching where asset portfolios are structured to meet projected liability cash flows. The group manages its assets using an approach that considers asset quality, diversification, cash flows matching, liquidity, volatility and target investment return. It is not always possible to match asset and liability durations due to uncertainty over the receipt of all future premiums and the timing of claims; and also because the forecast payment dates of liabilities may exceed the duration of the longest dated investments available. We use models to assess the effect of a range of future scenarios on the values of assets and associated liabilities, and ALCOs employ the outcomes in determining how to best structure asset holdings to support liabilities.
- Using derivatives to protect against adverse market movements or better match liability cash flows.
- For new products with investment guarantees, considering the cost when determining the level of premiums or the price structure.
- Periodically reviewing products identified as higher risk, which contain investment guarantees and embedded

optionality features linked to savings and investment products.

- Designing new products to mitigate market risk, such as changing the investment return sharing portion between policyholders and the shareholder.
- Exiting, to the extent possible, investment portfolios whose risk is considered unacceptable.
- Repricing premiums charged to policyholders.

Credit risk

Our insurance manufacturing subsidiaries are responsible for the credit risk, quality and performance of their investment portfolios. Our assessment of the creditworthiness of issuers and counterparties is based primarily upon internationally recognised credit ratings and other publicly available information.

Investment credit exposures are monitored against limits by our local insurance manufacturing subsidiaries, and are aggregated and reported to the Group Insurance Credit Risk and Group Credit Risk functions. Stress testing is performed by Group Insurance on the investment credit exposures using credit spread sensitivities and default probabilities.

We use a number of tools to manage and monitor credit risk. These include a credit report which contains a watch-list of investments with current credit concerns. The report is circulated monthly to senior management in Group Insurance and the individual country chief risk officers to identify investments which may be at risk of future impairment.

Liquidity risk

Risk is managed by cash flow matching and maintaining sufficient cash resources, investing in high credit-quality investments with deep and liquid markets, monitoring investment concentrations and restricting them where appropriate, and establishing committed contingency borrowing facilities.

Insurance manufacturing subsidiaries are required to complete quarterly liquidity risk reports for the Group Insurance Risk function and an annual review of the liquidity risks to which it is exposed.

Insurance risk

The bank primarily uses the following techniques to manage and mitigate insurance risk:

- product design, pricing and overall proposition management (for example, management of lapses by introducing surrender charges);
- underwriting policy;
- claims management processes; and
- reinsurance which cedes risks above our acceptable thresholds to an external reinsurer thereby limiting our exposure.

Other material risks

Reputational risk management

There were no material changes to our policies and practices for the management of reputational risk in 2016.

Overview

Reputational risk relates to stakeholders' perceptions, whether fact-based or otherwise. Stakeholders' expectations change constantly and so reputational risk is dynamic and varies between geographical regions, groups and individuals. We have an unwavering commitment to operating at the high standards we set for ourselves in every jurisdiction. Any lapse in standards of integrity, compliance, customer service or operating efficiency represents a potential reputational risk.

Governance and structure

The development of policies, management and mitigation of reputational risk are co-ordinated through our Reputational Risk Policy Committee. This committee keeps the RMM apprised of areas and activities presenting significant reputational risk and, where appropriate, make recommendations to the RMM to mitigate such risks. Significant issues posing reputational risk are also reported to the Board where appropriate.

Key risk management processes

Our External Affairs function maintains policies and gives policy advice for the issues that might affect HSBC's reputation and standing with customers, employees, opinion formers and the public. It oversees the identification, management and control of reputational risk for all group entities in the areas of media relations and engagement with non-governmental organisations and other external stakeholders.

Our Reputational Risk and Client Selection ('RRCS') teams help ensure that issues are directed to the appropriate forums, that decisions are made and implemented effectively, and that management information is generated to aid senior management in the businesses and regions in understanding where reputational risk exists. Each global business has established a governance process that empowers our Reputational Risk Policy Committee to address reputational risk issues at the right level, escalating decisions where appropriate. The global functions manage and escalate reputational risks within established operational risk frameworks.

Our policies set out our risk appetite and operational procedures for all areas of reputational risk, including financial crime prevention, regulatory compliance, conduct-related concerns, environmental impacts, human rights matters and employee relations.

We have taken, and are taking, measures to address the requirements of the US DPA and enhance our AML, sanctions and other regulatory compliance frameworks. These measures should also enhance our reputational risk management in the future. For further details, see 'Financial crime risk management' on page 30.

Further details can be found on www.hsbc.com.

Pension risk management

There were no material changes to our policies and practices for the management of pension risk in 2016.

Governance and structure

A global pension risk framework and accompanying global policies on the management of risks related to defined benefit and defined contribution plans is in place. Pension risk is managed by a network of local and regional pension risk forums. The HBEU Pension Oversight Forum is responsible for the governance and oversight of pension plans sponsored by HSBC within its European operations.

Key risk management processes

In the UK, all future pension benefits are provided on a defined contribution basis. There remain future defined benefit pensions provided elsewhere in the region.

In defined contribution pension plans, the contributions that HSBC is required to make are known, while the ultimate pension benefit will vary, typically with investment returns achieved by investment choices made by the employee. While the market risk to HSBC of defined contribution plans is low, the bank is still exposed to operational and reputational risk.

In defined benefit pension plans, the level of pension benefit is known. Therefore, the level of contributions required by HSBC will vary due to a number of risks, including:

- investments delivering a return below that required to provide the projected plan benefits;

- the prevailing economic environment leading to corporate failures, thus triggering write-downs in asset values (both equity and debt);
- a change in either interest rates or inflation, causing an increase in the value of the plan liabilities; and
- plan members living longer than expected (known as longevity risk).

Pension risk is assessed using an economic capital model that takes into account potential variations in these factors. The impact of these variations on both pension assets and pension liabilities is assessed using a one-in-200 year stress test. Scenario analysis and other stress tests are also used to support pension risk management.

To fund the benefits associated with defined benefit plans, sponsoring group companies, and in some instances employees, make regular contributions in accordance with advice from actuaries and in consultation with the plan's trustees where relevant. These contributions are normally set to ensure that there are sufficient funds to meet the cost of the accruing benefits for the future service of active members. However, higher contributions are required when plan assets are considered insufficient to cover the existing pension liabilities. Contribution rates are typically revised annually or once every three years, depending on the plan.

The defined benefit plans invest contributions in a range of investments designed to limit the risk of assets failing to meet a plan's liabilities. Any changes in expected returns from the investments may also change future contribution requirements. In pursuit of these long-term objectives, an overall target allocation of the defined benefit plan assets between asset classes is established. In addition, each permitted asset class has its own benchmarks, such as stock market or property valuation indices. The benchmarks are reviewed at least once every three years and more frequently if required by local legislation or circumstances. The process generally involves an extensive asset and liability review.

Key developments and risk profile

Key developments in 2016

In 2016, the group has undertaken a number of initiatives to enhance our approach to the management of risk. These include:

- implementing a new internal liquidity and funding risk management framework which uses the liquidity coverage ratio ('LCR') and net stable funding ratio ('NSFR') regulatory framework as a foundation, as described on page 25 of the 'Liquidity and funding risk management' section;
- undertaking activities to strengthen our risk culture and further embed the use of the operational risk management framework, as described on page 50 of the 'Operational risk in 2016' section; and
- implementing a number of initiatives to raise our standards in relation to the conduct of our business, as described on page 30 of the 'Regulatory compliance risk management' section.

Credit risk in 2016

A summary of our current policies and practices regarding credit risk is set out on page 22.

Credit risk is the risk of financial loss if a customer or counterparty fails to meet a payment obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from off-balance sheet products such as guarantees and credit derivatives, and from the group's holdings of debt securities.

There were no material changes to our policies and practices for the management of credit risk in 2016.

Maximum exposure to credit risk

(Audited)

'Maximum exposure to credit risk' table
The following table presents our maximum exposure before taking account of any collateral held or other credit enhancements (unless such enhancements meet accounting offsetting requirements). The table excludes financial instruments whose carrying amount best represents the net exposure to credit risk; and it excludes equity securities as they are not subject to credit risk. For the financial assets recognised on the balance sheet, the maximum exposure to credit risk equals their carrying amount; for financial guarantees and similar contracts granted, it is the maximum amount that we would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments, it is generally the full amount of the committed facilities.
The offset in the table relates to amounts where there is a legally enforceable right of offset in the event of counterparty default and where, as a result, there is a net exposure for credit risk purposes. However, as there is no intention to settle these balances on a net basis under normal circumstances, they do not qualify for net presentation for accounting purposes. No offset has been applied to off-balance sheet collateral. In the case of derivatives the offset column also includes collateral received in cash and other financial assets.

Maximum exposure to credit risk

(Audited)

The group	2016 Maximum exposure	2016 Offset	2016 Exposure to credit risk (net)	2015 Maximum exposure	2015 Offset	2015 Exposure to credit risk (net)
	£m	£m	£m	£m	£m	£m
Trading assets: loans and advances to banks	**19,652**	**(113)**	**19,539**	14,248	–	14,248
Trading assets: loans and advances to customers	**21,803**	**(272)**	**21,531**	17,712	–	17,712
Derivatives	**199,419**	**(189,349)**	**10,070**	166,785	(150,960)	15,825
Loans and advances to banks	**21,363**	**(202)**	**21,161**	23,222	(36)	23,186
Loans and advances to customers	**272,760**	**(19,746)**	**253,014**	258,506	(27,175)	231,331
Reverse repurchase agreements – non-trading	**31,660**	**(3,866)**	**27,794**	30,537	(607)	29,930
Total balance sheet exposure to credit risk	**750,507**	**(213,548)**	**536,959**	665,364	(178,778)	486,586
Total off-balance sheet	**163,406**	**–**	**163,406**	145,368	–	145,368
– financial guarantees	**12,895**	**–**	**12,895**	13,735	–	13,735
– loan commitments and other credit-related commitments	**150,511**	**–**	**150,511**	131,633	–	131,633
At 31 Dec	**913,913**	**(213,548)**	**700,365**	810,732	(178,778)	631,954

The bank	2016 Maximum exposure	2016 Offset	2016 Exposure to credit risk (net)	2015 Maximum exposure	2015 Offset	2015 Exposure to credit risk (net)
	£m	£m	£m	£m	£m	£m
Trading assets: loans and advances to banks	**16,902**	**(113)**	**16,789**	13,617	–	13,617
Trading assets: loans and advances to customers	**19,743**	**(272)**	**19,471**	15,750	–	15,750
Derivatives	**185,779**	**(165,490)**	**20,289**	150,454	(128,855)	21,599
Loans and advances to banks	**16,713**	**–**	**16,713**	16,661	–	16,661
Loans and advances to customers	**215,084**	**(19,051)**	**196,033**	205,398	(26,485)	178,913
Reverse repurchase agreements – non-trading	**23,351**	**(1,931)**	**21,420**	24,893	(518)	24,375
Total balance sheet exposure to credit risk	**603,782**	**(186,857)**	**416,925**	530,511	(155,858)	374,653
Total off-balance sheet	**116,674**	**–**	**116,674**	103,682	–	103,682
– Financial guarantees	**9,089**	**–**	**9,089**	10,693	–	10,693
– Loan commitments and other credit-related commitments	**107,585**	**–**	**107,585**	92,989	–	92,989
At 31 Dec	**720,456**	**(186,857)**	**533,599**	634,193	(155,858)	478,335

Concentration of exposures

The geographical diversification of our lending portfolio and our broad range of global businesses and products ensured that we did not overly depend on a few markets to generate growth in 2016. This diversification also supported our strategy for growth in faster-growing markets and those with international connectivity.

Financial investments

Our holdings of available-for-sale government and government agency debt securities, corporate debt securities, asset-backed securities ('ABSs') and other securities were spread across a wide range of issuers in 2016 with 61% (2015: 59%) invested in government or government agency debt securities.

Trading assets

Trading securities remained the largest concentration within trading assets of the group at 67% (2015: 71%).

Derivatives

Derivative assets were £199bn at 31 December 2016 (2015: £167bn).

Items in the course of collection from other banks

Settlement risk arises in any situations where a payment in cash, securities or equities is made with the expectation of a corresponding receipt of cash, securities or equities. Daily settlement limits are established for counterparties to cover the aggregate of transactions with each counterparty on any single day.

The group substantially mitigates settlement risk on many transactions, particularly those involving securities and equities, by settling through assured payment systems, or on a delivery-versus-payment basis.

Loans and advances

The table below analyses loans and advances by industry sector to show any concentration of credit risk exposures (please also see below).

Gross loans and advances to customers by industry sector

The group	2016 Gross loans and advances to customers	2016 Gross loans by industry sector as a % of total gross loans	2015 Gross loans and advances to customers	2015 Gross loans by industry sector as a % of total gross loans
	£m	%	£m	%
Personal	**114,314**	**41.52**	107,768	41.27
Corporate and commercial	**132,556**	**48.15**	128,912	49.37
Financial	**28,447**	**10.33**	24,429	9.36
Total gross loans and advances to customers at 31 Dec	**275,317**	**100.00**	261,109	100.00

Gross loans and advances to customers by industry sector (continued)

The bank	2016 Gross loans and advances to customers	2016 Gross loans by industry sector as a % of total gross loans	2015 Gross loans and advances to customers	2015 Gross loans by industry sector as a % of total gross loans
	£m	%	£m	%
Personal	**90,103**	**41.59**	86,097	41.58
Corporate and commercial	**90,055**	**41.57**	89,354	43.15
Financial	**36,475**	**16.84**	31,622	15.27
Total gross loans and advances to customers at 31 Dec	**216,633**	**100.00**	207,073	100.00

Distribution of financial instruments by credit quality

(Audited)

The group	2016 Neither past due nor impaired: 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
Cash and balances at central banks	**54,278**	**—**	**—**	**—**	**—**	**—**	**54,278**	**—**	**54,278**
Items in the course of collection from other banks	**1,363**	**—**	**—**	**—**	**—**	**—**	**1,363**	**—**	**1,363**
Trading assets	**59,974**	**12,288**	**8,711**	**521**	**—**	**—**	**81,494**	**—**	**81,494**
– treasury and other eligible bills	**554**	**280**	**14**	**—**	**—**	**—**	**848**	**—**	**848**
– debt securities	**31,268**	**4,596**	**3,234**	**93**	**—**	**—**	**39,191**	**—**	**39,191**
– loans and advances to banks	**12,844**	**4,161**	**2,615**	**32**	**—**	**—**	**19,652**	**—**	**19,652**
– loans and advances to customers	**15,308**	**3,251**	**2,848**	**396**	**—**	**—**	**21,803**	**—**	**21,803**
Financial assets designated at fair value	**870**	**159**	**257**	**17**	**—**	**—**	**1,303**	**—**	**1,303**
Derivatives	**168,840**	**26,042**	**4,056**	**481**	**—**	**—**	**199,419**	**—**	**199,419**
Loans and advances to customers held at amortised cost	**153,861**	**50,743**	**57,024**	**5,702**	**1,177**	**6,810**	**275,317**	**(2,557)**	**272,760**
– personal	**102,472**	**6,089**	**2,743**	**473**	**798**	**1,739**	**114,314**	**(658)**	**113,656**
– corporate and commercial	**32,304**	**39,411**	**50,480**	**5,150**	**368**	**4,843**	**132,556**	**(1,724)**	**130,832**
– non-bank financial institutions	**19,085**	**5,243**	**3,801**	**79**	**11**	**228**	**28,447**	**(175)**	**28,272**
Loans and advances to banks held at amortised cost	**17,330**	**2,613**	**1,410**	**10**	**—**	**—**	**21,363**	**—**	**21,363**
Reverse repurchase agreements – non-trading	**24,993**	**3,404**	**2,665**	**598**	**—**	**—**	**31,660**	**—**	**31,660**
Financial investments	**75,834**	**3,116**	**1,581**	**1,012**	**—**	**831**	**82,374**	**—**	**82,374**
Other assets	**2,362**	**551**	**1,370**	**197**	**4**	**9**	**4,493**	**—**	**4,493**
At 31 Dec	**559,705**	**98,916**	**77,074**	**8,538**	**1,181**	**7,650**	**753,064**	**(2,557)**	**750,507**
	%	**%**	**%**	**%**	**%**	**%**	**%**		
Percentage of total gross amount	**74.4**	**13.1**	**10.2**	**1.1**	**0.2**	**1.0**	**100.0**		

	2015 Neither past due nor impaired: 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
Cash and balances at central banks	39,749	—	—	—	—	—	39,749	—	39,749
Items in the course of collection from other banks	1,328	—	—	—	—	—	1,328	—	1,328
Trading assets	52,059	10,453	7,231	259	—	—	70,002	—	70,002
– treasury and other eligible bills	368	283	24	—	—	—	675	—	675
– debt securities	30,113	4,390	2,725	139	—	—	37,367	—	37,367
– loans and advances to banks	9,282	2,706	2,174	86	—	—	14,248	—	14,248
– loans and advances to customers	12,296	3,074	2,308	34	—	—	17,712	—	17,712
Financial assets designated at fair value	580	279	251	7	—	—	1,117	—	1,117
Derivatives	147,444	15,953	2,756	632	—	—	166,785	—	166,785
Loans and advances to customers held at amortised cost	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-bank financial institutions	18,349	3,523	2,265	89	10	193	24,429	(131)	24,298
Loans and advances to banks held at amortised cost	19,975	1,833	1,351	63	—	—	23,222	—	23,222
Reverse repurchase agreements – non-trading	22,328	6,248	1,613	19	—	329	30,537	—	30,537
Financial investments	62,072	4,563	1,788	931	—	889	70,243	—	70,243
Other assets	1,639	473	1,594	156	5	8	3,875	—	3,875
At 31 Dec	497,085	85,038	69,179	7,760	1,307	7,598	667,967	(2,603)	665,364
	%	%	%	%	%	%	%		
Percentage of total gross amount	74.4	12.7	10.4	1.2	0.2	1.1	100.0		

Distribution of financial instruments by credit quality (continued)

(Audited)

	2016								
	Neither past due nor impaired								
The bank	**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**
Cash and balances at central banks	**49,252**	**–**	**–**	**–**	**–**	**–**	**49,252**	**–**	**49,252**
Items in the course of collection from other banks	**780**	**–**	**–**	**–**	**–**	**–**	**780**	**–**	**780**
Trading assets	**44,775**	**8,278**	**6,897**	**506**	**–**	**–**	**60,456**	**–**	**60,456**
– treasury and other eligible bills	**501**	**–**	**12**	**–**	**–**	**–**	**513**	**–**	**513**
– debt securities	**17,866**	**2,500**	**2,839**	**93**	**–**	**–**	**23,298**	**–**	**23,298**
– loans and advances to banks	**12,861**	**2,574**	**1,450**	**17**	**–**	**–**	**16,902**	**–**	**16,902**
– loans and advances to customers	**13,547**	**3,204**	**2,596**	**396**	**–**	**–**	**19,743**	**–**	**19,743**
Derivatives	**159,390**	**22,557**	**3,373**	**459**	**–**	**–**	**185,779**	**–**	**185,779**
Loans and advances to customers held at amortised cost	**133,279**	**32,446**	**41,727**	**4,072**	**448**	**4,661**	**216,633**	**(1,549)**	**215,084**
– personal	**85,726**	**2,194**	**411**	**404**	**407**	**961**	**90,103**	**(281)**	**89,822**
– corporate and commercial	**18,910**	**25,987**	**38,017**	**3,609**	**41**	**3,491**	**90,055**	**(1,090)**	**88,965**
– non-bank financial institutions	**28,643**	**4,265**	**3,299**	**59**	**–**	**209**	**36,475**	**(178)**	**36,297**
Loans and advances to banks held at amortised cost	**13,653**	**1,931**	**1,128**	**1**	**–**	**–**	**16,713**	**–**	**16,713**
Reverse repurchase agreements – non-trading	**20,187**	**1,760**	**816**	**588**	**–**	**–**	**23,351**	**–**	**23,351**
Financial investments	**48,799**	**18**	**44**	**238**	**–**	**1**	**49,100**	**–**	**49,100**
Other assets	**2,255**	**521**	**466**	**20**	**–**	**5**	**3,267**	**–**	**3,267**
At 31 Dec	**472,370**	**67,511**	**54,451**	**5,884**	**448**	**4,667**	**605,331**	**(1,549)**	**603,782**
	%	**%**	**%**	**%**	**%**	**%**	**%**		
Percentage of total gross amount	**78.0**	**11.1**	**9.0**	**1.0**	**0.1**	**0.8**	**100.0**		

	2015								
	Neither past due nor impaired								
	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
Cash and balances at central banks	38,725	–	–	–	–	–	38,725	–	38,725
Items in the course of collection from other banks	993	–	–	–	–	–	993	–	993
Trading assets	38,487	6,870	5,804	235	–	–	51,396	–	51,396
– treasury and other eligible bills	83	–	11	–	–	–	94	–	94
– debt securities	17,671	2,080	2,060	124	–	–	21,935	–	21,935
– loans and advances to banks	9,943	1,852	1,745	77	–	–	13,617	–	13,617
– loans and advances to customers	10,790	2,938	1,988	34	–	–	15,750	–	15,750
Derivatives	133,613	13,991	2,244	606	–	–	150,454	–	150,454
Loans and advances to customers held at amortised cost	130,653	29,565	37,888	3,979	488	4,500	207,073	(1,675)	205,398
– personal	82,015	1,930	354	386	447	965	86,097	(300)	85,797
– corporate and commercial	21,487	24,849	36,082	3,540	41	3,355	89,354	(1,234)	88,120
– non-bank financial institutions	27,151	2,786	1,452	53	–	180	31,622	(141)	31,481
Loans and advances to banks held at amortised cost	12,363	1,031	1,938	667	–	662	16,661	–	16,661
Reverse repurchase agreements – non-trading	19,828	4,085	635	16	–	329	24,893	–	24,893
Financial investments	38,127	997	86	98	–	28	39,336	–	39,336
Other assets	1,510	431	713	–	–	1	2,655	–	2,655
At 31 Dec	414,299	56,970	49,308	5,601	488	5,520	532,186	(1,675)	530,511
	%	%	%	%	%	%	%		
Percentage of total gross amount	77.8	10.7	9.3	1.1	0.1	1.0	100.0		

Past due but not impaired gross financial instruments

(Audited)

Past due but not impaired are those loans where, although customers have failed to make payments in accordance with the contractual terms of their facilities, they have not met the impaired loan criteria described below.

Ageing analysis of days past due but not impaired gross financial instruments

(Audited)

The group	Up to 29 days £m	30-59 days £m	60-89 days £m	90-179 days £m	Over 180 days £m	Total £m
Loans and advances held at amortised cost	**841**	**225**	**111**	**—**	**—**	**1,177**
– personal	**547**	**165**	**86**	**—**	**—**	**798**
– corporate and commercial	**283**	**60**	**25**	**—**	**—**	**368**
– financial	**11**	**—**	**—**	**—**	**—**	**11**
Other assets	**3**	**1**	**—**	**—**	**—**	**4**
At 31 Dec 2016	**844**	**226**	**111**	**—**	**—**	**1,181**
Loans and advances held at amortised cost	878	311	108	5	—	1,302
– personal	538	157	83	—	—	778
– corporate and commercial	334	150	25	5	—	514
– financial	6	4	—	—	—	10
Other assets	3	—	1	1	—	5
At 31 Dec 2015	881	311	109	6	—	1,307

The bank	Up to 29 days £m	30-59 days £m	60-89 days £m	90-179 days £m	Over 180 days £m	Total £m
Loans and advances held at amortised cost	**310**	**85**	**53**	**—**	**—**	**448**
– personal	**278**	**79**	**50**	**—**	**—**	**407**
– corporate and commercial	**32**	**6**	**3**	**—**	**—**	**41**
– financial	**—**	**—**	**—**	**—**	**—**	**—**
Other assets	**—**	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2016	**310**	**85**	**53**	**—**	**—**	**448**
Loans and advances held at amortised cost	340	91	57	—	—	488
– personal	308	86	53	—	—	447
– corporate and commercial	32	5	4	—	—	41
– financial	—	—	—	—	—	—
Other assets	—	—	—	—	—	—
At 31 Dec 2015	340	91	57	—	—	488

Impaired loans

(Audited)

Impaired loans and advances are those that meet any of the following criteria:

- Wholesale loans and advances classified as CRR 9 or CRR 10. These grades are assigned when the bank considers that either the customer is unlikely to pay its credit obligations in full, without recourse to security, or when the customer is more than 90 days past due on any material credit obligation to HSBC.
- Retail loans and advances classified as EL 9 or EL 10. These grades are assigned to retail loans and advances greater than 90 days past due unless they have been assessed as not individually impaired.
- Renegotiated loans and advances that have been subject to a change in contractual cash flows as a result of a concession which the lender would not otherwise consider, and where it is probable that without the concession the borrower would be unable to meet the contractual payment obligations in full, unless the concession is insignificant and there are no other indicators of impairment. Renegotiated loans remain classified as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment.

Impairment and credit risk mitigation

The existence of collateral has an effect when calculating impairment on individually assessed impaired loans. When we no longer expect to recover the principal and interest due on a loan in full or in accordance with the original terms and conditions, it is assessed for impairment. If exposures are secured, the current net realisable value of the collateral will be taken into account when assessing the need for an impairment allowance. No impairment allowance is recognised in cases where all amounts due are expected to be settled in full on realisation of the security.

Impaired loans and advances to customers and banks by industry sector

(Audited)

	2016			2015		
	Individually assessed	**Collectively assessed**	**Total**	Individually assessed	Collectively assessed	Total
	£m	**£m**	**£m**	£m	£m	£m
Banks	**—**	**—**	**—**	—	—	—
Customers	**6,198**	**612**	**6,810**	5,798	574	6,372
– personal	**1,199**	**540**	**1,739**	1,142	499	1,641
– corporate and commercial	**4,771**	**72**	**4,843**	4,463	75	4,538
– financial	**228**	**—**	**228**	193	—	193
At 31 Dec	**6,198**	**612**	**6,810**	5,798	574	6,372

Renegotiated loans and forbearance

Where a loan is modified due to significant concerns about the borrower’s ability to meet contractual payments when due, a range of forbearance strategies are employed in order to improve the management of customer relationships, maximise collection opportunities and, if possible, avoid default, foreclosure or repossession.

Identifying renegotiated loans

Loans are identified as renegotiated loans when we modify the contractual payment terms due to significant credit distress of the borrower. ‘Forbearance’ describes concessions made on the contractual terms of a loan in response to an obligor’s financial difficulties. We classify and report loans on which concessions have been granted under conditions of credit distress as ‘renegotiated loans’ when their contractual payment terms have been modified because we have significant concerns about the borrowers’ ability to meet contractual payments when due. When considering modification terms, the borrower’s continued ability to repay is assessed and where they are unrelated to payment arrangements, while potential indicators of impairment, these loans are not considered as renegotiated loans.

Credit quality classification of renegotiated loans

A loan is impaired and an impairment allowance is recognised when there is objective evidence of a loss event that has an effect on the cash flows of the loan which can be reliably estimated. Granting a concession to a customer that we would not otherwise consider, as a result of their financial difficulty, is objective evidence of impairment and impairment losses are measured accordingly.

A renegotiated loan is presented as impaired when:

- there has been a change in contractual cash flows as a result of a concession which the lender would otherwise not consider; and
- it is probable that without the concession the borrower would be unable to meet contractual payment obligations in full.

This applies unless the concession is insignificant and there are no other indicators of impairment.

The renegotiated loan will continue to be disclosed as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment. For loans that were assessed for impairment on a collective basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

For retail lending the minimum period of payment performance required depends on the nature of loans in the portfolio, but is typically not less than six months. Where portfolios have more significant levels of forbearance activity the minimum repayment performance period required may be substantially more. Payment performance periods are monitored to ensure they remain appropriate to the levels of recidivism observed within the portfolio. These performance periods are in addition to a minimum of two payments which must be received within a 60-day period for the customer to initially qualify for the renegotiation. The qualifying payments are required in order to demonstrate that the renegotiated terms are sustainable for the borrower.

For corporate and commercial loans, which are individually assessed for impairment and where non-monthly payments are more commonly agreed, the history of payment performance will depend on the underlying structure of payments agreed as part of the restructuring.

Renegotiated loans are classified as unimpaired where the renegotiation has resulted from significant concern about a borrower’s ability to meet their contractual payment terms but the concession is not significant and the contractual cash flows are expected to be collected in full following the renegotiation.

Derecognition of renegotiated loans

(Audited)

Loans that have been identified as renegotiated retain this designation until maturity or derecognition. When determining whether a loan that is restructured should be derecognised and a new loan recognised, we consider the extent to which the changes to the original contractual terms result in the renegotiated loan, considered as a whole, being a substantially different financial instrument. Any new loans that arise following derecognition events will continue to be disclosed as renegotiated loans.

The following are examples of circumstances that individually are likely to result in this test being met and derecognition accounting being applied:

- an uncollateralised loan becomes fully collateralised or vice versa;
- removal or addition of debt-to-equity conversion features attached to the loan agreement that have substance;
- a change in the currency in which the principal or interest is denominated, other than a conversion at a current market rate; or
- a change in the obligor.

Renegotiated loans and recognition of impairment allowances

(Audited)

For retail lending, renegotiated loans are segregated from other parts of the loan portfolio for collective impairment assessment to reflect the higher rates of losses often encountered in these segments.

In the corporate and commercial sectors, renegotiated loans are typically assessed individually. Credit risk ratings are intrinsic to the impairment assessment. A distressed restructuring is classified as an impaired loan. The individual impairment assessment takes into account the higher risk of the non-payment of future cash flows inherent in renegotiated loans.

The following table shows the group's holding of renegotiated loans and advances to customers by industry sector and credit quality classification.

Renegotiated loans and advances to customers by industry sector

	2016					2015				
	Residential mortgages	**Other personal lending**	**Corporate and commercial**	**Non-bank financial institutions**	**Total**	Residential mortgages	Other personal lending	Corporate and commercial	Non-bank financial institutions	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Neither past due nor impaired	**328**	**73**	**1,203**	**1**	**1,605**	342	87	960	97	1,486
Past due not impaired	**105**	**44**	**74**	**—**	**223**	118	34	74	—	226
Impaired	**451**	**97**	**2,435**	**155**	**3,138**	523	77	2,456	132	3,188
Renegotiated loans at 31 Dec	**884**	**214**	**3,712**	**156**	**4,966**	983	198	3,490	229	4,900
Impairment allowance on renegotiated loans					**(843)**					(945)

Impairment of loans and advances

(Audited)

The tables below analyse the loan impairment charges for the year and the impairment allowances recognised for impaired loans and advances that are either individually assessed or collectively assessed, and collective impairment allowances on loans and advances classified as not impaired.

Loan impairment charge to the income statement by industry sector

	2016	2015
	£m	£m
Personal	**189**	171
– residential mortgages	**(4)**	(6)
– other personal	**193**	177
Corporate and commercial	**266**	315
– manufacturing and international trade and services	**52**	137
– commercial real estate and other property-related	**(12)**	21
– other commercial	**226**	157
Financial	**24**	8
Total loan impairment charge for the year ended 31 Dec	**479**	494
Individually assessed impairment allowances	**306**	354
– new allowances	**708**	642
– release of allowances no longer required	**(383)**	(261)
– recoveries of amounts previously written off	**(19)**	(27)
Collectively assessed impairment allowances	**173**	140
– new allowances net of allowance releases	**351**	366
– recoveries of amounts previously written off	**(178)**	(226)
Total loan impairment charge for the year ended 31 Dec	**479**	494

Movement in impairment allowances on loans and advances to customers and banks

(Audited)

The group	2016 Banks Individually assessed £m	2016 Customers Individually assessed £m	2016 Customers Collectively assessed £m	2016 Total £m	2015 Banks Individually assessed £m	2015 Customers Individually assessed £m	2015 Customers Collectively assessed £m	2015 Total £m
At 1 Jan	**—**	**1,788**	**815**	**2,603**	20	1,874	926	2,820
Amounts written off	**—**	**(550)**	**(359)**	**(909)**	(14)	(420)	(425)	(859)
Recoveries of loans and advances written off in previous years	**—**	**19**	**178**	**197**	—	27	226	253
Loan impairment charge	**—**	**306**	**173**	**479**	(6)	360	140	494
Exchange and other movements	**—**	**166**	**21**	**187**	—	(53)	(52)	(105)
At 31 Dec	**—**	**1,729**	**828**	**2,557**	—	1,788	815	2,603
as a percentage of gross loans and advances[1]	**—**	**0.63%**	**0.30%**	**0.86%**	—	0.69%	0.31%	0.92%

1 *Net of reverse repo transactions, settlement accounts and stock borrowings.*

The bank	2016 Banks Individually assessed £m	2016 Customers Individually assessed £m	2016 Customers Collectively assessed £m	2016 Total £m	2015 Banks Individually assessed £m	2015 Customers Individually assessed £m	2015 Customers Collectively assessed £m	2015 Total £m
At 1 Jan	**—**	**1,178**	**497**	**1,675**	14	1,219	559	1,792
Amounts written off	**—**	**(374)**	**(264)**	**(638)**	(14)	(296)	(269)	(579)
Recoveries of loans and advances written off in previous years	**—**	**15**	**147**	**162**	—	22	190	212
Loan impairment charge	**—**	**158**	**83**	**241**	—	233	17	250
Exchange and other movements	**—**	**97**	**12**	**109**	—	—	—	—
At 31 Dec	**—**	**1,074**	**475**	**1,549**	—	1,178	497	1,675
as a percentage of gross loans and advances[1]	**—**	**0.50%**	**0.22%**	**0.66%**	—	0.57%	0.24%	0.75%

1 *Net of reverse repo transactions, settlement accounts and stock borrowings.*

Personal lending

Total personal lending

We provide a broad range of secured and unsecured personal lending products to meet customer needs. Personal lending includes advances to customers for asset purchases such as residential property where the loans are secured by the assets being acquired. We also offer loans secured on existing assets, such as first charges on residential property, and unsecured lending products such as overdrafts, credit cards and payroll loans. The following table shows the levels of personal lending products in the various portfolios in the UK and the rest of Europe.

Total personal lending

	UK £m	Continental Europe £m	Total £m	As a % of total gross loans
First lien residential mortgage lending	**82,614**	**4,326**	**86,940**	**29.30**
– *of which:*				
interest-only (including endowment) mortgages	***25,878***	***18***	***25,896***	***8.73***
affordability mortgages, including adjustable rate mortgages	***—***	***241***	***241***	***0.08***
Other personal lending	**14,460**	**12,914**	**27,374**	**9.23**
– personal loans and overdrafts	**7,457**	**11,651**	**19,108**	**6.44**
– credit cards	**7,003**	**1,182**	**8,185**	**2.76**
– second lien residential mortgages	**—**	**79**	**79**	**0.03**
– motor vehicle finance	**—**	**2**	**2**	**—**
Total gross loans at 31 Dec 2016	**97,074**	**17,240**	**114,314**	**38.53**
Impairment allowances on personal lending				
Residential mortgages	**(99)**	**(86)**	**(185)**	
Other personal lending	**(187)**	**(286)**	**(473)**	
– personal loans and overdrafts	**(126)**	**(134)**	**(260)**	
– credit cards	**(61)**	**(151)**	**(212)**	
– second lien residential mortgages	**—**	**—**	**—**	
– motor vehicle finance	**—**	**(1)**	**(1)**	
Total impairment allowances at 31 Dec 2016	**(286)**	**(372)**	**(658)**	

Total personal lending (continued)

	UK £m	Continental Europe £m	Total £m	As a % of total gross loans
First lien residential mortgage lending	79,173	4,310	83,483	29.36
– *of which:*				
interest-only (including endowment) mortgages	*27,273*	*22*	*27,295*	*9.60*
affordability mortgages, including adjustable rate mortgages	*—*	*241*	*241*	*0.08*
Other personal lending	14,032	10,253	24,285	8.54
– personal loans and overdrafts	7,073	9,035	16,108	5.67
– credit cards	6,959	1,215	8,174	2.87
– second lien residential mortgages	—	—	—	—
– motor vehicle finance	—	3	3	—
Total gross loans at 31 Dec 2015	93,205	14,563	107,768	37.90
Impairment allowances on personal lending				
Residential mortgages	(117)	(70)	(187)	
Other personal lending	(199)	(249)	(448)	
– personal loans and overdrafts	(147)	(121)	(268)	
– credit cards	(52)	(127)	(179)	
– second lien residential mortgages	—	—	—	
– motor vehicle finance	—	(1)	(1)	
Total impairment allowances at 31 Dec 2015	(316)	(319)	(635)	

Mortgage lending

We offer a wide range of mortgage products designed to meet customer needs, including capital repayment, interest-only, affordability and offset mortgages. Group credit policy prescribes the range of acceptable residential property LTV thresholds with the maximum upper limit for new loans set between 75% and 95%. Specific LTV thresholds and debt-to-income ratios are managed at regional and country levels and, although the parameters must comply with Group policy, strategy and risk appetite, they differ in the various locations in which we operate to reflect the local economic and housing market conditions, regulations, portfolio performance, pricing and other product features.

Exposure to UK interest-only mortgage loans

Interest-only mortgage products made up £26bn of total UK mortgage lending, including £10bn of offset mortgages in First Direct and £1bn of endowment mortgages.

The following information is presented for HSBC Bank UK interest-only mortgage loans with balances of £12bn at the end of 2016. £132m of interest-only mortgages matured during 2016. Of these, 1,416 loans with balances of £54m were repaid in full, 106 loans with balances of £7m had agreed future repayment plans and 529 loans with balances of £71m were subject to ongoing individual assessments.

The profile of expiring UK interest-only loans are as follows:

UK interest-only mortgage loans

	£m
2016 expired interest-only mortgage loans	**170**
Interest-only mortgage loans by maturity	
– 2017	**202**
– 2018	**419**
– 2019	**460**
– 2020	**462**
– 2021–2025	**2,491**
– post 2025	**7,584**
At 31 Dec 2016	**11,788**

Other personal lending

Other personal lending consists primarily of credit cards and personal loans, both of which are generally unsecured.

Collateral and other credit enhancements held

(Audited)

The tables below show residential mortgage lending including off-balance sheet loan commitments by level of collateral. They provide a quantification of the value of fixed charges we hold over borrowers' specific assets where we have a history of enforcing, and are able to enforce, collateral in satisfying a debt in the event of the borrower failing to meet its contractual obligations, and where the collateral is cash or can be realised by sale in an established market. The LTV ratio is calculated as the gross on-balance sheet carrying amount of the loan and any off-balance sheet loan commitment at the balance sheet date divided by the value of collateral. The value of collateral is determined using professional valuations and house price indices. The collateral valuation excludes any adjustments for obtaining and selling the collateral and, in particular, loans shown as not collateralised or partly collateralised may also benefit from other forms of credit mitigants. Valuations must be updated on a regular basis and, as a minimum, at intervals of every three years. More frequent revaluations are conducted where market conditions or portfolio performance are subject to significant change or where a loan is identified and assessed as impaired.

Residential mortgage loans including loan commitments by level of collateral

(Audited)

	The group		The bank	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Non-impaired loans and advances				
Fully collateralised	**89,997**	85,216	**83,885**	80,323
LTV ratio:				
– Less than 50%	**51,100**	47,021	**48,876**	45,460
– 51% to 60%	**15,333**	15,957	**14,179**	15,108
– 61% to 70%	**11,501**	11,758	**10,150**	10,733
– 71% to 80%	**7,353**	6,911	**6,589**	6,174
– 81% to 90%	**4,036**	2,890	**3,587**	2,526
– 91% to 100%	**674**	679	**504**	322
Partially collateralised:				
greater than 100% LTV (A)	**352**	365	**107**	112
– 101% to 110%	**122**	144	**29**	31
– 111% to 120%	**53**	52	**11**	16
– greater than 120%	**177**	169	**67**	65
Collateral value on A	**280**	294	**67**	74
Impaired loans and advances				
Fully collateralised	**993**	949	**810**	764
LTV ratio:				
– Less than 50%	**475**	350	**401**	318
– 51% to 60%	**182**	185	**155**	142
– 61% to 70%	**148**	170	**112**	124
– 71% to 80%	**99**	117	**76**	93
– 81% to 90%	**54**	69	**40**	54
– 91% to 100%	**35**	58	**26**	33
Partially collateralised:				
greater than 100% LTV (B)	**66**	120	**19**	22
– 101% to 110%	**30**	88	**6**	10
– 111% to 120%	**10**	7	**7**	4
– greater than 120%	**26**	25	**6**	8
Collateral value on B	**54**	107	**18**	17
At 31 Dec	**91,408**	86,650	**84,821**	81,221

Wholesale lending

Total wholesale lending

	2016		2015	
	£m	**As a % of total gross loans**	£m	As a % of total gross loans
Corporate and commercial	**132,556**	**44.68**	128,912	45.34
– manufacturing	**22,785**	**7.68**	26,269	9.24
– international trade and services	**45,222**	**15.24**	41,718	14.67
– commercial real estate	**17,343**	**5.85**	17,568	6.18
– other property-related	**5,797**	**1.95**	4,940	1.74
– government	**2,347**	**0.79**	2,391	0.84
– other commercial	**39,062**	**13.17**	36,026	12.67
Financial	**49,810**	**16.79**	47,651	16.76
– non-bank financial institutions	**28,447**	**9.59**	24,429	8.59
– banks	**21,363**	**7.20**	23,222	8.17
Gross loans at 31 Dec	**182,366**	**61.47**	176,563	62.10
Impairment allowances on wholesale lending				
Corporate and commercial	**(1,723)**		(1,837)	
– manufacturing	**(383)**		(348)	
– international trade and services	**(392)**		(548)	
– commercial real estate	**(326)**		(413)	
– other property-related	**(137)**		(160)	
– government	**(1)**		(3)	
– other commercial	**(484)**		(365)	
Financial	**(175)**		(131)	
– non-bank financial institutions	**(175)**		(131)	
– banks	**–**		–	
Impairment allowances at 31 Dec	**(1,898)**		(1,968)	
Impairment allowances % of impaired loans	**37.43%**		41.60%	

Commercial real estate lending

Commercial real estate lending includes the financing of corporate, institutional and high net worth individuals who are investing primarily in income-producing assets and, to a lesser extent, in their construction and development. The business focuses mainly on traditional core asset classes such as retail, offices, light industrial and residential building projects.

