HSBC Bank plc

Interim Report 2017

HSBC

Contents

Presentation of information

This document comprises the *Interim Report 2017* 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. References to 'HSBC' or 'the Group' within this document mean HSBC Holdings plc together with its subsidiaries.

It contains the Interim Management Report and Condensed Consolidated Financial Statements of the group, together with the Auditor's review report, as required by the Financial Conduct Authority's ('FCA') Disclosure Guidance and Transparency Rules ('DTR'). The Capital section also contains certain Pillar 3 disclosures which the bank considers require semi-annual disclosure.

Within the Interim Management Report and Condensed Consolidated Financial Statements and related notes, the group has presented income statement figures for the three most recent six-month periods to illustrate the current performance compared with recent periods.

Unless otherwise stated, commentary on the income statement compares the six months to 30 June 2017 with the same period in the prior year. Balance sheet commentary compares the position at 30 June 2017 to 31 December 2016.

In accordance with IAS 34 the *Interim Report* is intended to provide an update on the *Annual Report and Accounts 2016* and therefore focuses on events during the first six months of 2017, rather than duplicating information previously reported.

Our reporting currency is £ sterling. Unless otherwise specified, all $ symbols represent US dollars.

Cautionary statement regarding forward-looking statements

This *Interim Report 2017* 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 statements.

Highlights

	Footnotes	Half-year to 30 Jun 2017	30 Jun 2016	31 Dec 2016
For the period (£m)				
Profit/(loss) before tax (reported basis)	1	**1,858**	2,125	(1,251)
Profit before tax (adjusted basis)	1, 2, 3	**2,530**	1,944	2,290
Net operating income before loan impairment charges and other credit risk provisions	1, 4	**6,913**	6,871	6,434
Profit/(loss) attributable to shareholders of the parent company	1	**1,370**	1,496	(1,708)
At period-end (£m)				
Total equity attributable to shareholders of the parent company		**41,493**	40,823	39,930
Total assets		**832,380**	887,661	816,829
Risk-weighted assets		**239,703**	243,648	245,237
Loans and advances to customers (net of impairment allowances)		**278,214**	266,614	272,760
Customer accounts		**385,766**	363,651	375,252
Capital ratios (%)				
Common equity tier 1		**10.9**	9.6	10.2
Total tier 1		**13.0**	11.6	12.3
Total capital		**16.4**	15.3	15.7
Performance, efficiency and other ratios (annualised %)				
Annualised return on average shareholders' equity (reported basis)	1, 5	**7.2**	8.2	(10.0)
Return on average risk-weighted assets (reported basis)	1, 6	**1.5**	1.8	(1.0)
Return on average risk-weighted assets (adjusted basis)	1, 6	**2.1**	1.6	1.8
Cost efficiency ratio (reported basis)	1, 7	**73.3**	65.0	117.3
Cost efficiency ratio (adjusted basis)	1, 7	**63.8**	64.1	63.6
Jaws (adjusted basis)	1, 8	**0.5**	(7.4)	10.3
Ratio of customer advances to customer accounts		**72.1**	73.3	72.7

1 *In late 2016, a macro cash flow hedge was identified as not having met the hedge accounting criteria of IAS 39 during the half-year to 30 June 2016. The hedge was partially discontinued as a result. Profit before tax has been restated to reflect a gain of £134m that should have been transferred from the cash flow hedge reserve to the income statement during the half-year to 30 June 2016.*
2 *Adjusted performance is computed by adjusting reported results for the effect of significant items as detailed on pages 8 to 10.*
3 *For the half-year ended 31 December 2016, the main adjustment was a £2.2bn impairment of goodwill relating to the Global Banking and Markets ('GB&M') business.*
4 *Net operating income before loan impairment charges and other credit risk provisions is also referred to as revenue.*
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 return on average risk-weighted assets ('RoRWA') is calculated using annualised reported profit before tax and reported average risk-weighted assets ('RWAs'). Adjusted RoRWA is calculated using adjusted profit before tax and reported average RWAs, adjusted for the effect of significant items.*
7 *Reported cost efficiency ratio is defined as total reported operating expenses reported divided by net reported operating income before loan impairment charges and other credit risk provisions, while adjusted cost efficiency ratio is defined as total adjusted operating expenses divided by net adjusted operating income before loan impairment charges and other credit risk provisions. Net adjusted operating income before loan impairment charges and other credit risk provisions is also referred to as adjusted revenue.*
8 *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.

HSBC Values

The 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. This is the key to sustainable success. Any business that overlooks its wider impact on people and the planet is unlikely to succeed over the long term.

We are interested not only in the financial performance of prospective partners, but also their attitudes to legal, social and environmental obligations. Sustainability risk is managed principally via Group-wide policies put in place to protect the environment and society, and to support the transition to a low-carbon economy.

The Group supports calls for improved non-financial disclosure, including the Financial Stability Board's Task Force on Climate-related Financial Disclosures. In April 2017, the Group's first Environmental, Social and Governance ('ESG') Update was published, detailing our own performance in this area.

Full details of our sustainability risk policies, the ESG Update and other non-financial information can be found on our website at www.hsbc.com/sustainability.

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, from individual savers to large multinational corporations, through our four interconnected, global businesses: Retail Banking and Wealth Management ('RBWM'), Commercial Banking ('CMB'), Global Banking and Markets ('GB&M') and Global Private Banking ('GPB').

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

We 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

By investing in wealth and retail businesses with local scale, we make the most of global social mobility, wealth creation and long-term demographic changes in our priority markets.

Strategic actions

In June 2015, the Group 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 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, is a new entity and not 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.

During the first half of 2017, we continued with implementation activities. These have included the establishment of the HSBC UK IT infrastructure and the successful migration of around 170,000 customer sterling accounts to new sort codes. We expect to complete the movement of all 200,000 sterling accounts to new HSBC UK sort codes by the end of September 2017. In July 2017, the PRA and FCA granted us a restricted banking licence for HSBC UK and we are now working through an agreed mobilisation plan with the PRA and FCA to receive an unrestricted licence in 2018. In addition, in March 2017, we completed a legal process to convert the bank's share premium into distributable reserves. This conversion was a reclassification within the bank's shareholders' equity and has no effect on the bank's capital position. We undertook this process to prepare for the transfer of businesses and related capital to HSBC UK in 2018.

More than three-quarters of the roles that need to move from London to Birmingham have now been filled, and we are on track to have a fully functioning team in place for the opening of our new UK headquarters in January 2018.

Implementation and operationalisation of the ServCo group

The Group continues to make changes to its corporate structure to mitigate or remove critical inter-dependencies to facilitate the resolution planning of the Group. In particular, the Group has transferred critical services from subsidiary banks to a separately incorporated group of service companies ('ServCo group'). This removes operational dependencies, where one subsidiary bank provides critical services to another.

22,287 employees performing shared services in the UK now operate in the UK 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. The ServCo group in the UK continues to provide services to the bank. The group recognises a management charge for the services provided by ServCo group instead of staff compensation.

Transfer of HSBC Bank A.S.

On 29 June 2017, HSBC Bank plc transferred its shareholding in HSBC Bank A.S. to HSBC Middle East Holdings B.V. (89.99%) and HSBC Bank Middle East Limited (10.01%). The transfer was made as a dividend in-specie to HSBC Holdings plc. Established in 1990, HSBC Bank A.S. runs an international banking model, with a restructuring plan currently underway to focus the business on wholesale banking and premium retail banking.

As a result of the transfer, the total assets excluding goodwill of the group reduced by £4,831m and the total liabilities reduced by £4,265m. Total risk-weighted assets reduced by £4,080m and the common equity tier 1 reduced by £530m.

The transfer passes through equity as a dividend in-specie that reduces reserves by £643m. This comprises HSBC Bank A.S.'s net asset value of £566m plus attributable goodwill of £77m.

There was no gain or loss recognised in the group as a result of this transfer. The results of HSBC Bank A.S. for the period up to the transfer are included in the group results.

The transfer does not include customer positions held directly by HSBC Bank plc.

Economic background and outlook

UK

UK real GDP growth slowed from 0.7% quarter-on-quarter in the fourth quarter of 2016 to 0.2% in the first quarter of 2017. Real UK GDP was 2.0% higher than the same quarter a year earlier. The unemployment rate stood at 4.5% in May, a 42-year low. Employment as a percentage of the workforce stood at a record high of 74.9%. However, annual wage growth slowed to 2.1% in the three months to April. The annual rate of growth of the Consumer Price Index ('CPI') measure of inflation stood at 2.9% in May 2017. Activity in the housing market softened, with price growth moderating but remaining positive.

The outlook remains uncertain following the UK electorate's vote to leave the European Union ('EU') and the invocation of Article 50 (triggering a two-year countdown to leaving) in March 2017. The annual pace of UK real GDP growth is now expected to slow from 1.8% in 2016 to 1.6% in 2017. Investment could be hit by uncertainty over the UK's future relationship with the EU, and the risk of leaving without a transition deal. 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. Offsetting this, net trade has started to improve on the back of the fall in sterling, and government spending may also prove supportive later in the year. Due to higher inflation, some members of the Monetary Policy Committee have already started to vote for rate rises. However, due to weaker growth and an uncertain outlook, the Bank of England base rate is expected to remain low until at least the end of 2018.

Eurozone

The eurozone continues to exhibit modest growth. Real GDP grew by 0.6% in the first quarter of 2017, following growth of 0.4% and 0.5% in the third and fourth quarters of 2016, respectively. Among the four largest eurozone countries, Spain continues to out-perform, with quarterly growth of 0.8% in the first quarter of 2017. Germany grew by 0.6%, while France and Italy each experienced expansions of 0.4%. Household consumption has continued to grow steadily. Although inflation is higher than last year – hitting a 2% annual rate in February, compared to near-zero rates experienced in early 2016 – market sentiment remains firm and unemployment is falling. Investment has picked up sharply, with quarterly growth of 3.4% and 1.3% in the fourth quarter and first quarter respectively. Companies are now playing their part in the recovery as improved confidence and loose credit conditions are supporting investment. Meanwhile the political risks posed by elections in the Netherlands (March) and France (May) have receded.

One possibility is that the eurozone is entering a virtuous circle where higher investment leads to faster productivity growth, rising incomes and improved confidence. But there is still reason for caution and HSBC Global Research expects GDP growth to accelerate from 1.7% in 2016 to 1.9% in 2017, before easing back to 1.6% in 2018.

CPI inflation peaked at 2.0% in February but has already fallen back to 1.3% in June. With wage growth showing little sign of reacting to a strengthening labour market, the European Central Bank ('ECB') is maintaining its €60bn-a-month quantitative easing ('QE') programme. HSBC Global Research expects the ECB to begin 'tapering' QE asset purchases in 2018, as the economy continues to recover. That will be preceded by German federal elections in September and, possibly, an early Italian election.