Commercial real estate lending

	2016 £m	2015 £m
Neither past due nor impaired	**16,326**	16,404
Past due but not impaired	**34**	60
Impaired loans	**983**	1,104
Total gross loans and advances at 31 Dec	**17,343**	17,568
– *of which: renegotiated loans*	***906***	*1,071*
Impairment allowances	**(326)**	(413)

Refinance risk in commercial real estate

Commercial real estate lending tends to require the repayment of a significant proportion of the principal at maturity. Typically, a customer will arrange repayment through the acquisition of a new loan to settle the existing debt. Refinance risk is the risk that a customer, being unable to repay their debt on maturity, is unable to refinance the debt at commercial rates. We monitor our commercial real estate portfolio closely, assessing those factors that may indicate potential issues with refinancing. The principal factor is the vintage of the loan, when origination reflected previous market norms which no longer apply in the current market. Examples might be higher LTV ratios and/or lower interest cover ratios. The range of refinancing sources in the local market is also an important consideration, with risk increasing when lenders are restricted to banks and when bank liquidity is limited. In addition, underlying fundamentals such as the reliability of tenants, the ability to let and the condition of the property are important, as they influence property values.

We currently see significant liquidity in overall debt markets which is leading to pressure on pricing and terms. HSBC is maintaining its quality standards and appetite for higher quality proposals.

Collateral and other credit enhancement held

(Audited)

It is the group's practice to lend on the basis of the customer's ability to meet their obligations out of their cash flow resources rather than rely on the value of security offered. Depending on the customer's standing and the type of product, facilities may be provided unsecured.

For other lending a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of a default, the group may utilise the collateral as a source of repayment. Depending on its form, collateral can have a significant financial effect in mitigating exposure to credit risk.

Collateral on loans and advances

Collateral held is analysed separately for commercial real estate and for other corporate and commercial and financial (non-bank) lending. This reflects the greater correlation between collateral performance and principal repayment in the commercial real estate sector than applies to other lending. In each case, the analysis includes off-balance sheet commitments, primarily undrawn credit lines.

The collateral measured in the tables below consists of fixed first charges on real estate and charges over cash and marketable financial instruments. The values in the tables represent the expected market value on an open market basis; no adjustment has been made to the collateral for any expected costs of recovery. Cash is valued at its nominal value and marketable securities at their fair value. The LTV ratios presented are calculated by directly associating loans and advances with the collateral that individually and uniquely supports each facility. Where collateral assets are shared by multiple loans and advances, whether specifically or, more generally, by way of an all monies charge, the collateral value is prorated across the loans and advances protected by the collateral.

Other types of collateral which are commonly taken for corporate and commercial lending such as unsupported guarantees and floating charges over the assets of a customer's business are not measured in the tables below. While such mitigants have value, often providing rights in insolvency, their assignable value is not sufficiently certain and they are therefore assigned no value for disclosure purposes.

The value of commercial real estate collateral is determined by using a combination of professional and internal valuations and physical inspections. Due to the complexity of valuing collateral for commercial real estate, local valuation policies determine the frequency of review on the basis of local market conditions. Revaluations are sought with greater frequency as concerns over the performance of the collateral or the direct obligor increase.

Commercial real estate loans and advances including loan commitments by level of collateral

(Audited)

	2016	2015
	£m	£m
Rated CRR[1] 1 to 7		
Not collateralised	**3,158**	3,035
Fully collateralised	**17,625**	17,241
Partially collateralised	**1,104**	2,041
– collateral value	**829**	1,422
Total	**21,887**	22,317
Rated CRR[1] 8 to 10		
Not collateralised	**60**	62
Fully collateralised	**774**	1,059
LTV Ratio:		
– less than 50%	**107**	175
– 51% to 75%	**526**	543
– 76% to 90%	**87**	211
– 90% to 100%	**54**	130
Partially collateralised	**386**	563
– collateral value	**177**	326
Total	**1,220**	1,684
Total at 31 Dec	**23,107**	24,001

1 *Customer risk rating ('CRR'). See page 23 for further information.*

Other corporate, commercial and financial (non-bank) lending

(Audited)

Other corporate, commercial and financial (non-bank) lending is detailed below, reflecting the difference in collateral held on the portfolios. For financing activities in corporate and commercial lending that are not predominantly commercial real estate-oriented, collateral value is not strongly correlated to principal repayment performance. Collateral values are generally refreshed when an obligor's general credit performance deteriorates and we have to assess the likely performance of secondary sources of repayment should it prove necessary to rely on them.

The table includes off-balance sheet loan commitments by level of collateralisation.

Other corporate, commercial and financial (non-bank) loans and advances including loan commitments by level of collateral rated CRR 8 to 10 only

(Audited)

	2016	2015
	£m	£m
Not collateralised	**2,669**	3,015
Fully collateralised	**1,346**	849
LTV Ratio:		
– less than 50%	**548**	234
– 51% to 75%	**379**	461
– 76% to 90%	**169**	84
– 90% to 100%	**250**	70
Partially collateralised	**569**	1,221
– collateral value	**291**	585
Total at 31 Dec	**4,584**	5,085

Other credit risk exposures

In addition to collateralised lending, other credit enhancements are employed and methods used to mitigate credit risk arising from financial assets. These are described in more detail below:

- some securities issued by governments, banks and other financial institutions benefit from additional credit enhancement provided by government guarantees that cover the assets;
- debt securities issued by corporates are primarily unsecured;
- debt securities issued by banks and financial institutions include ABSs and similar instruments which are supported by underlying pools of financial assets. Credit risk associated with ABSs is reduced through the purchase of credit default swap ('CDS') protection;
- trading assets include loans and advances held with trading intent. These mainly consist of cash collateral posted to satisfy margin requirements on derivatives, settlement accounts, reverse repos and stock borrowing. There is limited credit risk on cash collateral posted since in the event of default of the counterparty these would be set off against the related liability. Reverse repos and stock borrowing are by their nature collateralised; and
- the group's maximum exposure to credit risk includes financial guarantees and similar arrangements that we issue or enter into, and loan commitments that we are irrevocably committed to. Depending on the terms of the arrangement, we may have recourse to additional credit mitigation in the event that a guarantee is called upon or a loan commitment is drawn and subsequently defaults.

Derivatives

The group participates in transactions exposing it to counterparty credit risk. Counterparty credit risk is the risk of financial loss if the counterparty to a transaction defaults before completing the satisfactory settlement of the transaction, which varies in value by reference to a market factor such as interest rate, exchange rate or asset price. It arises principally from OTC derivatives and securities financing transactions ('SFTs') and is calculated in both the trading and non-trading books.

Transactions vary in value by reference to a market factor such as interest rate, exchange rate or asset price. The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment ('CVA').

The International Swaps and Derivatives Association ('ISDA') Master Agreement is the group's preferred agreement for documenting derivatives activity. It provides the contractual framework within which dealing activity across a full range of OTC products is conducted, and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or other pre-agreed termination events occur. It is common, and the group's preferred practice, for the parties to execute a Credit Support Annex ('CSA') in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between the parties to mitigate the market-contingent counterparty risk inherent in the outstanding positions.

We manage the counterparty exposure arising from market risk on our OTC derivative contracts by using collateral agreements with counterparties and netting agreements. Currently, we do not actively manage our general OTC derivative counterparty exposure in the credit markets, although we may manage individual exposures in certain circumstances.

HSBC has historically placed strict policy restrictions on collateral types and as a consequence the types of collateral received and pledged are, by value, highly liquid and of a strong quality, being predominantly cash.

Where a collateral type is required to be approved outside the collateral policy (which includes collateral that includes wrong way risks), a submission to the Documentation Approval Committee ('DAC') for approval is required. The DAC requires the participation and sign-off of senior representatives from the Global Markets Chief Operating Officer, Legal and Risk.

The majority of the counterparties with whom we have a collateral agreement are European. The majority of the group's CSAs are with financial institutional clients.

Securitisation exposures and other structured products

This section contains information about our exposure to ABSs, some of which are held through consolidated structured entities and summarised in the table below.

Also included within this section is information on the GB&M legacy credit activities in respect of Solitaire and the securities investment conduits ('SICs'). For further information on structured entities please refer to Note 17.

Carrying amount of consolidated holdings of ABS

	Trading	Available for sale	Designated at fair value through profit or loss	Loans and receivables	Total[1]	Of which held through consolidated SEs
	£m	£m	£m	£m	£m	£m
Mortgage-related assets:						
– Sub-prime residential	**9**	**1,253**	**–**	**84**	**1,346**	**501**
– US Alt-A residential	**–**	**1,129**	**–**	**–**	**1,129**	**1,121**
– Other residential	**537**	**290**	**–**	**44**	**871**	**123**
– Commercial property	**282**	**927**	**–**	**115**	**1,324**	**574**
Leveraged finance-related assets	**40**	**1,042**	**–**	**16**	**1,098**	**596**
Student loan-related assets	**41**	**2,323**	**–**	**9**	**2,373**	**2,123**
Other assets	**815**	**491**	**–**	**39**	**1,345**	**328**
At 31 Dec 2016	**1,724**	**7,455**	**–**	**307**	**9,486**	**5,366**
Mortgage-related assets:						
– Sub-prime residential	14	1,514	–	88	1,616	725
– US Alt-A residential	–	1,291	–	–	1,291	1,212
– Other residential	540	418	–	73	1,031	171
– Commercial property	398	1,548	–	136	2,082	1,117
Leveraged finance-related assets	55	1,548	–	63	1,666	884
Student loan-related assets	47	2,002	–	17	2,066	1,808
Other assets	681	512	1	86	1,280	381
At 31 Dec 2015	1,735	8,833	1	463	11,032	6,298

1 *The asset-backed securities are primarily US dollar ('USD') denominated. Principal and carrying amounts are converted into sterling ('GBP') at the prevailing exchange rates at 31 December (2016: 1GBP: USD 1.2325; 2015: 1GBP: USD 1.48215).*

Included in the above table are securities with a carrying amount of £1,587m (2015: £2,098m) held through the SICs, excluding Solitaire, that are consolidated by the group. Although the group includes these assets in full on its balance sheet, significant first loss risks are borne by the third-party capital notes investors. The carrying amount of the capital notes liability at the year ended 31 December 2016 was £175m (2015: £144m).

The available-for-sale reserve movement in relation to these ABSs for the year was an increase of £45m (2015: decrease of £24m). The impairment write-back attributed to the group for the year was £16m (2015: write-back of £16m).

Management of liquidity and funding risk in 2016

Liquidity coverage ratio

At 31 December 2016, all the group's principal operating entities were within the LCR risk tolerance level established by the Board and applicable under the LFRF.

The following table displays the individual LCR levels for our principal operating entities on an EC LCR Delegated Regulation basis.

Operating entities' LCRs

	At 31 Dec 2016	At 31 Dec 2015
	%	%
HSBC UK liquidity group[1]	123	107
HSBC France	122	127
HSBC Trinkaus & Burkhardt AG	133	120

1 *HSBC UK Liquidity Group comprises: HSBC Bank plc (including all overseas branches), Marks and Spencer Financial Services Limited, HSBC Trust Company (UK) Limited and Private Bank (UK) Limited. It is managed as a single operating entity, in line with the application of UK liquidity regulation as agreed with the PRA.*

Net stable funding ratio

At 31 December 2016, all the group's principal operating entities were within the NSFR risk tolerance level established by the Board and applicable under the LFRF.

The table below displays the NSFR levels for the principal operating entities on a BCBS295 basis.

Operating entities' NSFRs

	At 31 Dec 2016
	%
HSBC UK liquidity group	116
HSBC France	120
HSBC Trinkaus & Burkhardt AG	120

Depositor concentration and term funding maturity concentration

The LCR and NSFR metrics assume a stressed outflow based on a portfolio of depositors within each deposit segment. The validity of these assumptions is undermined if the underlying depositors do not represent a large enough portfolio so that a depositor concentration exists.

In addition to this, operating entities are exposed to term re-financing concentration risk if the current maturity profile results in future maturities being overly concentrated in any defined period.

At 31 December 2016, all principal operating entities were within the risk tolerance levels set for depositor concentration and term funding maturity concentration which were established by the Board and are applicable under the LFRF.

Liquid assets of the group's principal operating entities

The table below shows the unweighted liquidity value of assets categorised as liquid, which is used for the purposes of calculating the LCR metric.

This reflects the stock of unencumbered liquid assets at the reporting date, using the regulatory definition of liquid assets.

Operating entities' liquid assets

	Estimated liquidity value at 31 Dec 2016
	£m
HSBC UK liquidity group	
Level 1	116,742
Level 2a	1,691
Level 2b	6,217
HSBC France	
Level 1	16,860
Level 2a	650
Level 2b	12
HSBC Trinkaus & Burkhardt AG	
Level 1	4,969
Level 2a	4
Level 2b	1,057

Sources of funding

The following 'Funding sources and uses' table provides a consolidated view of how our balance sheet is funded, and should be read in light of the LFRF, which requires operating entities to manage liquidity and funding risk on a stand-alone basis.

The table analyses our consolidated balance sheet according to the assets that primarily arise from operating activities and the sources of funding primarily supporting these activities. Assets and liabilities that do not arise from operating activities are presented as a net balancing source or deployment of funds.

In 2016, the level of customer accounts continued to exceed the level of loans and advances to customers. The positive funding gap was predominantly deployed in liquid assets, cash and balances with central banks and financial investments, as required by the LFRF.

Funding sources and uses for the group

	2016	2015
	£m	£m
Sources		
Customer accounts	**375,252**	332,830
Deposits by banks	**23,682**	24,202
Repurchase agreements – non-trading	**19,709**	17,000
Debt securities issued	**16,140**	26,069
Subordinated liabilities	**8,421**	8,527
Financial liabilities designated at fair value	**18,486**	19,001
Liabilities under insurance contracts	**19,724**	16,664
Trading liabilities	**93,934**	73,489
– repos	**562**	332
– stock lending	**14,836**	13,013
– settlement accounts	**2,624**	2,659
– other trading liabilities	**75,912**	57,485
Total equity	**40,625**	38,125
At 31 Dec	**615,973**	555,907

	2016	2015
	£m	£m
Uses		
Loans and advances to customers	**272,760**	258,506
Loans and advances to banks	**21,363**	23,222
Reverse Repurchase agreements – non-trading	**31,660**	30,537
Trading assets	**125,069**	110,585
– reverse repos	**2,583**	295
– stock borrowing	**4,588**	4,823
– settlement accounts	**4,031**	3,608
– other trading assets	**113,867**	101,859
Financial investments	**83,135**	71,352
Cash and balances with central banks	**54,278**	39,749
Net deployment in other balance sheet assets and liabilities	**27,708**	21,956
At 31 Dec	**615,973**	555,907

Contingent liquidity risk arising from committed lending facilities

The group provides customers with committed facilities such as standby facilities to corporate customers and committed backstop lines to conduit vehicles sponsored by the group. All of the undrawn commitments provided to conduits or external customers are accounted for in the LCR and NSFR in line with the applicable regulations. This ensures that under a stress scenario any additional outflow generated by increased utilisation of these committed facilities by either customers or the groups's sponsored conduits will not give rise to liquidity risk for the group.

At 31 December 2016, the CP issued by Solitaire and Mazarin was entirely held by HSBC UK liquidity group.

Since the group controls the size of the portfolio of securities held by these conduits, no contingent liquidity risk exposure arises as a result of these undrawn committed lending facilities. In relation to commitments to customers, the table below shows the level of undrawn commitments outstanding in terms of the five largest single facilities and the largest market sector.

The group's contractual exposures as at 31 December monitored under the contingent liquidity risk limit structure

	The group	
	2016	2015
	£bn	£bn
Commitments to conduits		
Consolidated multi-seller conduits[1]		
– total lines	**6.2**	10.8
– largest individual lines	**0.3**	0.7
Consolidated securities investment conduits – total lines	**3.8**	5.5
Commitments to customers		
– five largest[2]	**3.6**	3.4
– largest market sector[3]	**14.8**	12.1

1 *These exposures relate to the Regency multi-seller conduit. This vehicle provides funding to group customers by issuing debt secured by a diversified pool of customer-originated assets.*
2 *These figures represent the undrawn balance for the five largest committed liquidity facilities provided to customers, other than those facilities to conduits.*
3 *These figures represent the undrawn balance for the total of all committed liquidity facilities provided to the largest market sector, other than those facilities to conduits.*

Asset encumbrance and collateral management

An asset is defined as encumbered if it has been pledged as collateral against an existing liability and, as a result, is no longer available to the group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. Collateral is managed on an operating entity basis consistent with the approach to managing liquidity and funding. Available collateral held in an operating entity is managed as a single consistent collateral pool from which each operating entity will seek to optimise the use of the available collateral. The objective of this disclosure is to facilitate an understanding of available and unrestricted assets that could be used to support potential future funding and collateral needs. The disclosure is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.

Summary of assets available to support potential future funding and collateral needs (on- and off-balance sheet)

	2016	2015
	£m	£m
Total on-balance sheet assets at 31 Dec	**816,829**	727,941
Less:		
– reverse repo/stock borrowing receivables and derivative assets	**(238,250)**	(202,440)
– other assets that cannot be pledged as collateral	**(76,431)**	(81,273)
Total on-balance sheet assets that can support funding and collateral needs at 31 Dec	**502,148**	444,228
Add: off-balance sheet assets		
– fair value of collateral received in relation to reverse repo/stock borrowing/derivatives that is available to sell or repledge	**112,322**	84,473
Total assets that can support future funding and collateral needs	**614,470**	528,701
Less:		
– on-balance sheet assets pledged	**(65,084)**	(41,463)
– re-pledging of off-balance sheet collateral received in relation to reverse repo/stock borrowing/derivatives	**(81,156)**	(62,608)
Assets available to support funding and collateral needs at 31 Dec	**468,230**	424,630

Market risk in 2016

Market risk is the risk that movements in market factors, including foreign exchange rates and commodity prices, interest rates, credit spreads and equity prices will reduce the group's income or the value of its portfolios.

There were no material changes to our policies and practices for the management of market risk in 2016.

Exposure to market risk is separated into two portfolios.

- Trading portfolios comprise positions arising from market-making and warehousing of customer-derived positions.
- Non-trading portfolios including BSM comprise positions that primarily arise from the interest rate management of the group's retail and commercial banking assets and liabilities, financial investments designated as available-for-sale and held-to-maturity, and exposures arising from the group's insurance operations.

Trading portfolios

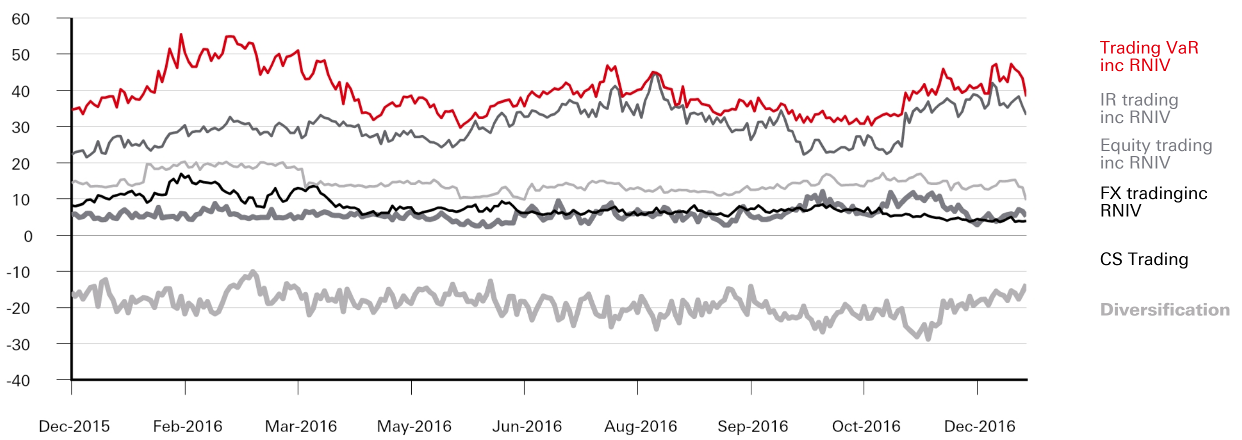
Value at risk of the trading portfolios

(Audited)

Trading VaR predominantly resides within Global Markets. The total VaR for trading activity increased as at 31 December 2016 in comparison to 31 December 2015. The increasing trend at the start of the year was driven by market movements with active management in the latter part of the first quarter able to reverse the early year increases. The rise in the last quarter attributed to an increase in positions. At year-end equity skew modelling was incorporated into the core VaR framework and associated Risk-Not-In-VaR (RNIV) measure was demised.

The daily levels of total trading VaR over the past year are set out in the graph below.

Daily VaR (trading portfolios), 99% 1 day (£m)



The group's trading VaR for the year is shown in the table below.

Trading value at risk, 99% 1 day

(Audited)

	Foreign exchange (FX) and commodity	Interest rate (IR)	Equity (EQ)	Credit Spread (CS)	Portfolio Diversification[1]	Total[2]
	£m	£m	£m	£m	£m	£m
Balance at 31 Dec 2016	**5.2**	**33.2**	**9.6**	**3.9**	**(13.6)**	**38.3**
Average	**5.9**	**30.3**	**14.5**	**7.8**	**(19.1)**	**39.4**
Maximum	**12.0**	**44.8**	**20.3**	**16.9**		**55.4**
Minimum	**2.3**	**21.5**	**9.6**	**3.6**		**29.7**
Balance at 31 Dec 2015	5.7	22.2	14.4	8.2	(15.8)	34.7
Average	6.3	27.9	12.3	6.6	(16.1)	37.0
Maximum	11.7	35.0	18.9	10.3		47.0
Minimum	2.9	21.0	7.1	4.6		30.2

1 *Portfolio diversification is the market risk dispersion effect of holding a portfolio containing different risk types. It represents the reduction in unsystematic market risk that occurs when combining a number of different risk types, for example, interest rate, equity and foreign exchange, together in one portfolio. It is measured as the difference between the sum of the VaR by individual risk type and the combined total VaR. A negative number represents the benefit of portfolio diversification. As the maximum occurs on different days for different risk types, it is not meaningful to calculate a portfolio diversification benefit for this measure.*

2 *The total VaR is non-additive across risk types due to diversification effect and it includes VaR RNIV.*

Back-testing

In 2016, the group experienced one hypothetical profit exception. The profit exception was driven by the significant impact across most of the businesses in London due to the UK Referendum vote to leave the European Union.

There was no evidence of model failure or control error. The back-testing results excludes exemptions due from changes in fair value adjustments.

Value at Risk of the non-trading portfolios

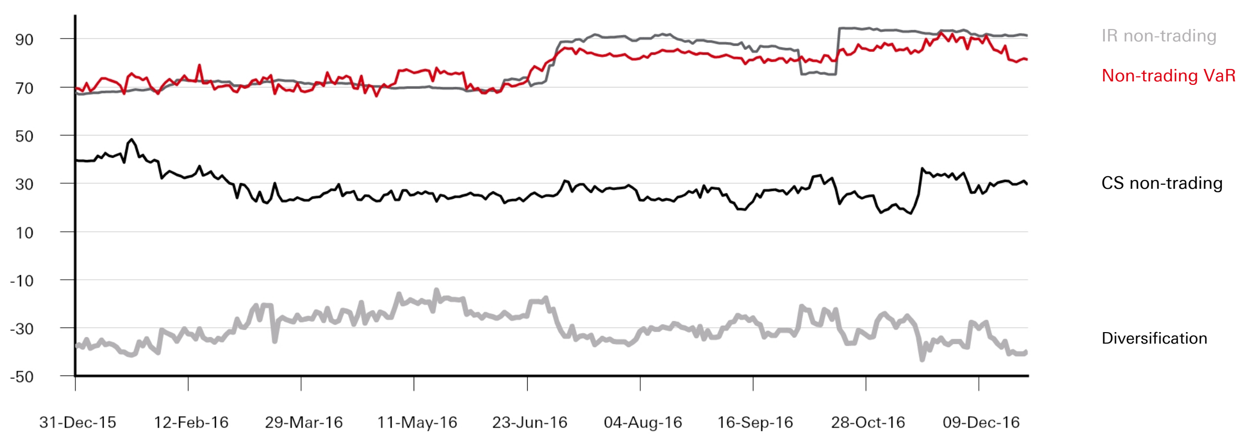
(Audited)

Non-trading VaR of the group includes contributions from all global businesses. The higher non-trading VaR at the end of 2016 is predominantly due to interest rate risk arising from an increase in positions after the UK referendum. The early decrease in non-trading credit spread risk is attributed to the continuous decrease of legacy exposures.

Non-trading VaR also includes the interest rate risk of non-trading financial instruments held by the global businesses and transferred into portfolios managed by BSM or local treasury functions. In measuring, monitoring and managing risk in our non-trading portfolios, VaR is just one of the tools used. The management of interest rate risk in the banking book is described further in 'Non-trading interest rate risk' below, including the role of BSM.

The daily levels of total non-trading VaR over the last year are set out in the graph below.

Daily VaR (non-trading portfolios), 99% 1 day (£m)



The group's non-trading VaR for the year is shown in the table below.

Daily VaR (non-trading portfolios), 99% 1 day

(Audited)

	Interest rate	Credit spread	Portfolio diversification	Total
	£m	£m	£m	£m
Balance at 31 Dec 2016	**91.5**	**29.5**	**(39.6)**	**81.4**
Average	**79.9**	**27.9**	**(29.6)**	**78.2**
Maximum	**94.5**	**48.3**		**92.5**
Minimum	**67.0**	**17.4**		**66.1**
Balance at 31 Dec 2015	67.8	39.7	(37.9)	69.6
Average	50.4	33.0	(26.7)	56.7
Maximum	68.9	46.9		76.1
Minimum	34.3	24.1		39.4

Fixed-rate securities

The principal non-trading risk which is not included in the VaR reported for GB&M arises out of Fixed Rate Subordinated Notes. The VaR related to these instruments was £29.2m at 31 December 2016 (2015: £28.6m); while the average and maximum during the year was £30.1m and £36.6m respectively (2015: £25.4m and £28.6m).

Equity securities held as available-for-sale

Potential new commitments are subject to risk appraisal to ensure that industry and geographical concentrations remain within acceptable levels for the portfolio. Regular reviews are performed to substantiate the valuation of the investments within the portfolio and investments held to facilitate ongoing business, such as holdings in government-sponsored enterprises and local stock exchanges.

Market risk arises on equity securities held as available-for-sale. The fair value of these securities at 31 December 2016 was £761m (2015: £1,109m).

The fair value of the constituents of equity securities held as available-for-sale can fluctuate considerably. For details of the impairment incurred on available-for-sale equity securities see the accounting policies in Note 1.2(e).

Structural foreign exchange exposures

The group's structural foreign currency 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.

For our policies and procedures for managing structural foreign exchange exposures see page 28 of the Risk management section.

Net structural foreign currency exposures

	2016	2015
	£m	£m
Currency of structural exposure		
Euro	**11,718**	11,313
US dollars	**907**	800
Turkish lira	**596**	679
South African rand	**279**	180
Russian rouble	**214**	123
Others, each less than £100 million	**366**	289
At 31 Dec	**14,080**	13,384

Operational risk in 2016

Responsibility for minimising operational risk lies with HSBC Bank plc staff. All staff are required to manage the operational risks of the business and operational activities for which they are responsible.

A summary of our current policies and practices regarding operational risk is provided on page 29.

Operational risk exposures in 2016

HSBC Bank plc continued to strengthen those controls that manage our most material risks in 2016. Among other measures:

- further embedding Global Standards into ORMF to ensure that we know our customers, ask the right questions and escalate concerns to prevent financial crime;
- increased monitoring and enhanced detective controls to manage those fraud risks which arise from new technologies and new ways of banking;
- strengthened internal security controls to prevent cyber attacks;
- improved controls and security to protect customers when using digital channels; and
- enhanced third-party risk management capability to enable the consistent risk assessment of any third-party service.

Further information on the nature of these risks is provided in 'Top and emerging risks' on page 16.

Operational losses in 2016

Operational risk losses in 2016 are lower than in 2015, reflecting a reduction in losses incurred relating to large legacy conduct-related events. The profile of operational risk losses is summarised below, showing the distribution of losses for 2015 and 2016 against event types.

	2016	2015
	%	%
Business disruption and system failures	–	–
Clients, products and business practices	**80**	91
Damage to physical assets	–	–
Employee practices and workplace safety	–	–
Execution, delivery and process management	**16**	5
External fraud	**4**	4
Internal fraud	–	–
Total	**100**	100

Insurance manufacturing operations risk in 2016

The majority of the risk in our insurance business derives from manufacturing activities and can be categorised as financial risk or insurance risk. Financial risks include market risk, credit risk and liquidity risk. Insurance risk is the risk, other than financial risk, of loss transferred from the holder of the insurance contract to the issuer (the bank).

A summary of our current policies and practices regarding the management of insurance risk is set out on page 31.

The group's bancassurance model

We operate an integrated bancassurance model that provides insurance products principally for customers with whom we have a banking relationship.

The insurance contracts we sell relate to the underlying needs of our banking customers, which we can identify from our point-of-sale contacts and customer knowledge. The majority of sales are of savings and investment products and term and credit life contracts.

By focusing largely on personal and SME lines of business, we are able to optimise volumes and diversify individual insurance risks.

We choose to manufacture these insurance products in HSBC subsidiaries based on an assessment of operational scale and risk appetite. Manufacturing insurance allows us to retain the risks and rewards associated with writing insurance contracts by keeping part of the underwriting profit and investment income within the bank.

We have life insurance manufacturing subsidiaries in France, Malta and the UK. Where we do not have the risk appetite or operational scale to be an effective insurance manufacturer; we engage with a handful of leading external insurance companies in order to provide insurance products to our customers through our banking network and direct channels. These arrangements are generally structured with our exclusive strategic partners and earn the bank a combination of commissions, fees and a share of profits.

Insurance products are sold through all global businesses, but predominantly by RBWM, GPB and CMB through our branches and direct channels.

Measurement

(Audited)

The risk profile of our insurance manufacturing businesses is measured using an economic capital approach. Assets and liabilities are measured on a market value basis, and a capital requirement is defined to ensure that there is a less than one in 200 chance of insolvency over a one-year time horizon, given the risks that the businesses are exposed to. The methodology for the economic capital calculation is largely aligned to the pan-European Solvency II insurance capital regulations, which were applicable from January 2016. The economic capital coverage ratio (economic net asset value divided by the economic capital requirement) is a key risk appetite measure. The business has a current appetite to remain above 140% with a tolerance of 110%. In addition to economic capital, the regulatory solvency ratio is also a metric used to manage risk appetite on an entity basis.

The following table shows the composition of assets and liabilities by contract type.

Balance sheet of insurance manufacturing subsidiaries by type of contract

(Audited)

	With DPF	Unit-linked	Other contracts[1]	Shareholder assets and liabilities	Total
	£m	£m	£m	£m	£m
Financial assets	17,663	1,997	208	1,450	21,318
– financial assets designated at fair value	5,822	1,882	106	442	8,252
– derivatives	114	–	–	38	152
– financial investments – AFS[2]	10,204	–	99	902	11,205
– other financial assets[3]	1,523	115	3	68	1,709
Reinsurance assets	–	124	169	–	293
PVIF[4]	–	–	–	577	577
Other assets and investment properties	692	5	2	5	704
Total assets at 31 Dec 2016	18,355	2,126	379	2,032	22,892
Liabilities under investment contracts designated at fair value	–	1,072	–	–	1,072
Liabilities under insurance contracts	18,355	1,030	339	–	19,724
Deferred tax[5]	–	2	–	189	191
Other liabilities	–	–	30	733	763
Total liabilities at 31 Dec 2016	18,355	2,104	369	922	21,750
Total equity at 31 Dec 2016	–	–	–	1,142	1,142
Total liabilities and equity at 31 Dec 2016	18,355	2,104	369	2,064	22,892

Balance sheet of insurance manufacturing subsidiaries by type of contract (continued)

	With DPF	Unit-linked	Other Contracts[1]	Shareholder assets and liabilities	Total
	£m	£m	£m	£m	£m
Financial assets	14,881	1,786	163	1,317	18,147
– financial assets designated at fair value	4,527	1,638	67	507	6,739
– derivatives	75	1	—	34	110
– financial investments – AFS[2]	8,998	—	88	713	9,799
– other financial assets[3]	1,281	147	8	63	1,499
Reinsurance assets	—	56	138	—	194
PVIF[4]	—	—	—	546	546
Other assets and investment properties	605	4	4	6	619
Total assets at 31 Dec 2015	15,486	1,846	305	1,869	19,506
Liabilities under investment contracts designated at fair value	—	928	—	—	928
Liabilities under insurance contracts	15,486	904	274	—	16,664
Deferred tax[5]	—	—	—	185	185
Other liabilities	—	—	—	619	619
Total liabilities at 31 Dec 2015	15,486	1,832	274	804	18,396
Total equity at 31 Dec 2015	—	—	—	1,110	1,110
Total liabilities and equity at 31 Dec 2015	15,486	1,832	274	1,914	19,506

1 *'Other Contracts' includes term assurance, credit life insurance and investment contracts not included in the 'Unit-linked' or 'With DPF' columns.*
2 *Financial investments available for sale (AFS).*
3 *Comprise mainly loans and advances to banks, cash and intercompany balances with other non-insurance legal entities.*
4 *Present value of in-force long-term insurance business.*
5 *'Deferred tax' includes the deferred tax liabilities arising on recognition of PVIF.*

Key risk types

The key risk for the insurance operation is market risk, followed by insurance risk. Credit and liquidity risk, while significant for the bank as a whole, are minor for our insurance operations.

Market risk

(Audited)

Description and exposure

Market risk is the risk of changes in market factors affecting the bank's capital or profit. Market factors include interest rates, equity and growth assets, spread risk and foreign exchange rates.

Our exposure varies depending on the type of contract issued. Our most significant life insurance products are investment contracts with discretionary participating features ('DPF') issued in France. These products typically include some form of capital guarantee or guaranteed return, on the sums invested by the policyholders, to which discretionary bonuses are added if allowed by the overall performance of the funds. These funds are primarily invested in bonds with a proportion allocated to other asset classes, to provide customers with the potential for enhanced returns.

DPF products expose the bank to the risk of variation in asset returns, which will impact our participation in the investment performance. In addition, in some scenarios the asset returns can become insufficient to cover the policyholders' financial guarantees, in which case the shortfall has to be met by the bank. Reserves are held against the cost of such guarantees, calculated by stochastic modelling.

Where local rules require, these reserves are held as part of liabilities under insurance contracts. Any remainder is accounted for as a deduction to the present value of in-force long-term insurance contracts and investment contracts with DPF ('PVIF') on the relevant product. The table below shows the total reserve held for the cost of guarantees, the range of investment returns on assets supporting these products and the implied investment return that would enable the business to meet the guarantees.

The financial guarantees offered on some portfolios exceeded the current yield on the assets that back them. The cost of guarantees on closed portfolios in France reported in the 2.1% to 4.0% and 4.1% to 5.0% categories increased, driven principally by falling yields.

For unit-linked contracts, market risk is substantially borne by the policyholder, but some market risk exposure typically remains as fees earned are related to the market value of the linked assets.

Financial return guarantees

(Audited)

	2016			2015		
	Investment returns implied by guarantee	**Current yields**	**Cost of guarantees**	Investment returns implied by guarantee	Current yields	Cost of guarantees
	%	**%**	**£m**	%	%	£m
Capital	**0.0**	**3.0**	**25**	0.0	3.8	37
Nominal annual return[1]	**2.6**	**3.0**	**76**	2.7	3.8	65
Nominal annual return	**4.5**	**3.0**	**52**	4.5	3.8	9
At 31 Dec			**153**			111

1 *A block of contracts in France with guaranteed nominal annual returns in the range 1.25%-3.72% are reported in line with the average guaranteed return of 2.6% (2015: 2.7%) offered to policyholders on these contracts.*

Sensitivities

The following table illustrates the effects of selected interest rate and equity price scenarios on our profit for the year and the total equity of our insurance manufacturing subsidiaries.

Where appropriate, the effects of the sensitivity tests on profit after tax and equity incorporate the impact of the stress on the PVIF. The relationship between the profit and total equity and the risk factors is non-linear; therefore, the results disclosed should not be extrapolated to measure sensitivities to different levels of stress. For the same reason, the impact of the stress is not symmetrical on the upside and downside. The sensitivities are stated before allowance for management actions which may mitigate the effect of changes in the market environment. The sensitivities presented allow for adverse changes in policyholder behaviour that may arise in response to changes in market rates.

Changes in sensitivity compared to 2015 were primarily driven by the impact of decreasing yields in France on the projected cost of options and guarantees.

Sensitivity of the group's insurance manufacturing subsidiaries to market risk factors

(Audited)

	2016		2015	
	Effect on profit after tax	**Effect on total equity**	Effect on profit after tax	Effect on total equity
	£m	**£m**	£m	£m
+ 100 basis points parallel shift in yield curves	**58**	**44**	10	1
– 100 basis points parallel shift in yield curves [1]	**(110)**	**(95)**	(61)	(50)
10% increase in equity prices	**13**	**13**	12	12
10% decrease in equity prices	**(13)**	**(13)**	(12)	(12)

1 *Where a -100 basis point parallel shift in the yield curve would result in a negative interest rate, the effect on profit after tax and total equity has been calculated using a minimum rate of 0%.*

Credit risk

(Audited)

Description and exposure

Credit risk arises in two main areas for our insurance manufacturers:

- risk of default by debt security counterparties after investing premiums to generate a return for policyholders and shareholders; and
- risk of default by reinsurance counterparties and non-reimbursement for claims made after ceding insurance risk.

The amounts outstanding at the balance sheet date in respect of these items are shown in the table on page 51.

The credit quality of the reinsurers' share of liabilities under insurance contracts is assessed as 'satisfactory' or higher (as defined on page 23), with 100% of the exposure being neither past due nor impaired.

Credit risk on assets supporting unit-linked liabilities is predominantly borne by the policyholder; therefore our exposure is primarily related to liabilities under non-linked insurance and investment contracts and shareholders' funds. The credit quality of these financial assets is included in the table on page 35.

Liquidity risk

(Audited)

Description and exposure

Liquidity risk is the risk that an insurance operation, though solvent, either does not have sufficient financial resources available to meet its obligations when they fall due, or can secure them only at excessive cost.

The following table shows the expected undiscounted cash flows for insurance contract liabilities at 31 December 2016. The liquidity risk exposure is wholly borne by the policyholder in the case of unit-linked business and is shared with the policyholder for non-linked insurance.

The profile of the expected maturity of insurance contracts at 31 December 2016 remained comparable with 2015.

The remaining contractual maturity of investment contract liabilities is included in Note 25.

Expected maturity of insurance contract liabilities

(Audited)

	Expected cash flows (undiscounted)				
	Within 1 year	**1-5 years**	**5-15 years**	**Over 15 years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Unit-linked	**195**	**277**	**418**	**370**	**1,260**
With DPF and other contracts	**1,377**	**6,074**	**5,912**	**5,372**	**18,735**
At 31 Dec 2016	**1,572**	**6,351**	**6,330**	**5,742**	**19,995**
Unit-linked	157	294	344	251	1,046
With DPF and other contracts	1,162	5,312	4,919	4,409	15,802
At 31 Dec 2015	1,319	5,606	5,263	4,660	16,848

Insurance risk

Description and Exposure

Insurance risk is the risk of loss through adverse experience, in either timing or amount, of insurance underwriting parameters (non-economic assumptions). These parameters include mortality, morbidity, longevity, lapses and unit costs.

The principal risk we face is that, over time, the cost of the contract, including claims and benefits, may exceed the total amount of premiums and investment income received.

The table on page 51 analyses our life insurance risk exposures by type of contract.

The insurance risk profile and related exposures remain largely consistent with those observed at 31 December 2015.

Sensitivities

The table below shows the sensitivity of profit and total equity to reasonably possible changes in non-economic assumptions across all our insurance manufacturing subsidiaries.

Mortality and morbidity risk is typically associated with life insurance contracts. The effect on profit of an increase in mortality or morbidity depends on the type of business being written. Our largest exposure to mortality and morbidity risk exists in the UK.

Sensitivity to lapse rates depends on the type of contracts being written. For a portfolio of term assurance, an increase in lapse rates typically has a negative effect on profit due to the loss of future income on the lapsed policies. However, some contract lapses have a positive effect on profit due to the existence of policy surrender charges. We are most sensitive to a change in lapse rates in France.

Expense rate risk is the exposure to a change in the cost of administering insurance contracts. To the extent that increased expenses cannot be passed on to policyholders, an increase in expense rates will have a negative effect on our profits.

Sensitivity analysis

(Audited)

	2016	2015
	£m	£m
Effect on profit after tax and total equity at 31 Dec		
10% increase in mortality and/or morbidity rates	**(13)**	(17)
10% decrease in mortality and/or morbidity rates	**12**	17
10% increase in lapse rates	**(18)**	(25)
10% decrease in lapse rates	**22**	27
10% increase in expense rates	**(32)**	(27)
10% decrease in expense rates	**31**	26

Capital

Capital management

Approach and policy

(Audited)

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 that we exceed current regulatory requirements and that we respect the payment priority of our capital providers. Throughout 2016, we complied with the Prudential Regulation Authority's ('PRA') regulatory capital adequacy requirements, including those relating to stress testing.

Our CET1 capital increased during 2016 by £3.2bn to £25.1bn. This was driven by £2.0bn of foreign currency movements and £1.2bn of new CET1 capital contributed by HSBC Holdings plc.

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.

Capital measurement

The PRA is the supervisor of the bank and lead supervisor of the group. The PRA sets capital requirements and receives information on the capital adequacy of the bank and the group. The bank and the group complied with the PRA's capital adequacy requirements throughout 2016.

Individual banking subsidiaries are directly regulated by their local banking supervisors, who set and monitor their capital adequacy requirements. Since 1 January 2014, our capital at group level is calculated under CRD IV and supplemented by the PRA Rulebook to effect the transposition of CRD IV directive requirements.

Our policy and practice in capital measurement and allocation at the group level is underpinned by the CRD IV rules. In most jurisdictions, non-bank financial subsidiaries are also subject to the supervision and capital requirements of local regulatory authorities.

The Basel III framework, similarly to Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline. Basel III also introduces a number of capital buffers, including the Capital Conservation Buffer ('CCB'), Countercyclical Capital Buffer ('CCyB'), and other systemic buffers such as the Globally/Other Systemically Important Institutions ('G-SII'/ 'O-SII') buffer. CRD IV legislation implemented Basel III in the EU, and in the UK, the 'PRA Rulebook' for CRR Firms transposed the various national discretions under the CRD IV legislation into UK requirements.

Regulatory capital

Our capital base is divided into three main categories, namely common equity tier 1, additional tier 1 and tier 2, depending on their characteristics.

- Common equity tier 1 ('CET 1') capital is the highest quality form of capital, comprising shareholders' equity and related non-controlling interests (subject to limits). Under CRD IV various capital deductions and regulatory adjustments are made against these items; these include deductions for goodwill and intangible assets, deferred tax assets that rely on future profitability, negative amounts resulting from the calculation of expected loss amounts under internal ratings based ('IRB') approach and surplus defined benefit pension fund assets.
- Additional tier 1 capital comprises eligible non-common equity capital securities and any related share premium; it also includes other qualifying securities issued by subsidiaries subject to certain limits. Holdings of additional tier 1 securities of financial sector entities are deducted from our additional tier 1 capital.
- Tier 2 capital comprises eligible capital securities and any related share premium and other qualifying tier 2 capital securities issued by subsidiaries, subject to limits. Holdings of tier 2 capital securities of financial sector entities are deducted from our tier 2 capital.