Financial summary

Summary consolidated income statement

	Half-year to		
	30 Jun 2017	30 Jun 2016	31 Dec 2016
	£m	£m	£m
Net interest income[1]	**3,190**	3,410	3,359
Net fee income	**1,612**	1,425	1,520
Net trading income[1]	**1,274**	2,269	2,030
Net income/(expense) from financial instruments designated at fair value	**616**	(811)	(236)
Gains less losses from financial investments	**178**	488	42
Net insurance premium income	**926**	860	707
Other operating income	**400**	42	219
Total operating income[1, 2]	**8,196**	7,683	7,641
Net insurance claims, benefits paid and movement in liabilities to policyholders	**(1,283)**	(812)	(1,207)
Net operating income before loan impairment and other credit risk provisions[1]	**6,913**	6,871	6,434
Loan impairment release/(charges) and other credit risk provisions	**10**	(280)	(136)
Net operating income[1]	**6,923**	6,591	6,298
Total operating expenses[2]	**(5,069)**	(4,463)	(7,548)
Operating profit/(loss)[1]	**1,854**	2,128	(1,250)
Share of profit/(loss) in associates and joint ventures	**4**	(3)	(1)
Profit/(loss) before tax[1]	**1,858**	2,125	(1,251)
Tax expense[1]	**(467)**	(610)	(443)
Profit/(loss) for the period [1]	**1,391**	1,515	(1,694)
Profit/(loss) attributable to shareholders of the parent company[1]	**1,370**	1,496	(1,708)
Profit attributable to non-controlling interests	**21**	19	14

1 *In late 2016, a macro cash flow hedge was identified as not having met the hedge accounting criteria of IAS 39 during the half-year to 30 June 2016. The hedge was partially discontinued as a result. The half-year to 30 June 2016 is restated reflecting a pre-tax gain of £134m transferred from the cash flow hedge reserve and a transfer of £28m from 'Net interest income' to 'Net trading income' to correct a P&L release in respect of the partially discontinued hedge. 'Net interest income' has decreased by £28m, 'Net trading income' has increased by £162m and 'Tax expense' has increased by £48m.*

2 *Total operating income and expenses include significant items as detailed on page 8.*

Reported performance

Reported profit before tax was £1,858m, down by £267m or 13% from the first half of 2016.

Net interest income ('NII') decreased by £220m or 6%. In GB&M, NII was lower in Rates primarily driven by inflation factor changes on long inflation-linked gilts with an offset in net trading income. In RBWM, income decreased due to spread compression on mortgages in the UK and France, as well as lower income on current accounts reflecting lower margins. In CMB income decreased in the UK due to reduction in the Bank of England base rate in August 2016, partly offset by balance sheet growth.

Net fee income increased by £187m or 13%. This increase was primarily in GB&M due to increases in Global Banking. This reflected higher fee income in Advisory due to fees on two significant transactions in the second quarter of 2017, and in Debt Capital Markets due to higher deal volumes. In CMB, net fee income increased in the UK in Credit & Lending from higher commitment fees.

Net trading income decreased by £995m or 44%, primarily in Corporate Centre in Balance Sheet Management ('BSM') due to adverse foreign exchange movements on assets held as economic hedges of debt designated at fair value (offset in 'Net income from financial instruments designated at fair value').

Net income from financial instruments designated at fair value increased by £1,427m, mainly in Corporate Centre in BSM due to favourable foreign exchange movements on economically hedged foreign currency debt (offset in 'Net trading income').

Gains less losses from financial investments decreased by £310m, primarily due to a gain on the disposal of our membership interest in VISA Europe of £416m in the first half of 2016. Excluding this, gains less losses from financial investments increased mainly in Corporate Centre due to higher gains on the disposal of available-for-sale bonds in BSM, notably in the UK.

Net insurance premium income increased by £66m or 8% as a result of favourable movements in foreign exchange. Excluding this impact, net insurance premium income decreased in France, due to lower volumes of participating products linked to political uncertainty and the lower rate environment, partly offset by higher volumes of unit-linked and protection products.

Other operating income increased by £358m. This was largely due to an increase in the present value of in-force long-term insurance business ('PVIF') in France, driven by investment assumption changes following a rise in long term interest rates and equity market performance in 2017 compared to 2016.

Net insurance claims, benefits paid and movement in liabilities to policyholders increased by £471m or 58%. This was largely due to improved returns on contracts where the policyholder shares in the investment risk, partly offset by a reduction in premium income.

Loan impairment charges and other credit risk provisions ('LICs') decreased by £290m or 104%. This reflected lower LICs in CMB in 2017 due to net releases of individually assessed impairments compared with charges in the first half of 2016. There were releases in the UK in relation to the UK construction sector and, to a lesser extent, the Greek shipping sector, and also releases in Spain. There were also net releases of collectively assessed impairments compared with charges in the first half of 2016. LICs were lower in Corporate Centre driven by provision releases in Legacy Credit.

Total operating expenses increased by £606m or 14%, driven by a number of significant items including:

- an increase of £256m in costs-to-achieve, comprising specific costs relating to the achievement of the strategic actions set out at the Group's investor update;
- UK customer redress provisions increased by £215m, notably in estimated redress for possible mis-selling of payment protection insurance ('PPI') policies;
- costs to establish the UK ring-fenced bank increased by £65m compared with 2016; and
- partly offset by lower settlements and provisions in connection with legal and regulatory matters, reflecting net provision releases of £299m in the first half of 2017 compared with charges in 2016 of £75m.

Excluding these items, operating expenses increased by £461m notably in GB&M and Corporate Centre. Higher costs in GB&M are partly offset by increased intercompany recoveries in revenue relating to research and business costs charged to other entities in the Group. Costs also increased in GB&M due to investment in systems and product development. These increases were partly offset by continued cost management and efficiency improvements.

For further details of significant items affecting revenue and costs, please refer to significant revenue/cost items by business segment on page 8.

Tax expense of £467m was £143m lower than in the first half of 2016. The effective tax rate for the first half of 2017 was 25.1%, compared with 28.7% for the first half of 2016. The decrease was mainly attributable to the reversal of non-taxable litigation provisions in 2017.

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 28. 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 8 to 11 are presented on an adjusted basis in accordance with IFRS 8 'Operating Segments' as detailed in 'Basis of preparation'.

Adjusted performance

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

Change in reportable segments

During the second half of 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.

The half-year to 30 June 2016 comparative information has 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 and 9.

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 Corporate Centre.

A description of the global businesses is provided on pages 3 and 4 of the Annual Report and Accounts 2016*.*

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

	RBWM	CMB	GB&M	GPB	Corporate Centre	Total
	£m	£m	£m	£m	£m	£m
	Half-year to 30 Jun 2017					
Reported revenue	**2,092**	**1,751**	**2,465**	**159**	**446**	**6,913**
Significant revenue items	**–**	**–**	**108**	**–**	**(64)**	**44**
– debit valuation adjustment on derivative contracts	**–**	**–**	**108**	**–**	**–**	**108**
– fair value movement on non-qualifying hedges	**–**	**–**	**–**	**–**	**(3)**	**(3)**
– gain on disposal of HSBC's interest in VocaLink Holdings Limited	**–**	**–**	**–**	**–**	**(61)**	**(61)**
Adjusted revenue	**2,092**	**1,751**	**2,573**	**159**	**382**	**6,957**
	Half-year to 30 Jun 2016[1]					
Reported revenue[1]	2,330	1,910	1,926	167	538	6,871
Significant revenue items	(233)	(160)	(74)	(1)	(196)	(664)
– change in credit spread on long-term debt[2]	–	–	–	–	(199)	(199)
– debit valuation adjustment on derivative contracts	–	–	(77)	–	–	(77)
– fair value movement on non-qualifying hedges	19	4	3	–	3	29
– provisions arising from ongoing 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[1]	2,097	1,750	1,852	166	342	6,207
	Half-year to 31 Dec 2016					
Reported revenue	2,194	1,792	2,194	160	94	6,434
Significant revenue items	(14)	(4)	55	–	202	239
– change in credit spread on long-term debt[2]	–	–	–	–	203	203
– debit valuation adjustment on derivative contracts	–	–	44	–	–	44
– fair value movement on non-qualifying hedges	(14)	(4)	11	–	(1)	(8)
Adjusted revenue	2,180	1,788	2,249	160	296	6,673

1 *Restated for change in reportable segments explained on page 7 and cash flow hedge correction explained on page 6.*
2 *From 1 January 2017, the requirements of IFRS 9 'Financial Instruments' relating to the presentation of gains and losses on financial liabilities designated at fair value were adopted. As a result, the effect of changes in those liabilities' own credit risk is now presented in other comprehensive income.*

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

	RBWM	CMB	GB&M	GPB	Corporate Centre	Total
	£m	£m	£m	£m	£m	£m
	Half-year to 30 Jun 2017					
Reported operating expenses	**(1,816)**	**(768)**	**(1,417)**	**(120)**	**(948)**	**(5,069)**
Significant cost items	**291**	**1**	**(238)**	**–**	**574**	**628**
– costs to achieve	**52**	**1**	**60**	**–**	**452**	**565**
– costs to establish UK ring-fenced bank	**–**	**–**	**–**	**–**	**120**	**120**
– UK customer redress programmes	**239**	**–**	**–**	**–**	**–**	**239**
– settlements and provisions in connection with legal and regulatory matters	**–**	**–**	**(299)**	**–**	**–**	**(299)**
– costs associated with the UK's exit from the EU	**–**	**–**	**1**	**–**	**2**	**3**
Adjusted operating expenses	**(1,525)**	**(767)**	**(1,655)**	**(120)**	**(374)**	**(4,441)**
	Half-year to 30 Jun 2016[1]					
Reported operating expenses	(1,558)	(752)	(1,591)	(103)	(459)	(4,463)
Significant cost items	28	27	165	1	262	483
– costs to achieve	28	16	57	1	207	309
– costs to establish UK ring-fenced bank	–	–	–	–	55	55
– UK customer redress programmes	–	11	13	–	–	24
– settlements and provisions in connection with legal and regulatory matters	–	–	75	–	–	75
– Madoff-related litigation costs	–	–	20	–	–	20
Adjusted operating expenses	(1,530)	(725)	(1,426)	(102)	(197)	(3,980)
	Half-year to 31 Dec 2016					
Reported operating expenses	(2,033)	(749)	(3,737)	(124)	(905)	(7,548)
Significant cost items	446	25	2,242	1	588	3,302
– impairment of Global Banking & Markets goodwill	–	–	2,182	–	–	2,182
– costs to achieve	65	10	87	1	497	660
– costs to establish UK ring-fenced bank	–	–	–	–	91	91
– UK customer redress programmes	381	15	7	–	–	403
– settlements and provisions in connection with legal and regulatory matters	–	–	(34)	–	–	(34)
Adjusted operating expenses	(1,587)	(724)	(1,495)	(123)	(317)	(4,246)