Pillar 3 disclosure requirements

Pillar 3 of the Basel regulatory framework is related to market discipline and aims to increase market transparency by requiring firms to publish, at least annually, wide-ranging information on their risks and capital, and how these are managed. Our *Pillar 3 Disclosures 2016* are published on HSBC's website, www.hsbc.com, under 'Investor Relations'.

Capital overview

Key capital numbers

	At 31 Dec	
	2016	2015
Capital resources (£m)		
Common equity tier 1 capital	**25,098**	21,939
Tier 1 capital	**30,218**	27,017
Total regulatory capital	**38,522**	35,603
Risk Weighted Assets (£m)		
Non-Counterparty Credit Risk	**168,936**	160,517
Counterparty Credit Risk	**28,593**	25,549
Market Risk	**24,975**	20,654
Operational Risk	**22,733**	22,662
Total Risk Weighted Assets	**245,237**	229,382
Capital Ratios (%)		
Common equity tier 1	**10.2**	9.6
Total tier 1	**12.3**	11.8
Total capital	**15.7**	15.5

Capital structure at 31 December

(Audited)

Own funds disclosure

Ref*		Footnotes	At 31 Dec 2016 £m	2015 £m
	Common equity tier 1 ('CET1') capital: instruments and reserves			
1	Capital instruments and the related share premium accounts		**21,099**	21,100
	– ordinary shares		**21,099**	21,100
2	Retained earnings	1	**12,384**	10,031
3	Accumulated other comprehensive income (and other reserves)	1	**1,734**	(133)
5	Minority interests (amount allowed in consolidated CET1)		**349**	241
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend	1	**(542)**	1,550
6	**Common equity tier 1 capital before regulatory adjustments**		**35,024**	32,789
28	**Total regulatory adjustments to common equity tier 1**		**(9,926)**	(10,850)
7	Additional value adjustments		**(756)**	(527)
8	Intangible assets (net of related deferred tax liability)		**(5,145)**	(6,451)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		**(30)**	(34)
11	Fair value reserves related to gains or losses on cash flow hedges		**(84)**	(51)
12	Negative amounts resulting from the calculation of expected loss amounts		**(1,128)**	(1,013)
14	Gains or losses on liabilities at fair value resulting from changes in own credit standing		**(141)**	(86)
15	Defined-benefit pension fund assets		**(2,642)**	(2,688)
29	**Common equity tier 1 capital**		**25,098**	21,939
36	**Additional tier 1 capital before regulatory adjustments**		**5,226**	5,191
30	Capital instruments and the related share premium accounts		**3,781**	3,584
31	– classified as equity under IFRSs		**3,781**	3,584
33	Amount of qualifying items and the related share premium accounts subject to phase out from AT1		**1,389**	1,607
34	Qualifying tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties		**56**	—
43	**Total regulatory adjustments to additional tier 1 capital**		**(106)**	(113)
37	Direct and indirect holdings of own AT1 instruments		**(49)**	(40)
41b	Residual amounts deducted from AT1 capital with regard to deduction from tier 2 ('T2') capital during the transitional period		**(57)**	(73)
	– 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		**(57)**	(73)
44	**Additional tier 1 capital**		**5,120**	5,078
45	**Tier 1 capital (T1 = CET1 + AT1)**		**30,218**	27,017
51	**Tier 2 capital before regulatory adjustments**		**8,564**	8,784
46	Capital instruments and the related share premium accounts		**7,058**	7,419
47	Amount of qualifying items and the related share premium accounts subject to phase out from T2		**1,310**	1,059
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		**196**	306
49	– *of which: instruments issued by subsidiaries subject to phase out*		***182***	*306*
57	**Total regulatory adjustments to tier 2 capital**		**(260)**	(198)
52	Direct and indirect holdings of own T2 instruments		**(32)**	(27)
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)		**(228)**	(171)
58	**Tier 2 capital**		**8,304**	8,586
59	**Total capital (TC = T1 + T2)**		**38,522**	**35,603**

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

1 *In the comparative period, other comprehensive income and reserves have been reallocated between rows 2 and 3 respectively. In addition, dividend paid has been reallocated from row 5a to row 2.*

Risk Weighted Assets ('RWAs')

RWA movement by business by key driver

	Credit risk, counterparty credit risk and operational risk						
	RBWM	CMB	GB&M	GPB	Corporate Centre	Market risk	Total RWAs
	£m	£m	£m	£m	£m	£m	£m
RWAs at 1 Jan 2016	25,484	75,001	74,971	4,569	28,703	20,654	229,382
RWA movements							
RWA initiatives	(42)	(4,926)	(11,016)	(350)	(5,005)	(4,095)	(25,434)
Foreign exchange movement	528	2,722	7,594	225	2,787	4,184	18,040
Book size	82	8,560	5,726	(773)	788	4,232	18,615
Book quality	(497)	(190)	3,102	(61)	107	–	2,461
Model updates	225	–	(53)	–	–	–	172
– portfolios moving onto IRB approach	–	–	–	–	–	–	–
– new/updated models	225	–	(53)	–	–	–	172
Methodology and policy	69	791	1,180	(101)	62	–	2,001
– internal updates	69	791	1,180	(101)	62	–	2,001
– external updates – regulatory	–	–	–	–	–	–	–
Total RWA movement	365	6,957	6,533	(1,060)	(1,261)	4,321	15,855
RWAs at 31 Dec 2016	25,849	81,958	81,504	3,509	27,442	24,975	245,237

RWAs increased by £15.9bn during 2016, including an increase of £18.0bn related to foreign currency translation differences. During the year, RWA initiatives have reduced RWAs by £25.4bn, primarily because of:

- continued reduction in the Legacy Credit portfolio; and
- reduced exposures, refined calculations and process improvements.

These savings have been largely offset by a £18.6bn increase in Book Size, mainly as a result of:

- corporate lending growth of £7.3bn in CMB and £3.4bn in GB&M; and
- movements in market parameters which increased market risk by £4.2bn.

Corporate Governance Report

The statement of corporate governance practices set out on pages 58 to 63 and information incorporated by reference constitutes the Corporate Governance Report of HSBC Bank plc.

The Directors serving as at the date of this report are set out below.

Directors

Jonathan Symonds, CBE

Chairman and independent non-executive Director

Chairman of the Nominations and Remuneration Committee

Appointed to the Board: 2014

Jonathan is an independent non-executive director of HSBC Holdings plc. He is Chairman of the Group Audit Committee and a member of the Group Conduct & Values Committee. He is Chairman of Innocoll AG and Proteus Digital Health Inc. and a non-executive director of Genomics England Limited. Former appointments include: Chief Financial Officer of Novartis AG and AstraZeneca plc; a partner and managing director of Goldman Sachs; a partner of KPMG; and a non-executive director and Chairman of the Audit Committee of Diageo plc.

John Trueman

Deputy Chairman and independent non-executive Director

Member of the Audit Committee, the Risk Committee, the Risk Sub-Committee for Global Banking and Markets Risk Oversight and the Chairman's Nominations and Remuneration Committee

Appointed to the Board: 2004. Deputy Chairman since December 2013

John is Chairman of HSBC Private Bank (UK) Limited and HSBC Global Asset Management Limited. Former appointments include: Deputy Chairman of S.G. Warburg & Co Ltd.

Antonio Simoes

Chief Executive

Chairman of the Executive Committee

Appointed to the Board: 2012. Chief Executive since 1 September 2015

Antonio joined HSBC in 2007 and became a Group Managing Director of HSBC Holdings plc on 1 February 2016. He is Chief Executive of Europe and a director of HSBC France. Former appointments include: Chief Executive of HSBC UK; Head of Retail Banking and Wealth Management, Europe; and Chief of Staff to the Group Chief Executive and Group Head of Strategy and Planning. He is the Chairman of the Practitioner Panel of the FCA. He was formerly a Partner of McKinsey & Company.

James Coyle

Independent non-executive Director

Chairman of the Risk Committee and member of the Audit Committee and the Chairman's Nominations and Remuneration Committee

Appointed to the Board: August 2015

James is Chairman of HSBC Trust Company (UK) Limited and Marks & Spencer Unit Trust Management Limited and a non-executive director of Marks and Spencer Financial Services plc and Marks and Spencer Savings and Investments Limited. He is a non-executive director of the Scottish Building Society and Scottish Water, a non-executive director and chairman of the Audit and Risk Committee of Honeycomb Investment Trust plc and a member of the Financial Reporting Council's Monitoring Committee. Former appointments include: Group Financial Controller for Lloyds Banking Group; Group Chief Accountant of Bank of Scotland; member of the Audit Committee of the British Bankers Association; and a non-executive director and chairman of the Audit Committee of Vocalink plc.

Dame Denise Holt

Independent non-executive Director

Member of the Risk Committee

Appointed to the Board: 2011

Denise is Chairman of Marks and Spencer Financial Services plc and Marks and Spencer Savings and Investments Limited. She is a non-executive director of Iberdrola SA and Nuffield Health. Former appointments include: a senior British Ambassador with 40 years' experience of working in Government including postings in Ireland, Mexico, Brazil and Spain.

Simon Leathes

Independent non-executive Director

Member of the Audit Committee and the Risk Committee and Chairman of the Risk Sub-Committee for Global Banking and Markets Risk Oversight

Appointed to the Board: 2012

Simon is a director of HSBC Trinkaus & Burkhardt AG and a member of its Audit and Risk Committees.

He is Chairman of Assured Guaranty (Europe) Limited, Assured Guaranty (London) Limited and Assured Guaranty (UK) Limited and a non-executive director of Assured Guaranty Limited and HSB Engineering Insurance Limited. Former appointments include: Vice Chairman of Barclays Capital and Group Finance Director of S.G. Warburg Group plc.

David Lister

Independent non-executive Director

Chairman of the Operations and Technology Committee and a member of the Chairman's Nominations and Remuneration Committee

Appointed to the Board: September 2015

David is a non-executive director of FDM Group (Holdings) plc, the Department for Work and Pensions and Co-operative Insurance, a mutual society; and a member of the Board of Governors at Nuffield Health. Former appointments include: Group Chief Information Officer at each of National Grid, Royal Bank of Scotland, Reuters, Boots and GlaxoSmithKline plc.

Dame Mary Marsh

Independent non-executive Director

Member of the Operations and Technology Committee

Appointed to the Board: 2009

Mary is non-executive Chair of Trustees of the Royal College of Paediatrics and Child Health, director of the London Symphony Orchestra and a member of the Governing Body at the London Business School. Former appointments include: founding director of the Clore Social Leadership Programme, a co-opted non-director member of the Corporate Sustainability Committee of HSBC Holdings plc and Chief Executive of the National Society for the Prevention of Cruelty to Children (NSPCC).

Thierry Moulonguet

Independent non-executive Director

Chairman of the Audit Committee and a member of the Risk Committee, the Operations and Technology Committee and the Chairman's Nominations and Remuneration Committee

Appointed to the Board: 2012

Thierry is a director of HSBC France, Chairman of its Audit Committee and a member of its Risk Committee. He is a director of Fimalac; Groupe Lucien Barrière; Valéo; and the Prodways Group. Former appointments include: Executive Vice-President, and Chief Financial Officer of Renault Group.

Dr Eric Strutz

Independent non-executive Director

Member of the Risk Committee and the Risk Sub-Committee for Global Banking and Markets Risk Oversight

Appointed to the Board: 28 October 2016

Eric is a Member of the Supervisory Board and Chairman of the Risk and Audit Committees of HSBC Trinkaus & Burkhardt AG, Germany. He is a member of the Board of Directors and Chairman of the Audit and Risk Committee of Partners Group Holding AG, Switzerland. Former appointments include: Chief Financial Officer of Commerzbank AG.

Secretary

Nicola Black

Company Secretary

Nicola joined HSBC in 2000 and was appointed Company Secretary in April 2014. She previously served as Assistant Group Company Secretary, HSBC Holdings plc.

Board of Directors

The objectives of the management structures within the bank, headed by the Board of Directors and led by the Chairman, are to deliver sustainable value to shareholders. Implementation of the strategy set by the Board is delegated to the bank's Executive Committee.

The Board meets regularly and Directors receive information between meetings about the activities of committees and developments in the bank's business. All Directors have full and timely access to all relevant information and may take independent professional advice if necessary.

The names of Directors serving at the date of this report and brief biographical particulars for each of them are set out on pages 58 and 59.

All Directors, including those appointed by the Board to fill a casual vacancy, are subject to annual re-election at the bank's Annual General Meeting. Non-executive Directors have no service contracts.

Rosemary Martin retired as a non-executive Director and Samir Assaf retired as a Director on 27 April 2016.

Dr Eric Strutz was appointed a non-executive Director and a member of the Risk Committee and the Risk Sub-Committee for Global Banking and Markets Risk Oversight on 28 October 2016. David Lister was appointed Chairman of the Operations and Technology Committee on 27 April 2016 in succession to Rosemary Martin. James Coyle was appointed Chairman of the Risk Committee on 9 December 2016 in succession to Simon Leathes who remains a member.

Directors' emoluments

Details of the emoluments of the Directors of the bank for 2016, disclosed in accordance with the Companies Act, are shown in Note 4 'Employee compensation and benefits'.

Board committees

The Board has established a number of committees, the membership of which comprises certain Directors and, where appropriate, senior executives. The Chairman of each non-executive Board committee reports to each meeting of the Board on the activities of the Committee since the previous Board meeting.

All of the members of the Audit Committee, Risk Committee, Chairman's Nominations and Remuneration Committee and Operations and Technology Committee (formerly the IT Infrastructure Committee) are independent non-executive Directors.

As at the date of this report, the following are the principal committees:

Audit Committee

The Audit Committee is accountable to the Board and has non-executive responsibility for oversight of and advice to the Board on financial reporting related matters and internal controls over financial reporting.

The Committee meets regularly with the bank's senior financial and internal audit management and the external auditor to consider, among other matters, the bank's financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control relating to financial reporting.

the current members are: Thierry Moulonguet (Chairman); James Coyle; simon Leathes; and John Trueman.

Risk Committee

The Risk Committee is accountable to the Board and has non-executive responsibility for oversight of and advice to the Board on high-level risk related matters and risk governance.

The Committee meets regularly with the bank's senior financial, risk, internal audit and compliance management and the external auditor to consider, among other matters, risk reports and internal audit reports and the effectiveness of compliance.

The current members are: James Coyle (Chairman); Denise Holt; Simon Leathes; Thierry Moulonguet; Dr Eric Strutz; and John Trueman.

In July 2016, the Risk Sub-Committee for Global Banking and Markets Risk Oversight was established as a sub-committee of the Risk Committee with responsibility for providing non-executive oversight and review of material European and United Kingdom risk matters relating to Global Banking and Markets

Operations and Technology Committee

The Operations and Technology Committee (formerly the IT Infrastructure Committee) has responsibility for independent oversight of systems, IT-oriented projects, operations and processes and information security and for reviewing the risks associated with the bank's IT infrastructure, its performance, appropriateness, resilience, recovery and resolution plans, plus the capability of the organisation and its management, and the material risks arising therefrom.

The Committee meets regularly with the bank's senior risk, operations, security and fraud risk and technology audit management to consider, among other matters, internal audit reports and reports on the risks associated with the bank's IT infrastructure and transformation projects.

The current members are: David Lister (Chairman); Mary Marsh; and Thierry Moulonguet.

Chairman's Nominations and Remuneration Committee

The Chairman's Nominations and Remuneration Committee has responsibility for: (i) leading the process for Board appointments and for identifying and nominating, for the approval of the Board, candidates for appointment to the Board; (ii) the endorsement of the appointment of the chairman and any director to the Board of certain subsidiaries of the bank; and (iii) reviewing the implementation and appropriateness of the Group's remuneration policy and the remuneration of the bank's senior executives.

The current members are: Jonathan Symonds (Chairman); James Coyle; David Lister; Thierry Moulonguet; and John Trueman.

Executive Committee

The Executive Committee meets regularly and operates as a general management committee under the direct authority of the Board, exercising all of the powers, authorities and discretions of the Board in so far as they concern the management and day-to-day running of the bank, in accordance with such policies and directions as the Board may from time to time determine. The bank's Chief Executive Officer Antonio Simoes, chairs the Committee.

Regular Risk Management Meetings of the Executive Committee, chaired by the Chief Risk Officer, Europe, are held to establish, maintain and periodically review the policy and guidelines for the management of risk within the bank.

The following sub-committees of the Executive Committee were established in December 2015:

- Conduct & Values Committee;
- International Executive Committee;
- International Risk Management Committee;
- HSBC UK Executive Committee; and
- HSBC UK Risk Management Meeting.

The Conduct and Values Committee is responsible for the oversight and management of all conduct-related matters; with a particular focus on embedding conduct, culture and values in line with the bank's vision and improving customer outcomes.

The International Executive Committee is responsible for monitoring and, where appropriate, implementing and driving execution of the group's strategy as it pertains to the portion of the group's operations designated as International.

The International Risk Management Committee is responsible for the oversight and management of all risks impacting the group's operations designated as International.

The HSBC UK Executive Committee is responsible for the oversight of HSBC's UK operations.

The HSBC UK Risk Management Meeting is responsible for the oversight and management of all risks impacting HSBC's UK operations.

Internal control

The Board is responsible for maintaining and reviewing the effectiveness of risk management and internal control systems and for determining the aggregate levels and types of risks the bank is willing to take in achieving its strategic objectives.

The bank has procedures designed to safeguard assets against unauthorised use or disposal, maintain proper accounting records and ensure the reliability and usefulness of financial information whether published or used within the business.

These controls are designed to provide effective internal control within the group. However, they can only provide reasonable, but not absolute, assurance against material mis-statement, errors, losses or fraud.

They have been in place throughout the year and up to 21 February 2017, the date of approval of the *Annual Report and Accounts 2016*.

In the case of companies acquired during the year, the risk management and internal controls in place are being reviewed against HSBC's benchmarks and integrated into HSBC's processes.

Key risk management and internal control procedures include the following:

- Group standards. The Global Standards Manual ('GSM') establishes the high level standards and policies by which, and within which, all members of the Group conduct their businesses. The GSM is mandatory and applies to, and must be observed by, all businesses within the Group, regardless of the nature or location of their activities.
- Disclosure Committee. The Disclosure Committee reviews material public disclosures made by the bank for any material errors, misstatements or omissions. The integrity of disclosures is underpinned by structures and processes within the group's Finance and Risk functions that support rigorous analytical review of financial reporting and the maintenance of proper accounting records.
- Financial reporting. The group's financial reporting process for preparing the consolidated *Annual Report and Accounts 2016* is controlled using documented accounting policies and reporting formats, supported by detailed instructions and guidance on reporting requirements, issued by Global Finance to the bank and all reporting entities within the group in advance of each reporting period end. The submission of financial information from each reporting entity is subject to certification by the responsible financial officer, and analytical review procedures at reporting entity and group levels.
- Internal Audit. The Global Internal Audit function, which is centrally controlled, provides independent and objective assurance of the design and operating effectiveness of the group's framework of risk management, control and governance processes, focusing on the areas of greatest risk. Executive management are responsible for ensuring that issues raised by the Global Internal Audit function are addressed within an appropriate and agreed timetable. Confirmation to this effect must be provided to Global Internal Audit.
- Subsidiary Certifications. Half yearly confirmations are provided to the Audit Committee and the Risk Committee from audit and risk committees of principal subsidiary companies regarding whether the financial statements have been prepared in accordance with Group policies, present fairly the state of affairs of the relevant principal subsidiary and are prepared on a going concern basis.
- Delegation of authority within limits set by the Board. Authority to manage the day to day running of the bank is delegated within limits set by the Board to the Chief Executive who has responsibility for overseeing the establishment and maintenance of systems of control appropriate to the business and who has the authority to delegate such duties and responsibilities as he sees fit. Appointments to the most senior positions within the group require the approval of the Board of Directors of HSBC Holdings plc.
- Risk identification and monitoring. Systems and procedures are in place to identify, control and report on the material risks facing the group.
- Changes in market conditions/practices. Processes are in place to identify new risks arising from changes in market conditions/practices or customer behaviours, which could expose the group to heightened risk of loss or reputational damage. The group employs a Top and Emerging risks framework at all levels of the organisation, which enables it to identify current and forward-looking risks and to take action which either prevents them materialising or limits their impact.
- Responsibility for risk management. Individual managers are accountable for measuring, monitoring, mitigating and managing the risks and controls in their areas of responsibility. Processes are in place to ensure weaknesses are escalated to senior management and addressed, supported by the three lines of defence model.
- Strategic plans. Strategic plans are prepared for global businesses, functions and certain geographical regions within the framework of the Group's overall strategy. The bank also prepares and adopts an Annual Operating Plan,

which is informed by detailed analysis of risk appetite, describing the types and quantum of risk that the bank is prepared to take in executing its strategy and sets out the key business initiatives and the likely financial effects of those initiatives.

- IT operations. Centralised functional control is exercised over all IT developments and operations. Common systems are employed for similar business processes wherever practicable.
- Global Function Management. Global Functions Management are responsible for setting policies, procedures and standards to control the principal risks across the group.

During the year, the Risk Committee and the Audit Committee have kept under review the effectiveness of this system of internal control and have reported regularly to the Board. In carrying out their reviews, the Audit Committee and Risk Committee receive regular business and operational risk assessments; regular reports from the heads of key risk functions, which cover all internal controls, both financial and non-financial; internal audit reports; external audit reports; prudential reviews; and regulatory reports.

The Risk Committee monitors the status of principal risks and considers whether the mitigating actions put in place are appropriate. In addition, when unexpected losses have arisen or when incidents have occurred which indicate gaps in the control framework or in adherence to Group policies, the Risk Committee and the Audit Committee review special reports, prepared at the instigation of management, which analyse the cause of the issue, the lessons learned and the actions proposed by management to address the issue.

In 2015, deficiencies in the design and operational effectiveness of a number of controls associated with IT privileged access were identified. This included controls over individual access rights to operating systems, applications, and data used in the financial reporting process. Significant improvement in this area has been made during 2016 as a result of actions taken under the associated remediation program. As in 2015, effective mitigating IT, business, monitoring and period-end controls were in place for 2016.

Employees

Health and safety

The group is committed to providing a safe physical environment for our customers and employees as well as those who work with us. We aim always to meet the minimum health and safety standards required by law wherever we operate and, where reasonably practical, to exceed them.

Everyone at HSBC has a responsibility for helping to create a safe working environment. Employees are expected to take ownership of their safety and are encouraged and empowered to report any concerns.

Chief Operating Officers have overall responsibility for ensuring that the correct policies, procedures and safeguards are put into practice. This includes making sure that everyone in HSBC has access to appropriate information, instruction, training and supervision.

Putting our commitment into practice, in 2016 the group in Europe delivered an employee education and information campaign and delivered three major projects to help us understand the risks we face and improve the buildings in which we operate:

- We completed a survey of earthquake resilience in 76 HSBC buildings located in countries at medium to high risk of earthquakes.
- We reviewed our emergency arrangements and procedures against the international threat of terrorism.
- We realised a 25% reduction in workplace health and safety risk to employees and customers in 2016 through enhanced inspection and remediation processes.

Accident statistics are below:

Employee health and safety

	2016	2015[1]	2014
Number of employee workplace fatalities	**—**	—	—
Accidents involving more than three days' absence	**25**	51	43
All accident rate per 100,000 employees	**476**	623	544

1 *An improvement in accident reporting was recorded in 2015.*

Diversity and inclusion

Building a more diverse and inclusive workforce is a key strategic priority for the bank and a critical component in developing a sustainable and successful business. Our approach to diversity and inclusion aims to increase and leverage diversity of thought to enhance our risk management capability, improve workforce agility, drive innovation, remove barriers to success and grow markets. Considering multiple viewpoints ultimately helps us effectively anticipate and address the expectations of our customers, employees, shareholders and communities.

Spotlight on the UK

In the UK, executive committee members lead diversity and inclusion in their business or function. A number of employee-led voluntary networks help raise awareness, build understanding of inclusion issues and provide support to create a more inclusive environment for our employees and customers. More than 16,000 members have joined these Employee Resource Groups in the UK, with significant increase in membership over the last three years. Notable success in 2016 includes continuing to feature in The Times' Top Employers for Women list, Stonewall's Top Global Employer ranking and UK Top 100 members. We are proud to have six HSBC employees in the Outstanding LGBT executives, allies and future leaders lists and to have sponsored or taken part in Pride festivals in Brighton, Chester, Leeds, London, Nottingham and Birmingham.

Our move to a new headquarters in Birmingham provides an unprecedented opportunity to achieve increased inclusion at the bank and we continue to work towards our commitment to achieve gender parity in our hiring for senior management roles in head office by 2020.

Case Study: Retail Banking and Wealth Management

RBWM's work with the Alzheimer's Society and Alzheimer Scotland is an important example of inclusion. We have committed to become a dementia friendly business by improving our products, services and premises. We have spent time with those living with dementia and their carers to understand where they face challenges when trying to do their banking. Current initiatives include:

- educating our staff and increasing awareness of dementia, with more than 12,000 front-line colleagues having already been trained as Dementia Friends;
- developing a banking guide to provide additional support for customers living with dementia and their carers, and making improvements to our digital channels;
- improving our support and care policies for staff living with or impacted by dementia themselves or as carers; and
- raising £3m through fundraising. The partnership with Alzheimer's Society/Scotland has already raised £650,000, involving the Walk for Dementia which saw over 1,000 colleagues covering a combined 20,000 miles in aid of Alzheimer's.

Spotlight on France

In 2016, France continued to drive its action plan regarding women's careers, which aims to help women access senior management roles in the bank by:

- continuing to raise managers' awareness of diversity and gender equality issues and of unconscious bias via dedicated workshops; and
- supporting women with their development using mentoring and individual and collective coaching focused on stereotyping and helping women progress to senior roles.

At 31 December 2016, the Executive Committee in France included six female leaders. Women accounted for 51% of executives and 42% of branch, business banking centre and corporate business centre managers, compared with 38% in 2015.

Diverse representation in Europe

Female representation by management level:

- All grades: 55%
- Clerical grades: 71%
- Junior management: 56%
- Management: 38%
- Senior management: 20%
- Executive management: 10%

Improving youth employment

HSBC apprenticeship programmes are open to all, from new starters to long-serving employees. Since the programme commenced in 2011, more than 2,500 employees have enrolled in the UK, of whom 65% are female. We believe that a major contributory factor has been meeting the needs of mothers returning to work who want to gain professional qualifications.

For 14 to 19-year-old individuals, the bank offered 300 work experience placements in 2016 in the UK. We also offered 160 school leaver apprenticeship places in our branch network, contact centres, First Direct and M&S Bank. We made 100 internship placements available to first- and penultimate-year students at university and 147 graduates joined the graduate programmes in our Commercial and RBWM business areas and participated in the first ever HSBC Global graduate induction event, when over 500 HSBC graduate joiners worldwide came together for learning and development in London.

Although the Opportunity Partnership ended in 2016, the bank continued to run its pioneering programme with The Prince's Trust, to provide training for young people not in education, employment or training. This is also the flagship programme representing our commitment to Movement to Work, a nationwide programme to encourage the country's largest employers to provide training or work opportunities to young people not in work. By the end of 2016, 600 young unemployed people had taken part in our youth unemployment programmes in the UK since their launch in 2014, with half of them finding jobs, of which 87% were with the bank. The programme was highly commended in The Prince's Trust Corporate Employee Awards – Breaking Barriers category and the bank will provide another 250 places in the UK in 2017.

Employment of people with a disability

We believe in providing equal opportunities for all employees. The employment of people with a disability is included in this commitment and recruitment, training, and career development are based on the aptitudes and abilities of the individual. Should employees become disabled during their employment with us, efforts are made to continue their employment and to provide workplace adjustments.

A number of countries have dedicated teams to ensure that barriers to work are removed for colleagues. In the UK we are a Disability Confident employer and our disability work is led by our Business Disability Steering Group and sponsored at an executive level by the COO. The group is formed of relevant business areas including recruitment, IT, corporate real estate and the employee voice is represented by the chairs of Ability, our employee resource group for disability, carers and mental health.

Learning and talent development

The development of our people is essential to the future strength of our business. We continue to develop and implement practices that build employee capability and identify, develop and deploy talented employees to ensure an appropriate supply of high calibre individuals with the right values, skills and experience for current and future senior management positions.

In 2016, we continued to develop technical, managerial and leadership skills necessary to deliver our Group strategy, including the Global Standards programme. Instructor-led training was delivered to approximately 73,000 learners and a total number of approximately 720,000 e-Learning courses were also completed during the year.

Significant progress has also been made towards building HSBC University, which will deliver world class leadership and professional programmes, excellent learner experiences and an opportunity for leaders and people managers to connect and learn together and from each other.

A number of flagship programmes were piloted in 2016 including a CEO Development Programme to strengthen our pipeline of successors to CEO roles who are key in embedding our culture and values; a programme on Leading Businesses and Functions to ensure our senior leaders' personal alignment to the HSBC strategy, culture and values and ability to demonstrate outstanding leadership in executing HSBC's strategy; and a Faculty Excellence Programme to equip our business leaders to deliver business-led training and to empower our people by becoming role models, mentors, coaches and guides both inside and outside the classroom. We also enhanced our People Management training to increase the capability of people managers in creating positive employee experience.

Employee relations

We consult with and, where appropriate, negotiate with employee representative bodies. It is our policy to maintain well developed communications and consultation programmes with all employee representative bodies and there have been no material disruptions to our operations from labour disputes during the past five years.

Auditor

It was the first full year of PricewaterhouseCoopers LLP ('PwC') as external auditor following their appointment and year-end audit in 2015. PwC has expressed its willingness to continue in office and the Board recommends that PwC be re-appointed as the bank's auditor. A resolution proposing the re-appointment of PwC as the bank's auditor and giving authority to the Audit Committee to determine its remuneration will be submitted to the forthcoming AGM.

Conflicts of Interest and Indemnification of Directors

The bank's Articles of Association give the Board authority to approve Directors' conflicts and potential conflicts of interest. The Board has adopted a policy and procedures for the approval of Directors' conflicts or potential conflicts of interest. The Board's powers to authorise conflicts are operating effectively and the procedures are being followed. A review of situational conflicts which have been authorised, including the terms of authorisation, is undertaken by the Board annually.

The Articles of Association provide that Directors are entitled to be indemnified out of the assets of the company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the UK Companies Act 2006. Such indemnity provisions have been in place during the financial year but have not been utilised by the Directors. All Directors have the benefit of directors' and officers' liability insurance.

Statement on going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the group and bank 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.

Further information relevant to the assessment is provided in the 'Strategic Report' and 'Report of the Directors', in particular:

- A description of the group's strategic direction and principal risks and uncertainties.
- A summary of financial performance and review of business performance.
- The group's approach to capital management and allocation.

In addition, the objectives, policies and processes for managing credit, liquidity and market risk are set out in the *'Report of the Directors: Risk'*.

The Directors have also considered future projections of profitability, cash flows and capital resources in making their assessment.

Disclosure of Information to the Auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the bank's auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board

Nicola Black

Secretary

21 February 2017

Registered number 14259

Statement of Directors' Responsibilities in Respect of the *Annual Report and Accounts 2016* and the Financial Statements

The Directors are responsible for preparing the *Annual Report and Accounts 2016*, comprising the consolidated financial statements of HSBC Bank plc and its subsidiaries (the 'group') and parent company financial statements for HSBC Bank plc (the 'bank') in accordance with applicable laws and regulations.

Company law requires the Directors to prepare a Strategic Report, a Report of the Directors and group and parent company ('Company') financial statements for each financial year. The Directors are required to prepare the group financial statements in accordance with IFRSs as adopted by the European Union and have elected to prepare the bank's financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and Company and of their profit or loss for that period. In preparing each of these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union; and
- prepare the financial statements on a going concern basis unless it is not appropriate. Since the Directors are satisfied that the group has the resources to continue in business for the foreseeable future, the financial statements continue to be prepared on a going concern basis.

The Directors have responsibility for ensuring that sufficient accounting records are kept that disclose with reasonable accuracy at any time the financial position of the bank and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for safeguarding the assets of the Company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors have responsibility for the maintenance and integrity of the *Annual Report and Accounts 2016* as they appear on the bank's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, the names of whom are set out in the '*Report of Directors: Governance*' section on pages 58 and 59 of the *Annual Report and Accounts 2016*, confirm to the best of their knowledge:

- in accordance with rule 4.1.12(3)(a) of the Disclosure Rules and Transparency Rules, the consolidated financial statements, which have been prepared in accordance with IFRSs as issued by the IASB and as endorsed by the European Union, have been prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the bank and the undertakings included in the consolidation taken as a whole; and
- the management report represented by the Strategic Report and the Report of the Directors has been prepared in accordance with rule 4.1.12(3)(b) of the Disclosure Rules and Transparency Rules, and includes a fair review of the development and performance of the business and the position of the bank and the undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties that the group faces.

On behalf of the Board

Nicola Black

Secretary

21 February 2017

Registered number 14259

Report on the financial statements

Our opinion

In our opinion:

- HSBC Bank plc's group financial statements and parent company financial statements (the 'financial statements') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's profit and the group's and the parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the *Annual Report and Accounts 2016* (the 'Annual Report'), comprise:

- the group and parent company balance sheets as at 31 December 2016;
- the group income statement and statement of comprehensive income for the year then ended;
- the group and parent company statements of cash flows for the year then ended;
- the group and parent company statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006, and applicable law.

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the group, the parent company and their environment, obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the Directors. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 64, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent company's member as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Report of the Directors, we consider whether those reports include the disclosures required by applicable legal requirements.

Simon Hunt

(Senior Statutory Auditor)

for and on behalf of **PricewaterhouseCoopers LLP**

Chartered Accountants and Statutory Auditors

London, United Kingdom

21 February 2017

Financial Statements

Notes on the Financial Statements

Consolidated income statement

for the year ended 31 December

	Notes	2016 £m	2015 £m
Net interest income		**6,769**	6,818
– interest income		**9,322**	9,218
– interest expense		**(2,553)**	(2,400)
Net fee income		**2,945**	2,863
– fee income		**4,062**	4,175
– fee expense		**(1,117)**	(1,312)
Net trading income		**4,299**	2,751
– trading income excluding net interest income		**3,887**	2,315
– net interest income on trading activities		**412**	436
Net (expense)/income from financial instruments designated at fair value		**(1,047)**	376
Gains less losses from financial investments		**530**	150
Dividend income		**8**	10
Net earned insurance premiums	2	**1,567**	1,613
Other operating income		**253**	337
Total operating income		**15,324**	14,918
Net insurance claims incurred and movement in liabilities to policyholders	2	**(2,019)**	(2,048)
Net operating income before loan impairment charges and other credit risk provisions		**13,305**	12,870
Loan impairment charges and other credit risk provisions	3	**(416)**	(481)
Net operating income		**12,889**	12,389
Total operating expenses		**(12,011)**	(9,420)
– employee compensation and benefits	4	**(3,711)**	(4,331)
– general and administrative expenses		**(5,549)**	(4,566)
– depreciation and impairment of property, plant and equipment		**(329)**	(264)
– amortisation and impairment of intangible assets	18	**(2,422)**	(259)
Operating profit	3	**878**	2,969
Share of (loss)/profit in associates and joint ventures	15	**(4)**	2
Profit before tax		**874**	2,971
Tax expense	6	**(1,053)**	(997)
(Loss)/profit for the year		**(179)**	1,974
(Loss)/profit attributable to shareholders of the parent company		**(212)**	1,942
Profit attributable to non-controlling interests		**33**	32

Consolidated statement of comprehensive income

for the year ended 31 December

	2016	2015
	£m	£m
(Loss)/profit for the year	(179)	1,974
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Available-for-sale investments	27	(97)
– fair value gains	540	36
– fair value gains reclassified to the income statement	(526)	(164)
– amounts reclassified to the income statement in respect of impairment losses	20	5
– income taxes	(7)	26
Cash flow hedges	46	(133)
– fair value (losses)/gains	(166)	168
– fair value gains/(losses) reclassified to the income statement	214	(352)
– income taxes	(2)	51
Exchange differences and other	2,156	(786)
Items that will not be reclassified subsequently to profit or loss:		
Actuarial (losses)/gains on defined benefit plans	(184)	65
– before income taxes	(247)	79
– income taxes	63	(14)
Other comprehensive income for the year, net of tax	2,045	(951)
Total comprehensive income for the year	1,866	1,023
Attributable to:		
– shareholders of the parent company	1,755	1,018
– non-controlling interests	111	5
Total comprehensive income for the year	1,866	1,023

Consolidated balance sheet

at 31 December

	Notes	2016 £m	2015 £m
Assets			
Cash and balances at central banks		**54,278**	39,749
Items in the course of collection from other banks		**1,363**	1,328
Trading assets	8	**125,069**	110,585
Financial assets designated at fair value	11	**8,345**	6,829
Derivatives	12	**199,419**	166,785
Loans and advances to banks		**21,363**	23,222
Loans and advances to customers		**272,760**	258,506
Reverse repurchase agreements – non-trading		**31,660**	30,537
Financial investments	13	**83,135**	71,352
Prepayments, accrued income and other assets	19	**13,215**	11,732
Current tax assets		**114**	126
Interests in associates and joint ventures	15	**266**	69
Goodwill and intangible assets	18	**5,735**	7,011
Deferred tax assets	6	**107**	110
Total assets at 31 Dec		**816,829**	727,941
Liabilities and equity			
Liabilities			
Deposits by banks		**23,682**	24,202
Customer accounts		**375,252**	332,830
Repurchase agreements – non-trading		**19,709**	17,000
Items in the course of transmission to other banks		**657**	583
Trading liabilities	20	**93,934**	73,489
Financial liabilities designated at fair value	21	**18,486**	19,001
Derivatives	12	**190,092**	162,864
Debt securities in issue		**16,140**	26,069
Accruals, deferred income and other liabilities	22	**6,792**	5,775
Current tax liabilities		**400**	249
Liabilities under insurance contracts	2	**19,724**	16,664
Provisions	23	**2,431**	2,057
Deferred tax liabilities	6	**484**	506
Subordinated liabilities	24	**8,421**	8,527
Total liabilities at 31 Dec		**776,204**	689,816
Equity			
Total shareholders' equity		**39,930**	37,497
– called up share capital	27	**797**	797
– share premium account		**20,733**	20,733
– other equity instruments	27	**3,781**	3,584
– other reserves		**1,882**	(216)
– retained earnings		**12,737**	12,599
Non-controlling interests		**695**	628
Total equity at 31 Dec		**40,625**	38,125
Total liabilities and equity at 31 Dec		**816,829**	727,941

The accompanying notes on pages 76 to 136 and the audited sections of the 'Strategic Report: Financial summary' on pages 10 to 13 and the 'Report of the Directors' on pages 22 to 56 form an integral part of these financial statements.

The financial statements on pages 68 to 75 were approved by the Board of Directors on 21 February 2017 and signed on its behalf by:

A P S Simoes

Director

Consolidated statement of cash flows

for the year ended 31 December

	2016	2015
	£m	£m
Profit before tax	**874**	2,971
Adjustments for non-cash items		
Depreciation, amortisation and impairment	**2,751**	523
Net gain from investing activities	**(534)**	(174)
Share of profits in associates and joint ventures	**4**	(2)
Loan impairment losses gross of recoveries and other credit risk provisions	**676**	747
Provisions including pensions	**717**	1,160
Share-based payment expense	**124**	212
Other non-cash items included in profit before tax	**(77)**	(127)
Elimination of exchange differences[1]	**(12,524)**	1,845
Changes in operating assets and liabilities		
Change in net trading securities and derivatives	**6,402**	4,532
Change in loans and advances to banks and customers	**(14,240)**	(1,155)
Change in reverse repurchase agreements – non-trading	**(1,435)**	6,354
Change in financial assets designated at fair value	**(1,516)**	70
Change in other assets	**(980)**	7,357
Change in deposits by banks and customer accounts	**41,902**	(17,065)
Change in repurchase agreements – non-trading	**2,709**	(6,353)
Change in debt securities in issue	**(9,929)**	(1,852)
Change in financial liabilities designated at fair value	**(515)**	(2,672)
Change in other liabilities	**3,448**	(5,145)
Contributions paid to defined benefit plans	**(233)**	(260)
Tax paid	**(754)**	(711)
Net cash from operating activities	**16,870**	(9,745)
Purchase of financial investments	**(32,942)**	(30,540)
Proceeds from the sale and maturity of financial investments	**31,312**	33,876
Net cash flows from the purchase and sale of property, plant and equipment	**(425)**	(401)
Net investment in intangible assets	**(264)**	(215)
Net cash outflow from acquisition of businesses and subsidiaries	**(44)**	(1)
Net cash flow on disposal of subsidiaries, businesses, associates and joint ventures	**6**	91
Net cash from investing activities	**(2,357)**	2,810
Issue of ordinary share capital and other equity instruments	**197**	1,388
Subordinated loan capital issued	**1,055**	1,140
Subordinated loan capital repaid	**(2,461)**	(2,399)
Funds received from the shareholder of the parent company	**1,229**	–
Dividends paid to shareholders of the parent company	**(804)**	(1,027)
Net cash inflow from change in stake of subsidiaries	**40**	20
Dividends paid to non-controlling interests	**(20)**	(15)
Net cash from financing activities	**(764)**	(893)
Net increase/(decrease) in cash and cash equivalents	**13,749**	(7,828)
Cash and cash equivalents at 1 Jan	**62,995**	71,500
Exchange differences in respect of cash and cash equivalents	**5,293**	(677)
Cash and cash equivalents at 31 Dec	**82,037**	62,995
Cash and cash equivalents comprise of:[2]		
Cash and balances at central banks	**54,278**	39,749
Items in the course of collection from other banks	**1,363**	1,328
Loans and advances to banks of one month or less	**18,105**	14,258
Reverse repurchase agreement with banks of one month or less	**6,933**	7,245
Treasury bills, other bills and certificates of deposit less than three months	**2,015**	998
Less: items in the course of transmission to other banks	**(657)**	(583)
	82,037	62,995

1 *Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as details cannot be determined without unreasonable expense.*
2 *At 31 December 2016 £2,471m (2015: £3,753m) was not available for use by the group, of which £1,673m (2015: £1,689m) related to mandatory deposits at central banks.*

Interest received was £10,002m (2015: £9,594m), interest paid was £2,843m (2015: £2,685m) and dividends received were £85m (2015: £383m).

Consolidated statement of changes in equity

for the year ended 31 December

	Called up share capital	Share premium	Other equity instruments	Retained Earnings	Available-for-sale fair value reserve	Cash flow hedging reserve	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 year				**(212)**				**(212)**	**33**	**(179)**
Other comprehensive income (net of tax)	**—**	**—**	**—**	**(183)**	**30**	**46**	**2,074**	**1,967**	**78**	**2,045**
– available-for-sale investments	**—**	**—**	**—**	**—**	**30**	**—**	**—**	**30**	**(3)**	**27**
– cash flow hedges	**—**	**—**	**—**	**—**	**—**	**46**	**—**	**46**	**—**	**46**
– Actuarial gains/(losses) on defined benefit plans	—	—	—	**(183)**	—	—	—	**(183)**	**(1)**	**(184)**
– exchange differences and Other	**—**	**—**	**—**	**—**	**—**	**—**	**2,074**	**2,074**	**82**	**2,156**
Total comprehensive income for the year	**—**	**—**	**—**	**(395)**	**30**	**46**	**2,074**	**1,755**	**111**	**1,866**
Capital securities issued[1]	**—**	**—**	**197**	**—**	**—**	**—**	**—**	**197**		**197**
Dividends to shareholders	**—**	**—**	**—**	**(804)**	**—**	**—**	**—**	**(804)**	**(20)**	**(824)**
Net impact of equity-settled share-based payments	—	—	—	**25**	—	—	—	**25**	—	**25**
Capital contribution[2]	**—**	**—**	**—**	**1,229**	**—**	**—**	**—**	**1,229**	**—**	**1,229**
Change in business combinations and other movements	**—**	**—**	**—**	**(4)**	**(2)**	**—**	**(50)**	**(56)**	**(24)**	**(80)**
Tax on items taken directly to equity	**—**	**—**	**—**	**87**	**—**	**—**	**—**	**87**	**—**	**87**
At 31 Dec 2016	**797**	**20,733**	**3,781**	**12,737**	**1,007**	**89**	**786**	**39,930**	**695**	**40,625**
At 1 Jan 2015	797	20,733	2,196	11,580	1,070	176	(474)	36,078	620	36,698
Profit for the year	—	—	—	1,942	—	—	—	1,942	32	1,974
Other comprehensive income (net of tax)	—	—	—	64	(91)	(133)	(764)	(924)	(27)	(951)
– available-for-sale investments	—	—	—	—	(91)		—	(91)	(6)	(97)
– cash flow hedges	—	—	—	—	—	(133)	—	(133)	—	(133)
– Actuarial gains/(losses) on defined benefit plans	—	—	—	64	—	—	—	64	1	65
– exchange differences and Other	—	—	—	—	—	—	(764)	(764)	(22)	(786)
Total comprehensive income for the year	—	—	—	2,006	(91)	(133)	(764)	1,018	5	1,023
Capital securities issued[1]	—	—	1,388	—	—	—	—	1,388		1,388
Dividends to shareholders	—	—	—	(1,027)	—	—	—	(1,027)	(15)	(1,042)
Net impact of equity settled share based payments	—	—	—	44	—	—	—	44	—	44
Change in business combinations and other movements	—	—	—	(4)	—	—	—	(4)	18	14
At 31 Dec 2015	797	20,733	3,584	12,599	979	43	(1,238)	37,497	628	38,125

1 *All new capital subscribed during the year was issued to HSBC Holdings plc. See Note 27 for further details.*
2 *HSBC Holdings plc injected £1,229m of CET1 capital into HSBC Bank plc. There was no new issuance of share capital.*

HSBC Bank plc balance sheet

at 31 December

	Notes	2016 £m	2015 £m
Assets			
Cash and balances at central banks		**49,252**	38,725
Items in the course of collection from other banks		**780**	993
Trading assets	8	**102,407**	90,244
Derivatives	12	**185,779**	150,454
Loans and advances to banks		**16,713**	16,661
Loans and advances to customers		**215,084**	205,398
Reverse repurchase agreements – non-trading		**23,351**	24,893
Financial investments	13	**49,472**	39,899
Prepayments, accrued income and other assets	19	**10,543**	9,309
Current tax assets		**71**	93
Interests in associates and joint ventures	15	**5**	62
Investments in subsidiary undertakings	16	**8,838**	11,230
Goodwill and intangible assets	18	**920**	922
Deferred tax assets	6	**6**	7
Total assets at 31 Dec		**663,221**	588,890
Liabilities and equity			
Liabilities			
Deposits by banks		**26,184**	29,073
Customer accounts		**303,571**	271,526
Repurchase agreements – non-trading		**15,420**	11,275
Items in the course of transmission to other banks		**243**	236
Trading liabilities	20	**72,139**	57,436
Financial liabilities designated at fair value	21	**10,175**	11,813
Derivatives	12	**179,481**	148,249
Debt securities in issue		**6,866**	12,356
Accruals, deferred income and other liabilities	22	**4,489**	3,566
Current tax liabilities		**192**	136
Provisions	23	**1,885**	1,702
Deferred tax liabilities	6	**468**	493
Subordinated liabilities	24	**7,362**	7,497
Total liabilities at 31 Dec		**628,475**	555,358
Equity			
Called up share capital	27	**797**	797
Share premium account		**20,733**	20,733
Other equity instruments	27	**3,781**	3,584
Other reserves		**428**	239
Retained earnings		**9,007**	8,179
Total equity at 31 Dec		**34,746**	33,532
Total liabilities and equity at 31 Dec		**663,221**	588,890

Profit after tax for the year was £480m (2015: £1,609m)

The accompanying notes on pages 76 to 136 and the audited sections of the 'Report of the Directors' on pages 10 to 13 and pages 22 to 56 form an integral part of these financial statements.

The financial statements on pages 68 to 75 were approved by the Board of Directors on 21 February 2017 and signed on its behalf by:

A P S Simoes

Director

HSBC Bank plc statement of cash flows

for the year ended 31 December

	2016 £m	2015 £m
Profit before tax	**1,250**	2,252
Adjustments for non-cash items		
Depreciation, amortisation and impairment	**2,611**	415
Net gain from investing activities	**(399)**	(139)
Loan impairment losses gross of recoveries and other credit risk provisions	**403**	462
Provisions including pensions	**398**	1,022
Share-based payment expense	**95**	180
Other non-cash items included in profit before tax	**22**	(46)
Elimination of exchange differences[1]	**(7,465)**	1,045
Changes in operating assets and liabilities		
Change in net trading securities and derivatives	**3,433**	804
Change in loans and advances to banks and customers	**(10,578)**	2,565
Change in reverse repurchase agreements – non-trading	**847**	8,512
Change in financial assets designated at fair value	**—**	9
Change in other assets	**(685)**	7,139
Change in deposits by banks and customer accounts	**29,156**	(13,471)
Change in repurchase agreements – non-trading	**4,145**	(7,018)
Change in debt securities in issue	**(5,490)**	(2,594)
Change in financial liabilities designated at fair value	**(1,638)**	(3,424)
Change in other liabilities	**269**	(3,890)
Contributions paid to defined benefit plans	**(233)**	(241)
Tax paid	**(596)**	(536)
Net cash from operating activities	**15,545**	(6,954)
Purchase of financial investments	**(23,554)**	(17,551)
Proceeds from the sale and maturity of financial investments	**18,921**	20,415
Net cash flows from the purchase and sale of property, plant and equipment	**(348)**	(289)
Net investment in intangible assets	**(197)**	(198)
Net cash flow from acquisition of businesses and subsidiaries	**(197)**	(2)
Net cash flow on disposal of subsidiaries, businesses, associates and joint ventures	**442**	97
Net cash from investing activities	**(4,933)**	2,472
Issue of ordinary share capital and other equity instruments	**197**	1,388
Subordinated loan capital issued	**1,055**	1,073
Subordinated loan capital repaid	**(2,322)**	(2,371)
Funds received from the shareholder of the parent company	**1,229**	—
Dividends paid to shareholders of the parent company	**(800)**	(1,024)
Net cash from financing activities	**(641)**	(934)
Net increase/(decrease) in cash and cash equivalents	**9,971**	(5,416)
Cash and cash equivalents at 1 Jan	**56,090**	61,942
Exchange differences in respect of cash and cash equivalents	**4,283**	(436)
Cash and cash equivalents at 31 Dec	**70,344**	56,090
Cash and cash equivalents comprise of:		
Cash and balances at central banks	**49,252**	38,725
Items in the course of collection from other banks	**780**	993
Loans and advances to banks of one month or less	**14,965**	11,200
Reverse repurchase agreement with banks of one month or less	**4,135**	4,830
Treasury bills, other bills and certificates of deposit less than three months	**1,455**	578
Less: items in the course of transmission to other banks	**(243)**	(236)
	70,344	56,090

1 *Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as details cannot be determined without unreasonable expense.*

Interest received was £7,147m (2015: £6,789m), interest paid was £1,932m (2015: £1,978m) and dividends received was £51m (2015: £329m).

HSBC Bank plc statement of changes in equity

for the year ended 31 December

					Other reserves			
	Called up share capital	Share premium	Other equity instruments	Retained earnings	Available-for-sale fair value reserve	Cash flow hedging reserve	Foreign exchange reserve	Total shareholders' equity
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2016	**797**	**20,733**	**3,584**	**8,179**	**290**	**33**	**(84)**	**33,532**
Profit for the year				**480**				**480**
Other comprehensive income (net of tax)	**—**	**—**	**—**	**(174)**	**(72)**	**104**	**157**	**15**
– available-for-sale investments	**—**	**—**	**—**	**—**	**(72)**	**—**	**—**	**(72)**
– cash flow hedges	**—**	**—**	**—**	**—**	**—**	**104**	**—**	**104**
– Actuarial gains/(losses) on defined benefit plans	**—**	**—**	**—**	**(174)**	**—**	**—**	**—**	**(174)**
– exchange differences and Other	**—**	**—**	**—**	**—**	**—**	**—**	**157**	**157**
Total comprehensive income for the year	**—**	**—**	**—**	**306**	**(72)**	**104**	**157**	**495**
Capital securities issued[1]	**—**	**—**	**197**	**—**	**—**	**—**	**—**	**197**
Dividends to shareholders	**—**	**—**	**—**	**(800)**	**—**	**—**	**—**	**(800)**
Net impact of equity-settled share-based payments	**—**	**—**	**—**	**24**	**—**	**—**	**—**	**24**
Capital contribution[2]	**—**	**—**	**—**	**1,229**	**—**	**—**	**—**	**1,229**
Change in business combinations and other movements	**—**	**—**	**—**	**(18)**	**—**	**—**	**—**	**(18)**
Tax on items taken directly to equity	–	–	–	**87**	–	–	–	**87**
At 31 Dec 2016	**797**	**20,733**	**3,781**	**9,007**	**218**	**137**	**73**	**34,746**
At 1 Jan 2015[3]	797	20,733	2,196	7,475	214	100	(50)	31,465
Profit for the year	—	—	—	1,609	—	—	—	1,609
Other comprehensive income (net of tax)	—	—	—	70	76	(67)	(34)	45
– available-for-sale investments	—	—	—	—	76	—	—	76
– cash flow hedges	—	—	—	—	—	(67)	—	(67)
– Actuarial gains/(losses) on defined benefit plans	—	—	—	70	—	—	—	70
– exchange differences and Other	—	—	—	—	—	—	(34)	(34)
Total comprehensive income for the year	—	—	—	1,679	76	(67)	(34)	1,654
Capital securities issued[1]	—	—	1,388	–	—	—	—	1,388
Dividends to shareholders	—	—	—	(1,024)	—	—	—	(1,024)
Net impact of equity-settled share-based payments	—	—	—	47	—	—	—	47
Change in business combinations and other movements	—	—	—	2	—	—	—	2
At 31 Dec 2015[3]	797	20,733	3,584	8,179	290	33	(84)	33,532

1 *All new capital subscribed during the year was issued to HSBC Holdings plc. See Note 27 for further details.*
2 *HSBC Holdings plc injected £1,229m of CET1 capital into HSBC bank plc. There was no new issuance of share capital.*
3 *Opening and closing Retained earnings and Available for sale ('AFS') reserves in 2015 have been restated by £125m to correct an overstatement of the AFS reserve. This overstatement was due to incorrect amortisation of the AFS reserve in the prior periods.*

1 Basis of preparation and significant accounting policies

1.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The consolidated financial statements of the group and the separate financial statements of HSBC Bank plc have been prepared in accordance with IFRSs as issued by the IASB, including interpretations ('IFRICS') issued by the IFRS Interpretations Committee, and as endorsed by the European Union ('EU'). At 31 December 2016, there were no unendorsed standards effective for the year ended 31 December 2016 affecting these consolidated and separate financial statements, and the group's application of IFRSs results in no differences between IFRSs as issued by the IASB and IFRSs as endorsed by the EU.

Standards adopted during the year ended 31 December 2016

There were no new standards applied during the year ended 31 December 2016. During 2016, the group adopted a number of interpretations and amendments to standards which had an insignificant effect on the consolidated financial statements of the group and the separate financial statements of HSBC Bank plc.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB has published a number of minor amendments to IFRSs in the 'Annual Improvements to IFRSs 2012-2014' and in a series of stand-alone amendments, one of which has not yet been endorsed for use in the EU. The group has not early adopted any of the amendments effective after 31 December 2016, and it expects they will have an insignificant effect, when adopted, on the consolidated financial statements of the group and the separate financial statements of HSBC Bank plc.

Major new IFRSs

The IASB has published IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases'. IFRS 9 and IFRS 15 have been endorsed for use in the EU and IFRS 16 has not yet been endorsed.

IFRS 9 'Financial Instruments'

In July 2014, the IASB issued IFRS 9 'Financial Instruments', which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement

The classification and measurement of financial assets will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss ('FVPL'). The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair value compared with IAS 39. However, based on an assessment of financial assets performed to date and expectations around changes to balance sheet composition, the group expects that the overall impact of any change will not be significant.

For financial liabilities designated to be measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in other comprehensive income.

Impairment

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, and lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, an impairment allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are in 'stage 1'; financial assets that are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in 'stage 3'.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39, and the resulting impairment charge will tend to be more volatile. IFRS 9 will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. However they do not explicitly address macro hedge accounting strategies, which are particularly important for banks. As a result, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting.

Based on the analysis performed to date, the group expects to exercise the accounting policy choice to continue IAS 39 hedge accounting and therefore is not currently planning to change hedge accounting, although it will implement the revised hedge accounting disclosures required by the related amendments to IFRS 7 'Financial Instruments: Disclosures'.

Transition

The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The group does not intend to restate comparatives. The mandatory application date for the standard as a whole is 1 January 2018, but it is possible to apply the revised presentation for certain liabilities measured at fair value from an earlier date. HSBC intends to revise the presentation of fair value gains and losses relating to an entity's own credit risk on certain liabilities from 1 January 2017. If this presentation was applied at 31 December 2016, the effect would be to increase profit before tax with the opposite effect on other comprehensive income based on the change in fair value attributable to changes in the group's credit risk for the year, with no effect on net assets. Further information on the change in fair value attributable to changes in credit risk, including the group's credit risk, is disclosed in Note 21. The group is assessing the impact that the impairment requirements will have on the financial statements.

The joint Global Risk and Global Finance IFRS 9 Implementation Programme continues to progress with the documentation of Group accounting policy, the development of operating and system target operating models and the development, build and testing of risk modelling methodologies for the calculation of impairment nearing completion. HSBC intends to perform a parallel run during the second half of 2017 to gain a better understanding of the potential effect of the new standard and for the governance framework to gain experience. The group intends to quantify the potential impact of IFRS 9 once it is practicable to provide reliable estimates, which will be no later than in the *Annual Report and Accounts 2017*. Until reliable estimates of the impact are available, particularly on the interaction with the regulatory capital requirements, further information on the expected impact on the financial position and on capital planning cannot be provided.

IFRS 15 'Revenue from Contracts with Customers'

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers'. The original effective date of IFRS 15 has been delayed by one year and the standard is now effective for annual periods beginning on or after 1 January 2018 with early application permitted. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for performance obligations as they are satisfied. The standard should be applied retrospectively, with certain practical expedients available. The group has assessed the impact of IFRS 15 and expects that the standard will have no significant effect, when applied, on the consolidated financial statements of the group and the separate financial statements of HSBC Bank plc.

IFRS 16 'Leases'

In January 2016, the IASB issued IFRS 16 'Leases' with an effective date for annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as under IAS 17. The group is currently assessing the impact of IFRS 16, and it is not practicable to quantify the effect at the date of the publication of these financial statements. Existing operating lease commitments are set out in Note 29.

(c) Foreign currencies

The functional currency of the bank is sterling, which is also the presentational currency of the consolidated financial statements of the group.

Transactions in foreign currencies are recorded at the rate of exchange on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date except non-monetary assets and liabilities measured at historical cost that are translated using the rate of exchange at the initial transaction date. Exchange differences are included in other comprehensive income or in the income statement depending on where the gain or loss on the underlying item is recognised.

In the consolidated financial statements, the assets, liabilities and results of foreign operations whose functional currency is not sterling are translated into the group's presentation currency at the reporting date. Exchange differences arising are recognised in other comprehensive income. On disposal of a foreign operation, exchange differences previously recognised in other comprehensive income are reclassified to the income statement.

(d) Presentation of information

Certain disclosures required by IFRSs have been included in the audited sections of this *Annual Report and Accounts* as follows:

- segmental disclosures are included in the 'Report of the Directors: Financial Review' on pages 10 and 13;
- disclosures concerning the nature and extent of risks relating to financial instruments and insurance contracts are included in the 'Report of the Directors: Risk' on pages 22 to 44;
- capital disclosures are included in the 'Report of the Directors: Capital' on pages 55 to 57; and
- disclosures relating to HSBC's securitisation activities and structured products are included in the 'Report of the Directors: Risk' on page 45. In publishing the parent company financial statements together with the group financial statements, the bank has taken advantage of the exemption in Section 408(3) of the Companies Act 2006 not to represent its individual income statement and related notes.

(e) Critical accounting estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items highlighted as the critical accounting estimates and judgements in section 1.2 below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based, resulting in materially different conclusions from those reached by management for the purposes of the these Financial Statements. Management's selection of the group's accounting policies which contain critical estimates and judgements reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

(f) Segmental analysis

Measurement of segmental assets, liabilities, income and expenses is in accordance with the bank's accounting policies. Segmental income and expenses include transfers between segments and these transfers are conducted at arm's length. Shared costs are included in segments on the basis of the actual recharges made.

The types of products and services from which each reportable segment derives its revenue are discussed in the 'Strategic Report – Products and services'.

(g) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the group and bank 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.

1.2 Summary of significant accounting policies

(a) Consolidation and related policies

Investments in subsidiaries

Where an entity is governed by voting rights, the group consolidates when it holds, directly or indirectly, the necessary voting rights to pass resolutions by the governing body. In all other cases, the assessment of control is more complex and requires judgement of other factors, including having exposure to variability of returns, power to direct relevant activities and whether power is held as agent or principal.

Business combinations are accounted for using the acquisition method. The amount of non-controlling interest is measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The banks' investments in subsidiaries are stated at cost less impairment losses.

Critical accounting estimates and judgements

Investments in subsidiaries are tested for impairment when there is an indication that the investment may be impaired. Impairment testing involves significant judgement in determining the value in use, and in particular estimating the present values of cash flows expected to arise from continuing to hold the investment and the rates used to discount these cash flows.

Goodwill

Goodwill is allocated to cash-generating units ('CGUs') for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. The group's CGUs are based on global businesses. Impairment testing is performed once a year, or whenever there is an indication of impairment, by comparing the recoverable amount of a CGU with its carrying amount.

Goodwill is included in a disposal group if the disposal group is a CGU to which goodwill has been allocated or it is an operation within such a CGU. The amount of goodwill included in a disposal group is measured on the basis of the relative values of the operation disposed of and the portion of the CGU retained.

Critical accounting estimates and judgements

The review of goodwill for impairment reflects management's best estimate of the future cash flows of the CGUs and the rates used to discount these cash flows, both of which are subject to uncertain factors as follows:

- The future cash flows of the CGUs are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data, but they reflect management's view of future business prospects at the time of the assessment;
- The rates used to discount future expected cash flows can have a significant effect on their valuation and are based on the costs of capital assigned to individual CGUs. The cost of capital percentage is generally derived from a capital asset pricing model, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate in the country concerned and a premium for the risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions beyond management's control, are subject to uncertainty and require the exercise of significant judgement.

The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. In such circumstances, management retests goodwill for impairment more frequently than once a year when indicators of impairment exist to ensure that the assumptions on which the cash flow forecasts are based continue to reflect current market conditions and management's best estimate of future business prospects.

Group sponsored structured entities

The group is considered to sponsor another entity if, in addition to ongoing involvement with the entity, it had a key role in establishing that entity or in bringing together relevant counterparties so the transaction that is the purpose of the entity could occur. The group is generally not considered a sponsor if the only involvement with the entity is merely administrative.

Interests in associates and joint arrangements

Joint arrangements are investments in which the group, together with one or more parties, has joint control. Depending on the group's rights and obligations, the joint arrangement is classified as either a joint operation or a joint venture. The group classifies investments in entities over which it has significant influence, and that are neither subsidiaries nor joint arrangements, as associates.

The group recognises its share of the assets, liabilities and results in a joint operation. Investments in associates and interests in joint ventures are recognised using the equity method. The attributable share of the results and reserves of joint ventures and associates are included in the consolidated financial statements of the group based on either financial statements made up to 31 December or pro-rated amounts adjusted for any material transactions or events occurring between the date the financial statements are available and 31 December.

Investments in associates and joint ventures are assessed at each reporting date and tested for impairment when there is an indication that the investment may be impaired. Goodwill on acquisition of interests in joint ventures and associates is not tested separately for impairment but is assessed as part of the carrying amount of the investment.

(b) Income and expense

Operating income

Interest income and expense

Interest income and expense for all financial instruments, excluding those classified as held for trading or designated at fair value are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. However, as an exception to this, interest on debt securities issued by the group that are designated under the fair value option and derivatives managed in conjunction with those debt securities is included in interest expense.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Non-interest income and expense

Fee income is earned from a diverse range of services provided by the group to its customers. Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating a transaction, such as the acquisition of shares, for a third party); and
- income earned from the provision of services is recognised as revenue as the services are provided (for example, asset management services).

Net trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, together with the related interest income, expense and dividends.

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

Net income from financial instruments designated at fair value includes all gains and losses from changes in the fair value of financial assets and liabilities designated at fair value through profit or loss, including derivatives that are managed in conjunction with those financial assets and liabilities, and liabilities under investment contracts. Interest income, interest expense and dividend income in respect of those financial instruments are also included, except for interest arising from debt securities issued by the group and derivatives managed in conjunction with those debt securities, which is recognised in 'Interest expense'.

The accounting policies for **insurance premium income** are disclosed in Note 1.2(f).

(c) Valuation of financial instruments

All financial instruments are initially recognised at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, the group recognises the difference as a trading gain or loss at inception ('day 1 gain or loss'). In all other cases, the entire day 1 gain or loss is deferred and recognised in the income statement over the life of the transaction until the transaction matures or is closed out, the valuation inputs become observable or the group enters into an offsetting transaction.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where the group manages a group of financial assets and liabilities according to its net market or credit risk exposure, the fair value of the group of financial instruments is measured on a net basis but the underlying financial assets and liabilities are presented separately in the financial statements, unless they satisfy the IFRS offsetting criteria.

Critical accounting estimates and judgements

The majority of valuation techniques employ only observable market data. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them the measurement of fair value is more judgemental. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit or greater than 5% of the instrument's valuation is driven by unobservable inputs. 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

(d) Financial instruments measured at amortised cost

Loans and advances to banks and customers, held-to-maturity investments and most financial liabilities are measured at amortised cost. The carrying value of these financial instruments at initial recognition includes any directly attributable transactions costs. If the initial fair value is lower than the cash amount advanced, such as in the case of some leveraged finance and syndicated lending activities, the difference is deferred and recognised over the life of the loan (as described in paragraph (c), above) through the recognition of interest income, unless the loan becomes impaired.

The group may commit to underwriting loans on fixed contractual terms for specified periods of time. When the loan arising from the lending commitment is expected to be held for trading, the commitment to lend is recorded as a derivative. When the group intends to hold the loan, a provision on the loan commitment is only recorded where it is probable that the group will incur a loss.

Impairment of loans and advances

Losses for impaired loans are recognised when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Losses which may arise from future events are not recognised.

Individually assessed loans and advances

The factors considered in determining whether a loan is individually significant for the purposes of assessing impairment include the size of the loan, the number of loans in the portfolio, the importance of the individual loan relationship and how this is managed. Loans that are determined to be individually significant will be individually assessed for impairment, except when volumes of defaults and losses are sufficient to justify treatment under a collective methodology.

Loans considered as individually significant are typically to corporate and commercial customers, are for larger amounts and are managed on an individual basis. For these loans, the group considers on a case-by-case basis at each balance sheet date whether there is any objective evidence that a loan is impaired.

The determination of the realisable value of security is based on the most recently updated market value at the time the impairment assessment is performed. The value is not adjusted for expected future changes in market prices, though adjustments are made to reflect local conditions such as forced sale discounts.

Impairment losses are calculated by discounting the expected future cash flows of a loan, which include expected future receipts of contractual interest, at the loan's original effective interest rate or an approximation thereof, and comparing the resultant present value with the loan's current carrying amount.

Collectively assessed loans and advances

Impairment is assessed collectively to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment or for homogeneous groups of loans that are not considered individually significant, generally retail lending portfolios.

Incurred but not yet identified impairment

Individually assessed loans for which no evidence of impairment has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for a collective impairment assessment. This assessment captures impairment losses that the group has incurred as a result of events occurring before the balance sheet date which the group is not able to identify on an individual loan basis, and that can be reliably estimated. When information becomes available which identifies losses on individual loans within a group, those loans are removed from the group and assessed individually.

Homogeneous groups of loans and advances

Statistical methods are used to determine collective impairment losses for homogeneous groups of loans not considered individually significant. The methods used to calculate collective allowances are set out below:

- When appropriate empirical information is available, the group utilises roll-rate methodology, which employs statistical analyses of historical data and experience of delinquency and default to reliably estimate the amount of the loans that will eventually be written off as a result of the events occurring before the balance sheet date. Individual loans are grouped using ranges of past due days and statistical estimates are made of the likelihood that loans in each range will progress through the various stages of delinquency and become irrecoverable. Additionally, individual loans are segmented based on their credit characteristics, such as industry sector, loan grade or product. In applying this methodology, adjustments are made to estimate the periods of time between a loss event occurring, for example because of a missed payment, and its confirmation through write-off (known as the loss identification period). Current economic conditions are also evaluated when calculating the appropriate level of allowance required to cover inherent loss. In certain highly-developed markets, models also take into account behavioural and account management trends as revealed in, for example, bankruptcy and rescheduling statistics.
- When the portfolio size is small or when information is insufficient or not reliable enough to adopt a roll-rate methodology, the group adopts a basic formulaic approach based on historical loss rate experience, or a discounted cash flow model. Where a basic formulaic approach is undertaken, the period between a loss event occurring and its identification is estimated by local management, and is typically between six and 12 months.

Write-off of loans and advances

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the income statement.

Assets acquired in exchange for loans

When non-financial assets acquired in exchange for loans as part of an orderly realisation are held for sale, these assets are recorded as 'Assets held for sale' and reported in 'Other assets'.

Renegotiated loans

Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due, but are treated as up-to-date loans for measurement purposes once a minimum number of payments required has been received. Where collectively assessed loan portfolios include significant levels of renegotiated loans, these loans are segregated from other parts of the loan portfolio for the purposes of collective impairment assessment to reflect their risk profile. Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired. The carrying amounts of loans that have been classified as renegotiated retain this classification until maturity or derecognition.

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified such that the renegotiated loan is substantially a different financial instrument. Any new loans that arise following derecognition events will continue to be disclosed as renegotiated loans and are assessed for impairment as above.

Critical accounting estimates and judgements

Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the balance sheet date. Management is required to exercise judgement in making assumptions and estimates when calculating loan impairment allowances on both individually and collectively assessed loans and advances.

Collective impairment allowances are subject to estimation uncertainty, in part because it is not practicable to identify losses on an individual loan basis due to the large number of individually insignificant loans in the portfolio. The estimation methods include the use of statistical analyses of historical information, supplemented with significant management judgement, to assess whether current economic and credit conditions are such that the actual level of incurred losses is likely to be greater or less than historical experience. Where changes in economic, regulatory or behavioural conditions result in the most recent trends in portfolio risk factors being not fully reflected in the statistical models, risk factors are taken into account by adjusting the impairment allowances derived solely from historical loss experience.

- Risk factors include loan portfolio growth, product mix, unemployment rates, bankruptcy trends, geographical concentrations, loan product features, economic conditions such as national and local trends in housing markets, the level of interest rates, portfolio seasoning, account management policies and practices, changes in laws and regulations, and other influences on customer payment patterns. Different factors are applied in different regions and countries to reflect local economic conditions, laws and regulations. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss experience. For example, roll rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate.
- For individually assessed loans, judgement is required in determining whether there is objective evidence that a loss event has occurred and, if so, the measurement of the impairment allowance. In determining whether there is objective evidence that a loss event has occurred, judgement is exercised in evaluating all relevant information on indicators of impairment, including the consideration of whether payments are contractually past due and the consideration of other factors indicating deterioration in the financial condition and outlook of borrowers affecting their ability to pay.

A higher level of judgement is required for loans to borrowers showing signs of financial difficulty in market sectors experiencing economic stress, particularly where the likelihood of repayment is affected by the prospects for refinancing or the sale of a specified asset. For those loans where objective evidence of impairment exists, management determines the size of the allowance required based on a range of factors such as the realisable value of security, the likely dividend available on liquidation or bankruptcy, the viability of the customer's business model and the capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations.

The group might provide loan forbearance to borrowers experiencing financial difficulties by agreeing to modify the contractual payment terms of loans in order to improve the management of customer relationships, maximise collection opportunities or avoid default or repossession. Where forbearance activities are significant, higher levels of judgement and estimation uncertainty are involved in determining their effects on loan impairment allowances. Judgements are involved in differentiating the credit risk characteristics of forbearance cases, including those which return to performing status following renegotiation. Where collectively assessed loan portfolios include significant levels of loan forbearance, portfolios are segmented to reflect the different credit risk characteristics of forbearance cases, and estimates are made of the incurred losses inherent within each forbearance portfolio segment. Forbearance activities take place in both retail and wholesale loan portfolios.

The exercise of judgement requires the use of assumptions which are highly subjective and very sensitive to the risk factors, in particular to changes in economic and credit conditions across a large number of geographical areas. Many of the factors have a high degree of interdependency and there is no single factor to which our loan impairment allowances as a whole are sensitive.

Non-trading reverse repurchase and repurchase agreements

When securities are sold subject to a commitment to repurchase them at a predetermined price ('repos'), they remain on the balance sheet and a liability is recorded in respect of the consideration received. Securities purchased under commitments to resell ('reverse repos') are not recognised on the balance sheet and an asset is recorded in respect of the initial consideration paid. Non-trading repos and reverse repos are measured at amortised cost. The difference between the sale and repurchase price or between the purchase and resale price is treated as interest and recognised in net interest income over the life of the agreement.

(e) Financial instruments measured at fair value

Available-for-sale financial assets

Available-for-sale financial assets are recognised on the trade date when the group enters into contractual arrangements to purchase those instruments, and are normally derecognised when the securities are either sold or redeemed. They are subsequently remeasured at fair value, and changes therein are recognised in other comprehensive income until the assets are either sold or become impaired. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains less losses from financial investments'.

Impairment of available-for-sale financial assets

Available-for-sale financial assets are assessed at each balance sheet date for objective evidence of impairment. Impairment losses are recognised in the income statement within 'Loan impairment charges and other credit risk provisions' for debt instruments and within 'Gains less losses from financial investments' for equities.

Available-for-sale debt securities

In assessing objective evidence of impairment at the reporting date, the group considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in the recovery of future cash flows. A subsequent decline in the fair value of the instrument is recognised in the income statement when there is objective evidence of impairment as a result of decreases in the estimated future cash flows. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, or the instrument is no longer impaired, the impairment loss is reversed through the income statement.

Available-for-sale equity securities

A significant or prolonged decline in the fair value of the equity below its cost is objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the continuous period in which the fair value of the asset has been below its original cost at initial recognition.

All subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the income statement to the extent that further cumulative impairment losses have been incurred. Impairment losses recognised on the equity security are not reversed through the income statement.

Financial instruments designated at fair value

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below, and are so designated irrevocably at inception:

- the use of the designation removes or significantly reduces an accounting mismatch;
- when a group of financial assets, liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and
- where financial instruments contain one or more non-closely related embedded derivatives.

Designated financial assets are recognised when the group enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred. Designated financial liabilities are recognised when the group enters into contracts with counterparties, which is generally on settlement date, and are normally derecognised when extinguished. Subsequent changes in fair values are recognised in the income statement in 'Net income from financial instruments designated at fair value'.

Under this criterion, the main classes of financial instruments designated by the group are:

Long-term debt issues

The interest and/or foreign exchange exposure on certain fixed rate debt securities issued has been matched with the interest and/or foreign exchange exposure on certain swaps as part of a documented risk management strategy.

Financial assets and financial liabilities under unit-linked and non-linked investment contracts

A contract under which the group does not accept significant insurance risk from another party is not classified as an insurance contract, other than investment contracts with discretionary participation features ('DPF'), but is accounted for as a financial liability. See Note 1.2(f) for investment contracts with DPF and contracts where the group accepts significant insurance risk. Customer liabilities under linked and certain non-linked investment contracts issued by insurance subsidiaries and the corresponding financial assets are designated at fair value. Liabilities are at least equivalent to the surrender or transfer value which is calculated by reference to the value of the relevant underlying funds or indices. Premiums receivable and amounts withdrawn are accounted for as increases or decreases in the liability recorded in respect of investment contracts. The incremental costs directly related to the acquisition of new investment contracts or renewing existing investment contracts are deferred and amortised over the period during which the investment management services are provided.

Derivatives

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative, this includes embedded derivatives which are bifurcated from the host contract when they meet the definition of a derivative on a stand-alone basis.

Gains and losses from changes in the fair value of derivatives that do not qualify for hedge accounting are reported in 'Net trading income'. Gains and losses on derivatives managed in conjunction with financial instruments designated at fair value are reported in 'Net income from financial instruments designated at fair value' together with the gains and losses on the economically hedged items. Where the derivatives are managed with debt securities issued by the group that are designated at fair value, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

Hedge accounting

When derivatives are held for risk management purposes they are designated in hedge relationships where the required criteria for documentation and hedge effectiveness are met. The group enters into fair value hedges, cash flow hedges or hedges of net investments in foreign operations as appropriate to the risk being hedged.

Fair value hedge

Changes in the fair value of derivatives are recorded in the income statement, along with changes in the fair value of the hedged assets or liabilities attributable to the hedged risk. If a hedge relationship no longer meets the criteria for hedge accounting, hedge accounting is discontinued; the cumulative adjustment to the carrying amount of the hedged item is amortised to the income statement on a recalculated effective interest rate over the residual period to maturity, unless the hedged item has been derecognised, in which case it is recognised in the income statement immediately.

Cash flow hedge

The effective portion of changes in the fair value of derivatives is recognised in other comprehensive income; the ineffective portion of the change in fair value is recognised immediately in the income statement within 'Net trading income'. The accumulated gains and losses recognised in other comprehensive income are reclassified to the income statement in the same periods in which the hedged item affects profit or loss. In hedges of forecast transactions that result in recognition of a non-financial asset or liability, previous gains and losses recognised in other comprehensive income are included in the initial measurement of the asset or liability. When a hedge relationship is discontinued, or partially discontinued, any cumulative gain or loss recognised in other comprehensive income remains in equity until the forecast transaction is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the income statement.

Net investment hedge

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. A gain or loss on the effective portion of the hedging instrument is recognised in other comprehensive income; the residual change in fair value is recognised immediately in the income statement. Gains and losses previously recognised in other comprehensive income are reclassified to the income statement on the disposal, or part disposal, of the foreign operation.

Derivatives that do not qualify for hedge accounting

Non-qualifying hedges are derivatives entered into as economic hedges of assets and liabilities for which hedge accounting was not applied.

(f) Insurance contracts

A contract is classified as an insurance contract where the group accepts significant insurance risk from another party by agreeing to compensate that party on the occurrence of a specified uncertain future event. An insurance contract may also transfer financial risk, but is accounted for as an insurance contract if the insurance risk is significant. In addition, the group issues investment contracts with DPF which are also accounted for as insurance contracts as required by IFRS 4 'Insurance Contracts'.

Net insurance premium income

Premiums for life insurance contracts are accounted for when receivable, except in unit-linked insurance contracts where premiums are accounted for when liabilities are established.

Reinsurance premiums are accounted for in the same accounting period as the premiums for the direct insurance contracts to which they relate.

Net insurance claims and benefits paid and movements in liabilities to policyholders

Gross insurance claims for life insurance contracts reflect the total cost of claims arising during the year, including claim handling costs and any policyholder bonuses allocated in anticipation of a bonus declaration.

Maturity claims are recognised when due for payment. Surrenders are recognised when paid or at an earlier date on which, following notification, the policy ceases to be included within the calculation of the related insurance liabilities. Death claims are recognised when notified.

Reinsurance recoveries are accounted for in the same period as the related claim.

Liabilities under insurance contracts

Liabilities under non-linked life insurance contracts are calculated by each life insurance operation based on local actuarial principles. Liabilities under unit-linked life insurance contracts are at least equivalent to the surrender or transfer value, which is calculated by reference to the value of the relevant underlying funds or indices.

Future profit participation on insurance contracts with DPF

Where contracts provide discretionary profit participation benefits to policyholders, liabilities for these contracts include provisions for the future discretionary benefits to policyholders. These provisions reflect the actual performance of the investment portfolio to date and management's expectation of the future performance of the assets backing the contracts, as well as other experience factors such as mortality, lapses and operational efficiency, where appropriate. The benefits to policyholders may be determined by the contractual terms, regulation or past distribution policy.

Investment contracts with DPF

While investment contracts with DPF are financial instruments, they continue to be treated as insurance contracts as required by IFRS 4. The Group therefore recognises the premiums for these contracts as revenue and recognises as an expense the resulting increase in the carrying amount of the liability.

In the case of net unrealised investment gains on these contracts, whose discretionary benefits principally reflect the actual performance of the investment portfolio, the corresponding increase in the liabilities is recognised in either the income statement or other comprehensive income, following the treatment of the unrealised gains on the relevant assets. In the case of net unrealised losses, a deferred participating asset is recognised only to the extent that its recoverability is highly probable. Movements in the liabilities arising from realised gains and losses on relevant assets are recognised in the income statement.

Present value of in-force long-term insurance business

The group recognises the value place on insurance contracts, and investment contracts with DPF, that are classified as long-term and in-force at the balance sheet date, as an asset. The asset represents the present value of the equity holders' interest in the issuing insurance companies' profits expected to emerge from these contracts written at the balance sheet date. The present value of in-force long-term insurance business ('PVIF') is determined by discounting those expected future profits using appropriate assumptions in assessing factors such as future mortality, lapse rates and levels of expenses, and a risk discount rate that reflects the risk premium attributable to the respective contracts. The PVIF incorporates allowances for both non-market risk and the value of financial options and guarantees. The PVIF asset is presented gross of attributable tax in the balance sheet and movements in the PVIF asset are included in 'Other operating income' on a gross of tax basis.

(g) Employee compensation and benefits

Share-based payments

The group enters into both equity-settled and cash-settled share-based payment arrangements with its employees as compensation for services provided by employees.

The vesting period for these schemes may commence before the grant date if the employees have started to render services in respect of the award before the grant date. Expenses are recognised when the employee starts to render service to which the award relates.

Cancellations result from the failure to meet a non-vesting condition during the vesting period, and are treated as an acceleration of vesting recognised immediately in the income statement. Failure to meet a vesting condition by the employee is not treated as a cancellation, and the amount of expense recognised for the award is adjusted to reflect the number of awards expected to vest.

Post-employment benefit plans

The group operates a number of pension schemes (including defined benefit and defined contribution) and post-employment benefit schemes.

Payments to defined contribution plans are charged as an expense as the employees render service.

Defined benefit pension obligations are calculated using the projected unit credit method. The net charge to the income statement mainly comprises the service cost and the net interest on the net defined benefit asset or liability, and is presented in operating expenses.

Remeasurements of the net defined benefit asset or liability, which comprise actuarial gains and losses, return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The net defined benefit asset or liability represents the present value of defined benefit obligations reduced by the fair value of plan assets, after applying the asset ceiling test, where the net defined benefit surplus is limited to the present value of available refunds and reductions in future contributions to the plan.

The cost of obligations arising from other post-employment plans are accounted for on the same basis as defined benefit pension plans.

(h) Tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is recognised in the same statement in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year and any adjustment to tax payable in respect of previous years. The group provides for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet, and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax is calculated using the tax rates expected to apply in the periods as the assets will be realised or the liabilities settled.

Current and deferred tax is calculated based on tax rates and laws enacted, or substantively enacted, by the balance sheet date.

(i) Provisions, contingent liabilities and guarantees

Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made.

Critical accounting estimates and judgements

Judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. Professional expert advice is taken on the assessment of litigation, property (including onerous contracts) and similar obligations. Provisions for legal proceedings and regulatory matters typically require a higher degree of judgement than other types of provisions. When matters are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised, revising previous judgements and estimates as appropriate. At more advanced stages, it is typically easier to make judgements and estimates around a better defined set of possible outcomes. However, the amount provisioned can remain very sensitive to the assumptions used. There could be a wide range of possible outcomes for any pending legal proceedings, investigations or inquiries. As a result, it is often not practicable to quantify a range of possible outcomes for individual matters. It is also not practicable to meaningfully quantify ranges of potential outcomes in aggregate for these types of provisions because of the diverse nature and circumstances of such matters and the wide range of uncertainties involved. Provisions for customer remediation also require significant levels of estimation and judgement. The amounts of provisions recognised depend on a number of different assumptions, such as, the volume of inbound complaints, the projected period of inbound complaint volumes, the decay rate of complaint volumes, the population identified as systemically mis-sold and the number of policies per customer complaint.

Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, and contingent liabilities related to legal proceedings or regulatory matters, are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Financial guarantee contracts

Liabilities under financial guarantee contracts which are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable.

The bank has issued financial guarantees and similar contracts to other group entities. The group elects to account for certain guarantees as insurance contracts in the bank's financial statements, in which case they are measured and recognised as insurance liabilities. This election is made on a contract by contract basis, and is irrevocable.