1 *Restated for change in reportable segments explained on page 7.*

Net impact on profit before tax by business segment

	Half-year to 30 Jun 2017					
	RBWM	CMB	GB&M	GPB	Corporate Centre	Total
	£m	£m	£m	£m	£m	£m
Reported profit/(loss) before tax	**181**	**1,030**	**1,056**	**41**	**(450)**	**1,858**
Net impact on reported profit and loss	**291**	**1**	**(130)**	**—**	**510**	**672**
– significant revenue items	**—**	**—**	**108**	**—**	**(64)**	**44**
– significant cost items	**291**	**1**	**(238)**	**—**	**574**	**628**
Adjusted profit/(loss) before tax	**472**	**1,031**	**926**	**41**	**60**	**2,530**
	Half-year to 30 Jun 2016[1]					
Reported profit/(loss) before tax[2]	695	945	331	69	85	2,125
Net impact on reported profit and loss	(205)	(133)	91	—	66	(181)
– significant revenue items	(233)	(160)	(74)	(1)	(196)	(664)
– significant cost items	28	27	165	1	262	483
Adjusted profit/(loss) before tax[2]	490	812	422	69	151	1,944
	Half-year to 31 Dec 2016					
Reported profit/(loss) before tax	51	883	(1,487)	36	(734)	(1,251)
Net impact on reported profit and loss	432	21	2,297	1	790	3,541
– significant revenue items	(14)	(4)	55	—	202	239
– significant cost items	446	25	2,242	1	588	3,302
Adjusted profit/(loss) before tax	483	904	810	37	56	2,290

1 *Restated for change in reportable segments explained on page 7.*
2 *Restated for cash flow hedge correction explained on page 6.*

Adjusted profit for the period

	Half-year to 30 Jun 2017					
	RBWM	CMB	GB&M	GPB	Corporate Centre	Total
	£m	£m	£m	£m	£m	£m
Net interest income	**1,595**	**1,135**	**351**	**87**	**22**	**3,190**
Net fee income	**495**	**577**	**476**	**59**	**5**	**1,612**
Net trading income	**29**	**10**	**1,439**	**4**	**(103)**	**1,379**
Other income	**(27)**	**29**	**307**	**9**	**458**	**776**
Net operating income before loan impairment charges and other credit risk provisions	**2,092**	**1,751**	**2,573**	**159**	**382**	**6,957**
– external	**2,004**	**1,850**	**2,845**	**123**	**135**	**6,957**
– inter-segment	**88**	**(99)**	**(272)**	**36**	**247**	**—**
Loan impairment charges and other credit risk provisions	**(95)**	**47**	**8**	**2**	**48**	**10**
Net operating income	**1,997**	**1,798**	**2,581**	**161**	**430**	**6,967**
Total operating expenses	**(1,525)**	**(767)**	**(1,655)**	**(120)**	**(374)**	**(4,441)**
– employee compensation and benefits	**(494)**	**(254)**	**(503)**	**(39)**	**18**	**(1,272)**
– general and administrative expenses	**(1,023)**	**(505)**	**(1,149)**	**(81)**	**(150)**	**(2,908)**
– depreciation and impairment of property, plant and equipment	**(4)**	**(8)**	**(2)**	**—**	**(150)**	**(164)**
– amortisation and impairment of intangible assets	**(4)**	**—**	**(1)**	**—**	**(92)**	**(97)**
Operating profit	**472**	**1,031**	**926**	**41**	**56**	**2,526**
Share of profit in associates and joint ventures	**—**	**—**	**—**	**—**	**4**	**4**
Adjusted profit before tax	**472**	**1,031**	**926**	**41**	**60**	**2,530**
Adjusted cost efficiency ratio	**72.9%**	**43.8%**	**64.3%**	**75.5%**		**63.8%**

Adjusted profit for the period (continued)

	Half-year to 30 Jun 2016[1]					
	RBWM	CMB	GB&M	GPB	Corporate Centre[2]	Total[2]
	£m	£m	£m	£m	£m	£m
Net interest income[2]	1,659	1,158	442	96	55	3,410
Net fee income	495	562	318	52	(2)	1,425
Net trading income[2]	33	11	1,110	4	1,064	2,222
Other income	(90)	19	(18)	14	(775)	(850)
Net operating income before loan impairment charges and other credit risk provisions[2]	2,097	1,750	1,852	166	342	6,207
– external[2]	1,865	1,805	2,324	134	79	6,207
– inter-segment	232	(55)	(472)	32	263	—
Loan impairment charges and other credit risk provisions	(77)	(213)	(4)	5	9	(280)
Net operating income[2]	2,020	1,537	1,848	171	351	5,927
Total operating expenses	(1,530)	(725)	(1,426)	(102)	(197)	(3,980)
– employee compensation and benefits	(488)	(257)	(550)	(45)	(552)	(1,892)
– general and administrative expenses	(1,033)	(461)	(874)	(57)	591	(1,834)
– depreciation and impairment of property, plant and equipment	(3)	(6)	(1)	—	(135)	(145)
– amortisation and impairment of intangible assets	(6)	(1)	(1)	—	(101)	(109)
Operating profit[2]	490	812	422	69	154	1,947
Share of loss in associates and joint ventures	—	—	—	—	(3)	(3)
Adjusted profit before tax[2]	490	812	422	69	151	1,944
Adjusted cost efficiency ratio	73.0%	41.4%	77.0%	61.4%		64.1%

1 *Restated for change in reportable segments explained on page 7.*
2 *Restated for cash flow hedge correction explained on page 6.*

	Half-year to 31 Dec 2016					
	RBWM	CMB	GB&M	GPB	Corporate Centre	Total
	£m	£m	£m	£m	£m	£m
Net interest income	1,623	1,185	494	100	(43)	3,359
Net fee income	527	580	357	58	(2)	1,520
Net trading income	24	(1)	1,437	3	602	2,065
Other income	6	24	(39)	(1)	(261)	(271)
Net operating income before loan impairment charges and other credit risk provisions	2,180	1,788	2,249	160	296	6,673
– external	2,031	1,847	2,670	133	(8)	6,673
– inter-segment	149	(59)	(421)	27	304	
Loan impairment charges and other credit risk provisions	(110)	(160)	56	—	78	(136)
Net operating income	2,070	1,628	2,305	160	374	6,537
Total operating expenses	(1,587)	(724)	(1,495)	(123)	(317)	(4,246)
– employee compensation and benefits	(490)	(239)	(461)	(41)	28	(1,203)
– general and administrative expenses	(1,091)	(478)	(1,031)	(81)	(47)	(2,728)
– depreciation and impairment of property, plant and equipment	(3)	(8)	(2)	(1)	(170)	(184)
– amortisation and impairment of intangible assets	(3)	1	(1)	—	(128)	(131)
Operating profit	483	904	810	37	57	2,291
Share of loss in associates and joint ventures	—	—	—	—	(1)	(1)
Adjusted profit before tax	483	904	810	37	56	2,290
Adjusted cost efficiency ratio	72.8%	40.5%	66.5%	76.9%		63.6%

Adjusted performance

Our adjusted profit before tax increased by £586m or 30% compared with the first half of 2016. This reflected higher revenue and lower LICs, partly offset by higher operating expenses.

Adjusted revenue increased by £750m or 12%, primarily due to higher revenue in GB&M, notably in Markets in Fixed Income, Currencies and Commodities ('FICC'). Higher revenue in Rates and Credit reflected higher client flows and an increase in market share. A strong performance in Global Banking reflected continued momentum in Investment Banking with increases in Advisory and Debt Capital Markets revenue. Revenue increased in Corporate Centre primarily due to higher gains on the disposal of available-for-sale bonds in BSM. Revenue also benefited from favourable movements in foreign exchange.

Adjusted LICs were £290m or 104% lower than in the first half of 2016, primarily reflecting lower LICs in CMB. There were lower specific LICs and releases in the UK in relation to the UK construction sector and, to a lesser extent, the Greek shipping sector, and also releases in Spain. There were also net releases of collectively assessed impairments compared with charges in the first half of 2016.

Adjusted operating expenses increased by £461m or 12%, partly due to unfavourable movements in foreign exchange. Excluding this, operating expenses increased primarily driven by higher IT development costs, redundancy costs and inflation, notably in GB&M and Corporate Centre. The increase was also due 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 ('RBWM')

Adjusted profit before tax of £472m was £18m or 4% lower than the first half of 2016, primarily due to higher LICs.

Revenue decreased by £5m, primarily due to lower margins on both mortgages and current accounts in the UK and France, as well as lower income on deposits in France reflecting lower margins. This was partly offset by higher revenue in the insurance business in France due to favourable movements in PVIF in 2017 compared with adverse movements in the first half of 2016. This reflected investment assumption changes following a fall in long-term interest rates.

LICs increased by £18m or 23%, notably in the UK due to higher individually assessed provisions on mortgages and cards compared with a prior-year release of mortgage provisions following a model change.

Operating expenses decreased by £5m driven by lower IT costs, operations costs and finance costs, as well as lower Deposit Compensation Scheme taxes in France.

Commercial Banking ('CMB')

Adjusted profit before tax of £1,031m was £219m or 27% higher than in the first half of 2016, driven by lower loan impairment charges, partly offset by higher operating expenses.

Revenue is unchanged despite favourable movements in foreign exchange. Excluding this, revenue decreased in the UK reflecting the Bank of England base rate decrease in August 2016 and customer redress provisions offset by balance sheet growth. In France, there was lower net interest income due to the rolling of interest rate hedges and in Turkey due to lower volumes and higher liquidity costs. This is partly offset by higher commitment fees in Credit & Lending and volume growth in both loans and advances and customer accounts.

LICs decreased by £260m compared with the first half of 2016. This reflected lower specific LICs in 2017 and due to net releases of individually assessed impairments. There were releases in the UK in relation to the UK construction sector and, to a lesser extent, the Greek shipping sector, and also releases in Spain. There were also net releases of collectively assessed impairments compared with charges in the first half of 2016.

Operating expenses increased by £42m or 6%, primarily due to adverse movements in foreign exchange. Excluding this, operating expenses increased mainly 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, investment in IT infrastructure and in our front line and due to the non-repeat of a VAT credit in 2016. This was partially offset by a partial release of a customer redress provision and lower Financial Services Compensation Scheme ('FSCS') charges in the UK.

Global Banking and Markets ('GB&M')

Adjusted profit before tax of £926m was £504m higher than in the first half of 2016, due to higher revenue partly offset by higher operating expenses.

Revenue increased by £721m or 39%, notably in Markets in FICC where revenue increased in Rates and Credit, due to higher client flows and improved market share, despite challenging industry-wide conditions at the start of April. Revenue also increased in Equities as we continued to capture market share in Prime Financing products. By contrast, performance in Equities in the first half of 2016 was affected by market volatility which led to reduced client activity. A strong performance in Global Banking reflected continued momentum in Investment Banking.

LICs decreased by £12m, notably in the UK, mainly driven by the relatively benign credit environment in the first half of 2017.

Operating expenses were £229m or 16% higher than in the first half of 2016, partly offset by increased intercompany recoveries in revenue relating to research and business costs charged to other entities in the Group. Excluding this, costs were higher reflecting IT development costs, redundancy costs and inflation. These increases were partly offset by cost management and efficiency improvements.

Global Private Banking ('GPB')

Adjusted profit before tax of £41m was £28m or 41% lower than the first half of 2016, due to lower revenue, higher LICs and higher operating expenses.