2 Insurance business

Net insurance premium income

	Non-linked insurance	Linked life insurance	Investment contracts with DPF[1]	Total
	£m	£m	£m	£m
Gross insurance premium income	**209**	**75**	**1,378**	**1,662**
Reinsurers' share of gross insurance premium income	**(92)**	**(3)**	**—**	**(95)**
Year ended 31 Dec 2016	**117**	**72**	**1,378**	**1,567**
Gross insurance premium income	220	135	1,375	1,730
Reinsurers' share of gross insurance premium income	(113)	(4)	—	(117)
Year ended 31 Dec 2015	107	131	1,375	1,613

1 *Discretionary participation features.*

Net insurance claims and benefits paid and movement in liabilities to policyholders

	Non-linked insurance	Linked life insurance	Investment contracts with DPF [1]	Total
	£m	£m	£m	£m
Gross claims and benefits paid and movement in liabilities	**162**	**206**	**1,802**	**2,170**
– claims, benefits and surrenders paid	**114**	**96**	**1,491**	**1,701**
– movement in liabilities	**48**	**110**	**311**	**469**
Reinsurers' share of claims and benefits paid and movement in liabilities	**(80)**	**(71)**	**—**	**(151)**
– claims, benefits and surrenders paid	**(55)**	**(3)**	**—**	**(58)**
– movement in liabilities	**(25)**	**(68)**	**—**	**(93)**
Year ended 31 Dec 2016	**82**	**135**	**1,802**	**2,019**
Gross claims and benefits paid and movement in liabilities	185	186	1,794	2,165
– claims, benefits and surrenders paid	129	294	1,375	1,798
– movement in liabilities	56	(108)	419	367
Reinsurers' share of claims and benefits paid and movement in liabilities	(104)	(13)	—	(117)
– claims, benefits and surrenders paid	(72)	(4)	—	(76)
– movement in liabilities	(32)	(9)	—	(41)
Year ended 31 Dec 2015	81	173	1,794	2,048

1 *Discretionary participation features.*

Liabilities under insurance contracts

	Non-linked insurance	Linked life insurance	Investment contracts with DPF [1]	Total
	£m	£m	£m	£m
Gross liabilities under insurance contracts at 1 Jan 2016	**506**	**904**	**15,254**	**16,664**
Claims and benefits paid	**(114)**	**(96)**	**(1,491)**	**(1,701)**
Increase in liabilities to policyholders	**162**	**206**	**1,802**	**2,170**
Exchange differences and other movements[2]	**62**	**16**	**2,513**	**2,591**
Gross liabilities under insurance contracts at 31 Dec 2016	**616**	**1,030**	**18,078**	**19,724**
Reinsurers' share of liabilities under insurance contracts	**(159)**	**(124)**	**—**	**(283)**
Net liabilities under insurance contracts at 31 Dec 2016	**457**	**906**	**18,078**	**19,441**
Gross liabilities under insurance contracts at 1 Jan 2015	532	907	16,083	17,522
Claims and benefits paid	(129)	(294)	(1,375)	(1,798)
Increase in liabilities to policyholders	185	186	1,794	2,165
Exchange differences and other movements[2]	(82)	105	(1,248)	(1,225)
Gross liabilities under insurance contracts at 31 Dec 2015	506	904	15,254	16,664
Reinsurers' share of liabilities under insurance contracts	(126)	(56)	—	(182)
Net liabilities under insurance contracts at 31 Dec 2015	380	848	15,254	16,482

1 *Discretionary participation features.*
2 *'Exchange differences and other movements' includes movements in liabilities arising from net unrealised investment gains recognised in other comprehensive income.*

The key factors contributing to the movement in liabilities to policyholders included death claims, surrenders, lapses, liabilities to policyholders created at the initial inception of the policies, the declaration of bonuses and other amounts attributable to policyholders.

3 Operating profit

Operating profit is stated after the following items:

	2016	2015
	£m	£m
Income		
Interest recognised on impaired financial assets	53	60
Interest income on loans and advances to customers	7,711	7,431
Interest income on financial investments	975	888
Fees earned on financial assets that are not at fair value through profit or loss (other than amounts included in determining the effective interest rate)	2,630	2,592
Fees earned on trust and other fiduciary activities	585	706
Expense		
Interest on financial instruments, excluding interest on financial liabilities held for trading or designated at fair value	2,098	2,090
– on customer accounts	1,456	1,504
– on debt securities in issue and subordinated liabilities, excluding interest on financial liabilities held for trading or designated at fair value	250	292
– other	392	294
Fees payable on financial liabilities that are not at fair value through profit or loss (other than amounts included in determining the effective interest rate)	390	456
Fees payable relating to trust and other fiduciary activities	1	1
Payments under lease and sublease agreements	175	174
– minimum lease payments	172	171
– contingent rents and sublease payments	3	3
Gains/(losses)		
Impairment of available-for-sale equity securities	(4)	(13)
Gains/(losses) recognised on assets held for sale	2	(9)
Loan impairment charges and other credit risk provisions	(416)	(481)
– net impairment charge on loans and advances	(479)	(494)
– release of impairment on available-for-sale debt securities	83	32
– other credit risk provisions	(20)	(19)

External net operating income is attributed to countries on the basis of the location of the branch responsible for reporting the results or advancing the funds:

	2016	2015
	£m	£m
External net operating income by country	13,305	12,870
United Kingdom	9,907	9,618
France	1,906	1,768
Germany	598	487
Turkey	406	457
Other countries	488	540

4 Employee compensation and benefits

	2016	2015
	£m	£m
Wages and salaries	3,157	3,584
Social security costs	405	460
Post-employment benefits	149	287
Year ended 31 Dec	3,711	4,331

Average number of persons employed by the group during the year

	2016	2015
Retail Banking and Wealth Management	26,678	29,298
Commercial Banking	7,025	8,603
Global Banking and Markets	6,355	7,072
Global Private Banking	729	824
Corporate Centre	14,559	21,493
Year ended 31 Dec	55,346	67,290

The 15,447 employees in Corporate Centre transferred to the ServCo Group are excluded from the tables above from 1 July 2016 onward, the date from which the ServCo Group took over a number of operational, reporting and management tasks for payroll costs. The ServCo group has recharged £722m to the bank in relation to the remuneration and other costs associated with these employees. The recharge is included under 'General and administrative expenses'.

Share-based payments

The share-based payment income statement charge is recognised in wages and salaries as follows:

	2016	2015
	£m	£m
Restricted share awards	111	188
Savings-related and other share award option plans	13	24
Year ended 31 Dec	**124**	212

HSBC share awards

Award	Policy
Restricted share awards (including annual incentive awards delivered in shares) and GPSP	• An assessment of performance over the relevant period ending on 31 December is used to determine the amount of the award to be granted. • Deferred awards generally require employees to remain in employment over the vesting period and are not subject to performance conditions after the grant date. • Deferred share awards generally vest over a period of three years and GPSP awards vest after five years. • Vested shares may be subject to a retention requirement post-vesting. GPSP awards are retained until cessation of employment. • Awards granted from 2010 onwards are subject to a malus provision prior to vesting. • Awards granted to Material Risk Takers from 2015 onwards are subject to clawback post vesting.
International Employee Share Purchase Plan ('ShareMatch')	• The plan was first introduced in Hong Kong in 2013 and now includes employees based in 25 jurisdictions. • Shares are purchased in the market each quarter up to a maximum value of £750, or the equivalent in local currency. • Matching awards are added at a ratio of one free share for every three purchased. • Matching awards vest subject to continued employment and the retention of the purchased shares for a maximum period of two years and nine months.

Movement on HSBC share awards

	2016	2015
	Number	Number
	(000s)	(000s)
Restricted share awards outstanding at 1 Jan	34,273	38,262
Additions during the year[1]	31,770	25,272
Released in the year[1]	(34,886)	(28,533)
Forfeited in the year	(644)	(728)
Restricted share awards outstanding at 31 Dec	**30,513**	34,273
Weighted average fair value of awards granted (£)	4.82	6.17

1 *Includes a number of share option plans transferred from or to other subsidiaries of HSBC Holdings plc.*

HSBC share option plans

Main plans	Policy
Savings-related share option plans ('Sharesave')	• Two plans: the UK Plan and the International Plan. The last grant of options under the International Plan was in 2012. • From 2014, eligible employees can save up to £500 per month with the option to use the savings to acquire shares. • Exercisable within six months following either the third or fifth anniversaries of the commencement of a three-year or five-year contract, respectively. • The exercise price is set at a 20% (2015: 20%) discount to the market value immediately preceding the date of invitation.
HSBC Holdings Group share option plan	• Plan ceased in May 2005. • Exercisable between the third and tenth anniversaries of the date of grant.

Calculation of fair values

The fair values of share options are calculated using a Black-Scholes model. The fair value of a share award is based on the share price at the date of the grant.

Movement on HSBC share option plans

	Savings-related share option plans		HSBC Holdings Group share option plan	
	Number	WAEP[1]	Number	WAEP[1]
	(000s)	£	(000s)	£
Outstanding at 1 Jan 2016	**63,261**	**4.35**	**–**	**–**
Granted during the year[2]	**8,099**	**4.35**	**–**	**–**
Exercised during the year[2]	**(26,112)**	**4.62**	**–**	**–**
Expired during the year	**(10,883)**	**4.46**	**–**	**–**
Outstanding at 31 Dec 2016	**34,365**	**4.32**	**–**	**–**
Weighted average remaining contractual life (years)	**2.87**			
Outstanding at 1 Jan 2015	51,319	4.98	4,837	7.29
Granted during the year[2]	45,259	4.05	–	–
Exercised during the year[2]	(14,806)	4.50	–	–
Expired during the year	(18,511)	5.16	(4,837)	7.29
Outstanding at 31 Dec 2015	63,261	4.35	–	–
Weighted average remaining contractual life (years)	3.46			

1 *Weighted average exercise price.*
2 *Includes a number of share option plans transferred from or to other subsidiaries of HSBC Holdings plc.*

Post-employment benefit plans

The group operates a number of pension plans, some are defined benefit plans, of which the largest is the HSBC Bank (UK) Pension Scheme ('the principal plan'). The Pension Risk section on page 32 contains details about the policies and practices associated with the principal plan.

The principal plan

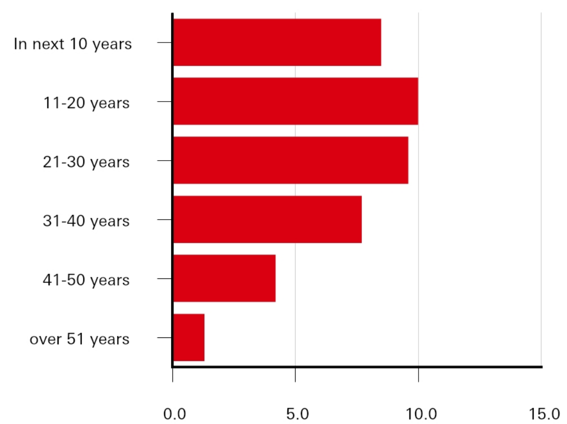
The principal plan has a defined benefit section and a defined contribution section. The defined benefit section was closed to future benefit accrual in 2015, with defined benefits earned by employees at that date continuing to be linked to their salary while they remain employed by the Bank. The plan is overseen by an independent corporate trustee, who has a fiduciary responsibility for the operation of the plan. Its assets are held separately from the assets of the Group.

The investment strategy of the plan is to hold the majority of assets in bonds, with the remainder in a diverse range of investments. It also includes some interest rate swaps to reduce interest rate risk and inflation swaps to reduce inflation risk.

The latest funding valuation of the plan at 31 December 2014 was carried out by Colin G Singer, at Willis Towers Watson Limited, who is a Fellow of the UK Institute and Faculty of Actuaries, using the projected unit credit method. At that date, the market value of the plan's assets was £24.6bn and this exceeded the value placed on its liabilities on an ongoing basis by £520m, giving a funding level of 102%. The main differences between the assumptions used for assessing the liabilities for this funding valuation and those used for IAS 19 (see 'Key actuarial assumptions' section below) are more prudent discount rate and longevity assumptions. Although the plan was in surplus at the valuation date, HSBC agreed to make further contributions to the plan to support a lower-risk investment strategy over the longer term. These contributions amounted to £128m in 2016 and are expected to amount to £64m each of 2017, 2018 and 2019, and £160m each of 2020 and 2021.

The chart below shows the expected profile of future benefits payable from the plan.

Future benefit payments (£bn)



The actuary also assessed the value of the liabilities if the plan were to be stopped and an insurance company asked to secure all future pension payments. This is generally larger than the amount needed on the ongoing basis described above because an insurance company would use more prudent assumptions and include an explicit allowance for the future administrative expenses of the plan. Under this approach, the amount of assets needed was estimated to be £31bn at 31 December 2014.

Income statement charge

	2016	2015
	£m	£m
Defined benefit pension plans	**(73)**	19
Defined contribution pension plans	**214**	258
Pension plans	**141**	277
Defined benefit and contribution healthcare plans	**8**	10
Year ended 31 Dec	**149**	287

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 CPI.

Cumulative actuarial gains/(losses) recognised in other comprehensive income

	2016	2015
	£m	£m
At 1 Jan	**352**	273
Actuarial (losses)/gains recognised in other comprehensive income for the year	**(247)**	79
At 31 Dec	**105**	352

Net assets/(liabilities) recognised on the balance sheet in respect of defined benefit plans

	Fair value of plan assets	**Present value of defined benefit obligations**	**Total**
	£m	**£m**	**£m**
Defined benefit pension plans	**27,321**	**(24,092)**	**3,229**
Defined benefit healthcare plans	**—**	**(113)**	**(113)**
At 31 Dec 2016	**27,321**	**(24,205)**	**3,116**
Total employee benefit liabilities (within 'Accruals, deferred income and other liabilities')			**(364)**
Total employee benefit assets (within 'Prepayments, accrued income and other assets')			**3,480**
Defined benefit pension plans	22,242	(19,065)	3,177
Defined benefit healthcare plans	—	(101)	(101)
At 31 Dec 2015	22,242	(19,166)	3,076
Total employee benefit liabilities (within 'Accruals, deferred income and other liabilities')			(300)
Total employee benefit assets (within 'Prepayments, accrued income and other assets')			3,376

Defined benefit pension plans

Net asset/(liability) under defined benefit pension plans

	Fair value of plan assets		Present value of defined benefit obligations		Net defined benefit asset/(liability)	
	Principal plan	Other plans	Principal plan	Other Plans	Principal plan	Other plans
	£m	£m	£m	£m	£m	£m
At 1 Jan 2016	**21,876**	**366**	**(18,506)**	**(559)**	**3,370**	**(193)**
Service cost	**—**	**—**	**(25)**	**(25)**	**(25)**	**(25)**
– current service cost	**—**	**—**	**(25)**	**(21)**	**(25)**	**(21)**
– past service cost and gains/(losses) from settlements	**—**	**—**	**—**	**(4)**	**—**	**(4)**
Net interest income/(cost) on the net defined benefit asset/(liability)	**798**	**10**	**(672)**	**(13)**	**126**	**(3)**
Remeasurement effects recognised in other comprehensive income	**4,763**	**12**	**(4,988)**	**(22)**	**(225)**	**(10)**
– return on plan assets (excluding interest income)	**4,763**	**12**	**—**	**—**	**4,763**	**12**
– actuarial gains/(losses)	**—**	**—**	**(4,988)**	**(22)**	**(4,988)**	**(22)**
– other changes	**—**	**—**	**—**	**—**	**—**	**—**
Exchange differences	**—**	**44**	**—**	**(86)**	**—**	**(42)**
Transfer to another HSBC scheme[1]	**(39)**	**—**	**39**	**—**	**—**	**—**
Contributions by the group	**233**	**—**	**—**	**—**	**233**	**—**
– normal	**151**	**—**	**—**	**—**	**151**	**—**
– special	**82**	**—**	**—**	**—**	**82**	**—**
Contributions by employees	**—**	**—**	**—**	**1**	**—**	**1**
Benefits paid	**(740)**	**(2)**	**739**	**25**	**(1)**	**23**
Administrative costs and taxes paid by plan	**—**	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2016	**26,891**	**430**	**(23,413)**	**(679)**	**3,478**	**(249)**
Present value of defined benefit obligation relating to:						
– actives			**(5,390)**	**(461)**		
– deferreds			**(7,480)**	**(68)**		
– pensioners			**(10,543)**	**(150)**		
At 1 Jan 2015	22,611	364	(19,555)	(581)	3,056	(217)
Service cost	—	—	(114)	(17)	(114)	(17)
– current service cost	—	—	(79)	(18)	(79)	(18)
– past service cost and gains/(losses) from settlements	—	—	(35)	1	(35)	1
Net interest income/(cost) on the net defined benefit asset/(liability)	828	6	(711)	(10)	117	(4)
Remeasurement effects recognised in other comprehensive income	(996)	4	1,066	(6)	70	(2)
– return on plan assets (excluding interest income)	(996)	4	—	—	(996)	4
– actuarial gains/(losses)	—	—	1,066	(6)	1,066	(6)
– other changes	—	—	—	—	—	—
Exchange differences	—	(3)	—	17	—	14
Transfer to another HSBC scheme[1]	(160)	—	160	—	—	—
Contributions by the group	241	19	—	—	241	19
– normal	203	19	—	—	203	19
– special	38	—	—	—	38	—
Contributions by employees	11	—	(11)	(1)	—	(1)
Benefits paid	(638)	(24)	638	39	—	15
Administrative costs and taxes paid by plan	(21)	—	21	—	—	—
At 31 Dec 2015	21,876	366	(18,506)	(559)	3,370	(193)
Present value of defined benefit obligation relating to:						
– actives			(4,092)	(341)		
– deferreds			(5,342)	(91)		
– pensioners			(9,072)	(127)		

1 *A transfer was made to the ServCo section in respect of the pension benefit arising from future salary increase above CPI for employees transferred to ServCo during the year.*

Benefits expected to be paid from the HSBC UK Pension Scheme to retirees over each of the next five years, and in aggregate for the five years thereafter, are as follows:

Benefits expected to be paid from plans

	2017	2018	2019	2020	2021	2022-2026
	£m	£m	£m	£m	£m	£m
HSBC Bank (UK) Pension Scheme	763	758	783	809	836	4,422

Fair value of plan assets by asset classes

	31 Dec 2016				31 Dec 2015			
	Value	**Quoted market price in active market**	**No quoted market price in active market**	**Thereof HSBC[1]**	Value	Quoted market price in active market	No quoted market price in active market	Thereof HSBC[1]
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
The principal plan								
Fair value of plan assets	**26,891**				21,876			
– equities	**4,129**	**3,590**	**539**	**—**	3,866	3,366	500	—
– bonds	**19,007**	**19,007**	**—**	**—**	15,318	15,318	—	—
– derivatives	**1,709**	**—**	**1,709**	**712**	682	—	682	335
– other	**2,046**	**997**	**1,049**	**—**	2,010	1,008	1,002	—

1 *The fair value of plan assets includes derivatives entered into by HSBC Bank plc detailed in Note 31.*

Post-employment defined benefit plans' principal actuarial financial assumptions

The group determines the discount rates to be applied to its obligations in consultation with the plans' local actuaries, on the basis of current average yields of high quality (AA-rated or equivalent) debt instruments with maturities consistent with those of the defined benefit obligations.

Key actuarial assumptions for the principal plan

	Discount rate	**Inflation rate**	**Rate of increase for pensions**	**Rate of pay increase**
	%	**%**	**%**	**%**
UK				
At 31 Dec 2016	**2.50**	**3.50**	**3.20**	**4.00**
At 31 Dec 2015	3.70	3.20	3.00	3.70

Mortality tables and average life expectancy at age 65 for the principal plan

	Mortality table	**Life expectancy at age 65 for a male member currently:**		**Life expectancy at age 65 for a female member currently:**	
		Aged 65	**Aged 45**	**Aged 65**	**Aged 45**
UK					
At 31 Dec 2016	**SAPS S1[1]**	**22.3**	**24.0**	**24.7**	**26.6**
At 31 Dec 2015	SAPS S1[1]	23.6	25.0	24.9	26.7

1 *Self-administered Pension Scheme ('SAPS') with Continuous Mortality Investigation 2016 improvements (2015: 2015 improvements) and a 1.25 per cent long-term annual improvement. Heavy table with 0.98 rating for male pensioners and 0.976 rating for female pensioners.*

The effect of changes in key assumptions on the principal plan

	Impact on HSBC Bank (UK) Pension Scheme Obligation			
	Financial impact of increase		**Financial impact of decrease**	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Discount rate – increase/decrease of 0.25%	**(1,053)**	(739)	**1,129**	789
Inflation rate – increase/decrease of 0.25%	**584**	500	**(835)**	(571)
Pension payments and deferred pensions – increase/decrease of 0.25%	**1,089**	687	**(1,021)**	(651)
Pay – increase/decrease of 0.25%	**65**	51	**(64)**	(51)
Change in mortality – increase of 1 year	**1,060**	448	**n/a**	n/a

Directors' emoluments

The aggregate emoluments of the Directors of the bank, computed in accordance with the Companies Act 2006 as amended by statutory instrument 2008 No.410, were:

	2016	2015
	£000	£000
Fees[1]	1,637	1,407
Salaries and other emoluments[2]	2,161	4,095
Annual incentives[3]	763	2,009
Long term incentives[4]	1,608	1,359
Year ended 31 Dec	**6,169**	8,870

1 *Fees paid to non–executive Directors.*
2 *Salaries and other emoluments include Fixed Pay Allowances.*
3 *Discretionary annual incentives for executive Directors are based on a combination of individual and corporate performance and are determined by the Remuneration Committee of the bank's parent company, HSBC Holdings plc. Incentive awards made to executive directors are delivered in the form of cash and HSBC Holdings plc shares. The total amount shown is comprised of £381,558 (2015: £954,464) in cash and £381,558 (2015: £1,055,110) in Restricted Shares, which is the upfront portion of the annual incentive granted in respect of performance year 2016.*
4 *The amount shown is comprised of £410,918 (2015: £483.836) in deferred cash, £567,376 (2015: £472,781) in deferred Restricted Shares, and £630,100 (2015: £402,073) in shares under the Group Performance Share Plan ('GPSP'). These amounts relate to the portion of the awards that will vest following the substantial completion of the vesting condition attached to these awards in 2016. The total vesting period of deferred cash and share awards is no less than three years, with 33% of the award vesting on each of the first and second anniversaries of the date of the award and the balance vesting on the third anniversary of the date of the award. The deferred share awards are subject to a six-month retention period upon vesting. GPSP awards are subject to a five-year vesting period and a retention requirement until cessation of employment upon vesting. Details of the Plans are contained within the Directors' Remuneration Report of HSBC Holdings plc. The cost of any awards subject to service conditions under the HSBC Share Plan 2011 are recognised through an annual charge based on the fair value of the awards, apportioned over the period of service to which the award relates.*

No Director exercised share options over HSBC Holdings plc ordinary shares during the year.

Awards were made to two Directors under long-term incentive plans in respect of qualifying services rendered in 2016 (2015: three Directors). During 2016, two Directors received shares in respect of awards under long-term incentive plans that vested during the year (2015: four Directors).

Retirement benefits are accruing to one Director under money purchase schemes in respect of Directors' qualifying services (2015: two Directors). Contributions of £14,441 were made during the year to money purchase arrangements in respect of Directors' qualifying services (2015: £42,150).

In addition, there were payments under retirement benefit agreements with former Directors of £836,079 (2015: £801,187), including payments in respect of unfunded pension obligations to former Directors of £713,591 (2015: £679,551). The provision as at 31 December 2016 in respect of unfunded pension obligations to former Directors amounted to £12,230,422 (2015: £10,099,902).

Of these aggregate figures, the following amounts are attributable to the highest paid Director:

	2016	2015
	£000	£000
Salaries and other emoluments	1,703	1,185
Annual incentives[1]	594	600
Long term incentives[2]	1,043	501
Year ended 31 Dec	**3,340**	2,286

1 *Awards made to the highest paid Director are delivered in the form of cash and HSBC Holdings plc shares. The amount shown is comprised of £297,192 (2015: £300,052) in cash and £297,192 (2015: £300,052) in Restricted Shares.*
2 *The amount shown is comprised of £318,051 (2015: £166,909) in deferred cash, £441,673 (2015: £163,182) in deferred Restricted Shares and £283,347 (2015: £170,758) in shares under the GPSP. These amounts relate to a portion of the awards that will vest following the substantial completion of the vesting condition attached to these awards in 2016. The total vesting period of deferred cash and share awards is no less than three years, with 33% of the award vesting on each of the first and second anniversaries of the date of the award and the balance vesting on the third anniversary of the date of the award. The share awards are subject to a six-month retention period upon vesting. GPSP awards are subject to a five-year vesting period and a retention requirement until cessation of employment upon vesting.*

The highest paid Director received shares in respect of qualifying services under a long-term incentive scheme.

Pension contributions of £12,950 were made by the bank in respect of services by the highest paid Director during the year (2015: £35,838).

5 Auditors' remuneration

	2016	2015
	£m	£m
Audit fees payable to PwC	**10.0**	9.6
Audit fees payable by other HSBC group companies[1]	**0.7**	2.8
Other audit fees payable	**0.5**	0.5
Year ended 31 Dec	**11.2**	12.9

Fees payable by the group to PwC

	2016	2015
	£m	£m
Audit fees for HSBC Bank plc's statutory audit[2]: current year	**6.4**	4.3
Fees for other services provided to the group	**8.5**	10.6
– audit of the group's subsidiaries[3]	**3.6**	5.3
– audit-related assurance services[4]	**3.7**	2.2
– taxation compliance services	**0.1**	0.1
– taxation advisory services	**0.1**	0.1
– other assurance services	**—**	0.1
– other non-audit services[5]	**1.0**	2.8
Year ended 31 Dec	**14.9**	14.9

1 *Audit fees in 2016 include an allocation of amounts paid by other HSBC Group companies for which the audit work undertaken benefits to the group.*
2 *Fees payable to PwC for the statutory audit of the consolidated financial statements of the group and the separate financial statements of the HSBC Bank plc. They exclude amounts payable for the statutory audit of the bank's subsidiaries which have been included in 'Fees payable to PwC for other services provided to the group'.*
3 *Including fees payable to PwC for the statutory audit of the bank's subsidiaries.*
4 *Including services for assurance and other services that relate to statutory and regulatory filings, including comfort letters and interim reviews.*
5 *Including other permitted services relating to advisory, corporate finance transactions, etc.*

Fees payable for non-audit services for HSBC Bank plc are not disclosed separately because such fees are disclosed on a consolidated basis for the group.

6 Tax

Tax expense

	2016	2015
	£m	£m
Current tax	**969**	795
– for this year	**957**	803
– adjustments in respect of prior years	**12**	(8)
Deferred tax	**84**	202
– origination and reversal of temporary differences	**97**	123
– effect of changes in tax rates	**(27)**	82
– adjustments in respect of prior years	**14**	(3)
Total tax expense for the year ended 31 December	**1,053**	997

The group's profits are taxed at different rates depending on the country in which the profits arise. The key applicable corporate tax rates in 2016 include the UK and France. The UK tax rate applying to HSBC Bank plc and its banking subsidiaries was 28.00% (2015: 20.25%), comprising 20% corporation tax plus 8% surcharge on UK banking profits. The increase from 2015 is due to the 8% surcharge on banking profits, which applied from 1 January 2016. The 20% rate of corporation tax in the UK will be gradually reduced to 17% by 1 April 2020. The applicable tax rate in France was 34% (2015: 38%) and will be reduced to 29% from 1 January 2020. Other overseas subsidiaries and overseas branches provided for taxation at the appropriate rates in the countries in which they operate.

Tax reconciliation

The tax charged to the income statement differs from the tax expense that would apply if all profits had been taxed at the UK corporation tax rate as follows:

	2016		2015	
	£m	%	£m	%
Profit before tax	**874**		2,971	
Tax expense				
UK corporation tax at 20.00% (2015: 20.25%)	**175**	**20.0**	602	20.25
Impact of taxing overseas profits at different rates	**74**	**8.5**	104	3.5
8% surcharge on UK banking profits	**160**	**18.3**	—	—
Impairment of goodwill	**436**	**50.0**	—	—
Non-deductible customer compensation expense	**165**	**18.9**	57	1.9
Local taxes and overseas withholding taxes	**47**	**5.4**	54	1.8
Permanent disallowables	**31**	**3.5**	29	1.0
Adjustment in respect of prior years	**26**	**3.0**	(11)	(0.4)
Deferred tax assets not recognised	**9**	**1.0**	—	—
Deferred tax assets previously not recognised	**—**	**—**	(11)	(0.4)
Deferred tax assets written off	**—**	**—**	31	1.0
Non-taxable income and gains subject to tax at a lower rate	**(53)**	**(6.1)**	(28)	(0.9)
Change in tax rates	**(27)**	**(3.1)**	82	2.8
Other	**10**	**1.1**	(32)	(1.0)
Non-deductible regulatory settlements	**—**	**—**	120	4.0
Total tax charged to the income statement	**1,053**	**120.5**	997	33.6

The effective tax rate for the year was 120.5% (2015: 33.6%) due to a large non-deductible goodwill impairment charge in the year. The effective tax rate on profits, excluding goodwill impairment, is 34.5% (2015: 33.6%).

Accounting for taxes involves some estimation because the tax law is uncertain and the application requires a degree of judgement, which authorities may dispute. Liabilities are recognised based on best estimates of the probable outcome, taking into account external advice where appropriate. We do not expect significant liabilities to arise in excess of the amounts provided. The current tax asset includes an estimate of tax recoverable from HMRC with regards to past dividends received from EU resident companies. The ultimate resolution of this matter involves litigation for which the outcome is uncertain and is unlikely to be resolved in the short-term.

Movement of deferred tax assets and liabilities

The group	Retirement benefits	Loan impairment allowances	Property, plant and equipment	Available-for-sale investments	Goodwill and intangibles	Other[1]	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2016	**(781)**	**60**	**316**	**(85)**	**117**	**(23)**	**(396)**
– assets[2]	**—**	**68**	**316**	**—**	**121**	**178**	**683**
– liabilities[2]	**(781)**	**(8)**	**—**	**(85)**	**(4)**	**(201)**	**(1,079)**
Income statement	**(53)**	**(6)**	**(8)**	**(1)**	**31**	**(47)**	**(84)**
Other comprehensive income	**54**	**—**	**—**	**7**	**—**	**(2)**	**59**
Equity	**—**	**—**	**—**	**—**	**—**	**11**	**11**
Foreign exchange and other adjustments	**15**	**13**	**(18)**	**(21)**	**(1)**	**45**	**33**
At 31 Dec 2016	**(765)**	**67**	**290**	**(100)**	**147**	**(16)**	**(377)**
– assets[2]	**75**	**78**	**297**	**—**	**156**	**428**	**1,034**
– liabilities[2]	**(840)**	**(11)**	**(7)**	**(100)**	**(9)**	**(444)**	**(1,411)**
At 1 Jan 2015	(542)	78	269	(114)	85	36	(188)
– assets[2]	—	78	269	—	99	104	550
– liabilities[2]	(542)	—	—	(114)	(14)	(68)	(738)
Income statement	(223)	(11)	67	1	31	(67)	(202)
Other comprehensive income	(12)	—	—	—	—	33	21
Equity	—	—	—	—	—	2	2
Foreign exchange and other adjustments	(4)	(7)	(20)	28	1	(27)	(29)
At 31 Dec 2015	(781)	60	316	(85)	117	(23)	(396)
– assets[2]	—	68	316	—	121	178	683
– liabilities[2]	(781)	(8)	—	(85)	(4)	(201)	(1,079)

1 *Other deferred tax assets and liabilities relate to unused tax losses, share-based payments and cash flow hedges.*
2 *After netting off balances within countries, the balances as disclosed in the accounts are as follows: deferred tax assets £107m (2015: £110m); and deferred tax liabilities £484m (2015: £506m).*

Movement of deferred tax assets and liabilities (continued)

The bank	Retirement benefits £m	Property, plant and equipment £m	Goodwill and intangibles £m	Other[1] £m	Total £m
At 1 Jan 2016	**(848)**	**223**	**128**	**11**	**(486)**
– assets[2]	**—**	**223**	**128**	**64**	**415**
– liabilities[2]	**(848)**	**—**	**—**	**(53)**	**(901)**
Income statement	**(55)**	**(6)**	**28**	**(7)**	**(40)**
Other comprehensive income	**60**	**—**	**—**	**(14)**	**46**
Equity	**—**	**—**	**—**	**11**	**11**
Foreign exchange and other adjustments	**5**	**—**	**—**	**—**	**5**
At 31 Dec 2016	**(838)**	**217**	**156**	**1**	**(464)**
– assets[2]	**—**	**217**	**156**	**94**	**467**
– liabilities[2]	**(838)**	**—**	**—**	**(93)**	**(931)**
At 1 Jan 2015	(614)	163	98	13	(340)
– assets[2]	—	163	98	45	306
– liabilities[2]	(614)	—	—	(32)	(646)
Income statement	(223)	60	30	(1)	(134)
Other comprehensive income	(11)	—	—	(2)	(13)
Equity	—	—	—	2	2
Foreign exchange and other adjustments	—	—	—	(1)	(1)
At 31 Dec 2015	(848)	223	128	11	(486)
– assets[2]	—	223	128	64	415
– liabilities[2]	(848)	—	—	(53)	(901)

1 *Other deferred tax assets and liabilities relate to loan impairment allowances, unused tax losses, share-based payments and cash flow hedges.*
2 *After netting off balances within countries, the balances as disclosed in the accounts are as follows: deferred tax assets £6m (2015: £7m) and deferred tax liabilities £468m (2015: £493m).*

Unrecognised deferred tax

The group

The amount of temporary differences, unused tax losses and tax credits for which no deferred tax asset is recognised in the balance sheet was £655m (2015: £476m). These amounts include unused tax losses and tax credits arising in the US branch of £519m (2015: £472m). The majority of the unrecognised losses in group expire after 10 years.

The bank

The amount of temporary differences, unused tax losses and tax credits for which no deferred tax asset is recognised in the balance sheet was £521m (2015: £473m). These amounts include unused tax losses and tax credits arising in the US branch of £519m (2015: £472m). The unrecognised losses in bank expire after 10 years.

There are no unrecognised deferred tax liabilities arising from the group's investments in subsidiaries and branches.

7 Dividends

Dividends to shareholders of the parent company

	2016		2015	
	£ per share	£m	£ per share	£m
Dividends paid on ordinary shares				
Second interim dividend in respect of the previous year	**0.34**	**272**	0.40	315
First interim dividend in respect of the current year	**0.32**	**255**	0.67	540
Total	**0.66**	**527**	1.07	855
Dividends on preference shares classified as equity				
Dividend on HSBC Bank plc non-cumulative third dollar preference shares	**1.54**	**54**	1.23	43
Total	**1.54**	**54**	1.23	43

A second interim dividend for 2016 of £415m to shareholders of the parent company was declared by the Directors after 31 December 2016 (Note 32). The total dividend declared on ordinary shares in respect of 2016 was £670m (2015: £812m).

Other equity instruments

Total coupons on capital securities classified as equity	First call date	2016 £m	2015 £m
Undated Subordinated additional Tier 1 instruments			
– £1,096m	Dec 2019	**61**	62
– £1,100m	Dec 2024	**63**	64
– €1,900m	Dec 2020	**95**	—
		219	126

8 Trading assets

	The group		The bank	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Treasury and other eligible bills	**848**	675	**513**	94
Debt securities[1, 2]	**39,191**	37,367	**23,298**	21,935
Equity securities	**43,575**	40,583	**41,951**	38,848
Trading securities	**83,614**	78,625	**65,762**	60,877
Loans and advances to banks[3]	**19,652**	14,248	**16,902**	13,617
Loans and advances to customers[3]	**21,803**	17,712	**19,743**	15,750
At 31 Dec	**125,069**	110,585	**102,407**	90,244

1 *Included within the above figures for the group are debt securities issued by banks and other financial institutions of £8,202m (2015: £8,211m), of which £571m (2015: £597m) are guaranteed by various governments.*
2 *Included within the above figures for the bank are debt securities issued by banks and other financial institutions of £6,521m (2015: £5,662m), of which nil (2015: nil) are guaranteed by governments.*
3 *Loans and advances to banks and customers include settlement accounts, stock borrowing, reverse repos and other amounts.*

9 Fair values of financial instruments carried at fair value

Control framework

Fair values are subject to a control framework designed to ensure that they are either determined or validated by a function independent of the risk taker.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets, the group will source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable. The factors that are considered in this regard are, inter alia:

- the extent to which prices may be expected to represent genuine traded or tradable prices;
- the degree of similarity between financial instruments;
- the degree of consistency between different sources;
- the process followed by the pricing provider to derive the data;
- the elapsed time between the date to which the market data relates and the balance sheet date; and
- the manner in which the data was sourced.

For fair values determined using valuation models, the control framework may include, as applicable, development or validation by independent support functions of: (i) the logic within valuation models; (ii) the inputs to these models; (iii) any adjustments required outside the valuation models; and (iv) where possible, model outputs. Valuation models are subject to a process of due diligence and calibration before becoming operational and are calibrated against external market data on an ongoing basis.

Financial liabilities measured at fair value

In certain circumstances, the group records its own debt in issue at fair value, based on quoted prices in an active market for the specific instrument. When quoted market prices are unavailable, the own debt in issue is valued using valuation techniques, the inputs for which are based either on quoted prices in an inactive market for the instrument or are estimated by comparison with quoted prices in an active market for similar instruments. In both cases, the fair value includes the effect of applying the credit spread that is appropriate to the group's liabilities.

Structured notes issued and certain other hybrid instruments are included within trading liabilities and are measured at fair value. The spread applied to these instruments is derived from the spreads at which the group issues structured notes.

Fair value hierarchy

Fair values of financial assets and liabilities are determined according to the following hierarchy:

- Level 1 – valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets that HSBC can access at the measurement date.
- Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

Financial instruments carried at fair value and bases of valuation

The group	2016 Level 1 £m	2016 Level 2 £m	2016 Level 3 £m	2016 Total £m	2015 Level 1 £m	2015 Level 2 £m	2015 Level 3 £m	2015 Total £m
Recurring fair value measurements at 31 Dec								
Assets								
Trading assets	**72,327**	**50,021**	**2,721**	**125,069**	67,879	40,264	2,442	110,585
Financial assets designated at fair value	**8,048**	**276**	**21**	**8,345**	6,516	311	2	6,829
Derivatives	**242**	**197,026**	**2,151**	**199,419**	549	164,778	1,458	166,785
Financial investments: available for sale	**69,288**	**12,865**	**982**	**83,135**	55,682	14,205	1,465	71,352
Liabilities								
Trading liabilities	**22,165**	**71,007**	**762**	**93,934**	18,343	54,649	497	73,489
Financial liabilities designated at fair value	**3,446**	**15,035**	**5**	**18,486**	2,972	16,027	2	19,001
Derivatives	**763**	**187,452**	**1,877**	**190,092**	922	161,197	745	162,864

The bank	2016 Level 1 £m	2016 Level 2 £m	2016 Level 3 £m	2016 Total £m	2015 Level 1 £m	2015 Level 2 £m	2015 Level 3 £m	2015 Total £m
Recurring fair value measurements at 31 Dec								
Assets								
Trading assets	**55,375**	**44,310**	**2,722**	**102,407**	51,032	36,780	2,432	90,244
Financial assets designated at fair value	**—**	**—**	**—**	**—**	—	—	—	—
Derivatives	**19**	**183,518**	**2,242**	**185,779**	218	148,735	1,501	150,454
Financial investments: available for sale	**44,657**	**3,389**	**1,426**	**49,472**	33,864	4,257	1,778	39,899
Liabilities								
Trading liabilities	**9,781**	**61,859**	**499**	**72,139**	11,125	45,980	331	57,436
Financial liabilities designated at fair value	**—**	**10,175**	**—**	**10,175**	—	11,813	—	11,813
Derivatives	**390**	**176,976**	**2,115**	**179,481**	420	146,912	917	148,249

Transfers between Level 1 and Level 2 fair values

	Assets: Available for sale £m	Assets: Held for trading £m	Assets: Designated at fair value £m	Assets: Derivatives £m	Liabilities: Held for trading £m	Liabilities: Designated at fair value £m	Liabilities: Derivatives £m
At 31 Dec 2016							
Transfers from Level 1 to Level 2	**—**	**—**	**—**	**377**	**—**	**—**	**166**
Transfers from Level 2 to Level 1	**978**	**—**	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2015							
Transfers from Level 1 to Level 2	—	45	—	37	1,055	—	67
Transfers from Level 2 to Level 1	—	329	—	2	348	1	—

Fair value adjustments

Fair value adjustments are adopted when the group determines there are additional factors considered by market participants that are not incorporated within the valuation model. Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement, such as when models are enhanced and fair value adjustments may no longer be required.

Bid-offer

IFRS 13 'Fair value measurement' requires use of the price within the bid-offer spread that is most representative of fair value. Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the extent to which bid-offer costs would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of or unwinding the position.

Uncertainty

Certain model inputs may be less readily determinable from market data, and/or the choice of model itself may be more subjective. In these circumstances, an adjustment may be necessary to reflect the likelihood that market participants would adopt more conservative values for uncertain parameters and/or model assumptions than those used in the valuation model.

Credit and debit valuation adjustments

The CVA is an adjustment to the valuation of over-the-counter ('OTC') derivative contracts to reflect the possibility that the counterparty may default, and that the group may not receive the full market value of the transactions.

The DVA is an adjustment to the valuation of OTC derivative contracts to reflect the possibility that HSBC may default, and that it may not pay the full market value of the transactions.

HSBC calculates a separate CVA and DVA for each legal entity, and for each counterparty to which the entity has exposure. With the exception of central clearing parties, all third-party counterparties are included in the CVA and DVA calculations, and these adjustments are not netted across Group entities.

HSBC calculates the CVA by applying the probability of default ('PD') of the counterparty, conditional on the non-default of HSBC, to HSBC's expected positive exposure to the counterparty and multiplying the result by the loss expected in the event of default.

Conversely, HSBC calculates the DVA by applying the PD of HSBC, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to HSBC and multiplying the result by the proportional loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

For most products, HSBC uses a simulation methodology, which incorporates a range of potential exposures over the life of the portfolio, to calculate the expected positive exposure to a counterparty. The simulation methodology includes credit mitigants, such as counterparty netting agreements and collateral agreements with the counterparty.

The methodologies do not, in general, account for 'wrong-way risk', which arises when the underlying value of the derivative prior to any CVA is positively correlated to the PD of the counterparty. When there is significant wrong-way risk, a trade-specific approach is applied to reflect this risk in the valuation.

Funding fair value adjustment

The FFVA is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. The expected future funding exposure is calculated by a simulation methodology, where available, and is adjusted for events that may terminate the exposure, such as the default of HSBC or the counterparty. The FFVA and DVA are calculated independently.