Revenue decreased by £7m, primarily due to lower average balances following the exit from a Commercial Real Estate book in the UK, partly offset by favourable movements in foreign exchange.

LICs increased by £3m reflecting lower impairment releases in 2017 compared with the first half of 2016.

Operating expenses increased by £18m, partly due to unfavourable movements in foreign exchange. Excluding this, operating expenses increased driven by higher IT and legal costs.

Premises costs will reduce in the UK in 2018 through the closure of the St James's Street office, with staff moving to Cork Street, Mayfair and existing offices in Canary Wharf.

Corporate Centre

Adjusted profit before tax of £60m was £91m or 60% lower than in the first half of 2016. This reflected higher operating expenses, partly offset by higher revenue and lower LICs.

Revenue increased by £40m, primarily due to higher gains on disposal of available-for-sale bonds in BSM, notably in the UK.

LICs decreased by £39m, mainly driven by significant provision releases relating to Legacy Credit compared with a small provision in the first half of 2016.

Operating expenses increased by £177m or 90%, reflecting higher technology costs. This increase was partly offset by higher intercompany recoveries in revenue relating to technology costs charged to other entities in the Group.

Review of business position

Summary consolidated balance sheet

	At	
	30 Jun 2017	31 Dec 2016
	£m	£m
Total assets	**832,380**	816,829
– cash and balances at central banks	**73,472**	54,278
– trading assets	**168,441**	125,069
– financial assets designated at fair value	**9,113**	8,345
– derivative assets	**154,688**	199,419
– loans and advances to banks	**18,162**	21,363
– loans and advances to customers	**278,214**	272,760
– reverse repurchase agreements – non-trading	**42,854**	31,660
– financial investments	**64,657**	83,135
– other	**22,779**	20,800
Total liabilities	**790,177**	776,204
– deposits by banks	**27,796**	23,682
– customer accounts	**385,766**	375,252
– repurchase agreements – non-trading	**32,803**	19,709
– trading liabilities	**122,072**	93,934
– financial liabilities designated at fair value	**18,742**	18,486
– derivative liabilities	**148,689**	190,092
– debt securities in issue	**14,225**	16,140
– liabilities under insurance contracts issued	**20,559**	19,724
– other	**19,525**	19,185
Total equity	**42,203**	40,625
– total shareholders' equity	**41,493**	39,930
– non-controlling interests	**710**	695

By operating segment:

Balance sheet information

	RBWM	CMB	GB&M	GPB	Corporate Centre	Total
	£m	£m	£m	£m	£m	£m
30 Jun 2017						
Loans and advances to customers	**113,024**	**84,433**	**67,661**	**7,136**	**5,960**	**278,214**
Customer accounts	**148,588**	**97,776**	**94,143**	**13,561**	**31,698**	**385,766**
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

Total reported assets were 2% higher than at 31 December 2016. The group maintained a strong and liquid balance sheet with the ratio of customer advances to customer accounts remaining broadly constant at 72.1% compared with 72.7% at 31 December 2016.

Assets

Cash and balances at central banks increased by 35% as a result of deploying surplus deposits from customers and reflecting a partial move of the liquid asset portfolio from bonds into cash.

Trading assets increased by 35% primarily due to an increase in market activity relative to year-end.

Derivative assets decreased by 22% largely due to shifts in major yield curves with a commensurate decrease within derivative liabilities.

Loans and advances to customers increased by 2% due to increased corporate and retail mortgage lending as well as increased overdraft lending.

Reverse repurchase agreements –non-trading increased by 35% primarily due to an increase in market activity relative to year-end and a reduction in the amount of netting. Financial investments decreased by 22% primarily due to a sale of assets within the available-for-sale portfolio.

Liabilities

Customer accounts increased by 3% due to growth in corporate and retail balances, an increase in placements by HSBC Holdings plc, and foreign exchange movements.

Trading liabilities increased by 30% broadly in line with trading assets.

Debt securities in issue decreased by 12% driven by external issuances maturing.

Derivative liabilities decreased by 22%. This is in line with derivative assets as the underlying risk is broadly matched.

Repurchase agreements – non-trading increased by 66% due to increased market activity relative to year-end with the nominal change broadly in line with movements in reverse repurchase agreements – non-trading.

Equity

Total shareholders' equity increased by 4%. The increase was due to retained earnings from profit generated in the period as well as adjustments to actuarial assumptions in respect of the HSBC Bank (UK) Pension Scheme.

Reported performance by country

Profit before tax – by country

	RBWM	CMB	GB&M	GPB	Corporate Centre	Total
	Half-year to 30 Jun 2017					
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
United Kingdom	**155**	**869**	**692**	**35**	**(429)**	**1,322**
France	**22**	**76**	**160**	**3**	**(67)**	**194**
Germany	**9**	**28**	**76**	**3**	**15**	**131**
Turkey[1]	**(8)**	**8**	**19**	**—**	**2**	**21**
Other	**3**	**49**	**109**	**—**	**29**	**190**
Profit before tax	**181**	**1,030**	**1,056**	**41**	**(450)**	**1,858**
	Half-year to 30 Jun 2016					
United Kingdom	691	821	122	62	(47)	1,649
France[2]	24	90	73	3	93	283
Germany	7	25	50	4	5	91
Turkey[1]	(38)	1	20	—	13	(4)
Other	11	8	66	—	21	106
Profit before tax[2]	695	945	331	69	85	2,125
	Half-year to 31 Dec 2016					
United Kingdom	19	811	392	32	(634)	620
France	90	54	145	3	(124)	168
Germany	10	25	55	1	5	96
Turkey[1]	(68)	(21)	82	—	(3)	(10)
Other[3]	—	14	(2,161)	—	22	(2,125)
Profit before tax	51	883	(1,487)	36	(734)	(1,251)

1 *On 29 June 2017, the Turkish operations transferred to HSBC Middle East Holdings B.V. and HSBC Bank Middle East Limited, as detailed on page 5.*
2 *Restated for change in reportable segments explained on page 7 and cash flow hedge correction explained on page 6.*
3 *GB&M includes goodwill impairment of £2,182m.*

Risk

Risk overview

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

Our principal banking risks are credit risk, operational risk, market risk, liquidity and funding risk, compliance risk and reputational risk. We also incur pension and 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. There have been no new top and emerging risks identified since 31 December 2016.

The exposure to our risks and risk management of these are explained in more detail in the Report of the Directors on pages 15 to 33 of the *Annual Report and Accounts 2016*.

Risk		Mitigants
Externally driven		
UK exit from EU	▲	The British Prime Minister invoked Article 50 in March 2017, starting a two-year timetable for the UK to exit the EU. We will continue to work with regulators, governments and our customers to manage the risks of the UK's exit from the EU 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	▶	Detailed reviews have been undertaken on our oil and gas, metals and mining and leveraged portfolios in 2017. These portfolios remain under enhanced monitoring with risk appetite and new lending to weaker segments controlled.
Cyber threat and unauthorised access to systems	▲	We are actively participating in intelligence sharing and continue to improve our governance and controls framework to protect HSBC information and technical infrastructure against ever increasingly sophisticated cyber threats such as payment systems compromises and ransomware attacks.
Increasing regulatory expectations	▶	We actively engage with regulators and policy makers to help ensure that new regulatory requirements are considered fully and can be implemented in an effective manner.
Regulatory focus on conduct of business	▶	We continue to enhance our management of conduct in areas, including the treatment of potentially vulnerable customers, market surveillance, employee training and performance.
Financial crime compliance	▶	We remain on track to complete the roll out of major compliance systems by the end of 2017 to support global anti-money laundering ('AML'), sanctions and anti-bribery and corruption policies. An assessment against the capabilities of our Financial Crime Risk framework is also being conducted to ensure the capabilities are fully embedded in our day-to-day operations.
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 have invested in specialist teams and are monitoring and upgrading our systems capability to enhance data and digital capabilities, enhance service continuity and help ensure strong delivery quality and resilience to customers.
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. Current major change initiatives include the implementation of the ring-fenced and non-ring fenced bank, and the operational implications of updating our businesses model post the EU referendum.
Model risk	▶	We are enhancing our model risk governance framework by establishing a Second Line of Defence Model Risk Management function independent from our Global Risk Analytics teams, and continue to update our existing policy and standards in order to address evolving requirements internally and externally.
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 the first half of 2017

▶ Risk remains at the same level as 31 December 2016

Managing risk

The group's risk profile is underpinned by its core philosophy of maintaining a strong balance sheet, a robust liquidity position and capital strength. The group continued to have a conservative risk profile during the first half of 2017.

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

The risk management framework promotes a strong risk culture which is reinforced by the HSBC Values and our Global Standards programme and ensures that our risk profile remains conservative and aligned to our risk appetite. Further details are set out on page 19 of the *Annual Report and Accounts 2016.* There have been no material changes to our policies and practices regarding risk management and governance as described in the *Annual Report and Accounts 2016.*

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

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

Although no new top and emerging risks have been identified, during the first half of 2017 the group made a number of changes to its assessment of these risks to reflect their current effect on the group and changes in the scope of risk definitions, to ensure appropriate focus.

Further details on the group's top and emerging risks and principal banking risks are set out on page 14.

Areas of special interest

Process of UK withdrawal from the European Union

Political developments in the UK and Europe continue to influence the UK's negotiations to leave the EU, and may create market volatility. In the UK, a general election in June resulted in a minority government, increasing uncertainty.

The negotiations began as planned on 19 June 2017. They will initially focus on EU citizens' rights and the cost of the UK leaving the EU, among other issues. Trade negotiations are not expected to begin until October 2017 at the earliest.

Our objective in all scenarios is to continue to meet customers' needs and minimise disruption. This is likely to require adjustments to our cross-border banking model, with impacted business transferring from the UK to a subsidiary in continental Europe, most likely in France.

Given the tight time frame and the complexity of the negotiations, we have put in place a robust contingency plan. It is based on a scenario whereby the UK exits the EU in March 2019, without access to the single market or customs union, and without a transitional arrangement. When negotiating positions and timelines become clearer, we will update our contingency plan.

Risks are monitored continually, with vulnerable industry sectors reviewed by management to determine if adjustments to our risk policy or appetite are required.

Key developments and risk profile

Credit risk in the first half of 2017

A summary of our current policies and practices regarding credit risk is set out on page 22 of the *Annual Report and Accounts 2016.*

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 2017.

Credit quality of financial instruments

The five credit quality classifications set out and defined on pages 23 and 24 of the *Annual Report and Accounts 2016* describe the credit quality of the group's lending, debt securities portfolios and derivatives. These classifications each encompass a range of more granular, internal credit rating grades assigned to wholesale and retail lending businesses, as well as the external ratings attributed by external agencies to debt securities. There is no direct correlation between internal and external ratings at a granular level, except to the extent each falls within a single credit quality classification.