Model limitation

Models used for portfolio valuation purposes may be based upon a simplified set of assumptions that do not capture all current and future material market characteristics. In these circumstances, model limitation adjustments are adopted.

Inception profit (Day 1 P&L reserves)

Inception profit adjustments are adopted when the fair value estimated by a valuation model is based on one or more significant unobservable inputs. The accounting for inception profit adjustments is discussed in Note 1.

Fair value valuation bases

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

	Assets					Liabilities			
The group	**Available for sale**	**Held for trading**	**Designated at fair value**	**Derivatives**	**Total**	**Held for trading**	**Designated at fair value**	**Derivatives**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Private equity including strategic investments	**425**	**21**	**17**	**–**	**463**	**21**	**–**	**–**	**21**
Asset-backed securities	**528**	**538**	**–**	**–**	**1,066**	**–**	**–**	**–**	**–**
Structured notes	**–**	**2**	**–**	**–**	**2**	**741**	**–**	**–**	**741**
Derivatives	**–**	**–**	**–**	**2,151**	**2,151**	**–**	**–**	**1,877**	**1,877**
Other portfolios	**29**	**2,160**	**4**	**–**	**2,193**	**–**	**5**	**–**	**5**
At 31 Dec 2016	**982**	**2,721**	**21**	**2,151**	**5,875**	**762**	**5**	**1,877**	**2,644**
Private equity including strategic investments	737	24	–	–	761	24	–	–	24
Asset-backed securities	706	250	–	–	956	–	–	–	–
Structured notes	–	3	–	–	3	473	–	–	473
Derivatives	–	–	–	1,458	1,458	–	–	745	745
Other portfolios	22	2,165	2	–	2,189	–	2	–	2
At 31 Dec 2015	1,465	2,442	2	1,458	5,367	497	2	745	1,244

	Assets					Liabilities			
The bank	**Available for sale**	**Held for trading**	**Designated at fair value**	**Derivatives**	**Total**	**Held for trading**	**Designated at fair value**	**Derivatives**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Private equity including strategic investments	**210**	**–**	**–**	**–**	**210**	**–**	**–**	**–**	**–**
Asset-backed securities	**1,216**	**561**	**–**	**–**	**1,777**	**–**	**–**	**–**	**–**
Structured notes	**–**	**–**	**–**	**–**	**–**	**499**	**–**	**–**	**499**
Derivatives	**–**	**–**	**–**	**2,242**	**2,242**	**–**	**–**	**2,115**	**2,115**
Other portfolios	**–**	**2,161**	**–**	**–**	**2,161**	**–**	**–**	**–**	**–**
At 31 Dec 2016	**1,426**	**2,722**	**–**	**2,242**	**6,390**	**499**	**–**	**2,115**	**2,614**
Private equity including strategic investments	474	–	–	–	474	–	–	–	–
Asset-backed securities	1,304	267	–	–	1,571	–	–	–	–
Structured notes	–	–	–	–	–	331	–	–	331
Derivatives	–	–	–	1,501	1,501	–	–	917	917
Other portfolios	–	2,165	–	–	2,165	–	–	–	–
At 31 Dec 2015	1,778	2,432	–	1,501	5,711	331	–	917	1,248

Level 3 instruments are present in both ongoing and legacy businesses. Loans held for securitisation, derivatives with monolines, certain 'other derivatives' and predominantly all Level 3 ABSs are legacy positions. HSBC has the capability to hold these positions.

Private equity including strategic investments

The investment's fair value is estimated: on the basis of an analysis of the investee's financial position and results, risk profile, prospects and other factors; by reference to market valuations for similar entities quoted in an active market; or the price at which similar companies have changed ownership.

Asset-backed securities

While quoted market prices are generally used to determine the fair value of these securities, valuation models are used to substantiate the reliability of the limited market data available and to identify whether any adjustments to quoted market prices are required. For certain ABSs, such as residential mortgage-backed securities, the valuation uses an industry standard model with assumptions relating to prepayment speeds, default rates and loss severity based on collateral type, and performance, as appropriate. The valuations output is benchmarked for consistency against observable data for securities of a similar nature.

Structured notes

The fair value of Level 3 structured notes is derived from the fair value of the underlying debt security, and the fair value of the embedded derivative is determined as described in the paragraph below on derivatives. These structured notes comprise principally equity-linked notes, issued by HSBC, which provide the counterparty with a return linked to the performance of equity securities and other portfolios. Examples of the unobservable parameters include long-dated equity volatilities and correlations between equity prices, and interest and foreign exchange rates.

Derivatives

OTC derivative valuation models calculate the present value of expected future cash flows, based upon 'no-arbitrage' principles. For many vanilla derivative products, the modelling approaches used are standard across the industry. For more complex derivative products, there may be some differences in market practice. Inputs to valuation models are determined from observable market data, wherever possible, including prices available from exchanges, dealers, brokers or providers of consensus pricing. Certain inputs may not be observable in the market directly, but can be determined from observable prices through model calibration procedures or estimated from historical data or other sources.

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

Movement in Level 3 financial instruments

	Assets				Liabilities		
The group	**Available for sale**	**Held for trading**	**Designated at fair value**	**Derivatives**	**Held for trading**	**Designated at fair value**	**Derivatives**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 Jan 2016	**1,465**	**2,442**	**2**	**1,458**	**497**	**2**	**745**
Total gains/(losses) recognised in profit or loss	**(3)**	**15**	**–**	**994**	**208**	**–**	**1,046**
– trading income/(expense) excluding net interest income	**–**	**15**	**–**	**994**	**208**	**–**	**1,046**
– gains less losses from financial investments	**(3)**	**–**	**–**	**–**	**–**	**–**	**–**
Total gains/(losses) recognised in other comprehensive income ('OCI')[1]	**262**	**26**	**–**	**43**	**33**	**–**	**6**
– available-for-sale investments: fair value gains/(losses)	**181**	**–**	**–**	**–**	**–**	**–**	**–**
– cash flow hedges: fair value gains/(losses)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– exchange differences	**81**	**26**	**–**	**43**	**33**	**–**	**6**
Purchases	**120**	**452**	**21**	**–**	**16**	**4**	**–**
New issuances	**–**	**–**	**–**	**–**	**850**	**–**	**–**
Sales	**(532)**	**(1,150)**	**(2)**	**–**	**(30)**	**(1)**	**–**
Settlements	**(49)**	**(194)**	**–**	**(168)**	**(635)**	**–**	**(7)**
Transfers out	**(704)**	**(99)**	**–**	**(183)**	**(178)**	**–**	**(176)**
Transfers in	**423**	**1,229**	**–**	**7**	**1**	**–**	**263**
At 31 Dec 2016	**982**	**2,721**	**21**	**2,151**	**762**	**5**	**1,877**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2016	**25**	**(135)**	**(1)**	**306**	**(58)**	**–**	**(149)**
– trading income/(expense) excluding net interest income	**–**	**(135)**	**–**	**306**	**(58)**	**–**	**(149)**
– net income/(expense) from other financial instruments designated at fair value	**–**	**–**	**(1)**	**–**	**–**	**–**	**–**
– loan impairment charges and other credit risk provisions	**25**	**–**	**–**	**–**	**–**	**–**	**–**
At 1 Jan 2015	1,546	2,153	5	1,614	1,293	5	1,221
Total gains/(losses) recognised in profit or loss	(3)	64	–	157	(226)	–	(171)
– trading income/(expense) excluding net interest income	–	64	–	157	(226)	–	(171)
– gains less losses from financial investments	(3)	–	–	–	–	–	–
Total gains/(losses) recognised in other comprehensive income ('OCI')[1]	263	(8)	–	(2)	(2)	–	(13)
– available-for-sale investments: fair value gains/(losses)	250	–	–	–	–	–	–
– cash flow hedges: fair value gains/(losses)	–	–	–	10	–	–	(11)
– exchange differences	13	(8)	–	(12)	(2)	–	(2)
Purchases	232	1,049	–	–	2	–	–
New issuances	–	–	–	–	15	–	–
Sales	(252)	(763)	(3)	–	(43)	(3)	–
Settlements	(21)	(63)	–	(65)	(180)	–	(187)
Transfers out	(825)	(132)	–	(516)	(506)	–	(166)
Transfers in	525	142	–	270	144	–	61
At 31 Dec 2015	1,465	2,442	2	1,458	497	2	745
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2015	(19)	(3)	(3)	(26)	(207)	(1)	224
– trading income/(expense) excluding net interest income	–	(3)	–	(26)	(207)	–	224
– net income from other financial instruments designated at fair value	–	–	(3)	–	–	(1)	–
– loan impairment charges and other credit risk provisions	(19)	–	–	–	–	–	–

1 *Included in 'Available-for-sale investments: fair value gains/(losses)' and 'Exchange differences' in the consolidated statement of comprehensive income.*

The bank	Assets				Liabilities		
	Available for sale	Held for trading	Designated at fair value	Derivatives	Held for trading	Designated at fair value	Derivatives
	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2016	**1,778**	**2,432**	**—**	**1,501**	**331**	**—**	**917**
Total gains/(losses) recognised in profit or loss	**(5)**	**11**	**—**	**1,091**	**124**	**—**	**1,138**
– trading income/(expense) excluding net interest income	**—**	**11**	**—**	**1,091**	**124**	**—**	**1,138**
– gains less losses from financial investments	**(5)**	**—**	**—**	**—**	**—**	**—**	**—**
Total gains/(losses) recognised in other comprehensive income (‘OCI’)[1]	**381**	**21**	**—**	**—**	**—**	**—**	**(1)**
– available-for-sale investments: fair value gains/(losses)	**381**	**—**	**—**	**—**	**—**	**—**	**—**
– cash flow hedges: fair value gains/(losses)	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– exchange differences	**—**	**21**	**—**	**—**	**—**	**—**	**(1)**
Purchases	**82**	**464**	**—**	**—**	**–**	**—**	**—**
New issuances			**—**	**—**	**843**	**—**	**—**
Sales	**(756)**	**(1,158)**	**—**	**—**	**(27)**	**—**	**—**
Settlements	**(26)**	**(178)**	**—**	**(164)**	**(599)**	**—**	**(35)**
Transfers out	**(88)**	**(99)**	**—**	**(191)**	**(174)**	**—**	**(173)**
Transfers in	**60**	**1,229**	**—**	**5**	**1**	**—**	**269**
At 31 Dec 2016	**1,426**	**2,722**	**—**	**2,242**	**499**	**—**	**2,115**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2016	**(13)**	**(135)**	**—**	**348**	**(66)**	**—**	**(154)**
– trading income/(expense) excluding net interest income	**—**	**(135)**	**—**	**348**	**(66)**	**—**	**(154)**
– net income/(expense) from other financial instruments designated at fair value	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– loan impairment charges and other credit risk provisions	**(13)**	**—**	**—**	**—**	**—**	**—**	**—**
At 1 Jan 2015	2,361	2,132	—	1,621	1,236	—	1,377
Total gains/(losses) recognised in profit or loss	122	80	—	154	(232)	—	(151)
– trading income/(expense) excluding net interest income	—	80	—	154	(232)	—	(151)
– gains less losses from financial investments	122	—	—	—	—	—	—
Total gains/(losses) recognised in other comprehensive income (‘OCI’)[1]	329	(7)	—	10	—	—	—
– available-for-sale investments: fair value gains/(losses)	329	—	—	—	—	—	—
– cash flow hedges: fair value gains/(losses)	—	—	—	10	—	—	—
– exchange differences	—	(7)		—	—	—	—
Purchases	89	1,102	—	—	—	—	—
New issuances	—	—	—	—	3	—	—
Sales	(1,012)	(822)	—	—	(38)	—	—
Settlements	(5)	(60)	—	(20)	(170)	—	(189)
Transfers out	(176)	(132)	—	(312)	(504)	—	(154)
Transfers in	70	139	—	48	36	—	34
At 31 Dec 2015	1,778	2,432	—	1,501	331	—	917
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2015	—	(3)	—	(219)	(212)	—	202
– trading income/(expense) excluding net interest income	—	(3)	—	(219)	(212)	—	202
– net income from other financial instruments designated at fair value	—	—	—	—	—	—	—
– loan impairment charges and other credit risk provisions	—	—	—	—	—	—	—

1 *Included in ‘Available-for-sale investments: fair value gains/(losses)’ and ‘Exchange differences’ in the consolidated statement of comprehensive income.*

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions

The group	2016				2015			
	Reflected in profit or loss		Reflected in OCI		Reflected in profit or loss		Reflected in OCI	
	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes
	£m	£m	£m	£m	£m	£m	£m	£m
Derivatives, trading assets and trading liabilities[1]	**136**	**(128)**	**—**	**—**	98	(82)	—	—
Financial assets and liabilities designated at fair value	**—**	**(1)**	**—**	**—**	—	(1)	—	—
Financial investments: available for sale	**10**	**(3)**	**62**	**(54)**	7	(4)	86	(86)
At 31 Dec	**146**	**(132)**	**62**	**(54)**	105	(87)	86	(86)

The bank	2016				2015			
	Reflected in profit or loss		Reflected in OCI		Reflected in profit or loss		Reflected in OCI	
	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes
	£m	£m	£m	£m	£m	£m	£m	£m
Derivatives, trading assets and trading liabilities[1]	**115**	**(107)**	**—**	**—**	123	(114)	—	—
Financial assets and liabilities designated at fair value	**—**	**—**	**—**	**—**	—	—	—	—
Financial investments: available for sale	**10**	**(30)**	**26**	**(22)**	—	—	43	(43)
At 31 Dec	**125**	**(137)**	**26**	**(22)**	123	(114)	43	(43)

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

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

	2016				2015			
	Reflected in profit or loss		Reflected in OCI		Reflected in profit or loss		Reflected in OCI	
	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes
	£m	£m	£m	£m	£m	£m	£m	£m
Private equity including strategic investments	**7**	**(5)**	**41**	**(33)**	4	(4)	52	(52)
Asset-backed securities	**30**	**(7)**	**21**	**(21)**	8	(3)	34	(34)
Structured notes	**5**	**(6)**	**—**	**—**	7	(7)	—	—
Derivatives	**71**	**(70)**	**—**	**—**	13	(13)	—	—
Other portfolios	**33**	**(44)**	**—**	**—**	73	(60)	—	—
At 31 Dec	**146**	**(132)**	**62**	**(54)**	105	(87)	86	(86)

The sensitivity analysis aims to measure a range of fair values consistent with the application of a 95% confidence interval. Methodologies take account of the nature of the valuation technique employed, as well as the availability and reliability of observable proxy and historical data.

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

Key unobservable inputs to Level 3 financial instruments

Quantitative information about significant unobservable inputs in Level 3 valuations

	2016								2015			
	Fair value											
	Assets	Liabilities	Valuation techniques	Key unobservable inputs	Full range of inputs		Core range of inputs[1]		Full range of inputs		Core range of inputs[1]	
	£m	£m			Lower	Higher	Lower	Higher	Lower	Higher	Lower	Higher
Private equity including strategic investments	463	21	See page 104	See page 104	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Asset-backed securities	1,066	–										
– CLO/CDO[2]	302	–	Market proxy	Bid quotes	–	101	42	94	–	99	35	77
– Other ABSs	764	–	Market proxy	Bid quotes	–	96	57	90	–	100	50	78
Structured notes	2	741										
– equity-linked notes	–	504	Model-Option model	Equity volatility	12%	96%	13%	40%	10%	72%	16%	54%
	–	150	Model-Option model	Equity correlation	33%	91%	43%	80%	39%	87%	45%	80%
– fund-linked notes	–	8	Model-Option model	Fund volatility	6%	11%	6%	11%	6%	8%	6%	8%
– FX-linked notes	–	27	Model-Option model	FX volatility	6%	24%	6%	24%	5%	35%	5%	35%
– other	2	52										
Derivatives	2,151	1,877										
Interest rate derivatives:	1,752	1,077										
– securitisation swaps	705	970	Model-Discounted cash flow	Prepayment rate	–	90%	8%	27%	–	90%	10%	73%
– long-dated swaptions	1,002	89	Model-Option model	IR volatility	8%	101%	21%	39%	8%	66%	14%	42%
– other	45	18										
FX derivatives:	139	196										
– FX options	139	196	Model-Option model	FX Volatility	1%	26%	11%	17%	–	35%	–	26%
Equity derivatives:	259	576										
– long-dated single stock options	42	104	Model-Option model	Equity volatility	11%	84%	15%	34%	10%	104%	16%	70%
– other	217	472										
Credit derivatives:	1	28										
Other portfolios	2,193	5										
– structured certificates	1,267	–	Model-Discounted cash flow	Credit volatility	3%	4%	3%	4%	2%	4%	2%	4%
– other	926	5										
At 31 Dec	5,875	2,644										

1 *The core range of inputs is the estimated range within which 90% of the inputs fall.*
2 *Collateralised loan obligation/collateralised debt obligation.*

Private equity including strategic investments

Given the bespoke nature of the analysis in respect of each holding, it is not practical to quote a range of key unobservable inputs.

Prepayment rates

Prepayment rates are a measure of the anticipated future speed at which a loan portfolio will be repaid in advance of the due date. They vary according to the nature of the loan portfolio and expectations of future market conditions, and may be estimated using a variety of evidence, such as prepayment rates implied from proxy observable security prices, current or historical prepayment rates and macroeconomic modelling.

Market proxy

Market proxy pricing may be used for an instrument when specific market pricing is not available, but there is evidence from instruments with common characteristics. In some cases, it might be possible to identify a specific proxy, but more generally evidence across a wider range of instruments will be used to understand the factors that influence current market pricing and the manner of that influence.

Volatility

Volatility is a measure of the anticipated future variability of a market price. It varies by underlying reference market price, and by strike and maturity of the option.

Certain volatilities, typically those of a longer-dated nature, are unobservable and estimated from observable data. The range of unobservable volatilities reflects the wide variation in volatility inputs by reference market price. The core range is significantly narrower than the full range because these examples with extreme volatilities occur relatively rarely within the HSBC portfolio.

Correlation

Correlation is a measure of the inter-relationship between two market prices, and is expressed as a number between minus one and one. It is used to value more complex instruments where the payout is dependent upon more than one market price. There is a wide range of instruments for which correlation is an input, and consequently a wide range of both same-asset correlations and cross-asset correlations is used. In general, the range of same-asset correlations will be narrower than the range of cross-asset correlations.

Unobservable correlations may be estimated based upon a range of evidence, including consensus pricing services, HSBC trade prices, proxy correlations and examination of historical price relationships. The range of unobservable correlations quoted in the table reflects the wide variation in correlation inputs by market price pair.

Credit spread

Credit spread is the premium over a benchmark interest rate required by the market to accept lower credit quality. In a discounted cash flow model, the credit spread increases the discount factors applied to future cash flows, thereby reducing the value of an asset. Credit spreads may be implied from market prices and may not be observable in more illiquid markets.

Inter-relationships between key unobservable inputs

Key unobservable inputs to Level 3 financial instruments may not be independent of each other. As described above, market variables may be correlated. This correlation typically reflects the manner in which different markets tend to react to macroeconomic or other events. Furthermore, the effect of changing market variables on the HSBC portfolio will depend on HSBC's net risk position in respect of each variable.

10 Fair values of financial instruments not carried at fair value

Fair values of financial instruments not carried at fair value and bases of valuation

The group	Carrying amount	Fair value: Quoted market price Level 1	Fair value: Observable inputs Level 2	Fair value: Significant unobservable inputs Level 3	Fair value: Total
	£m	£m	£m	£m	£m
At 31 Dec 2016					
Assets					
Loans and advances to banks	**21,363**	**–**	**20,555**	**809**	**21,364**
Loans and advances to customers	**272,760**	**–**	**374**	**273,385**	**273,759**
Reverse repurchase agreements – non-trading	**31,660**	**–**	**31,149**	**511**	**31,660**
Liabilities					
Deposits by banks	**23,682**	**–**	**23,673**	**–**	**23,673**
Customer accounts	**375,252**	**–**	**374,380**	**907**	**375,287**
Reverse repurchase agreements – non-trading	**19,709**	**–**	**19,710**	**–**	**19,710**
Debt securities in issue	**16,140**	**–**	**16,141**	**–**	**16,141**
Subordinated liabilities	**8,421**	**–**	**8,515**	**–**	**8,515**
At 31 Dec 2015					
Assets					
Loans and advances to banks	23,222	–	22,605	617	23,222
Loans and advances to customers	258,506	–	764	257,979	258,743
Reverse repurchase agreements – non-trading	30,537	–	29,894	643	30,537
Liabilities					
Deposits by banks	24,202	–	24,202	–	24,202
Customer accounts	332,830	–	332,226	649	332,875
Reverse repurchase agreements – non-trading	17,000	–	17,000	–	17,000
Debt securities in issue	26,069	–	26,067	–	26,067
Subordinated liabilities	8,527	–	8,251	–	8,251

The bank	Carrying amount	Fair value: Quoted market price Level 1	Fair value: Observable inputs Level 2	Fair value: Significant unobservable inputs Level 3	Fair value: Total
	£m	£m	£m	£m	£m
At 31 Dec 2016					
Assets					
Loans and advances to banks	**16,713**	**–**	**16,625**	**87**	**16,712**
Loans and advances to customers	**215,084**	**–**	**374**	**215,088**	**215,462**
Reverse repurchase agreements – non-trading	**23,351**	**–**	**23,351**	**–**	**23,351**
Liabilities					
Deposits by banks	**26,184**	**–**	**26,184**	**–**	**26,184**
Customer accounts	**303,571**	**–**	**303,571**	**–**	**303,571**
Repurchase agreements – non-trading	**15,420**	**–**	**15,420**	**–**	**15,420**
Debt securities in issue	**6,866**	**–**	**6,866**	**–**	**6,866**
Subordinated liabilities	**7,362**	**–**	**7,424**	**–**	**7,424**
At 31 Dec 2015					
Assets					
Loans and advances to banks	16,661	–	16,562	99	16,661
Loans and advances to customers	205,398	–	582	205,988	206,570
Reverse repurchase agreements – non-trading	24,893	–	24,893	–	24,893
Liabilities					
Deposits by banks	29,073	–	29,073	–	29,073
Customer accounts	271,526	–	271,526	–	271,526
Repurchase agreements – non-trading	11,275	–	11,275	–	11,275
Debt securities in issue	12,356	–	12,356	–	12,356
Subordinated liabilities	7,497	–	7,190	–	7,190

Other financial instruments not carried at fair value are typically short-term in nature and reprice to current market rates frequently. Accordingly, their carrying amount is a reasonable approximation of fair value.

Valuation

Fair value is an estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It does not reflect the economic benefits and costs that HSBC expects to flow from an instrument's cash flow over its expected future life. Our valuation methodologies and assumptions in determining fair values for which no observable market prices are available may differ from those of other companies.

Financial investments

The fair values of listed financial investments are determined using bid market prices. The fair values of unlisted financial investments are determined using valuation techniques that incorporate the prices and future earnings streams of equivalent quoted securities.

Deposits by banks and customer accounts

The fair values of on-demand deposits are approximated by their carrying value. For deposits with longer-term maturities, fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities.

Debt securities in issue and subordinated liabilities

Fair values are determined using quoted market prices at the balance sheet date where available, or by reference to quoted market prices for similar instruments.

Repurchase and reverse repurchase agreements – non-trading

Fair values approximate carrying amounts as balances are generally short dated.

11 Financial assets designated at fair value

	2016	2015
	£m	£m
Debt securities	**1,239**	1,036
Equity securities	**7,042**	5,712
Securities designated at fair value	**8,281**	6,748
Loans and advances to banks	**64**	81
At 31 Dec	**8,345**	6,829

12 Derivatives

Notional contract amounts and fair values of derivatives by product contract type held

The group	Notional contract amount		Fair value – Assets			Fair value – Liabilities		
	Trading	Hedging	Trading	Hedging	Total	Trading	Hedging	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Foreign exchange	**3,232,608**	**3,885**	**72,307**	**139**	**72,446**	**(65,787)**	**(323)**	**(66,110)**
Interest rate	**8,052,578**	**96,380**	**180,914**	**1,072**	**181,986**	**(174,713)**	**(2,280)**	**(176,993)**
Equities	**396,683**	**—**	**7,170**	**—**	**7,170**	**(8,716)**	**—**	**(8,716)**
Credit	**343,887**	**—**	**3,954**	**—**	**3,954**	**(4,560)**	**—**	**(4,560)**
Commodity and other	**45,795**	**—**	**1,245**	**—**	**1,245**	**(1,095)**	**—**	**(1,095)**
Offset (Note 26)					**(67,382)**			**67,382**
At 31 Dec 2016	**12,071,551**	**100,265**	**265,590**	**1,211**	**199,419**	**(254,871)**	**(2,603)**	**(190,092)**
Foreign exchange	2,633,560	7,200	45,220	499	45,719	(45,799)	(123)	(45,922)
Interest rate	7,528,704	78,944	166,236	884	167,120	(160,623)	(1,549)	(162,172)
Equities	346,769	—	6,684	—	6,684	(7,555)	—	(7,555)
Credit	287,755	—	3,882	—	3,882	(3,891)	—	(3,891)
Commodity and other	29,063	—	1,531	—	1,531	(1,475)	—	(1,475)
Offset (Note 26)					(58,151)			58,151
At 31 Dec 2015	10,825,851	86,144	223,553	1,383	166,785	(219,343)	(1,672)	(162,864)

The bank	Notional contract amount		Fair value – Assets			Fair value – Liabilities		
	Trading	Hedging	Trading	Hedging	Total	Trading	Hedging	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Foreign exchange	**3,243,869**	**2,971**	**72,220**	**87**	**72,307**	**(65,970)**	**(294)**	**(66,264)**
Interest rate	**7,090,194**	**66,300**	**157,744**	**896**	**158,640**	**(154,601)**	**(1,851)**	**(156,452)**
Equities	**390,810**	**—**	**6,966**	**—**	**6,966**	**(8,444)**	**—**	**(8,444)**
Credit	**343,642**	**—**	**3,955**	**—**	**3,955**	**(4,559)**	**—**	**(4,559)**
Commodity and other	**39,084**	**—**	**1,245**	**—**	**1,245**	**(1,096)**	**—**	**(1,096)**
Offset					**(57,334)**			**57,334**
At 31 Dec 2016	**11,107,599**	**69,271**	**242,130**	**983**	**185,779**	**(234,670)**	**(2,145)**	**(179,481)**
Foreign exchange	2,644,406	6,691	44,990	422	45,412	(45,709)	(121)	(45,830)
Interest rate	6,909,494	53,637	143,963	671	144,634	(140,276)	(1,096)	(141,372)
Equities	341,507	—	6,504	—	6,504	(7,191)	—	(7,191)
Credit	287,549	—	3,880	—	3,880	(3,887)	—	(3,887)
Commodity and other	27,131	—	1,540	—	1,540	(1,485)	—	(1,485)
Offset					(51,516)			51,516
At 31 Dec 2015	10,210,087	60,328	200,877	1,093	150,454	(198,548)	(1,217)	(148,249)

The notional contract amounts of derivatives held for trading purposes and derivatives designated in qualifying hedge accounting indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Use of derivatives

We undertake derivative activity for three primary purposes: to create risk management solutions for clients, to manage the portfolio risks arising from client business, and to manage and hedge our own risks.

Trading derivatives

Most of the group's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities include market-making and risk management. Market-making entails quoting bid and offer prices to other market participants for the purpose of generating revenues based on spread and volume. Risk management activity is undertaken to manage the risk arising from client transactions, with the principal purpose of retaining client margin. Other derivatives classified as held for trading include non-qualifying hedging derivatives.

Derivatives valued using models with unobservable inputs

The difference between the fair value at initial recognition (the transaction price) and the value that would have been derived had valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is as follows:

Unamortised balance of derivatives valued using models with significant unobservable inputs

	The group		The bank	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Unamortised balance at 1 Jan	**57**	59	**55**	56
Deferral on new transactions	**107**	92	**107**	91
Recognised in the income statement during the year:	**(92)**	(94)	**(92)**	(92)
– amortisation	**(46)**	(57)	**(46)**	(55)
– subsequent to unobservable inputs becoming observable	**(2)**	–	**(2)**	–
– maturity, termination or offsetting derivative	**(44)**	(37)	**(44)**	(37)
Exchange differences	**–**	–	**(1)**	–
Unamortised balance at 31 Dec[1]	**72**	57	**69**	55

1 *This amount is yet to be recognised in the consolidated income statement.*

Hedge accounting derivatives

Fair value hedges

The group's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate, long-term financial instruments due to movements in market interest rates.

Notional contract amounts and fair values of derivatives designated as fair value hedges by product type

	2016			2015		
	Notional	**Assets**	**Liabilities**	Notional	Assets	Liabilities
	£m	**£m**	**£m**	£m	£m	£m
The group						
Foreign exchange	**708**	**8**	**(28)**	215	16	–
Interest rate	**45,150**	**391**	**(2,153)**	34,468	333	(1,449)
At 31 Dec	**45,858**	**399**	**(2,181)**	34,683	349	(1,449)
The bank						
Interest rate	**31,634**	**457**	**(1,807)**	25,766	395	(1,090)
At 31 Dec	**31,634**	**457**	**(1,807)**	25,766	395	(1,090)

Gains or losses arising from fair value hedges

	2016	2015
	£m	£m
The group		
Gains/(losses):		
– on hedging instruments	**(565)**	160
– on the hedged items attributable to the hedged risk	**594**	(156)
Year ended 31 Dec	**29**	4
The bank		
Gains/(losses):		
– on hedging instruments	**(643)**	152
– on the hedged items attributable to the hedged risk	**663**	(152)
Year ended 31 Dec	**20**	–

Cash flow hedges

The group's cash flow hedges consist principally of interest rate swaps, futures and cross-currency swaps that are used to protect against exposures to variability in future interest cash flows on non-trading assets and liabilities that bear interest at variable rates or which are expected to be re-funded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their contractual terms and other relevant factors, including estimates of prepayments and defaults. The aggregate principal balances and interest cash flows across all portfolios over time form the basis for identifying gains and losses on the effective portions of derivatives designated as cash flow hedges of forecast transactions.

Notional contract amounts and fair values of derivatives designated as cash flow hedges by product type

	2016			2015		
	Notional	**Assets**	**Liabilities**	Notional	Assets	Liabilities
	£m	**£m**	**£m**	£m	£m	£m
The group						
Foreign exchange	**3,177**	**131**	**(295)**	6,985	483	(123)
Interest rate	**51,230**	**681**	**(127)**	44,476	551	(100)
At 31 Dec	**54,407**	**812**	**(422)**	51,461	1,034	(223)
The bank						
Foreign exchange	**2,971**	**87**	**294**	6,691	422	(121)
Interest rate	**34,666**	**439**	**44**	27,871	276	(6)
At 31 Dec	**37,637**	**526**	**338**	34,562	698	(127)

Forecast principal balances on which interest cash flows are expected to arise

The group	3 months or less	More than 3 months but less than 1 year	5 years or less but more than 1 year	More than 5 years
	£m	£m	£m	£m
Net cash inflows/(outflows) exposure				
Assets	**43,390**	**37,669**	**30,294**	**1,939**
Liabilities	**(5,984)**	**(5,849)**	**(4,928)**	**(407)**
At 31 Dec 2016	**37,406**	**31,820**	**25,366**	**1,532**
Net cash inflows/(outflows) exposure				
Assets	40,226	38,697	28,923	130
Liabilities	(5,282)	(5,106)	(4,161)	(1,451)
At 31 Dec 2015	34,944	33,591	24,762	(1,321)

The bank	3 months or less	More than 3 months but less than 1 year	5 years or less but more than 1 year	More than 5 years
	£m	£m	£m	£m
Net cash inflows/(outflows) exposure				
Assets	**37,637**	**33,889**	**27,550**	**–**
Liabilities	**–**	**–**	**–**	**–**
At 31 Dec 2016	**37,637**	**33,889**	**27,550**	**–**
Net cash inflows/(outflows) exposure				
Assets	34,661	33,355	26,961	41
Liabilities	–	–	–	–
At 31 Dec 2015	34,661	33,355	26,961	41

This table reflects the interest rate repricing profile of the underlying hedged items. During the year to 31 December 2016, a net loss of £12m (2015: loss of £1m) was recognised due to hedge ineffectiveness.

In late 2016 a macro cash flow hedge was identified as having not met the hedge accounting criteria of IAS 39 during the half year to 30 June 2016 and was partially discontinued as a result. £150m should have been transferred from the cash flow hedge reserve to the income statement during the half year to 30 June and the comparatives will therefore be restated in the 30 June 2017 Interim report to reflect this error. As at 31 December 2016, £103m was transferred from the cash flow hedge reserve to the income statement in respect of the partial discontinuation of this hedge.

13 Financial investments

Carrying amount of financial investments

	The group		The bank	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Available for sale securities at fair value				
– Treasury and other eligible bills	**3,859**	3,155	**2,724**	1,909
– Debt securities	**78,515**	67,088	**46,376**	37,427
– Equity securities	**761**	1,109	**372**	563
At 31 Dec	**83,135**	71,352	**49,472**	39,899

For the group, £11,590m (2015: £9,213m), and for the bank, £7,631m (2015: £5,947m), of the debt securities issued by banks and other financial institutions are guaranteed by various governments.

14 Assets pledged, collateral received and assets transferred

Assets pledged

Financial assets pledged as collateral

	The group		The bank	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Treasury bills and other eligible securities	**525**	703	**–**	–
Loans and advances to banks	**8,815**	8,625	**6,092**	4,957
Loans and advances to customers	**39,535**	43,056	**17,465**	19,374
Debt securities	**43,987**	27,738	**31,295**	14,302
Equity securities	**2,150**	3,131	**2,101**	3,047
Other	**152**	100	**12**	55
Assets pledged at 31 Dec	**95,164**	83,353	**56,965**	41,735

Assets pledged as collateral include all assets categorised as encumbered in the disclosure on page 48.

The amount of assets pledged to secure liabilities may be greater than the book value of assets utilised as collateral. For example, in the case of securitisations and covered bonds, the amount of liabilities issued, plus mandatory over-collateralisation, is less than the book value of the pool of assets available for use as collateral. This is also the case where assets are placed with a custodian or a settlement agent that has a floating charge over all the assets placed to secure any liabilities under settlement accounts.

These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and borrowing, repurchase agreements and derivative margining. The group places both cash and non-cash collateral in relation to derivative transactions.

Financial assets pledged as collateral that the counterparty has the right to sell or repledge

	The group		The bank	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Trading assets	**21,416**	14,957	**12,850**	5,578
Financial assets designated at fair value	**–**	–	**–**	–
Financial investments	**953**	3,314	**570**	2,395
At 31 Dec	**22,369**	18,271	**13,420**	7,973

Collateral received

The fair value of assets accepted as collateral, relating primarily to standard securities lending, reverse repurchase agreements and derivative margining, that the group is permitted to sell or repledge in the absence of default was £96,938m (2015: £80,118m) (the bank: 2016 £67,314m; 2015: £53,721m). The fair value of any such collateral sold or repledged was £73,855m (2015: £57,295m) (the bank: 2016 £49,010m; 2015: £37,239m).

The group is obliged to return equivalent securities. These transactions are conducted under terms that are usual and customary to standard securities lending, reverse repurchase agreements and derivative margining.

Assets transferred

The assets pledged include transfers to third parties that do not qualify for derecognition, notably secured borrowings such as debt securities held by counterparties as collateral under repurchase agreements and equity securities lent under securities lending agreements. The transferred asset collateral continues to be recognised in full and a related liability, reflecting the group's obligation to repurchase the assets for a fixed price at a future date is also recognised on the balance sheet. The group is unable to use, sell or pledge the transferred assets for the duration of the transaction, and remains exposed to interest rate risk and credit risk on these pledged assets. With the exception of 'Other sales' in the table below, the counterparty's recourse is not limited to the transferred assets.

Transferred financial assets not qualifying for full derecognition and associated financial liabilities

	Carrying amount of:		Fair value of:		
The group	**transferred assets**	**associated liabilities**	**transferred assets**	**associated liabilities**	**Net position**
	£m	**£m**	**£m**	**£m**	**£m**
At 31 Dec 2016					
Repurchase agreements	**19,750**	**19,800**	**–**	**–**	**–**
Securities lending agreements	**2,142**	**2,113**	**–**	**–**	**–**
Other sales (recourse to transferred assets only)	**367**	**386**	**367**	**367**	**–**
At 31 Dec 2015					
Repurchase agreements	14,513	14,615	–	–	–
Securities lending agreements	3,112	3,048	–	–	–
Other sales (recourse to transferred assets only)	502	537	503	503	–

Transferred financial assets not qualifying for full derecognition and associated financial liabilities (continued)

The bank	Carrying amount of: transferred assets £m	associated liabilities £m	Fair value of: transferred assets £m	associated liabilities £m	Net position £m
At 31 Dec 2016					
Repurchase agreements	**11,319**	**11,319**	**–**	**–**	**–**
Securities lending agreements	**2,101**	**2,101**	**–**	**–**	**–**
Other sales (recourse to transferred assets only)	**367**	**386**	**367**	**367**	**–**
At 31 Dec 2015					
Repurchase agreements	4,926	4,926	–	–	–
Securities lending agreements	3,047	3,047	–	–	–
Other sales (recourse to transferred assets only)	502	537	503	503	–

15 Interests in associates and joint ventures

Principal associates of the group and the bank

Business Growth Fund Plc ('BGF') is a principal associate of the group. BGF is an independent company, established in 2011 to help Britain's growing smaller and medium-sized businesses. Backed by five of the UK's main banking groups; Barclay's, HSBC, Lloyds, RBS and Standard Chartered. At 31 December 2016, the group had a 24.308% interest in the equity capital of BGF.

Interests in significant joint ventures

Vaultex UK Limited is a joint venture of the bank and the group. Vaultex UK Limited is incorporated in England and its principal activity is that of cash management services. At 31 December 2016 and 31 December 2015, the group had a 50% interest in the £10m issued equity capital.

A list of all associates and joint ventures is set out on page 136.

16 Investments in subsidiaries

Principal subsidiary undertakings of HSBC Bank plc

	Country of incorporation or registration	HSBC Bank plc's interest in equity capital %	Share class
HSBC Asset Finance (UK) Limited	**England**	**100.00**	**Ordinary £1**
HSBC Invoice Finance (UK) Limited	**England**	**100.00**	**Ordinary £1**
HSBC Life (UK) Limited	**England**	**100.00**	**Ordinary £1**
HSBC Private Bank (UK) Limited	**England**	**100.00**	**Ordinary £10**
HSBC Trust Company (UK) Limited	**England**	**100.00**	**Ordinary £5**
Marks and Spencer Retail Financial Services Holdings Limited	**England**	**100.00**	**Ordinary £1**
HSBC France	**France**	**99.99**	**€5 Actions**
HSBC Trinkaus & Burkhardt AG	**Germany**	**80.67**	**Stückaktien**
HSBC Private Bank (C.I.) Limited	**Guernsey**	**100.00**	**Ordinary US$1**
HSBC Bank International Limited	**Jersey**	**100.00**	**Ordinary £1**
HSBC Bank Malta p.l.c	**Malta**	**70.03**	**Ordinary €0.30**
HBSC Bank A.S.	**Turkey**	**100.00**	**Common 0.01 TL**

All the above prepare their financial statements up to 31 December.

Details of all group subsidiaries, as required under Section 409 of the Companies Act 2006, are set out in Note 33. The principal countries of operation are the same as the countries of incorporation.

Impairment testing of investments in subsidiaries

At each reporting period end, HSBC Bank plc reviews investments in subsidiaries for indicators of impairment. An impairment is recognised when the carrying amount exceeds the recoverable amount for that investment.

The recoverable amount is the higher of the investment's fair value less costs of disposal and its value in use. The value in use is calculated by discounting management's cash flow projections for the investment.

- The cash flow projections for each investment are based on the latest approved plans and a long-term growth rate is used to extrapolate the cash flows in perpetuity.
- The growth rate reflects GDP and inflation for the country within which the investment operates and is based on 20-year forecast growth rates.
- The rate used to discount the cash flows is based on the cost of capital assigned to each investment, which is derived using a capital asset pricing model ('CAPM'). CAPM depends on a number of inputs reflecting financial and economic variables, including the risk-free rate and a premium to reflect the inherent risk of the business being evaluated. These variables are based on the market's assessment of the economic variables and management's judgement. The discount rates for each investment are refined to reflect the rates of inflation for the countries within which the investment operates. In addition, for the purposes of testing investments for impairment, management supplements this process by comparing the discount rates derived using the internally generated CAPM, with cost of capital rates produced by external sources for businesses operating in similar markets.

An impairment of £2,148m was recognised as a result of the impairment test performed. £2,081m of this related to an investment in HSBC France which was impaired, due to the impact on projected earnings from the low interest rate environment in Europe.

No investments in subsidiaries were impaired in 2015.

Impairment test results

	Carrying amount	Recoverable amount	Discount rate	Nominal growth rate beyond initial cash flow projections	Impairment
Investment	**£m**	**£m**	**%**	**%**	**£m**
HSBC France	**6,881**	**4,800**	**10.0%**	**2.9%**	**2,081**

17 Structured entities

The group is mainly involved with both consolidated and unconsolidated structured entities through the securitisation of financial assets, conduits and investment funds, established either by HSBC or a third party.

Consolidated structured entities

Total assets of the group's consolidated structured entities, split by entity type

	Conduits	Securitisations	Group managed funds	Other	Total
	£m	**£m**	**£m**	**£m**	**£m**
At 31 Dec 2016	**12,821**	**1,558**	**1,710**	**2,920**	**19,009**
At 31 Dec 2015	17,807	1,174	–	2,250	21,231

Conduits

The group has established and manages two types of conduits: securities investment conduits ('SIC's) and multi-seller conduits.

Securities investment conduits

The SICs purchase highly rated ABSs to facilitate tailored investment opportunities.

- Solitaire – At 31 December 2016, Solitaire, the group's principal SIC. held £3.8bn of ABSs (2015: £4.2bn). These are included within the disclosures of ABSs on page 45. It is currently funded entirely by commercial paper ('CP') issued to the group. Although the group continues to provide a liquidity facility, Solitaire has no need to draw on it as long as the group purchases its issued CP, which the group intends to do for the foreseeable future. At 31 December2016, the group held £4.9bn of CP (2015: £5.4bn).
- Mazarin, Barion and Malachite – All three SICs are predominantly funded by repurchase agreements and medium-term notes. The group is exposed to the par value of Mazarin assets through the provision of a liquidity facility equal to the lesser of the amortised cost of issued debt and the amortised cost of non-defaulted assets. At 31 December 2016, this amounted to £0.8bn (2015 £1.2bn). The group's primary exposure to Barion and Malachite is represented by the amortised cost of the debt required to support the non-cash assets of the vehicles. At 31 December 2016, this amounted to £0.6bn (2015: £0.9bn). For all three SICs, first loss protection is provided through the capital notes issued by these vehicles, which are held substantially by third parties. At 31 December 2016, the group held 12.2% of the capital notes (2015: 7.2%) issued by these vehicles with a par value of £56.4m (2015: £37.4m) and a carrying amount of £22.6m (2015: £16.7m).