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

Distribution of financial instruments by credit quality

	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	**73,472**	**–**	**–**	**–**	**–**	**–**	**73,472**	**–**	**73,472**
Items in the course of collection from other banks	**1,721**	**–**	**–**	**–**	**–**	**–**	**1,721**	**–**	**1,721**
Trading assets	**72,055**	**18,669**	**15,769**	**1,059**	**–**	**–**	**107,552**	**–**	**107,552**
– treasury and other eligible bills	**1,244**	**640**	**113**	**653**	**–**	**–**	**2,650**	**–**	**2,650**
– debt securities	**28,038**	**7,084**	**5,564**	**169**	**–**	**–**	**40,855**	**–**	**40,855**
– loans and advances to banks	**17,983**	**5,548**	**3,746**	**95**	**–**	**–**	**27,372**	**–**	**27,372**
– loans and advances to customers	**24,790**	**5,397**	**6,346**	**142**	**–**	**–**	**36,675**	**–**	**36,675**
Financial assets designated at fair value	**965**	**147**	**276**	**14**	**–**	**–**	**1,402**	**–**	**1,402**
Derivatives	**128,106**	**21,618**	**4,319**	**645**	**–**	**–**	**154,688**	**–**	**154,688**
Loans and advances to customers held at amortised cost	**152,886**	**56,765**	**58,554**	**5,203**	**1,001**	**5,741**	**280,150**	**(1,936)**	**278,214**
– personal	**104,323**	**5,815**	**2,773**	**456**	**604**	**1,477**	**115,448**	**(442)**	**115,006**
– corporate and commercial	**30,642**	**42,100**	**50,782**	**4,554**	**395**	**4,108**	**132,581**	**(1,371)**	**131,210**
– non-bank financial institutions	**17,921**	**8,850**	**4,999**	**193**	**2**	**156**	**32,121**	**(123)**	**31,998**
Loans and advances to banks held at amortised cost	**14,478**	**2,176**	**1,498**	**10**	**–**	**–**	**18,162**	**–**	**18,162**
Reverse repurchase agreements – non-trading	**31,519**	**5,703**	**5,057**	**575**	**–**	**–**	**42,854**	**–**	**42,854**
Financial investments	**57,925**	**2,991**	**1,267**	**941**	**–**	**762**	**63,886**	**–**	**63,886**
Other assets	**2,296**	**657**	**1,333**	**154**	**9**	**4**	**4,453**	**–**	**4,453**
At 30 Jun 2017	**535,423**	**108,726**	**88,073**	**8,601**	**1,010**	**6,507**	**748,340**	**(1,936)**	**746,404**
Percentage of total gross amount	**71.6%**	**14.5%**	**11.8%**	**1.1%**	**0.1%**	**0.9%**	**100.0%**		

	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 2016	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%		

Loan impairment charges and other credit risk provisions

	Half-year to		
	30 Jun 2017	30 Jun 2016	31 Dec 2016
	£m	£m	£m
Net impairment charge on loans and advances	**(41)**	(292)	(187)
Release of impairment on available-for-sale debt securities	**55**	8	75
Other credit risk provisions	**(4)**	4	(24)
Total	**10**	(280)	(136)

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

	Banks	Customers		
	Individually assessed	**Individually assessed**	**Collectively assessed**	**Total**
	£m	**£m**	**£m**	**£m**
At 1 Jan 2017	**—**	**1,729**	**828**	**2,557**
Amounts written off	**—**	**(310)**	**(173)**	**(483)**
Recoveries of loans and advances written off in previous years	**—**	**14**	**96**	**110**
Loan impairment charge	**—**	**10**	**31**	**41**
Exchange and other movements	**—**	**(53)**	**(236)**	**(289)**
30 Jun 2017	**—**	**1,390**	**546**	**1,936**
		%	**%**	**%**
As a percentage of gross loans and advances[1]	**—**	**0.50**	**0.20**	**0.65**
At 1 Jan 2016	—	1,788	815	2,603
Amounts written off	—	(304)	(195)	(499)
Recoveries of loans and advances written off in previous years	—	12	92	104
Loan impairment charge	—	197	95	292
Exchange and other movements	—	112	42	154
30 Jun 2016	—	1,805	849	2,654
		%	%	%
As a percentage of gross loans and advances[1]	—	0.67	0.32	0.92
At 1 Jul 2016	—	1,805	849	2,654
Amounts written off	—	(246)	(164)	(410)
Recoveries of loans and advances written off in previous years	—	7	86	93
Loan impairment charge	—	109	78	187
Exchange and other movements	—	54	(21)	33
31 Dec 2016	—	1,729	828	2,557
		%	%	%
As a percentage of gross loans and advances[1]	—	0.63	0.30	0.86

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

Capital

Capital overview

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 requirements.

We manage group capital to ensure we exceed current regulatory requirements and respect the payment priority of our capital providers. Throughout the six months to 30 June 2017, we complied with the PRA's regulatory capital adequacy requirements, including those relating to stress testing.

A summary of our policies and practices regarding capital management, measurement and allocation is provided on page 55 of the *Annual Report and Accounts 2016.*

Regulatory developments

Basel Committee

During the first half of 2017, the Basel Committee proposed further revisions to the regulatory capital framework. In particular, it published:

- a second consultation regarding the identification and management of step-in risk;
- the interim regulatory treatment and transitional requirements for International Financial Reporting Standards 9, Financial Instruments ('IFRS 9') provisions; and
- the final Phase 2 Pillar 3 standards.

In addition, the Basel Committee confirmed that it has largely completed the technical work needed to revise the Basel III regulatory capital framework, including the approaches to credit risk, operational risk and the leverage ratio. The only outstanding area is the proposal to implement a capital floor for modelled risk-weighted assets ('RWAs'), where the final calibration and associated transitional provisions are expected. In all instances, the final standards will have to be transposed into the relevant local law before coming into effect.

Financial Stability Board

In July 2017, the Financial Stability Board ('FSB') expanded its resolution reform policy framework with the publication of its 'Guiding Principles on the Internal Total Loss-absorbing Capacity of G-SIBs' ('Internal TLAC'). These guidelines supplement the FSB's TLAC standard published in November 2015. Again, this needs to be incorporated into the relevant local law before coming into effect.

European Union

In the EU, elements of the Basel Committee's and FSB's reforms are being implemented through revisions to the CRD IV and the EU resolution framework. The key components include changes to the market risk and counterparty credit risk frameworks, a binding leverage ratio and the regulatory recognition of IFRS 9. It also includes details of the minimum requirements for TLAC, which in the EU is known as the 'Minimum Requirements for own funds and Eligible Liabilities' ('MREL'). These changes are expected to be finalised by 2019 and apply from 1 January 2021, with the exception of the rules on MREL and the transitional capital provisions for IFRS 9, which are expected to apply from 1 January 2019 and 1 January 2018, respectively.

In June 2017, the EU reached a political agreement on the new securitisation capital rules. This is expected to be implemented on 1 January 2019 for new transactions and on 1 January 2020 for existing positions.

Bank of England

In the UK, the Bank of England ('BoE') published its policy on setting MREL in November 2016. Elements of this policy remain outstanding, including the application of MREL within groups and the treatment of holdings of TLAC instruments. Meanwhile, in March 2017, HSBC received from the BoE its indicative MREL requirement applicable to its European Resolution Group (comprised of HSBC Bank plc and its subsidiaries).

On the basis of 30 June 2017 data, the indicative requirement is expected to be: from 1 January 2020, 19.8% of RWAs; and from 1 January 2022, 23.6% of RWAs. The actual MREL requirement is subject to a number of variables and therefore this requirement should not be assumed as the binding requirement at a future date. The applicable capital buffers will apply over and above the MREL requirement. The BoE also formally confirmed 'multiple-point-of-entry' as the preferred resolution strategy for HSBC.

In June 2017, the Financial Policy Committee ('FPC') raised the countercyclical buffer rate for UK exposures, to apply from 27 June 2018. It will consider in November whether an increase to 1% should take effect from November 2018.

Key capital numbers

		At	
		30 Jun	31 Dec
	Footnotes	**2017**	2016
Capital resources (£m)			
Common equity tier 1 capital		**26,239**	25,098
Tier 1 capital		**31,150**	30,218
Total regulatory capital		**39,274**	38,522
Risk-weighted assets (£m)			
Credit risk	1	**166,272**	168,936
Counterparty credit risk		**28,275**	28,593
Market risk		**22,423**	24,975
Operational risk		**22,733**	22,733
Total risk-weighted assets		**239,703**	245,237
Capital ratios (%)			
Common equity tier 1		**10.9%**	10.2%
Total tier 1		**13.0%**	12.3%
Total capital		**16.4%**	15.7%

1 *'Credit risk' here, and in all tables where the term is used, excludes counterparty credit risk.*

Regulatory balance sheet

Structure of the regulatory group

Subsidiaries engaged in insurance activities are excluded from the regulatory consolidation by excluding assets, liabilities and post-acquisition reserves, leaving the group's investment in these insurance subsidiaries to be recorded at cost and deducted from common equity tier 1 ('CET1') capital, subject to thresholds. In the column 'Deconsolidation of insurance/other entities' in the table below, the amount of £0.6bn (2016: £0.6bn) shown as 'Capital invested in insurance and other entities' represents the cost of investment in our insurance business.

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

Participation interests in banking associates are proportionally consolidated for regulatory purposes by including our share of assets, liabilities, profit and loss, and risk-weighted assets ('RWAs') in accordance with the PRA's application of EU legislation. Non-participatory significant investments along with non-financial associates are deducted from capital (subject to regulatory thresholds).

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

	Ref †	Accounting balance sheet £m	Deconsolidation of insurance/ other entities £m	Consolidation of banking associates £m	Regulatory balance sheet £m
Assets					
Cash and balances at central banks		**73,472**	**–**	**111**	**73,583**
Items in the course of collection from other banks		**1,721**	**–**	**–**	**1,721**
Trading assets		**168,441**	**52**	**115**	**168,608**
Financial assets designated at fair value		**9,113**	**(9,087)**	**–**	**26**
Derivatives		**154,688**	**(71)**	**–**	**154,617**
Loans and advances to banks		**18,162**	**(18)**	**1**	**18,145**
Loans and advances to customers		**278,214**	**(2,581)**	**–**	**275,633**
– *of which: impairment allowances on IRB portfolios*	*h*	***(1,581)***	**–**	**–**	***(1,581)***
Reverse repurchase agreements – non-trading		**42,854**	**20**	**–**	**42,874**
Financial investments		**64,657**	**(11,822)**	**134**	**52,969**
Assets held for sale		**30**	**–**	**–**	**30**
Capital invested in insurance and other entities		**–**	**626**	**–**	**626**
Current tax assets		**188**	**(5)**	**–**	**183**
Prepayments, accrued income and other assets		**14,626**	**(742)**	**25**	**13,909**
– *of which: retirement benefit assets*	*i*	***5,085***	**–**	**–**	***5,085***
Interests in associates and joint ventures		**293**	**–**	**(275)**	**18**
Goodwill and intangible assets	*e*	**5,830**	**(619)**	**–**	**5,211**
Deferred tax assets	*f*	**91**	**160**	**2**	**253**
Total assets at 30 Jun 2017	*o*	**832,380**	**(24,087)**	**113**	**808,406**
Liabilities and equity					
Deposits by banks		**27,796**	**(20)**	**102**	**27,878**
Customer accounts		**385,766**	**1,160**	**–**	**386,926**
Repurchase agreements – non-trading		**32,803**	**–**	**–**	**32,803**
Items in the course of transmission to other banks		**1,184**	**–**	**–**	**1,184**
Trading liabilities		**122,072**	**623**	**–**	**122,695**
Financial liabilities designated at fair value		**18,742**	**(1,113)**	**–**	**17,629**
– *of which:*					
included in tier 1	*k*	***338***	**–**	**–**	***338***
included in tier 2	*l, m*	***1,767***	**–**	**–**	***1,767***
Derivatives		**148,689**	**15**	**–**	**148,704**
Debt securities in issue		**14,225**	**(2,433)**	**–**	**11,792**
Current tax liabilities		**176**	**(57)**	**1**	**120**
Liabilities under insurance contracts		**20,559**	**(20,559)**	**–**	**–**
Accruals, deferred income and other liabilities		**6,165**	**(1,055)**	**9**	**5,119**
Provisions		**1,915**	**(6)**	**1**	**1,910**
– *of which: credit-related contingent liabilities and contractual commitments on IRB portfolios*	*h*	***46***	**–**	**–**	***46***
Deferred tax liabilities		**839**	**–**	**–**	**839**
Subordinated liabilities		**9,246**	**–**	**–**	**9,246**
– *of which:*					
included in tier 1	*k*	***700***	**–**	**–**	***700***
included in tier 2	*l, m, n*	***6,942***	**–**	**–**	***6,942***
Total liabilities at 30 Jun 2017		**790,177**	**(23,445)**	**113**	**766,845**
Called up share capital	*a*	**797**	**–**	**–**	**797**
Other equity instruments	*j*	**3,781**	**–**	**–**	**3,781**
Other reserves	*c, g*	**2,689**	**–**	**–**	**2,689**
Retained earnings	*b, c*	**34,226**	**(642)**	**–**	**33,584**
Total shareholders' equity		**41,493**	**(642)**	**–**	**40,851**
Non-controlling interests	*d, k*	**710**	**–**	**–**	**710**
– *of which: non-cumulative preference shares issued by subsidiaries included in tier 1 capital*	*k*	***150***	**–**	**–**	***150***
Total equity at 30 Jun 2017		**42,203**	**(642)**	**–**	**41,561**
Total liabilities and equity at 30 Jun 2017		**832,380**	**(24,087)**	**113**	**808,406**

Reconciliation of balance sheets – financial accounting to regulatory scope of consolidation (continued)

	Ref †	Accounting balance sheet £m	Deconsolidation of insurance/other entities £m	Consolidation of banking associates £m	Regulatory balance sheet £m
Assets					
Cash and balances at central banks		54,278	—	69	54,347
Items in the course of collection from other banks		1,363	—	—	1,363
Trading assets		125,069	74	106	125,249
Financial assets designated at fair value		8,345	(8,329)	—	16
Derivatives		199,419	(117)	—	199,302
Loans and advances to banks		21,363	(102)	7	21,268
Loans and advances to customers		272,760	(2,345)	—	270,415
– *of which: impairment allowances on IRB portfolios*	*h*	*(1,735)*	—	—	*(1,735)*
Reverse repurchase agreements – non-trading		31,660	297	—	31,957
Financial investments		83,135	(12,032)	110	71,213
Assets held for sale		94	(6)	(13)	75
Capital invested in insurance and other entities		—	613	—	613
Current tax assets		114	(6)	—	108
Prepayments, accrued income and other assets		13,121	(892)	42	12,271
– *of which: retirement benefit assets*	*i*	*3,480*	—	—	*3,480*
Interests in associates and joint ventures		266	(3)	(231)	32
Goodwill and intangible assets	*e*	5,735	(595)	5	5,145
Deferred tax assets	*f*	107	150	4	261
Total assets at 31 Dec 2016	*o*	816,829	(23,293)	99	793,635
Liabilities and equity					
Deposits by banks		23,682	(21)	61	23,722
Customer accounts		375,252	1,159	—	376,411
Repurchase agreements – non-trading		19,709	—	—	19,709
Items in the course of transmission to other banks		657	—	—	657
Trading liabilities		93,934	519	1	94,454
Financial liabilities designated at fair value		18,486	(1,080)	—	17,406
– *of which:*					
included in tier 1	*k*	*333*	—	—	*333*
included in tier 2	*l, m*	*1,685*	—	—	*1,685*
Derivatives		190,092	151	—	190,243
Debt securities in issue		16,140	(3,144)	—	12,996
Current tax liabilities		400	(46)	1	355
Liabilities under insurance contracts		19,724	(19,724)	—	—
Accruals, deferred income and other liabilities		6,792	(480)	28	6,340
Provisions		2,431	(5)	2	2,428
– *of which: credit-related contingent liabilities and contractual commitments on IRB portfolios*	*h*	*50*	—	—	*50*
Deferred tax liabilities		484	—	—	484
Subordinated liabilities		8,421	—	—	8,421
– *of which:*					
included in tier 1	*k*	*700*	—	—	*700*
included in tier 2	*l, m, n*	*6,939*	—	—	*6,939*
Total liabilities at 31 Dec 2016		776,204	(22,671)	93	753,626
Called up share capital	*a*	797	—	—	797
Share premium account	*a, k*	20,733	—	—	20,733
Other equity instruments	*j*	3,781	—	—	3,781
Other reserves	*c, g*	1,882	—	—	1,882
Retained earnings	*b, c*	12,737	(622)	6	12,121
Total shareholders' equity		39,930	(622)	6	39,314
Non-controlling interests	*d, k*	695	—	—	695
– *of which: non-cumulative preference shares issued by subsidiaries included in tier 1 capital*	*k*	*150*	—	—	*150*
Total equity at 31 Dec 2016		40,625	(622)	6	40,009
Total liabilities and equity at 31 Dec 2016		816,829	(23,293)	99	793,635

† *The references (a) – (n) identify balance sheet components which are used in the calculation of regulatory capital on pages 21 to 23.*

Own funds

Own funds disclosure

Ref*		Ref †	At 30 Jun 2017 £m	CRD IV prescribed residual amount £m	Final CRD IV text £m
	Common equity tier 1 capital: instruments and reserves				
1	Capital instruments and the related share premium accounts		797		797
	– ordinary shares	*a*	797		797
2	Retained earnings	*b*	31,299		31,299
3	Accumulated other comprehensive income (and other reserves)	*c*	3,769		3,769
5	Minority interests (amount allowed in consolidated common equity tier 1)	*d*	322		322
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend	*b*	591		591
6	**Common equity tier 1 capital before regulatory adjustments**		36,778		36,778
	Common equity tier 1 capital: regulatory adjustments				
7	Additional value adjustments		(641)		(641)
8	Intangible assets (net of related deferred tax liability)	*e*	(5,203)		(5,203)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	*f*	(30)		(30)
11	Fair value reserves related to gains or losses on cash flow hedges	*g*	(8)		(8)
12	Negative amounts resulting from the calculation of expected loss amounts	*h*	(1,133)		(1,133)
14	Gains or losses on liabilities at fair value resulting from changes in own credit standing		332		332
15	Defined benefit pension fund assets	*i*	(3,856)		(3,856)
28	**Total regulatory adjustments to common equity tier 1**		(10,539)		(10,539)
29	**Common equity tier 1 capital**		26,239		26,239
	Additional tier 1 (‘AT1’) capital: instruments				
30	Capital instruments and the related share premium accounts		3,781		3,781
31	– classified as equity under IFRSs	*j*	3,781		3,781
33	Amount of qualifying items and the related share premium accounts subject to phase out from AT1	*k*	1,158	(1,158)	–
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		47	(25)	22
36	**Additional tier 1 capital before regulatory adjustments**		4,986	(1,183)	3,803
	Additional tier 1 capital: regulatory adjustments				
37	Direct and indirect holdings of own AT1 instruments		(46)		(46)
41b	Residual amounts deducted from AT1 capital with regard to deduction from tier 2 (‘T2’) capital during the transitional period		(29)	29	–
	– 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		(29)	29	–
43	**Total regulatory adjustments to additional tier 1 capital**		(75)	29	(46)
44	**Additional tier 1 capital**		4,911	(1,154)	3,757
45	**Tier 1 capital (T1 = CET1 + AT1)**		31,150	(1,154)	29,996
	Tier 2 capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	*l*	6,957		6,957
47	Amount of qualifying items and the related share premium accounts subject to phase out from T2	*m*	1,271	(1,271)	–
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		190	(160)	30
49	– *of which: instruments issued by subsidiaries subject to phase out*	*n*	*166*	*(166)*	–
51	**Tier 2 capital before regulatory adjustments**		8,418	(1,431)	6,987
	Tier 2 capital: regulatory adjustments				
52	Direct and indirect holdings of own T2 instruments		(31)		(31)
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)		(263)	(29)	(292)
57	**Total regulatory adjustments to tier 2 capital**		(294)	(29)	(323)
58	**Tier 2 capital**		8,124	(1,460)	6,664
59	**Total capital (TC = T1 + T2)**		39,274	(2,614)	36,660
60	**Total risk-weighted assets**		239,703		239,703
	Capital ratios and buffers				
61	Common equity tier 1		10.9%		
62	Tier 1		13.0%		
63	Total capital		16.4%		
64	Institution specific buffer requirement		1.26%		
65	– capital conservation buffer requirement		1.25%		
66	– countercyclical buffer requirement		0.01%		
68	Common equity tier 1 available to meet buffers[1]		6.4%		

Own funds disclosure (continued)

Ref*		Ref †	At 30 Jun 2017 £m	CRD IV prescribed residual amount £m	Final CRD IV text £m
	Amounts below the threshold for deduction (before risk weighting)				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		**1,963**		
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		**684**		
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)		**632**		
	Applicable caps on the inclusion of provisions in tier 2				
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		**422**		
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		**807**		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)				
82	Current cap on AT1 instruments subject to phase-out arrangements		**1,158**		
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		**436**		
84	Current cap on T2 instruments subject to phase-out arrangements		**1,437**		

* *The references identify the lines prescribed in the EBA template that are applicable and where there is a value.*
† *The references (a) – (n) identify balance sheet components on pages 19 and 20 that are used in the calculation of regulatory capital.*
1 *Common equity tier 1 available to meet buffers after Pillar 1 capital requirements.*

A list of the features of our capital instruments in accordance with Annex III of the Commission Implementing Regulation 1423/2013 is also being published on HSBC's website with reference to our balance sheet on 30 June 2017.

Leverage ratio

The leverage ratio was introduced into the Basel III framework as a non-risk based limit, to supplement risk-based capital requirements. It aims to constrain the build-up of excess leverage in the banking sector, introducing additional safeguards against model risk and measurement errors. The Basel III leverage ratio is a volume-based measure calculated as tier 1 capital divided by total on- and off-balance sheet exposures. This ratio has been implemented in the EU for reporting and disclosure purposes but no binding requirement has been set.