Multi-seller conduit

The group's multi-seller conduit was established to provide access to flexible market-based sources of finance for its clients. Currently, the group bears risk equal to the transaction-specific liquidity facility offered to the multi-seller conduit, amounting to £8.3bn at 31 December 2016 (2015: £13.4bn). First loss protection is provided by the originator of the assets, and not by the group, through transaction-specific credit enhancements. A layer of secondary loss protection is provided by the group in the form of programme-wide enhancement facilities.

Securitisations

The group uses structured entities to securitise customer loans and advances it originates in order to group its sources of funding for asset origination and capital efficiency purposes. The loans and advances are transferred by the group to the structured entities for cash or synthetically through credit default swaps, and the structured entities issue debt securities to investors.

Group managed funds

The group has established a number of money market and non-money market funds. Where it is deemed to be acting as principal rather than agent in its role as investment manager, the group controls these funds.

Other

The group has also entered into a number of transactions in the normal course of business which include asset and structured finance transactions where it has control of the structured entity. In addition, the group is deemed to control a number of third-party managed funds through its involvement as a principal in the funds.

Unconsolidated structured entities

The term 'unconsolidated structured entities' refers to all structured entities not controlled by the group. The group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions and for specific investment opportunities.

Nature and risks associated with group's interests in unconsolidated structured entities

	Securitisations	Group managed funds	Non-group managed funds	Other	Total
	£m	£m	£m	£m	£m
Total assets of the entities	**5,259**	**5,973**	**1,473,581**	**21,561**	**1,506,374**
Total assets in relation to the group's interests in the unconsolidated structured entities	**1,644**	**132**	**10,789**	**4,054**	**16,619**
– trading assets	**–**	**6**	**107**	**1,267**	**1,380**
– financial assets designated at fair value	**–**	**58**	**3,160**	**–**	**3,218**
– derivatives	**–**	**–**	**7,294**	**836**	**8,130**
– loans and advances to banks	**–**	**–**	**–**	**–**	**–**
– loans and advances to customers	**1,644**	**–**	**–**	**1,802**	**3,446**
– financial investments	**–**	**68**	**226**	**149**	**443**
– other assets	**–**	**–**	**2**	**–**	**2**
Total liabilities in relation to group's interests in the unconsolidated structured entities	**–**	**–**	**6**	**–**	**6**
The group's maximum exposure at 31 Dec 2016	**1,685**	**132**	**11,625**	**4,814**	**18,256**
Total assets of the entities	–	6,759	944,481	36,791	988,031
Total assets in relation to the group's interests in the unconsolidated structured entities	–	1,020	3,047	3,896	7,963
– trading assets	–	23	215	1,753	1,991
– financial assets designated at fair value	–	903	2,203	–	3,106
– derivatives	–	–	–	572	572
– loans and advances to banks	–	–	220	35	255
– loans and advances to customers	–	69	–	1,429	1,498
– financial investments	–	24	409	107	540
– other assets	–	1	–	–	1
Total liabilities in relation to group's interests in the unconsolidated structured entities	–	21	–	–	21
The group's maximum exposure at 31 Dec 2015[1]	–	1,020	4,046	3,896	8,962

1 *Restated to incorporate undrawn commitments.*

The maximum exposure to loss from the group's interests in unconsolidated structured entities represents the maximum loss it could incur as a result of its involvement with these entities regardless of the probability of the loss being incurred.

- For commitments, guarantees and written credit default swaps, the maximum exposure to loss is the notional amount of potential future losses.
- For retained and purchased investments in and loans to unconsolidated structured entities, the maximum exposure to loss is the carrying value of these interests at the balance sheet reporting date.

The maximum exposure to loss is stated gross of the effects of hedging and collateral arrangements entered into to mitigate the group's exposure to loss.

Securitisations

The group has interests in unconsolidated securitisation vehicles through holding notes issued by these entities. In addition, the group has investments in ABSs issued by third party structured entities as set out on page 45.

Group managed funds

The group establishes and manages money market funds and non-money market investment funds to provide customers with investment opportunities.

The group, as fund manager, may be entitled to receive management and performance fees based on the assets under management. The group may also retain units in these funds.

Non-group managed funds

The group purchases and holds units of third-party managed funds in order to facilitate business and meet customer needs. In addition, the group enters into derivative contracts to facilitate risk management solutions for non-group managed funds. Note 12 provides information on derivatives entered into by the group.

Other

The group has established structured entities in the normal course of business, such as structured credit transactions for customers, to provide finance to public and private sector infrastructure projects, and for asset and structured finance transactions.

Group sponsored structured entities

The amount of assets transferred to and income received from such sponsored entities during 2016 and 2015 were not significant.

18 Goodwill and intangible assets

	The group		The bank	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Goodwill[1]	**4,487**	5,818	**356**	347
Present value of in-force long-term insurance business	**577**	546	**–**	–
Other intangible assets[1, 2]	**671**	647	**564**	575
At 31 Dec	**5,735**	7,011	**920**	922

1 *For 2016, the amortisation and impairment of intangible assets totalled £2,422m (£2,182m for goodwill and £240m for other intangibles).*
2 *Included within the group's other intangible assets is internally generated software with a net carrying value of £576m (2015: £570m).*

Movement analysis of goodwill

	The group		The bank	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
At 1 Jan	**5,818**	6,140	**347**	342
Impairment	**(2,182)**	–	**–**	–
Exchange differences	**857**	(322)	**12**	5
Other	**(6)**	–	**(3)**	–
At 31 Dec	**4,487**	5,818	**356**	347

Impairment testing

The group's impairment test in respect of goodwill allocated to each CGU is performed as at 1 July each year, with a review for indicators of impairment at 30 June and 31 December. At 31 December 2016, we reviewed the inputs used in our most recent impairment test in the light of current economic and market conditions, and we identified further indicators of impairment for the Global Banking & Markets CGU which was disclosed as sensitive in the Interim Report 2016.

The indicators of impairment for the Global Banking & Markets CGU since the 1 July impairment test relate to a reduction in forecast cash flows, due in part to global uncertainty and because the current low interest rate environment is expected to be more prolonged than originally expected. As a result, an impairment test for GB&M has been performed as at 31 December 2016. For all other remaining CGUs, the annual test performed as at 1 July remains the latest impairment test and the disclosures given are as at 1 July. The testing at 1 July resulted in no impairment of goodwill for these remaining CGUs, but did highlight that the Retail Banking and Wealth Management CGU had become sensitive.

Based on the impairment test performed for Global Banking & Markets at 31 December 2016, the full goodwill balance of £2.2bn was impaired. This amount has been recognised in the income statement as an impairment loss within 'Amortisation and impairment of intangible assets and goodwill'.

Basis of the recoverable amount

The recoverable amount of all CGUs to which goodwill has been allocated was equal to its VIU at each respective testing date for 2015 and 2016.

For each CGU, the VIU is calculated by discounting management's cash flow projections for the CGU.

Key assumptions in VIU calculation

		Annual Impairment Test 2016				Annual Impairment Test 2015		
	Goodwill after impairment at: 31 Dec 2016	Goodwill at: 1 Jul 2016	Discount rate	Nominal growth rate beyond initial cash flow projections	Goodwill at: 1 Jul 2015	Discount rate	Nominal growth rate beyond initial cash flow projections
Cash-generating unit	**£m**	**£m**	**%**	**%**	£m	%	%
RBWM	**2,046**	**1,977**	**8.9%**	**3.5%**	1,753	6.9%	3.8%
CMB	**1,792**	**1,733**	**9.7%**	**3.9%**	1,474	9.0%	3.8%
GB&M	**–**	**2,099**	**10.7%**	**3.8%**	1,847	9.9%	3.8%
Other	**649**	**666**			577		
	4,487	**6,475**			5,651		

Management's judgement in estimating the cash flows of a CGU: the cash flow projections for each CGU are based on the latest plans approved by the Board. For the goodwill impairment test conducted at 1 July 2016, management's cash flow projections until the end of 2020 were used. For the 31 December impairment test for Global Banking & Markets CGU, cash flow projections until the end of 2021 were used.

Nominal long-term growth rate: the long-term growth rate is used to extrapolate the cash flows in perpetuity. The growth rate reflects GDP and inflation for the countries within which the CGU operates or derives revenue from. The rates are based on 20-year forecast growth rates, as they represent an objective estimate of likely future trends.

Discount rate: the rate used to discount the cash flows is based on the cost of capital assigned to each CGU, which is derived using a capital asset pricing model ('CAPM'). CAPM depends on a number of inputs reflecting financial and economic variables, including the risk-free rate and a premium to reflect the inherent risk of the business being evaluated. These variables are based on the market's assessment of the economic variables and management's judgement. The discount rates for each CGU are refined to reflect the rates of inflation for the countries within which the CGU operates. In addition, for the purposes of testing goodwill for impairment, management supplements this process by comparing the discount rates derived using the internally generated CAPM, with cost of capital rates produced by external sources for businesses operating in similar markets. In all periods, internal rates were adjusted to reflect the uncertainty of the cash flows used in the test. For the purpose of goodwill testing during 2016, all CGUs include a 100bps uplift to reflect the increased risk in European markets following the UK referendum on membership of the EU.

Sensitivities of key assumptions in calculating VIU

At 1 July 2016, Global Banking and Markets and Retail Banking and Wealth Management were sensitive to reasonably possible changes in the key assumptions supporting the recoverable amount. Subsequent to the annual test and as noted above, goodwill in respect of Global Banking & Markets has been fully impaired at 31 December 2016.

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.

The following table presents a summary of the key assumptions underlying the most sensitive inputs to the model for Retail Banking and Wealth Management; the key risks attaching to each; and details of a reasonably possible change to assumptions where, in the opinion of management, these could result in an impairment.

Reasonably possible changes in key assumptions

	Input	Key assumptions	Associated risks	Reasonably possible change
Cash-generating unit				
Retail Banking and Wealth Management	Cash flow projections	• Level of interest rates. • Competitors' positions within the market. • Level and change in unemployment rates.	• Uncertain regulatory environment. • Customer remediation and regulatory actions.	• Cash flow projections decrease by 10%.
	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.
	Long-term growth rates	• Business growth will reflect GDP growth rates in the long term.	• Growth does not match GDP or there is a fall in GDP forecasts.	• Real GDP growth does not occur or is not reflected in performance.

Sensitivity of VIU to reasonably possible changes in key assumptions and changes to current assumptions to achieve nil headroom

			Increase/(decrease)		
Cash-generating unit	**Carrying Amount**	**Value in use**	**Discount rate**	**Cash flows**	**Long-term growth rate**
At 1 July 2016	**£m**	**£m**	**bps**	**%**	**bps**
Retail Banking and Wealth Management	**11,891**	**14,838**	**135**	**(19.9)**	**(163)**

Present value of in-force long-term insurance business

When calculating the present value of in force insurance business ('PVIF'), expected cash flows are projected after adjusting for a variety of assumptions made by each insurance operation to reflect local market conditions and management's judgement of future trends, and after applying risk margins to reflect any uncertainty in the underlying assumptions. Variations in actual experience and changes to assumptions can contribute to volatility in the results of the insurance business.

Actuarial Control Committees of each key insurance entity meet on a quarterly basis to review and approve PVIF assumptions. All changes to non-economic assumptions, economic assumptions that are not observable and model methodology must be approved by the Actuarial Control Committee.

Movements in PVIF

	2016	2015
	£m	£m
PVIF at 1 Jan	**546**	456
Change in PVIF of long-term insurance business	**(26)**	101
Value of new business written during the year	**43**	51
Expected return[1]	**(96)**	(89)
Assumption changes and experience variances[2]	**15**	123
Other adjustments	**12**	16
Exchange differences and other	**57**	(11)
PVIF at 31 Dec	**577**	546

1 *'Expected return' represents the unwinding of the discount rate and reversal of expected cash flows for the period.*
2 *Represents the effect of changes in assumptions on expected future profits and the difference between assumptions used in the previous PVIF calculation and actual experience observed during the year to the extent that this affects future profits.*

Key assumptions used in the computation of PVIF for main life insurance operations

Economic assumptions are set in a way that is consistent with observable market values. The valuation of PVIF is sensitive to observed market movements, and the impact of such changes is included in the sensitivities presented below.

	2016		2015	
	UK	**France[1]**	UK	France[1]
	%	**%**	%	%
Weighted average risk free rate	**1.00**	**0.99**	1.75	1.57
Weighted average risk discount rate	**1.50**	**1.84**	2.25	2.55
Expense inflation	**3.83**	**1.66**	4.56	1.70

1 *For 2016, the calculation of France's PVIF assumes a risk discount rate of 1.84% (2015: 2.55%) plus a risk margin of £82m (2015: £51m).*

Sensitivity to changes in economic assumptions

The group sets the risk discount rate applied to the PVIF calculation by starting from a risk-free rate curve and adding explicit allowances for risks not reflected in the best estimate cash flow modelling. Where the insurance operations provide options and guarantees to policyholders the cost of these options and guarantees is an explicit reduction to PVIF, unless it is already allowed for as an explicit addition to the technical provisions required by regulators. See page 52 for further details of these guarantees and the impact of changes in economic assumptions on our insurance manufacturing subsidiaries.

Sensitivity to changes in non-economic assumptions

Policyholder liabilities and PVIF for life manufacturers are determined by reference to non-economic assumptions, including mortality and/or morbidity, lapse rates and expense rates. See page 54 for further details on the impact of changes in non-economic assumptions on our insurance manufacturing subsidiaries.

19 Prepayments, accrued income and other assets

	The group		The bank	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Prepayments and accrued income	**2,247**	2,078	**1,246**	1,127
Assets held for sale	**94**	27	**79**	17
Bullion	**2,554**	2,226	**2,546**	2,221
Endorsements and acceptances	**291**	581	**254**	478
Reinsurers' share of liabilities under insurance contracts (Note 2)	**283**	182	**–**	–
Employee benefit assets (Note 4)	**3,480**	3,376	**3,478**	3,373
Other accounts	**2,270**	1,504	**1,933**	1,191
Property, plant and equipment	**1,996**	1,758	**1,007**	902
At 31 Dec	**13,215**	11,732	**10,543**	9,309

Assets held for sale

	The group		The bank	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Property, plant and equipment	**32**	27	**22**	17
Interest in associates[1]	**62**	–	**57**	–
Assets classified as held for sale at 31 Dec	**94**	27	**79**	17

1 *Includes the associate, VocaLink Holdings Ltd, transferred to held for sale in July 2016.*

Prepayments, accrued income and other assets include £4,586m (2015: £3,902m) of financial assets, the majority of which are measured at amortised cost.

20 Trading liabilities

	The group		The bank	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Deposits by banks[1]	**33,187**	27,106	**30,282**	24,113
Customer accounts[1]	**19,352**	13,281	**17,147**	11,406
Other debt securities in issue[2]	**15,837**	13,033	**12,243**	9,176
Other liabilities – net short positions in securities	**25,558**	20,069	**12,467**	12,741
At 31 Dec	**93,934**	73,489	**72,139**	57,436

1 *'Deposits by banks' and 'Customer accounts' include repos, settlement accounts, stock lending and other amounts.*
2 *'Other debt securities in issue' comprises structured notes issued by the group for which market risks are actively managed as part of trading portfolios.*

21 Financial liabilities designated at fair value

	The group		The bank	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Deposits by banks and customer accounts	**110**	131	**–**	–
Liabilities to customers under investment contracts	**1,072**	928	**–**	–
Debt securities in issue	**15,286**	16,019	**8,157**	9,889
Subordinated liabilities (Note 24)	**1,685**	1,594	**2,018**	1,924
Preferred securities (Note 24)	**333**	329	**–**	–
At 31 Dec	**18,486**	19,001	**10,175**	11,813

The group

The carrying amount of financial liabilities designated at fair value was £1,184m higher than the contractual amount at maturity (2015: £1,108m higher). The cumulative own credit loss recognised was £127m (2015: loss of £93m).

The bank

The carrying amount of financial liabilities designated at fair value was £825m higher than the contractual amount at maturity (2015: £811m higher). The cumulative own credit loss recognised was £43m (2015: loss of £28m).

22 Accruals, deferred income and other liabilities

	The group		The bank	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Accruals and deferred income	**2,822**	2,470	**1,767**	1,592
Amount due to investors in funds consolidated by the group	**358**	292	**—**	—
Endorsements and acceptances	**285**	572	**254**	478
Employee benefit liabilities (Note 4)	**364**	300	**143**	120
Share-based payment liability to HSBC Holdings	**150**	154	**130**	134
Other liabilities	**2,813**	1,987	**2,195**	1,242
At 31 Dec	**6,792**	5,775	**4,489**	3,566

For the group, accruals, deferred income and other liabilities include £2,616m (2015: £1,839m), and for the bank £2,077m (2015: £1,240m) of financial liabilities, the majority of which are measured at amortised cost.

23 Provisions

The group	Customer remediation	Legal proceedings and regulatory matters	Restructuring costs	Contingent liabilities and contractual commitments	Other provisions	Total
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 Jan 2016	**868**	**884**	**163**	**27**	**115**	**2,057**
Additions[1]	**568**	**131**	**178**	**36**	**91**	**1,004**
Amounts utilised	**(473)**	**(34)**	**(68)**	**—**	**(65)**	**(640)**
Unused amounts reversed	**(64)**	**(67)**	**(31)**	**(21)**	**(39)**	**(222)**
Exchange and other movements	**(2)**	**181**	**11**	**11**	**31**	**232**
At 31 Dec 2016	**897**	**1,095**	**253**	**53**	**133**	**2,431**
At 1 Jan 2015	1,041	456	52	16	142	1,707
Additions[1]	456	611	142	17	49	1,275
Amounts utilised	(548)	(190)	(15)	(1)	(32)	(786)
Unused amounts reversed	(80)	(16)	(2)	(4)	(42)	(144)
Exchange and other movements	(1)	23	(14)	(1)	(2)	5
At 31 Dec 2015	868	884	163	27	115	2,057

1 *Other provisions includes unwinding of discounts of £3m (2015: £4m) in relation to vacant space provisions.*

The bank	Customer remediation	Legal proceedings and regulatory matters	Restructuring costs	Contingent liabilities and contractual commitments	Other provisions	Total
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 Jan 2016	**694**	**814**	**124**	**11**	**59**	**1,702**
Additions[1]	**433**	**75**	**71**	**28**	**40**	**647**
Amounts utilised	**(411)**	**(29)**	**(25)**	**—**	**(12)**	**(477)**
Unused amounts reversed	**(63)**	**(44)**	**(17)**	**(14)**	**(16)**	**(154)**
Exchange and other movements	**(3)**	**164**	**1**	**4**	**1**	**167**
At 31 Dec 2016	**650**	**980**	**154**	**29**	**72**	**1,885**
At 1 Jan 2015	890	368	11	4	72	1,345
Additions[1]	371	604	126	9	12	1,122
Amounts utilised	(491)	(183)	—	—	(13)	(687)
Unused amounts reversed	(76)	(11)	(1)	(2)	(12)	(102)
Exchange and other movements	—	36	(12)	—	—	24
At 31 Dec 2015	694	814	124	11	59	1,702

1 *Other provisions includes unwinding of discounts of £3m (2015: £4m) in relation to vacant space provisions.*

Customer remediation

Provisions include £897m (2015: £868m) in respect of customer redress programmes. The most significant of these provisions relates to Payment Protection Insurance.

Payment Protection Insurance

£746m (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. Cumulative provisions made since the Judicial Review ruling in the first half of 2011 amount to £3.3bn of which £2.6bn has been paid as at 31 December 2016.

An increase in provisions of £377m was recognised during the year, primarily reflecting a delay to the inception of the expected time bar on inbound complaints; and an anticipated adjustment to the redress parameters surrounding 'Plevin' (a 2014 decision of the UK

Supreme Court held that, judged on its own facts, non-disclosure of the amounts of commissions payable in connection with the sale of PPI to a customer created an unfair relationship under the provisions of the UK Consumer Credit Act).

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 since 2000, generating estimated revenues of £2.6bn at 2016. The gross written premiums on these policies was approximately £3.4bn. At 31 December 2016, the estimated total complaints expected to be received were 2.0 million, representing 37% of total policies sold. It is estimated that contact will be made with regard to 2.4 million policies, representing 45% of total policies sold. This estimate includes inbound complaints as well as the group's proactive contact exercise on certain policies ('outbound contact').

The following table details the cumulative number of complaints received at 31 December 2016 and the number of claims expected in the future:

Cumulative PPI complaints received to 31 December 2016 and future claims expected

	Cumulative actual to 31 Dec 2016	Future expected
Inbound complaints ('000s of policies)[1]	**1,363**	320
Outbound contact ('000s of policies)	**725**	0
Response rate to outbound contact	**42%**	n/a
Average uphold rate per claim[2]	**76%**	84%
Average redress per claim (£)	**1,979**	2,003
Complaints to Financial Ombudsman Service ('FOS') ('000s of policies)	**138**	47
Average uphold rate per FOS claim	**41%**	55%

1 *Excludes invalid claims for which no PPI policy exists 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 £150m. Each 1% increase/decrease in the response rate to our outbound contact exercise would increase/decrease the redress provision by approximately £9m.

Legal proceedings and regulatory matters

Further details of legal proceedings and regulatory matters are set out in Note 30. 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.

24 Subordinated liabilities

Subordinated liabilities

	The group		The bank	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
At amortised cost	**8,421**	8,527	**7,362**	7,497
– subordinated liabilities	**7,721**	7,827	**7,362**	7,497
– preference shares	**700**	700	**–**	–
Designated at fair value (Note 21)	**2,018**	1,923	**2,018**	1,924
– subordinated liabilities	**1,685**	1,594	**2,018**	1,924
– preference shares	**333**	329	**–**	–
At 31 Dec	**10,439**	10,450	**9,380**	9,421

Subordinated liabilities rank behind senior obligations and generally count towards the capital base of the group. Capital securities may be called and redeemed by the group subject to prior notification to the PRA and, where relevant, the consent of the local banking regulator. If not redeemed at the first call date, coupons payable may step up or become floating rate based on interbank rates. On capital securities other than floating rate notes, interest is payable at fixed rates of up to 7.65%.

The balance sheet amounts disclosed below are presented on an IFRS basis and do not reflect the amount that the instruments contribute to regulatory capital due to the inclusion of issuance costs, regulatory amortisation and regulatory eligibility limits prescribed in the grandfathering provisions under CRD IV.

Subordinated borrowings of the group

		Carrying amount	
		2016	2015
		£m	£m
$1,450m	Floating Rate Subordinated Loan 2021	1,176	978
$450m	Subordinated Floating Rate Notes 2021	365	304
£350m	5% Callable Subordinated Notes 2023[1]	378	379
£300m	6.5% Subordinated Notes 2023	299	299
€650m	Floating Rate Subordinated Loan 2023	556	477
$275m	Floating Rate Subordinated Loan 2025	235	186
€120m	Floating Rate Subordinated Loan 2025	107	—
$300m	7.65% Subordinated Notes 2025	301	260
$1,400m	Floating Rate Subordinated Loan 2025	1,136	945
$1,300m	Floating Rate Subordinated Loan 2026[5]	1,055	—
€260m	Floating Rate Subordinated Loan 2029	222	191
£350m	5.375% Callable Subordinated Step-up Notes 2030[2]	397	384
£500m	5.375% Subordinated Notes 2033	608	571
£225m	6.25% Subordinated Notes 2041	224	224
£600m	4.75% Subordinated Notes 2046	593	593
£700m	5.844% Non-cumulative Step-up Perpetual Preferred Securities[3]	700	700
£300m	5.862% Non-cumulative Step-up Perpetual Preferred Securities[4]	333	329
$750m	Undated Floating Rate Primary Capital Notes	609	506
$500m	Undated Floating Rate Primary Capital Notes	406	337
$300m	Undated Floating Rate Primary Capital Notes (Series 3)	243	202
$2,862m	Floating Rate Perpetual Subordinated Debt[5]	—	1,931
	Other subordinated liabilities less than £100m	496	654
At 31 Dec		**10,439**	10,450

1 *In March 2018, the interest rate changes to become the rate per annum, which is the sum of the gross redemption yield of the then-prevailing five-year UK gilt plus 1.80%.*
2 *In November 2025, the interest rate changes to three-month sterling LIBOR plus 1.50%.*
3 *In November 2031, the distribution rate changes to six-month sterling LIBOR plus 1.76%.*
4 *In April 2020, the distribution rate changes to six-month sterling LIBOR plus 1.85%.*
5 *In December 2016, HSBC Bank plc repaid its $2,862m perpetual subordinated debt and received a new $1,300m dated Tier 2 subordinated loan from HSBC Holdings plc.*

Footnotes 1 to 4 all relate to instruments that are redeemable at the option of the issuer on the date of the change in the interest or distribution rate, and on subsequent rate reset and payment dates in some cases, subject to prior notification to the Prudential Regulation Authority.

25 Maturity analysis of assets, liabilities and off-balance sheet commitments

The following table provides an analysis of consolidated total assets, liabilities and off-balance sheet commitments by residual contractual maturity at the balance sheet date. These balances are included in the maturity analysis as follows:

- Trading assets and liabilities (including trading derivatives but excluding reverse repos, repos and debt securities in issue) are included in the 'On demand' time bucket, because trading balances are typically held for short periods of time;
- Financial assets and liabilities with no contractual maturity (such as equity securities) are included in the 'Due after 5 years' time bucket. Undated or perpetual instruments are classified based on the contractual notice period which the counterparty of the instrument is entitled to give. Where there is no contractual notice period, undated or perpetual contracts are included in the 'Due after 5 years' time bucket;
- Non-financial assets and liabilities with no contractual maturity are included in the 'Due after 5 years' time bucket;
- Financial instruments included within assets and liabilities of disposal groups held for sale are classified on the basis of the contractual maturity of the underlying instruments and not on the basis of the disposal transaction;
- Liabilities under insurance contracts are included in the 'Due after 5 years' time bucket. Liabilities under investment contracts are classified in accordance with their contractual maturity. Undated investment contracts are classified based on the contractual notice period investors are entitled to give. Where there is no contractual notice period, undated contracts are included in the 'Due after 5 years' time bucket; and
- Loan and other credit-related commitments are classified on the basis of the earliest date they can be drawn down.

Cash flows payable under financial liabilities by remaining contractual maturities

The group	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
	£m	£m	£m	£m	£m	£m
Deposits by bank	**14,255**	**3,299**	**1,588**	**4,304**	**302**	**23,748**
Customer accounts	**315,818**	**32,901**	**12,429**	**4,648**	**9,944**	**375,740**
Repurchase agreements	**10,166**	**8,030**	**1,440**	**—**	**—**	**19,636**
Trading liabilities	**93,934**	**—**	**—**	**—**	**—**	**93,934**
Financial liabilities designated at fair value	**1,038**	**1,410**	**1,434**	**11,801**	**4,171**	**19,854**
Derivatives	**187,501**	**157**	**773**	**1,548**	**711**	**190,690**
Debt securities in issue	**5**	**5,256**	**7,772**	**2,195**	**1,585**	**16,813**
Subordinated liabilities	**1**	**107**	**74**	**2,650**	**6,730**	**9,562**
Other financial liabilities	**4,166**	**1,253**	**498**	**91**	**539**	**6,547**
	626,884	**52,413**	**26,008**	**27,237**	**23,982**	**756,524**
Loan commitments	**148,975**	**849**	**566**	**119**	**2**	**150,511**
Financial guarantee contracts	**3,818**	**1,620**	**3,351**	**2,869**	**1,237**	**12,895**
At 31 Dec 2016	**779,677**	**54,882**	**29,925**	**30,225**	**25,221**	**919,930**
Deposits by bank	18,204	3,047	455	2,503	63	24,272
Customer accounts	289,864	31,039	9,879	2,131	127	333,040
Repurchase agreements	6,086	10,060	861	—	—	17,007
Trading liabilities	73,489	—	—	—	—	73,489
Financial liabilities designated at fair value	190	187	3,343	10,199	6,135	20,054
Derivatives	161,191	118	413	787	371	162,880
Debt securities in issue	10	11,972	9,491	3,918	868	26,259
Subordinated liabilities	—	45	107	1,006	8,337	9,495
Other financial liabilities	2,991	1,202	777	115	417	5,502
	552,025	57,670	25,326	20,659	16,318	671,998
Loan commitments	130,114	609	744	164	2	131,633
Financial guarantee contracts	3,135	1,625	4,085	2,724	2,166	13,735
At 31 Dec 2015	685,274	59,904	30,155	23,547	18,486	817,366

The bank	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
	£m	£m	£m	£m	£m	£m
Deposits by bank	**13,383**	**6,211**	**2,521**	**3,672**	**402**	**26,189**
Customer accounts	**258,398**	**23,301**	**9,520**	**3,530**	**9,838**	**304,587**
Repurchase agreements	**10,044**	**3,931**	**1,371**	**—**	**—**	**15,346**
Trading liabilities	**72,139**	**—**	**—**	**—**	**—**	**72,139**
Financial liabilities designated at fair value	**13**	**108**	**1,432**	**8,192**	**1,772**	**11,517**
Derivatives	**177,490**	**153**	**725**	**1,108**	**657**	**180,133**
Debt securities in issue	**6**	**1,994**	**3,563**	**837**	**613**	**7,013**
Subordinated liabilities	**—**	**46**	**37**	**2,424**	**5,937**	**8,444**
Other financial liabilities	**3,428**	**623**	**135**	**14**	**—**	**4,200**
	534,901	**36,367**	**19,304**	**19,777**	**19,219**	**629,568**
Loan commitments	**107,370**	**137**	**69**	**7**	**2**	**107,585**
Financial guarantee contracts	**486**	**986**	**2,651**	**3,793**	**1,173**	**9,089**
At 31 Dec 2016	**642,757**	**37,490**	**22,024**	**23,577**	**20,394**	**746,242**
Deposits by bank	19,584	3,510	2,618	3,047	316	29,075
Customer accounts	241,531	22,331	6,634	1,185	563	272,244
Repurchase agreements	4,971	5,439	872	—	—	11,282
Trading liabilities	57,436	—	—	—	—	57,436
Financial liabilities designated at fair value	—	107	3,254	5,839	3,537	12,737
Derivatives	147,183	114	342	562	198	148,399
Debt securities in issue	—	4,059	6,632	1,287	504	12,482
Subordinated liabilities	—	44	26	1,086	7,591	8,747
Other financial liabilities	2,046	784	342	5	4	3,181
	472,751	36,388	20,720	13,011	12,713	555,583
Loan commitments	92,614	147	145	81	2	92,989
Financial guarantee contracts	513	2,027	3,525	2,385	2,243	10,693
At 31 Dec 2015	565,878	38,562	24,390	15,477	14,958	659,265

Maturity analysis of financial assets and financial liabilities

The group	2016 Due within one year	2016 Due after more than one year	2016 Total	2015 Due within one year	2015 Due after more than one year	2015 Total
	£m	£m	£m	£m	£m	£m
Assets						
Financial assets designated at fair value	**164**	**8,181**	**8,345**	246	6,583	6,829
Loans and advances to banks	**19,536**	**1,827**	**21,363**	19,044	4,178	23,222
Loans and advances to customers	**88,429**	**184,331**	**272,760**	90,956	167,550	258,506
Reverse repurchase agreement – non trading	**31,504**	**156**	**31,660**	29,829	708	30,537
Financial investments	**15,394**	**67,741**	**83,135**	9,993	61,359	71,352
Other financial assets	**2,344**	**63**	**2,407**	1,800	172	1,972
At 31 Dec	**157,371**	**262,299**	**419,670**	151,868	240,550	392,418
Liabilities						
Deposits by banks	**19,022**	**4,660**	**23,682**	21,760	2,442	24,202
Customer accounts	**360,744**	**14,508**	**375,252**	330,310	2,520	332,830
Repurchase agreements – non trading	**19,709**	**–**	**19,709**	17,000	–	17,000
Financial liabilities designated at fair value	**3,279**	**15,207**	**18,486**	3,294	15,707	19,001
Debt securities in issue	**13,297**	**2,843**	**16,140**	21,451	4,618	26,069
Other financial liabilities	**2,858**	**412**	**3,270**	2,374	337	2,711
Subordinated liabilities	**85**	**8,336**	**8,421**	105	8,422	8,527
At 31 Dec	**418,994**	**45,966**	**464,960**	396,294	34,046	430,340

The bank	2016 Due within one year	2016 Due after more than one year	2016 Total	2015 Due within one year	2015 Due after more than one year	2015 Total
	£m	£m	£m	£m	£m	£m
Assets						
Loans and advances to banks	**11,900**	**4,813**	**16,713**	13,790	2,871	16,661
Loans and advances to customers	**74,597**	**140,487**	**215,084**	75,899	129,499	205,398
Reverse repurchase agreement – non trading	**23,195**	**156**	**23,351**	24,439	454	24,893
Financial investments	**11,813**	**37,659**	**49,472**	5,889	34,010	39,899
Other financial assets	**2,151**	**6**	**2,157**	1,663	6	1,669
At 31 Dec	**123,656**	**183,121**	**306,777**	121,680	166,840	288,520
Liabilities						
Deposits by banks	**22,110**	**4,074**	**26,184**	25,710	3,363	29,073
Customer accounts	**290,939**	**12,632**	**303,571**	270,464	1,062	271,526
Repurchase agreements – non trading	**15,420**	**–**	**15,420**	11,275	–	11,275
Financial liabilities designated at fair value	**1,209**	**8,966**	**10,175**	3,126	8,687	11,813
Debt securities in issue	**5,577**	**1,289**	**6,866**	10,673	1,683	12,356
Other financial liabilities	**2,327**	**5**	**2,332**	1,714	4	1,718
Subordinated liabilities	**–**	**7,362**	**7,362**	–	7,497	7,497
At 31 Dec	**337,582**	**34,328**	**371,910**	322,962	22,296	345,258

26 Offsetting of financial assets and financial liabilities

The disclosure below has been enhanced this year with the inclusion of 'Amounts not subject to enforceable netting arrangements' resulting in a change in the basis of preparation from the prior period. Prior period data have been represented accordingly.

The 'Amounts not set off in the balance sheet' in the following table for derivatives and reverse repurchase/repurchase, stock borrowing/lending and similar agreements include transactions where:

- the counterparty has an offsetting exposure with the group and a master netting or similar arrangement is in place with a right of set off only in the event of default, insolvency or bankruptcy, or the offset criteria are not otherwise satisfied; and
- cash and non-cash collateral has been received/pledged in respect of the transactions described above.

For loans and advances to customers and customer accounts at amortised cost, the amounts included in the table below typically relate to transactions entered into with corporate and commercial customers for working capital management purposes. The 'Amounts not set off in the balance sheet' relate to transactions where the customer has an offsetting exposure with the group and an agreement is in place with the right of offset but the offset criteria are otherwise not satisfied. For risk management purposes, the net amounts of such exposures are subject to limits which are monitored and the relevant customer agreements are subject to review and updated, as necessary, to ensure that the legal right of offset remains appropriate.

	Amounts subject to enforceable netting arrangements								
				Amounts not set off in the balance sheet					
	Gross amounts	Amounts offset	Net amounts in the balance sheet	Financial instruments	Non-cash collateral	Cash collateral	Net amount	Amounts not subject to enforceable netting arrangements[5]	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial assets									
Derivatives[1] (Note 12)	**264,119**	**(67,382)**	**196,737**	**(150,086)**	**(7,508)**	**(31,755)**	**7,388**	**2,682**	**199,419**
Reverse repos, stock borrowing and similar agreements classified as:									
– trading assets[2]	**6,930**	**—**	**6,930**	**(385)**	**(6,545)**	**—**	**—**	**241**	**7,171**
– non-trading assets	**76,904**	**(46,819)**	**30,085**	**(3,245)**	**(26,714)**	**(126)**	**—**	**1,575**	**31,660**
Loans and advances to customers[3]	**35,128**	**(10,274)**	**24,854**	**(19,181)**	**—**	**(201)**	**5,472**	**—**	**24,854**
At 31 Dec 2016	**383,081**	**(124,475)**	**258,606**	**(172,897)**	**(40,767)**	**(32,082)**	**12,860**	**4,498**	**263,104**
Derivatives[1] (Note 12)	223,854	(58,151)	165,703	(125,841)	(5,094)	(20,452)	14,316	1,082	166,785
Reverse repos, stock borrowing and similar agreements classified as:									
– trading assets[2]	5,092	—	5,092	—	(5,092)	—	—	26	5,118
– non-trading assets	57,565	(29,479)	28,086	(366)	(27,542)	(178)	—	2,537	30,623
Loans and advances to customers[3]	50,174	(20,041)	30,133	(26,874)	—	—	3,259	223	30,356
At 31 Dec 2015	336,685	(107,671)	229,014	(153,081)	(37,728)	(20,630)	17,575	3,868	232,882
Financial liabilities									
Derivatives[1] (Note 12)	**255,079**	**(67,382)**	**187,697**	**(150,062)**	**(11,529)**	**(21,424)**	**4,682**	**2,395**	**190,092**
Repos, stock lending and similar agreements classified as:									
– trading liabilities[2]	**15,361**	**—**	**15,361**	**(385)**	**(14,976)**	**—**	**—**	**37**	**15,398**
– non-trading liabilities	**66,386**	**(46,819)**	**19,567**	**(3,205)**	**(16,243)**	**(119)**	**—**	**142**	**19,709**
Customer accounts[4]	**34,098**	**(10,274)**	**23,824**	**(19,181)**	**—**	**(201)**	**4,442**	**185**	**24,009**
At 31 Dec 2016	**370,924**	**(124,475)**	**246,449**	**(172,833)**	**(42,748)**	**(21,744)**	**9,124**	**2,759**	**249,208**
Derivatives[1] (Note 12)	218,496	(58,151)	160,345	(125,846)	(7,634)	(19,318)	7,547	2,519	162,864
Repos, stock lending and similar agreements classified as:									
– trading liabilities[2]	13,345	—	13,345	—	(13,345)	—	—	—	13,345
– non-trading liabilities	46,175	(29,479)	16,696	(91)	(16,587)	(18)	—	304	17,000
Customer accounts[4]	53,567	(20,041)	33,526	(26,874)	—	—	6,652	492	34,018
At 31 Dec 2015	331,583	(107,671)	223,912	(152,811)	(37,566)	(19,336)	14,199	3,315	227,227

1 *At 31 December 2016, the amount of cash margin received that had been offset against the gross derivatives assets was £2,083m (2015: £1,699m). The amount of cash margin paid that had been offset against the gross derivatives liabilities was £4,406m (2015: £2,700m).*

2 *For the amount of repos, reverse repos, stock lending, stock borrowing and similar agreements recognised on the balance sheet within 'Trading assets' £125,069m (2015: £110,585m) and 'Trading liabilities' £93,934m (2015: £73,489m), see the 'Funding sources and uses' table on page 47.*

3 *At 31 December 2016, the total amount of 'Loans and advances to customers' recognised on the balance sheet was £272,760m (2015: £258,506m) of which £24,854m (2015: £30,133m) was subject to offsetting.*

4 *At 31 December 2016, the total amount of 'Customer accounts' recognised on the balance sheet was £375,252m (2015: £332,830m) of which £23,824m (2015: £33,526m) was subject to offsetting.*

5 *These exposures continue to be secured by financial collateral, but we may not have sought or been able to obtain a legal opinion evidencing enforceability of the right of offset.*

27 Called up share capital and other equity instruments

Issued and fully paid

HSBC Bank plc £1.00 ordinary shares

	2016		2015	
	Number	**£m**	Number	£m
At 1 Jan and 31 Dec	**796,969,110**	**797**	796,969,110	797

HSBC Bank plc £1.00 preferred ordinary shares

	2016		2015	
	Number	**£'000**	Number	£'000
At 1 Jan and 31 Dec	**1**	**–**	1	–

The preferred ordinary share ranks pari passu in all respects with the ordinary shares and with all other shares expressed to rank pari passu therewith. It carries the same rights, and is subject to the same limitations, as the ordinary shares, but in addition the preferred ordinary share confers:

- on each and any distribution of profits by the bank on any class of share (other than the ordinary shares), the right to receive, in priority to any other share, the first £100 of any amount so distributed; and
- on any distribution on a winding-up of the bank (but not on any redemption, reduction or purchase of any share capital), the right to receive out of the assets of the bank available for distribution, in priority to any other share, a sum equal to the nominal amount of the preferred ordinary share and any premium paid on the issue thereof.

HSBC Bank plc $0.01 non-cumulative third dollar preference shares

	2016		2015	
	Number	**£'000**	Number	£'000
At 1 Jan and 31 Dec	**35,000,000**	**172**	35,000,000	172

The bank has no obligation to redeem the preference shares but may redeem them in part or in whole at any time, subject to the prior notification of the Prudential Regulation Authority. Dividends on the preference shares in issue are paid annually at the sole and absolute discretion of the Board of Directors. The Board of Directors will not declare a dividend on the preference shares in issue if payment of the dividend would cause the bank not to meet the capital adequacy requirements of the Prudential Regulation Authority or the profit of the bank, available for distribution as dividends, is not sufficient to enable the bank to pay in full both dividends on the preference shares in issue and dividends on any other shares that are scheduled to be paid on the same date and have an equal right to dividends or if payment of the dividend is prohibited by the rights attached to any class of shares in the capital of the bank, excluding ordinary shares. The preference shares in issue carry no rights to conversion into ordinary shares of the bank. Holders of the preference shares in issue will be able to attend any general meetings of shareholders of the bank and to vote on any resolution proposed to vary or abrogate any of the rights attaching to the preference shares or any resolution proposed to reduce the paid up capital of the preference shares. If the dividend payable on the preference shares in issue has not been paid in full for the most recent dividend period or any resolution is proposed for the winding-up of the bank or the sale of its entire business then, in such circumstances, holders of preference shares will be entitled to vote on all matters put to general meetings. In the case of unpaid dividends, the holders of preference shares in issue will be entitled to attend and vote at any general meetings until such time as dividends on the preference shares have been paid in full, or a sum set aside for such payment in full, in respect of one dividend period.

All shares in issue are fully paid.