The European Commission has published draft CRR 2/CRD V legislation which aims to further strengthen the resilience of EU banks. It defines a minimum leverage ratio of 3% with which all institutions will have to comply, in addition to the other risk-based own funds requirements. Implementation will be effective two years after the relevant legislation is published in the Official Journal of the EU, with a potential effective date of January 2021.

In the meantime, the PRA's leverage ratio framework for UK banks came into force on 1 January 2016. This applies binding requirements at the highest level of UK consolidation. For HSBC, this applies at the Group level and not at the HSBC Bank plc level.

Although there is currently no binding leverage ratio requirement on the group, the risk of excessive leverage is managed as part of HSBC's global risk appetite framework and monitored using a leverage ratio metric within our risk appetite statement ('RAS'). The RAS articulates the aggregate level and types of risk that HSBC is willing to accept in its business activities in order to achieve its strategic business objectives. The RAS leverage measure is monitored via the risk appetite profile report, which includes comparisons of actual performance against the risk appetite and tolerance thresholds assigned to each metric, to ensure that any excessive risk is highlighted, assessed and mitigated appropriately. The risk appetite profile report is presented monthly to the Risk Management Meeting ('RMM'). The leverage exposure measure is also calculated and presented to the Asset & Liability Management Committee every month.

Our leverage ratio, calculated on a transitional basis under CRD IV was 3.9% at 30 June 2017, down from 4.1% at 31 December 2016. The decrease was driven by balance sheet growth, partly offset by an increase in Tier 1 capital.

Summary reconciliation of accounting assets and leverage ratio exposures

Ref*		Ref †	At 30 Jun 2017 £m	At 31 Dec 2016 £m
1	Total assets as per published financial statements	o	**832,380**	816,829
	Adjustments for:			
2	– entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	o	**(23,974)**	(23,194)
4	– derivative financial instruments		**(83,731)**	(125,721)
5	– securities financing transactions ('SFT')		**4,809**	4,706
6	– off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)		**67,522**	66,400
EU-6a	– intragroup exposures excluded from the leverage ratio exposure measure		**(4,441)**	(6,095)
7	– other adjustments		**(2,788)**	490
8	**Total leverage ratio exposure**		**789,777**	733,415

Leverage ratio common disclosure

Ref*		At 30 Jun 2017 £m	At 31 Dec 2016 £m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**608,401**	565,731
2	(Asset amounts deducted in determining Tier 1 capital)	**(10,901)**	(9,785)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**597,500**	555,946
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**12,894**	19,939
5	Add-on amounts for potential future exposure ('PFE') associated with all derivatives transactions (mark-to-market method)	**70,971**	68,336
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to IFRSs	**3,751**	4,406
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(18,359)**	(20,962)
8	(Exempted central counterparty ('CCP') leg of client-cleared trade exposures)	**(2,748)**	(2,331)
9	Adjusted effective notional amount of written credit derivatives	**133,626**	168,700
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**(129,249)**	(164,507)
11	**Total derivative exposures**	**70,886**	73,581
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**101,306**	84,114
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**(47,805)**	(45,237)
14	Counterparty credit risk exposure for SFT assets	**4,809**	4,706
16	**Total securities financing transaction exposures**	**58,310**	43,583
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	**193,826**	187,969
18	(Adjustments for conversion to credit equivalent amounts)	**(126,304)**	(121,569)
19	**Total off-balance sheet exposures**	**67,522**	66,400
	Exempted exposures		
EU-19	(Exemption of intragroup exposures (solo basis))	**(4,441)**	(6,095)
	Capital and total exposures		
20	**Tier 1 capital**	**31,150**	30,218
21	**Total leverage ratio exposure**	**789,777**	733,415
22	**Leverage ratio**	**3.9%**	4.1%
EU-23	Choice on transitional arrangements for the definition of the capital measure	**Transitional**	Transitional

* *The references identify the lines prescribed in the EBA template that are applicable and where there is a value.*
† *The reference (o) identifies balance sheet components on pages 20 and 21.*

Risk-weighted assets

Credit risk RWAs by exposure class

	Footnotes	Exposure value £m	RWAs £m	Capital £m
IRB advanced approach		**328,810**	**103,377**	**8,270**
– central governments and central banks		**19,668**	**2,287**	**183**
– institutions		**11,864**	**3,807**	**304**
– corporates	1	**147,546**	**78,935**	**6,315**
– total retail		**149,732**	**18,348**	**1,468**
– *of which:*				
secured by mortgages on immovable property – small- and medium-sized enterprises ('SME')		***520***	***153***	***12***
secured by mortgages on immovable property – non-SME		***99,147***	***4,947***	***396***
qualifying revolving retail		***22,848***	***4,406***	***353***
other SME		***6,726***	***3,613***	***289***
other non-SME		***20,491***	***5,229***	***418***
IRB securitisation positions		**21,757**	**15,729**	**1,258**
IRB non-credit obligation assets		**5,830**	**3,679**	**295**
IRB foundation approach		**23,104**	**13,629**	**1,090**
– central governments and central banks		**13**	**4**	**—**
– institutions		**16**	**2**	**—**
– corporates		**23,075**	**13,623**	**1,090**
Standardised approach		**151,483**	**29,858**	**2,389**
– central governments and central banks	2	**110,355**	**1,740**	**139**
– international organisations		**1,728**	**—**	**—**
– institutions		**8,614**	**1,935**	**155**
– corporates		**21,779**	**19,063**	**1,525**
– retail		**1,470**	**1,027**	**82**
– secured by mortgages on immovable property		**2,968**	**1,070**	**86**
– exposures in default		**795**	**1,090**	**87**
– items associated with particularly high risk		**1,031**	**1,547**	**124**
– claims in the form of collective investments undertakings		**45**	**45**	**4**
– equity	3	**867**	**1,893**	**151**
– other items		**1,831**	**448**	**36**
30 Jun 2017		**530,984**	**166,272**	**13,302**
IRB advanced approach		326,096	101,726	8,137
– central governments and central banks		22,344	3,141	251
– institutions		10,717	2,565	205
– corporates	1	147,245	78,640	6,291
– total retail		145,790	17,380	1,390
– *of which:*				
secured by mortgages on immovable property – SME		*507*	*150*	*12*
secured by mortgages on immovable property – non-SME		*96,123*	*4,837*	*387*
qualifying revolving retail		*22,700*	*4,422*	*354*
other SME		*6,782*	*3,593*	*287*
other non-SME		*19,678*	*4,378*	*350*
IRB securitisation positions		23,517	16,573	1,326
IRB non-credit obligation assets		6,182	3,787	303
IRB foundation approach		21,177	13,059	1,045
– central governments and central banks		10	3	—
– institutions		28	7	1
– corporates		21,139	13,049	1,044
Standardised approach		151,440	33,791	2,704
– central governments and central banks	2	102,394	1,593	127
– international organisations		2,229	—	—
– institutions		9,938	2,630	210
– corporates		27,052	21,877	1,750
– retail		2,644	1,910	153
– secured by mortgages on immovable property		3,045	1,113	89
– exposures in default		924	1,203	96
– items associated with particularly high risk		678	1,017	81
– claims in the form of collective investments undertakings		43	43	3
– equity	3	1,028	2,031	164
– other items		1,465	374	31
31 Dec 2016		528,412	168,936	13,515

1 *'Corporates' includes specialised lending exposures subject to the supervisory slotting approach of £14,596m (2016: £13,650m) and RWAs of £9,495m (2016: £9,202m).*
2 *'Central governments and central banks' under the standardised approach includes exposures to regional governments and public sector entities.*
3 *'Equity' includes investment in group insurance companies that are risk weighted at 250%.*

Counterparty credit risk RWAs by exposure class and product

		At			
		30 Jun 2017		31 Dec 2016	
		RWAs	**Capital required**	RWAs	Capital required
	Footnotes	**£m**	**£m**	£m	£m
By exposure class					
IRB advanced approach		**16,639**	**1,331**	17,280	1,382
– central governments and central banks		**446**	**35**	773	62
– institutions		**6,596**	**528**	6,534	523
– corporates		**9,597**	**768**	9,973	797
IRB foundation approach		**1,087**	**87**	1,361	109
– corporates		**1,087**	**87**	1,361	109
Standardised approach		**3,614**	**289**	3,585	287
– central governments and central banks		**—**	**—**	—	—
– institutions		**3,103**	**248**	2,895	232
– corporates		**511**	**41**	690	55
CVA advanced		**3,603**	**288**	3,318	265
CVA standardised		**2,766**	**221**	2,492	199
Central counterparties ('CCP') standardised		**566**	**45**	557	45
By product					
– derivatives (OTC and exchange traded derivatives)		**16,065**	**1,285**	17,134	1,370
– SFTs		**4,290**	**343**	4,035	323
– other	1	**1,250**	**100**	1,269	102
– CVA advanced		**3,603**	**288**	3,318	265
– CVA standardised		**2,766**	**221**	2,492	199
– CCP default funds	2	**301**	**24**	345	28
Total		**28,275**	**2,261**	28,593	2,287

1 *Includes free deliveries not deducted from regulatory capital.*
2 *Default fund contributions are cash balances posted to CCPs by all members. These cash balances are not included in the total reported exposure.*

Market risk RWAs and capital required

		At			
		30 Jun 2017		31 Dec 2016	
		RWAs	**Capital required**	RWAs	Capital required
	Footnotes	**£m**	**£m**	£m	£m
Internal model based	1	**20,482**	**1,638**	21,745	1,740
– VaR		**3,589**	**287**	4,585	367
– stressed VaR		**6,927**	**554**	5,454	436
– incremental risk charge		**4,123**	**330**	3,538	283
– other VaR and stressed VaR	2	**5,843**	**467**	8,168	654
Standardised approach	3	**1,941**	**156**	3,230	258
– interest rate position risk		**696**	**56**	804	63
– foreign exchange position risk		**—**	**—**	—	—
– equity position risk		**1**	**—**	1,307	105
– commodity position risk		**9**	**1**	8	1
– securitisations		**1,209**	**97**	1,111	89
– options		**26**	**2**	—	—
Total		**22,423**	**1,794**	24,975	1,999

1 *Internal model based RWAs include £6.7bn of RWAs arising from Risks not in VaR ('RNIV') (December 2016: £4.2bn).*
2 *RWAs for countries that cannot be included in consolidated VaR because regulatory permission has not been received to do so. These must be aggregated rather than consolidated.*
3 *RWAs for products and sites that are not in the scope of the approved model permissions from the regulator are calculated using the Standardised approach specified in CRD IV.*

Operational risk RWAs

	At			
	30 Jun 2017		31 Dec 2016	
	RWAs	**Capital required**	RWAs	Capital required
	£m	**£m**	£m	£m
Own funds requirement for operational risk	**22,733**	**1,819**	22,733	1,819

Statement of Directors' Responsibilities

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

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

- the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU; and
- the interim management report includes a fair review of the information required by DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year ending 31 December 2017 and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the financial year.