Other equity instruments

HSBC Bank plc additional tier 1 instruments

		2016	2015
		£m	£m
£1,096m	Undated Subordinated Additional Tier 1 instrument issued 2014 (Callable December 2019 onwards)	**1,096**	1,096
£1,100m	Undated Subordinated Additional Tier 1 instrument issued 2014 (Callable December 2024 onwards)	**1,100**	1,100
€1,900m	Undated Subordinated Resettable Additional Tier 1 instruments issued 2015 (Callable December 2020 onwards)	**1,388**	1,388
€235m	Undated Subordinated Resettable Additional Tier 1 instruments issued 2016 (Callable January 2022 onwards)	**197**	–
At 31 Dec		**3,781**	3,584

The bank has issued capital instruments that are included in the group's capital base as fully CRD IV compliant additional tier 1 capital.

Interest on these instruments will be due and payable only at the sole discretion of the bank, and the bank has sole and absolute discretion at all times and for any reason to cancel (in whole or in part) any interest payment that would otherwise be payable on any date. There are limitations on the payment of principal, interest or other amounts if such payments are prohibited under UK banking regulations, or other requirements, if the bank has insufficient distributable items or if the bank fails to satisfy the solvency condition as defined in the instruments' terms.

The instruments are undated and are repayable, at the option of the bank, in whole at the initial call date, or on any Interest Payment Date after the initial call date. In addition, the instruments are repayable at the option of the bank in whole for certain regulatory or tax reasons. Any repayments require the prior consent of the Prudential Regulation Authority. These instruments rank pari passu with the bank's most senior class or classes of issued preference shares and therefore ahead of ordinary shares. These instruments will be written down in whole, together with any accrued but unpaid interest if either the group's solo or consolidated Common Equity Tier 1 Capital Ratio falls below 7.00%.

28 Contingent liabilities, contractual commitments and guarantees

	The group		The bank	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Guarantees and other Contingent liabilities:				
– Financial guarantees and similar contracts	**12,895**	13,735	**9,089**	10,693
– Other guarantees	**8,290**	4,461	**8,207**	3,736
– Other contingent liabilities	**268**	210	**267**	209
At 31 Dec	**21,453**	18,406	**17,563**	14,638
Commitments:				
– Documentary credits and short-term trade-related transactions	**3,548**	2,898	**2,136**	1,717
– Forward asset purchases and forward deposits placed	**322**	216	**–**	–
– Standby facilities, credit lines and other commitments to lend[1]	**146,641**	128,519	**105,449**	91,272
At 31 Dec	**150,511**	131,633	**107,585**	92,989

1 *Based on original contractual maturity.*

The above table discloses the nominal principal amounts, which represents the maximum amounts at risk should the contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the nominal principal amounts is not indicative of future liquidity requirements.

Contingent liabilities arising from legal proceedings, regulatory and other matters against group companies are disclosed in Note 23 and 30.

Financial Services Compensation Scheme

The Financial Services Compensation Scheme ('FSCS') has provided compensation to consumers following the collapse of a number of deposit takers. The compensation paid out to consumers is currently funded through loans from HM Treasury, which at 31 December 2016 stood at approximately £16bn. The bank could be liable to pay a proportion of the outstanding amount that the FSCS has borrowed from HM Treasury. The ultimate FSCS levy to the industry as a result of the collapses cannot currently be estimated reliably, as it is dependent on various uncertain factors, including the potential recoveries of assets by the FSCS and changes in the level of protected deposits and the population of FSCS members at the time.

Guarantees

	The group				The bank			
	At 31 Dec 2016		At 31 Dec 2015		**At 31 Dec 2016**		At 31 Dec 2015	
	In favour of third parties	**By the group in favour of other Group entities**	In favour of third parties	By the group in favour of other Group entities	**In favour of third parties**	**By the group in favour of other Group entities**	In favour of third parties	By the group in favour of other Group entities
	£m	**£m**	£m	£m	**£m**	**£m**	£m	£m
Financial guarantees and similar contracts[1]	**12,072**	**823**	12,401	1,334	**7,149**	**1,940**	8,489	2,204
Other guarantees	**7,596**	**694**	4,278	393	**6,499**	**1,708**	2,965	980
Total	**19,668**	**1,517**	16,679	1,727	**13,648**	**3,648**	11,454	3,184

1 *Financial guarantees contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. The amounts in the above table are nominal principal amounts.*

The group provides guarantees and similar undertakings on behalf of both third-party customers and other entities within the group. These guarantees are generally provided in the normal course of the group's banking businesses. Guarantees with terms of more than one year are subject to the group's annual credit review process.

29 Lease commitments

Operating lease commitments

At 31 December 2016, future minimum lease payments under non-cancellable operating leases for land, buildings and equipment were £1,329m (2015: £1,503m).

Finance lease receivables

The group leases a variety of assets to third parties under finance leases, including transport assets (such as aircraft), property and general plant and machinery. At the end of lease terms, assets may be sold to third parties or leased for further terms. Rentals are calculated to recover the cost of assets less their residual value, and earn finance income.

	2016			2015		
	Total future minimum payments	**Unearned finance income**	**Present Value**	Total future minimum payments	Unearned finance income	Present Value
	£m	**£m**	**£m**	£m	£m	£m
Lease receivables						
– No later than one year	**1,710**	**(167)**	**1,543**	1,448	(139)	1,309
– Later than one year and no later than 5 years	**3,554**	**(322)**	**3,232**	3,338	(361)	2,977
– Later than 5 years	**1,306**	**(159)**	**1,147**	1,424	(210)	1,214
At 31 Dec	**6,570**	**(648)**	**5,922**	6,210	(710)	5,500

30 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 1 of the Annual Report and Accounts 2016. 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 31 December 2016 (see Note 23). 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 $8.4bn, including fictitious profits reported by Madoff.

Based on information available to HSBC, the funds' actual transfers to Madoff Securities minus their actual withdrawals from Madoff Securities during the time HSBC serviced the funds are estimated to have totalled approximately $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 US Bankruptcy Court granted HSBC's motion to dismiss with respect to certain of the Trustee's claims in November 2016, though this ruling is subject to appeal.

The deadline by which the Trustee must serve HSBC with his English action has been extended to September 2017 for UK-based defendants and November 2017 for all other defendants.

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. In December 2016, the US Bankruptcy Court granted HSBC's motion to dismiss the cross-claims and Alpha Prime and Senator's failure to appeal renders the court's ruling final.

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. In October 2016, the liquidators for Fairfield (the 'Fairfield Liquidators') filed a motion seeking leave to amend their complaints in the US Bankruptcy Court. Briefing on the defendants' opposition to the Liquidators' motion and the defendants' own motion to dismiss is underway. In January 2017, the defendants filed their consolidated motion to dismiss and opposition to the Fairfield Liquidators' motion seeking leave to amend.

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'). In September 2016, the New York District Court granted HSBC's motion to dismiss this action and the plaintiffs' failure to appeal renders the court's ruling final. Two investors in Hermes International Fund Limited ('Hermes') also asserted common law claims against various HSBC companies in the New York District Court. HSBC's motion to dismiss this action remains pending. In addition, SPV Optimal SUS Ltd ('SPV OSUS'), the purported assignee of the Madoff-invested company, Optimal Strategic US Equity Ltd ('Optimal'), 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. This action has been stayed pending the issuance of a potentially dispositive decision in an action initiated by Optimal regarding the validity of the assignment of its claims to SPV OSUS.

BVI litigation: Beginning in October 2009, the 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. In August 2016, the Fairfield Liquidators voluntarily discontinued their actions against the HSBC defendants.

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 began in November 2016 and is scheduled to run until the end of February 2017.

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 judgment to the Court of Appeal.

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.

In October 2009, Alpha Prime and, in December 2014, Senator, each brought an action against HSSL before the Luxembourg District Court, seeking the restitution of securities, or the cash equivalent, or money damages. The action initiated by Senator has been temporarily suspended at Senator's request. 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 against this first instance decision was heard 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 $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') 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 $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 February 2017, the Monitor delivered his third 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. HSBC Bank plc is also the subject of an investigation by the FCA into its compliance with UK money laundering regulations and financial crime systems and controls requirements. The potential consequences of breaching the US DPA, as well as the role of the Monitor and his third annual review, are discussed on page 31.

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.

Since November 2014, two lawsuits have been filed in federal court in New York and Illinois, against various HSBC companies and others, on behalf of plaintiffs who are, or are related to, victims of terrorist attacks in Iraq. In each case, it is alleged that the defendants aided and abetted the unlawful conduct of various sanctioned parties in violation of the US Anti-Terrorism Act. These actions are at an early stage.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of these lawsuits, 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 December 2016, the European Commission (the 'Commission') issued a decision finding that HSBC, among other banks, engaged in anti-competitive practices in connection with the pricing of euro interest rate derivatives in early 2007. The Commission determined that the duration of HSBC's infringement was one month and fined HSBC. HSBC has appealed the decision.

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. In July 2016, defendants filed a joint motion to dismiss all antitrust claims and, in December 2016, the New York District Court granted in part and denied in part the motion, leaving only certain antitrust claims to be litigated. Separately, in October 2016, the New York District Court granted a motion to dismiss claims brought by an individual plaintiff for lack of personal jurisdiction, which dismissal is currently on appeal to the Second Circuit. Finally, in January 2017, the District Court granted defendants' motion to dismiss certain of the remaining antitrust claims against defendants that did not serve on the US dollar Libor submission panel.

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, and the settlement was granted final court approval in 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.

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, Switzerland, Brazil, South Korea and South Africa 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 $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. In August 2016, the DoJ indicted one current and one former HSBC employee and charged them with wire fraud and conspiracy relating to a 2011 foreign exchange transaction. The trial is currently scheduled to begin in September 2017. HSBC was not named as a defendant in the indictment, and investigations into HSBC by the DoJ, FRB and others continue.

In December 2016, HSBC Bank plc entered into a settlement with Brazil's Administrative Council of Economic Defense ('CADE') in connection with its investigation into 15 banks, including HSBC Bank plc, as well as 30 individuals, relating to practices in the offshore foreign exchange market. Under the terms of the settlement, HSBC Bank plc agreed to pay a financial penalty to CADE.

In February 2017, the Competition Commission of South Africa referred a complaint for proceedings before the South African Competition Tribunal against 18 financial institutions, including HSBC Bank plc, for alleged misconduct related to the foreign exchange market in violation of South African antitrust laws. These proceedings are at an early stage.

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 final settlement approval hearing is scheduled for October 2017.

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. The court dismissed the claims in the ERISA action, and the plaintiffs have appealed to the US Court of Appeals for the Second Circuit. HSBC filed a motion to transfer the California action to New York, which was granted in November 2015. In September 2016, a putative class action making similar allegations on behalf of purported 'indirect' purchasers of foreign exchange products was filed in New York. This action is at an early stage.

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 31 December 2016, HSBC has recognised a provision for these various matters in the amount of £947m. 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' motion to dismiss the consolidated action was granted in part and denied in part in October 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, among other things, from January 2004 to March 2014, defendants conspired to manipulate the price of gold and gold derivatives in violation of the Canadian Competition Act and common law. This action is at an early stage.

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' motion to dismiss the consolidated action was granted in part and denied in part in October 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 derivatives in violation of the Canadian Competition Act and common law. The Ontario action is at an early stage. The Quebec action has been temporarily stayed.

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 the 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 named as defendants in a putative class action filed in the New York District Court. The complaint 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, this action along with other complaints filed in the New York District Court and the Illinois District Court were consolidated in the New York District Court and, in January 2017, the defendants filed a motion to dismiss. 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.

Film finance litigation

Between March and November 2015, four separate actions were filed against HSBC Private Bank (UK) Limited in the High Court of England and Wales seeking damages on various alleged grounds, including breach of duty by HSBC Private Bank (UK) Limited in the provision of certain historic services relating to the participation by the claimants in certain film finance transactions. One of the claims has been discontinued by the claimants and another has been settled. The other two claims are at an early stage. It is possible that HSBC Private Bank (UK) Limited may be subject to additional claims, any of which could be significant.

31 Related party transactions

The immediate and ultimate parent company of the group is HSBC Holdings plc, which is incorporated in England.

Copies of the Group financial statements may be obtained from the following address:

HSBC Holdings plc

8 Canada Square

London E14 5HQ

The group's related parties include the parent, fellow subsidiaries, associates, joint ventures, post-employment benefit plans for HSBC employees, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled or jointly controlled or significantly influenced by Key Management Personnel or their close family members.

Particulars of transactions with related parties are tabulated below. The disclosure of the year-end balance and the highest amounts outstanding during the year is considered to be the most meaningful information to represent the amount of the transactions and outstanding balances during the year.

Key Management Personnel

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of HSBC Bank plc and the group and includes the Directors of HSBC Bank plc and HSBC Holdings plc and Group Managing Directors of HSBC Holdings plc.

The following represents the compensation for Directors and other Key Management Personnel of the bank in exchange for services rendered to the bank for the period they served during the year.

Compensation of Key Management Personnel

	2016	2015
	£000	£000
Short-term employee benefits	**4,180**	4,384
Post-employment benefits	**14**	42
Other long-term employee benefits	**411**	1,203
Share-based payments	**1,579**	5,163
Year ended 31 Dec	**6,184**	10,792

Shareholdings, options and other securities of Key Management Personnel[1]

	2016	2015
	(000s)	(000s)
Number of options held over HSBC Holdings ordinary shares under employee share plans	**18**	29
Number of HSBC Holdings ordinary shares held beneficially and non-beneficially	**22,338**	19,290
At 31 Dec	**22,356**	19,319

1 *Includes the holdings of Key Management Personnel of both the bank and its parent company, HSBC Holdings plc and their close family members.*

The table below sets out transactions which fall to be disclosed under IAS 24 'Related Party Disclosures' between the group and Key Management Personnel.

Transactions and balances during the year with Key Management Personnel

	2016		2015	
	Balance at 31 Dec[2]	**Highest amounts outstanding during year[3]**	Balance at 31 Dec	Highest amounts outstanding during year
	£m	**£m**	£m	£m
Key Management Personnel[1]				
Advances and credits	**176**	**168**	149	272
Guarantees	**45**	**46**	49	60
Deposits	**189**	**517**	263	506

1 Includes Key Management Personnel of both the bank and its parent company, HSBC Holdings plc, close family members of Key Management Personnel and entities which are controlled or jointly controlled by Key Management Personnel or their close family members.
2 Exchange rate applied for non GBP amounts is as at 31 December 2016.
3 Exchange rate applied for non GBP amounts is the average for the year, a fall in the value of GBP during 2016 caused the exchange rate applied to be notably different from the rate applied at 31 December 2016.

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

In addition to the requirements of IAS 24, particulars of advances (loans and quasi-loans), credits and guarantees entered into by HSBC Bank plc and its subsidiaries with Directors of HSBC Bank plc are required to be disclosed pursuant to section 413 of the Companies Act 2006. Under the Companies Act there is no requirement to disclose transactions with the Key Management Personnel of the bank's parent company, HSBC Holdings plc.

The table below sets out transactions which fall to be disclosed under section 413 of Companies Act 2006.

Transactions with Directors: advances, credits and guarantees (Companies Act 2006)

	2016	2015
	Balance at 31 Dec	Balance at 31 Dec
	£000	£000
Directors		
Loans	**9,527**	10,291
Guarantees	**–**	325

Other related parties

Transactions and balances during the year with associates and joint ventures

	2016		2015	
	Balance at 31 Dec	**Highest balance during the year**	Balance at 31 Dec	Highest balance during the year
	£m	**£m**	£m	£m
Unsubordinated amounts due from joint ventures	**92**	**102**	102	132
Guarantees and commitments	**480**	**610**	610	610

The group provides certain banking and financial services to associates and joint ventures, including loans, overdrafts, interest and non-interest bearing deposits and current accounts. Details of the interests in associates and joint ventures are given in Note 15.

The group's transactions and balances during the year with HSBC Holdings plc and subsidiaries of HSBC Holdings plc

	2016				2015			
	Due to/from HSBC Holdings plc		Due to/from subsidiaries of HSBC Holdings plc		Due to/from HSBC Holdings plc		Due to/from subsidiaries of HSBC Holdings plc	
	31 Dec	Highest balance	31 Dec	Highest balance	31 Dec	Highest balance	31 Dec	Highest balance
	£m	£m	£m	£m	£m	£m	£m	£m
Assets								
Trading assets	**666**	**1,857**	**2,733**	**7,980**	810	1,319	2,162	5,761
Derivatives	**—**	**—**	**29,439**	**29,700**	—	—	21,819	25,086
Financial assets designated at fair value	**12**	**12**	**4**	**8**	5	24	8	21
Loans and advances to banks	**—**	**—**	**11,379**	**12,010**	—	—	11,052	12,106
Loans and advances to customers	**1,018**	**1,018**	**2,476**	**3,852**	871	871	1,147	4,643
Financial investments	**228**	**243**	**26**	**181**	67	94	23	176
Total related party assets at 31 Dec	**1,924**	**3,130**	**46,057**	**53,731**	1,753	2,308	36,211	47,793
Liabilities								
Trading liabilities	**2,650**	**2,650**	**17,572**	**21,610**	534	534	11,766	13,238
Financial liabilities designated at fair value	**—**	**—**	**—**	**—**	—	—	—	—
Deposits by banks	**—**	**—**	**3,766**	**8,042**	—	—	7,668	11,190
Customer accounts	**20,638**	**23,275**	**1,770**	**7,603**	9,266	10,599	670	3,653
Derivatives	**—**	**—**	**24,693**	**25,511**	—	—	20,014	25,003
Subordinated liabilities	**4,799**	**6,479**	**222**	**281**	5,105	5,105	264	1,694
Total related party liabilities at 31 Dec	**28,087**	**32,404**	**48,023**	**63,047**	14,905	16,238	40,382	54,778
Guarantees and commitments	**—**	**—**	**462**	**1,450**	—	—	1,225	1,225

In June 2016, the three guarantees received from HSBC Holdings plc in respect of monies owing to the bank by its structured investment conduits (Solitaire, Mazarin, Barion and Malachite) and by its multi-seller conduit (Regency) were all cancelled.

	Due to/from HSBC Holdings plc		Due to/from subsidiaries of HSBC Holdings plc	
	2016	2015	2016	2015
	£m	£m	£m	£m
Income statement				
Interest income	**3**	2	**55**	32
Interest expense	**324**	136	**75**	95
Fee income	**1**	1	**76**	85
Dividend income	**—**	1	**—**	—
Fee expense	**—**	2	**255**	249
Trading income	**—**	1	**75**	42
Trading expense	**(1)**	—	**—**	—
Other operating income	**156**	87	**130**	105
General and administrative expenses	**(45)**	(43)	**1,383**	468

The above outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

The bank's transactions and balances during the year with HSBC Bank plc subsidiaries, HSBC Holdings plc and subsidiaries of HSBC Holdings plc

	2016						2015					
	Due to/from subsidiaries of HSBC Bank plc subsidiaries		Due to/from HSBC Holdings plc		Due to/from subsidiaries of HSBC Holdings plc		Due to/from subsidiaries of HSBC Bank plc subsidiaries		Due to/from HSBC Holdings plc		Due to/from subsidiaries of HSBC Holdings plc	
	31 Dec	Highest balance	31 Dec	Highest balance	31 Dec	Highest balance	31 Dec	Highest balance	31 Dec	Highest balance	31 Dec	Highest balance
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets												
Trading assets	**3,504**	**8,048**	**666**	**1,624**	**2,483**	**7,714**	4,124	8,623	536	954	2,159	5,693
Derivatives	**13,269**	**17,641**	**—**	**—**	**41,702**	**42,618**	8,911	17,996	—	—	29,806	41,730
Loans and advances to banks	**4,336**	**7,933**	**—**	**—**	**6,843**	**8,061**	2,610	8,583	—	—	7,178	8,126
Loans and advances to customers	**15,504**	**16,031**	**1,017**	**1,017**	**2,461**	**3,831**	16,068	17,350	863	863	1,133	4,203
Financial investments	**1,259**	**1,271**	**—**	**—**	**—**	**—**	1,188	7,866	—	—	—	—
Total related party assets at 31 Dec	**37,872**	**50,924**	**1,683**	**2,641**	**53,489**	**62,224**	32,901	60,418	1,399	1,817	40,276	59,752
Liabilities												
Trading liabilities	**1,040**	**8,803**	**2,650**	**2,650**	**17,432**	**21,235**	552	5,094	534	534	11,614	12,909
Deposits by banks	**11,229**	**14,655**	**—**	**—**	**2,680**	**7,132**	10,551	11,512	—	—	7,132	8,118
Customer accounts	**3,075**	**3,437**	**20,610**	**23,230**	**1,675**	**7,507**	3,005	3,241	9,220	10,555	583	3,511
Derivatives	**15,603**	**20,372**	**—**	**—**	**42,337**	**47,280**	11,639	17,899	—	—	33,644	44,657
Subordinated liabilities	**700**	**700**	**4,288**	**5,955**	**—**	**—**	700	2,181	4,635	4,635	—	—
Total related party liabilities at 31 Dec	**31,647**	**47,967**	**27,548**	**31,835**	**64,124**	**83,154**	26,447	39,927	14,389	15,724	52,973	69,195
Guarantees and commitments	**1,175**	**1,843**	**—**	**—**	**233**	**1,192**	1,133	1,206	—	—	1,025	1,025

The above outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

Post-employment benefit plans

At 31 December 2016, fees of £2m (2015: £3m) were earned by group companies for management services related to the group's pension funds held under management. The group's pension funds had placed deposits of £393m (2015: £488m) with its banking subsidiaries.

The above outstanding balances arose from the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties.

The HSBC Bank (UK) Pension Scheme (the 'Scheme') entered into swap transactions with the bank to manage the inflation and interest rate sensitivity of the liabilities. At 31 December 2016, the gross notional value of the swaps was £8,523m (2015: £8,906m), the swaps had a negative fair value of £712m to the bank (2015: negative fair value of £335m) and the bank had delivered collateral of £708m (2015: £732m) to the Scheme in respect of these swaps. All swaps were executed at prevailing market rates and within standard market bid/offer spreads.

32 Events after the balance sheet date

A second interim dividend for 2016 of £415m to the shareholder of the parent company was declared on the 16th of February by the Directors.

The directors approved the undertaking of a share premium conversion to take place during the first half of 2017, as part of the bank's preparations for its ring-fencing plans.

33 HSBC Bank plc's subsidiaries, joint ventures, joint operations and associates

In accordance with Section 409 of the Companies Act 2006 a list of HSBC Banks plc's subsidiaries, joint ventures, joint operations and associates, and the effective percentage of equity owned at 31 December 2016 is disclosed below.

Unless otherwise stated, the share capital comprises ordinary or common shares. Where multiple share classes are held, the proportion of the nominal value of each class of share held is the same, unless otherwise stated. The country of incorporation is provided where it differs from the location of the registered office. Where the holding is directly by HSBC Bank plc, the direct % holding is the same as the group interest.

Subsidiaries

The undertakings below are consolidated by HSBC.

Subsidiaries	Group interest %	Footnotes
Allblack Investments Limited	100.00	1, 4, 57
AMP Client HSBC Custody Nominee (UK) Limited	100.00	1, 42
Assetfinance December (F) Limited	100.00	42
Assetfinance December (H) Limited	100.00	42
Assetfinance December (M) Limited	100.00	42
Assetfinance December (P) Limited	100.00	1, 42
Assetfinance December (R) Limited	100.00	42
Assetfinance December (W) Limited	100.00	42
Assetfinance June (A) Limited	100.00	42
Assetfinance June (D) Limited	100.00	42
Assetfinance June (E) Limited	100.00	42
Assetfinance Limited	100.00	42
Assetfinance March (B) Limited	100.00	38
Assetfinance March (D) Limited	100.00	42
Assetfinance March (F) Limited	100.00	42
Assetfinance September (F) Limited	100.00	42
Assetfinance September (G) Limited	100.00	42
B&Q Financial Services Limited	100.00	1, 50
Banco Nominees (Guernsey) Limited	99.98	44
Banco Nominees 2 (Guernsey) Limited	100.00	44
Beau Soleil Limited Partnership	84.99	12, 60
Billingsgate City Securities Limited	100.00	1, 42
Billingsgate Nominees Limited	100.00	1, 42
Canada Crescent Nominees (UK) Limited	100.00	1, 42
Canada Square Nominees (UK) Limited	100.00	1, 42
Canada Square Property Participations Limited	100.00	1, 42
Canada Water Nominees (UK) Limited	100.00	1, 42
CCF & Partners Asset Management Limited	99.99	42
CCF Charterhouse GmbH	99.99	7, 68
CCF Charterhouse GmbH & Co Asset Leasing KG	99.99	10, 68
Charterhouse Administrators (D.T.) Limited	99.99	42
Charterhouse Management Services Limited	99.99	42
Charterhouse Pensions Limited	100.00	1, 42
Crewfleet Limited	100.00	1, 42
Dem 5	99.99	7, 37
Dem 9	99.99	7, 37
Dempar 1	99.99	7, 23
Dempar 4	99.99	7, 23
Elysées Immo Invest	99.99	7, 40
EMTT Limited	100.00	1, 42
Equator Holdings Limited	100.00	1, 42
Eton Corporate Services Limited	100.00	65
Fdm 5 SAS	99.99	7, 37
Finanpar 2	99.99	7,40
Finanpar 7	99.99	7, 40
First Direct Investments (UK) Limited	100.00	1, 42
Flandres Contentieux S.A.	99.99	7, 29
Foncière Elysées	99.99	7, 23
Forward Trust Rail Services Limited	100.00	4, 42
G.M. Gilt-Edged Nominees Limited	100.00	1, 42
Gesellschaft fur Industrielle Beteiligungen und Finanzierung mbH	80.67	63
Griffin International Limited	100.00	42
Grundstuecksgesellschaft Trinkausstrasse Kommanditgesellschaft	80.67	63
HITG Administration GmbH	100.00	1, 25
Hongkong International Trade Finance (Holdings) Limited	100.00	1, 17, 42
HPUT A Limited	100.00	1, 42
HPUT B Limited	100.00	1, 42
HSBC (BGF) Investments Limited	100.00	1, 42
HSBC Alpha Funding (UK) Holdings	99.00	1, 19, 55
HSBC Asset Finance (UK) Limited	100.00	42
HSBC Asset Finance Holdings Limited	100.00	1, 42

Subsidiaries	Group interest %	Footnotes
HSBC Asset Finance M.O.G. Holdings (UK) Limited	100.00	1, 42
HSBC Assurances Vie (France)	99.99	7, 29
HSBC Bank (General Partner) Limited	100.00	1, 58
HSBC Bank (RR) (Limited Liability Company)	100.00	15, 33
HSBC Bank A.S.	100.00	1, 52
HSBC Bank Armenia cjsc	70.00	41
HSBC Bank Capital Funding (Sterling 1) LP	100.00	11, 58
HSBC Bank Capital Funding (Sterling 2) LP	100.00	11, 58
HSBC Bank International Limited	100.00	57
HSBC Bank Malta p.l.c.	70.03	26
HSBC Bank Nominee (Jersey) Limited	100.00	57
HSBC Bank Pension Trust (UK) Limited	100.00	1, 42
HSBC Bank Polska S.A.	100.00	1, 4, 66
HSBC Branch Nominee (UK) Limited	100.00	1, 2, 42
HSBC Client Holdings Nominee (UK) Limited	100.00	1, 42
HSBC Client Share Offer Nominee (UK) Limited	100.00	1, 42
HSBC Corporate Trustee Company (UK) Limited	100.00	1, 42
HSBC Custody Services (Guernsey) Limited	100.00	44
HSBC Enterprise Investment Company (UK) Limited	100.00	1,42
HSBC Epargne Entreprise (France)	99.99	7, 29
HSBC Equator (UK) Limited	100.00	5, 42
HSBC Equipment Finance (UK) Limited	100.00	42
HSBC Equity (UK) Limited	100.00	1, 42
HSBC Europe B.V.	100.00	4, 42
HSBC European Clients Depositary Receipts Nominee (UK) Limited	100.00	1, 42
HSBC Executor & Trustee Company (UK) Limited	100.00	3, 42
HSBC Factoring (France)	99.99	7, 23
HSBC Finance Limited	100.00	1, 42
HSBC France	99.99	1, 7, 23
HSBC Fund Administration (Jersey) Limited	100.00	57
HSBC Funds Nominee (Jersey) Limited	100.00	57
HSBC Germany Holdings GmbH	100.00	1, 63
HSBC Global Asset Management (Deutschland)	80.67	63
HSBC Global Asset Management (France)	99.99	7, 61
HSBC Global Asset Management (International) Limited	100.00	59
HSBC Global Asset Management (Malta) Limited	70.03	43
HSBC Global Asset Management (Oesterreich) GmbH	80.67	9, 53
HSBC Global Asset Management (Switzerland) AG	90.33	7, 45
HSBC Global Custody Nominee (UK) Limited	100.00	1, 42
HSBC Global Custody Proprietary Nominee (UK)	100.00	1, 42
HSBC Global Shared Services (India) Private Limited	99.99	39
HSBC INKA Investment-AG TGV	80.67	8, 46
HSBC Institutional Trust Services (Ireland) DAC	100.00	22
HSBC Insurance Management Services Limited	100.00	42
HSBC Insurance Services Holdings Limited	100.00	1, 42
HSBC International Financial Services (UK) Limited	100.00	1, 20, 42
HSBC International Holdings (Jersey) Limited	100.00	57
HSBC International Trade Finance Limited	100.00	42
HSBC Invoice Finance (UK) Limited	100.00	34
HSBC Issuer Services Common Depositary Nominee (UK) Limited	100.00	1,42
HSBC Issuer Services Depositary Nominee (UK) Limited	100.00	1, 42
HSBC Leasing (France)	99.99	7, 37
HSBC Life (UK) Limited	100.00	1, 42
HSBC Life Assurance (Malta) Limited	70.03	43
HSBC LU Nominees Limited	100.00	1, 42
HSBC Marking Name Nominee (UK) Limited	100.00	1, 42
HSBC Odeme Sistemleri Bilgisayar Teknolojileri Basin Yayin Ve Musteri Hizmetleri	99.99	48
HSBC Overseas Nominee (UK) Limited	100.00	1, 42
HSBC PB Corporate Services 1 Limited	100.00	56

Subsidiaries	Group interest %	Footnotes
HSBC Pension Trust (Ireland) DAC	100.00	1, 22
HSBC PH Investments (UK) Limited	100.00	42
HSBC Portfoy Yonetimi A.S.	99.60	21, 47
HSBC Preferential LP (UK)	100.00	1, 42
HSBC Private Bank (C.I.) Limited	100.00	1, 65
HSBC Private Bank (UK) Limited	100.00	1, 42
HSBC Private Banking Nominee 3 (Jersey) Limited	100.00	56
HSBC Private Equity Investments (UK) Limited	100.00	42
HSBC Rail (UK) Limited	100.00	42
HSBC Real Estate Leasing (France)	99.99	7, 29
HSBC REIM (France)	99.99	7, 29
HSBC Representative Office (Nigeria) Limited	100.00	1, 67
HSBC Securities (South Africa) (Pty) Limited	100.00	1, 32
HSBC Securities Services (Guernsey) Limited	100.00	44
HSBC Securities Services (Ireland) DAC	100.00	22
HSBC Securities Services (Luxembourg) S.A.	100.00	1, 30
HSBC Securities Services Holdings (Ireland) DAC	100.00	22
HSBC Services (France)	99.99	7, 23
HSBC SFH (France)	99.99	7, 29
HSBC Stockbroker Services (Client Assets) Nominees Limited	100.00	1, 42
HSBC Stockbrokers Nominee (UK) Limited	100.00	1, 42
HSBC TKM Limited	100.00	42
HSBC Transaction Services GmbH	80.67	9, 69
HSBC Trinkaus & Burkhardt (International) S.A.	80.67	30
HSBC Trinkaus & Burkhardt AG	80.67	8, 63
HSBC Trinkaus & Burkhardt Gesellschaft fur Bankbeteiligungen mbH	80.67	63
HSBC Trinkaus Consult GmbH	80.67	63
HSBC Trinkaus Europa Immobilien-Fonds Nr. 5 GmbH	80.67	63
HSBC Trinkaus Family Office GmbH	80.67	9, 63
HSBC Trinkaus Immobilien Beteiligungs KG	80.67	1, 63
HSBC Trinkaus Real Estate GmbH	80.67	9, 63
HSBC Trust Company (UK) Limited	100.00	1, 42
HSBC Trustee (C.I.) Limited	100.00	56
HSBC Trustee (Guernsey) Limited	100.00	65
HSBC Tulip Funding (UK)	100.00	1, 42
HSBC Wealth Client Nominee Limited	100.00	1, 42
HSBC Yatirim Menkul Degerler A.S.	100.00	47
INKA Internationale Kapitalanlagegesellschaft mbH	80.67	69
James Capel & Co. Limited	100.00	1, 42
James Capel (Channel Islands) Nominees Limited	100.00	59
James Capel (Custodian) Nominees Limited	100.00	1, 42
James Capel (Nominees) Limited	100.00	1, 42
James Capel (Second Nominees) Limited	100.00	1, 42
James Capel (Taiwan) Nominees Limited	100.00	1, 42
James Capel (Third Nominees) Limited	100.00	1, 42
John Lewis Financial Services Limited	100.00	1, 42
Keyser Ullmann Limited	99.99	42
Kings Meadow Nominees Limited	100.00	62
Lemasco Nominees Limited	100.00	59
MAGIM Client HSBC GIS Nominee (UK) Limited	100.00	1, 42
Marks and Spencer Financial Services plc	100.00	62
Marks and Spencer Retail Financial Services Holdings Limited	100.00	1, 62
Marks and Spencer Savings and Investments Limited	100.00	62
Marks and Spencer Unit Trust Management Limited	100.00	62
Midcorp Limited	100.00	1, 6, 42
Midland Bank (Branch Nominees) Limited	100.00	1, 42
Midland Nominees Limited	100.00	42
Prudential Client HSBC GIS Nominee (UK) Limited	100.00	1, 42
Republic Nominees Limited	100.00	65
S.A.P.C. – Ufipro Recouvrement	99.98	13, 37
Saf Baiyun	99.99	7, 40
Saf Chang Jiang	99.99	7, 40
Saf Chang Jiang Shi Liu	99.99	7, 40
Saf Chang Jiang Shi Wu	99.99	7, 40
Saf Chang Jiang Shi'Er	99.99	7, 40

Subsidiaries	Group interest %	Footnotes
Saf Chang Jiang Shiyi	99.99	7, 40
Saf Guangzhou	99.99	7, 40
Saf Zhu Jiang	99.99	7, 40
Saf Zhu Jiang Ba	99.99	7, 40
Saf Zhu Jiang Er	99.99	7, 40
Saf Zhu Jiang Jiu	99.99	7, 40
Saf Zhu Jiang Liu	99.99	7, 40
Saf Zhu Jiang Qi	99.99	7, 40
Saf Zhu Jiang San	99.99	7, 40
Saf Zhu Jiang Shi	99.99	7, 40
Saf Zhu Jiang Shi Ba	99.99	7, 40
Saf Zhu Jiang Shi Er	99.99	7, 40
Saf Zhu Jiang Shi Jiu	99.99	7, 40
Saf Zhu Jiang Shi Liu	99.99	7, 40
Saf Zhu Jiang Shi Qi	99.99	7, 40
Saf Zhu Jiang Shi Wu	99.99	7, 40
Saf Zhu Jiang Shiyi	99.99	7, 40
Saf Zhu Jiang Wu	99.99	7, 40
Saf Zhu Jiang Yi	99.99	7,40
Samada Limited	100.00	56
Samuel Montagu & Co. Limited	100.00	1, 42
SAS Bosquet -Audrain	94.90	7, 28
SCI Hervet Mathurins	99.99	13, 40
SCI HSBC Assurances Immo	99.99	13, 29
SFSS Nominees (Pty) Limited	100.00	32
SNC Les Oliviers D'Antibes	59.99	13, 29
Société Financière et Mobilière	99.99	7, 23
Société Française et Suisse	99.99	7, 40
Somers Dublin DAC	100.00	22
Sopingest	99.99	7, 40
South Yorkshire Light Rail Limited	100.00	42
St Cross Trustees Limited	100.00	42
Swan National Leasing (Commercials) Limited	100.00	42
Swan National Limited	100.00	42
Tasfiye Halinde HSBC Internet ve Telekomunikasyon Hizmetleri Anonim Sirketi	96.00	16, 49
Thasosfin	99.99	7, 29
The Venture Catalysts Limited	100.00	1, 42
TKM International Limited	100.00	42
Trinkaus Australien Immobilien Fonds Nr. 1 Brisbane GmbH & Co. KG	80.67	63
Trinkaus Australien Immobilien-Fonds Nr. 1 Treuhand-GmbH	80.67	9, 63
Trinkaus Canada Immobilien-Fonds Nr. 1 Verwaltungs-GmbH	80.67	63
Trinkaus Europa Immobilien-Fonds Nr.3 Objekt Utrecht Verwaltungs-GmbH	80.67	63
Trinkaus Immobilien-Fonds Geschaeftsfuehrungs-GmbH	80.67	9, 63
Trinkaus Immobilien-Fonds Verwaltungs-GmbH	80.67	9,63
Trinkaus Private Equity Management GmbH	80.67	63
Trinkaus Private Equity Verwaltungs GmbH	80.67	9,63
Turnsonic (Nominees) Limited	100.00	42
Valeurs Mobilières Elysées	99.99	7,24

Joint Ventures

The undertakings below are Joint Ventures and equity accounted.

Joint Ventures	Group interest %	Footnotes
HCM Holdings Limited	51.00	1, 14, 54
Vaultex UK Limited	50.00	1, 35

Joint Operation

The undertakings below are recognised as a joint operation.

	Group interest %	Footnotes
HSBC Middle East Leasing Partnership	84.99	11, 64

Associates

The undertakings below are associates and equity accounted.

Associates	Group interest %	Footnotes
Business Growth Fund plc	24.31	1, 27
CFAC Payment Scheme Limited	33.33	1, 18, 31
Services Epargne Entreprise	14.35	1, 7, 36
VocaLink Holdings Limited	15.91	1, 51

Footnotes

1	*Directly held by HSBC Bank plc*
2	*Entity is incorporated in The Netherlands*

Description of shares

3	*Ordinary, not fully paid*
4	*Ordinary and Preference*
5	*Ordinary and Non-voting deferred*
6	*Ordinary and Non-Cumulative Redeemable Preference Shares*
7	*Actions Shares*
8	*Stückaktien*
9	*GmbH Anteil*
10	*Kommanditgesellschaft (KG) shares*
11	*Limited partnership*
12	*Partnership shares*
13	*Participation*
14	*Joint control per shareholder's agreement*
15	*Russian limited liability company shares*
16	*Nominal*
17	*Ordinary-A, Ordinary-B*
18	*Preference*
19	*Limited liability shares, Unlimited liability shares*
20	*A, B, C shares, Non-voting redeemable*
21	*Common A (100%), common B (20%)*

Registered Offices

22	*1 Grand Canal Square, Grand Canal Harbour, Dublin 2, D02 P820, Ireland*
23	*103, avenue des Champs-Elysées, 75008, Paris, France*
24	*109 avenue des Champs-Elysees, 75008, Paris, France*
25	*11-17, Ludwig-Erhard-Str., 20459, Hamburg, Germany*
26	*116 , Archbishop Street, Valletta, Malta*
27	*13-15 York Buildings, London, Great Britain, WC2N 6JU, United Kingdom*
28	*15 rue Guynemer, BP 412, Noumea, 98845, Nouvelle Calédonie*
29	*15, rue Vernet, 75008, Paris, France*
30	*16 Boulevard d'Avranches, L-1160, Luxembourg*
31	*17 Rochester Row, London, SW1P 1QT, United Kingdom*
32	*2 Exchange Square, 85 Maude Street, Sandown, Sandton, 2196, South Africa*
33	*2 Paveletskaya square, building 2, 115054, Moscow, Russia*
34	*21 Farncombe Road, Worthing, Sussex, BN11 2BW, England*
35	*21, Garlick Hill, London, EC4V 2AU, United Kingdom*
36	*32, rue du Champ de Tir, 44300, NANTES, France*
37	*39, rue de Bassano, 75008, Paris, France*
38	*5 Donegal Square South, Belfast, BT1 5JP, Northern Ireland*
39	*52/60, M G Road, Fort, Mumbai, Maharashtra, 400 001, India*
40	*64, rue Galilée, 75008, Paris, France*
41	*66 Teryan street, Yerevan, 0009, Armenia*
42	*8 Canada Square, London, E14 5HQ, United Kingdom*
43	*80, Mill Street, Qormi, QRM 3101, Malta*
44	*Arnold House, St Julians Avenue, St Peter Port, GY1 3NF, Guernsey*
45	*Bederstrasse 49, CH-8002, Zurich, Switzerland*
46	*Breite Str. 29/31, 40213, Düsseldorf, Germany*
47	*Büyükdere Cad. No.128 D Blok Esentepe, Sisli Istanbul, Turkey*
48	*Büyükdere Cad. No:124 B Blok Kat 9 Oda:1, Esentepe, Sisli, I, Turkey*
49	*Buyukdere Cad. No:124 B Blok Kat 9 Oda:2 34394 , Sisli / Ese, Turkey*
50	*Camden House West, The Parade, Birmingham, B1 3PY, United Kingdom*
51	*Drake House, Three Rivers Court, Homestead Road, Rickmansworth, Hertfordshire, WD3 1FX, United Kingdom*
52	*Esentepe mah. Büyükdere Caddesi No.128 Istanbul 34394, Turkey*
53	*Herrengasse 1-3, 1010, Wien, Austria*
54	*Hill House, 1 Little New Street, London, EC4A 3TR, United Kingdom*
55	*HSBC House, 68 West Bay Road, PO Box 513, George Town, Grand Cayman, KY1-1102, Cayman Islands*
56	*HSBC House, Esplanade, St. Helier, JE1 1GT, Jersey*
57	*HSBC House, Esplanade, St. Helier, JE1 1HS, Jersey*
58	*HSBC House, Esplanade, St. Helier, JE4 8UB, Jersey*
59	*HSBC House, Esplanade, St. Helier, JE4 8WP, Jersey*
60	*HSBC Main Building, 1 Queen's Road Central, Hong Kong*
61	*Immeuble Coeur Défense , 110, Esplanade du Général de Gaulle- La défense 4, 92400, Courbevoie, France*
62	*Kings Meadow, Chester Business Park, Chester, Cheshire, CH99 9FB, United Kingdom*
63	*Königsallee 21/23, 40212, Düsseldorf, Germany*
64	*Level 4, Building 4, The Gate, Dubai International Financial Centre, PO Box 506553, Dubai, United Arab Emirates*
65	*Park Place, Park Street, St Peter Port, GY1 1EE, Guernsey*
66	*Rondo ONZ 1 , 00-124, Warsaw, Poland*
67	*St Nicholas House, 10th Floor, Catholic Mission St Lagos, Nigeria*
68	*Unsoeldstrasse 2, 80538, Munich, Germany*
69	*Yorckstraße 21 - 23, 40476, Duesseldorf, Germany*

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