J R Symonds† (Chairman); J F Trueman† (Deputy Chairman); A P S Simoes (Chief Executive); J Coyle†; Dame Denise Holt†; D Lister†; Dame Mary Marsh†; T B Moulonguet† and E W Strutz†.

On behalf of the Board

A P S Simoes

Chief Executive

31 July 2017

Registered number 14259

† Independent non-executive Director

Independent Review Report to HSBC Bank plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed HSBC Bank plc's condensed consolidated interim financial statements (the 'interim financial statements') in the *Interim Report 2017* of HSBC Bank plc for the six-month period ended 30 June 2017. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the consolidated balance sheet as at 30 June 2017;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated statement of cash flows for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

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

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the Directors

The *Interim Report 2017*, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the *Interim Report 2017* in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the *Interim Report 2017* based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves[1, 2]

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

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

We have read the other information contained in the *Interim Report 2017* and considered whether it contains any apparent mis-statements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants

London

31 July 2017

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

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

Condensed Financial Statements

Consolidated income statement

		Half-year to		
		30 Jun	30 Jun	31 Dec
		2017	2016	2016
	Notes	**£m**	£m	£m
Net interest income[1]		**3,190**	3,410	3,359
– interest income[1]		**4,563**	4,686	4,636
– interest expense		**(1,373)**	(1,276)	(1,277)
Net fee income		**1,612**	1,425	1,520
– fee income		**2,280**	2,067	1,995
– fee expense		**(668)**	(642)	(475)
Net trading income[1]		**1,274**	2,269	2,030
– trading income excluding net interest income[1]		**1,002**	2,082	1,805
– net interest income on trading activities		**272**	187	225
Net income/(expense) from financial instruments designated at fair value		**616**	(811)	(236)
Gains less losses from financial investments		**178**	488	42
Dividend income		**7**	5	3
Net earned insurance premiums		**926**	860	707
Other operating income		**393**	37	216
Total operating income[1]		**8,196**	7,683	7,641
Net insurance claims incurred and movement in liabilities to policyholders		**(1,283)**	(812)	(1,207)
Net operating income before loan impairment charges and other credit risk provisions[1]	3	**6,913**	6,871	6,434
Loan impairment release/(charges) and other credit risk provisions		**10**	(280)	(136)
Net operating income[1]		**6,923**	6,591	6,298
Total operating expenses		**(5,069)**	(4,463)	(7,548)
– employee compensation and benefits[2]		**(1,554)**	(2,076)	(1,635)
– general and administrative expenses		**(3,254)**	(2,133)	(3,416)
– depreciation and impairment of property, plant and equipment		**(164)**	(145)	(184)
– amortisation and impairment of intangible assets		**(97)**	(109)	(2,313)
Operating profit/(loss)[1]	3	**1,854**	2,128	(1,250)
Share of profit/(loss) in associates and joint ventures		**4**	(3)	(1)
Profit/(loss) before tax[1]		**1,858**	2,125	(1,251)
Tax expense[1]		**(467)**	(610)	(443)
Profit/(loss) for the period [1]		**1,391**	1,515	(1,694)
Attributable to:				
– shareholders of the parent company[1]		**1,370**	1,496	(1,708)
– non-controlling interests		**21**	19	14

1 *In late 2016, a macro cash flow hedge was identified as not having met the hedge accounting criteria of IAS 39 during the half-year to 30 June 2016. The hedge was partially discontinued as a result. The half-year to 30 June 2016 is restated reflecting a pre-tax gain of £134m transferred from the cash flow hedge reserve and a transfer of £28m from 'Net interest income' to 'Net trading income' to correct a P&L release in respect of the partially discontinued hedge.'Net interest income' has decreased by £28m,'Net trading income' has increased by £162m and 'Tax expense' has increased by £48m.*

2 *From 1 July 2016, the ServCo Group has recharged cost in relation to the remuneration and other expenses associated with employees transferred from the group, and provided a number of operational, reporting and management services. The recharge is included under 'General and administrative expenses'.*

Consolidated statement of comprehensive income

	Half-year to		
	30 Jun 2017	30 Jun 2016	31 Dec 2016
	£m	£m	£m
Profit/(loss) for the period[1]	**1,391**	1,515	(1,694)
Other comprehensive income/(expense)			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Available-for-sale investments	**61**	(173)	200
– fair value gains	**278**	336	204
– fair value gains reclassified to the income statement	**(183)**	(500)	(26)
– amounts reclassified to the income statement in respect of impairment losses	**—**	13	7
– income taxes	**(34)**	(22)	15
Cash flow hedges[1]	**(75)**	224	(178)
– fair value (losses)/gains	**(106)**	61	(227)
– fair value losses/(gains) reclassified to the income statement[1]	**9**	232	(18)
– income taxes[1]	**22**	(69)	67
Exchange differences and other	**299**	1,648	508
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit asset/liability	**1,180**	419	(603)
– before income taxes[2]	**1,575**	564	(811)
– income taxes	**(395)**	(145)	208
Changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[3]	**(146)**	—	—
– before income taxes	**(158)**	—	—
– income taxes	**12**	—	—
Other comprehensive income for the period, net of tax[1]	**1,319**	2,118	(73)
Total comprehensive income for the period	**2,710**	3,633	(1,767)
Attributable to:			
– shareholders of the parent company	**2,678**	3,562	(1,807)
– non-controlling interests	**32**	71	40

1 *In late 2016, a macro cash flow hedge was identified as not having met the hedge accounting criteria of IAS 39 during the half-year to 30 June 2016. The hedge was partially discontinued as a result. The net impact to the 'Cash flow hedges' as a result of restating half-year to 30 June 2016, is a reduction of £86m. The 'fair value losses reclassified to the income statement' decreased by £134m due to the release of the fair value gain and 'income taxes' changed by £48m. This reflects a pre-tax gain of £134m that should have been transferred from the cash flow hedge reserve to the income statement to correct a P&L release in respect of the partially discontinued hedge.*

2 *An actuarial gain of £1,575m has arisen as a result of the remeasurement of the defined benefit pension. An increase in the discount rate of 0.15%, a 0.1% reduction in the inflation assumption and modifications to mortality assumptions led to a gain of £1,396m. Other net gains totalled £179m.*

3 *From 1 January 2017, the requirements of IFRS 9 'Financial Instruments' relating to the presentation of gains and losses on financial liabilities designated at fair value were adopted. As a result, the effect of changes in those liabilities' own credit risk is presented in other comprehensive income.*

Consolidated balance sheet

		At	
		30 Jun	31 Dec
		2017	2016
	Notes	**£m**	£m
Assets			
Cash and balances at central banks		**73,472**	54,278
Items in the course of collection from other banks		**1,721**	1,363
Trading assets		**168,441**	125,069
Financial assets designated at fair value		**9,113**	8,345
Derivatives		**154,688**	199,419
Loans and advances to banks		**18,162**	21,363
Loans and advances to customers		**278,214**	272,760
Reverse repurchase agreements – non-trading		**42,854**	31,660
Financial investments		**64,657**	83,135
Prepayments, accrued income and other assets		**14,656**	13,215
Current tax assets		**188**	114
Interests in associates and joint ventures		**293**	266
Goodwill and intangible assets	6	**5,830**	5,735
Deferred tax assets		**91**	107
Total assets		**832,380**	816,829
Liabilities and equity			
Liabilities			
Deposits by banks		**27,796**	23,682
Customer accounts		**385,766**	375,252
Repurchase agreements – non-trading		**32,803**	19,709
Items in the course of transmission to other banks		**1,184**	657
Trading liabilities		**122,072**	93,934
Financial liabilities designated at fair value		**18,742**	18,486
Derivatives		**148,689**	190,092
Debt securities in issue		**14,225**	16,140
Accruals, deferred income and other liabilities		**6,165**	6,792
Current tax liabilities		**176**	400
Liabilities under insurance contracts		**20,559**	19,724
Provisions	7	**1,915**	2,431
Deferred tax liabilities		**839**	484
Subordinated liabilities		**9,246**	8,421
Total liabilities		**790,177**	776,204
Equity			
Total shareholders' equity		**41,493**	39,930
– called up share capital		**797**	797
– share premium account		**—**	20,733
– other equity instruments		**3,781**	3,781
– other reserves		**2,689**	1,882
– retained earnings		**34,226**	12,737
Non-controlling interests		**710**	695
Total equity		**42,203**	40,625
Total liabilities and equity		**832,380**	816,829

The accompanying notes on pages 33 to 46, the adjusted performance tables in the 'Financial summary' section on pages 8 to 10, and 'Distribution of financial instruments by credit quality', 'Loan impairment changes and other credit risk provisions' and 'Movement in impairment allowances on loans and advances to customers and banks' in the 'Risk' section on pages 16 and 17 form an integral part of these financial statements.

Consolidated statement of cash flows

	Half-year to		
	30 Jun 2017	30 Jun 2016	31 Dec 2016
	£m	£m	£m
Profit before tax[1]	**1,858**	2,125	(1,251)
Adjustments for non-cash items			
Depreciation, amortisation and impairment	**261**	254	2,497
Loan impairment losses gross of recoveries and other credit risk provisions	**151**	396	280
Provisions including pensions	**(31)**	219	498
Share-based payment expenses	**65**	82	42
Other non-cash items included in profit before tax[1]	**(39)**	(171)	94
Change in operating assets	**(18,311)**	(6,931)	(4,838)
Change in operating liabilities	**29,526**	48,421	(10,806)
Elimination of exchange differences[2]	**(346)**	(9,178)	(3,346)
Net gain from investing activities	**(179)**	(490)	(44)
Share of profits in associates and joint ventures	**(4)**	3	1
(Gain)/loss on disposal of subsidiaries, businesses, associates and joint ventures	**(61)**	—	—
Contribution paid to defined benefit pension plan	**(81)**	(32)	(201)
Tax paid	**(765)**	(592)	(162)
Net cash from operating activities	**12,044**	34,106	(17,236)
Purchase of financial investments	**(6,693)**	(20,503)	(12,439)
Proceeds from the sale and maturity of financial investments	**23,848**	14,449	16,863
Net cash flows from the purchase and sale of property, plant and equipment	**(105)**	(129)	(296)
Net investment in intangible assets	**(174)**	(95)	(169)
Net cash outflow from acquisition of businesses and subsidiaries	**(25)**	—	(44)
Net cash flow on disposal of subsidiaries, business, associates and joint ventures	**(18)**	—	6
Net cash from investing activities	**16,833**	(6,278)	3,921
Subordinated loan capital issued	**1,584**	54	1,001
Subordinated loan capital repaid	**(214)**	(176)	(2,285)
Net cash inflow from change in stake of subsidiaries	**—**	40	—
Dividends paid to shareholders of the parent company[3]	**(479)**	(335)	(469)
Issue of ordinary share capital & other equity instruments	**—**	—	197
Funds received from the shareholder of the parent company	**—**	—	1,229
Dividends paid to non-controlling interests	**(16)**	(14)	(6)
Net cash from financing activities	**875**	(431)	(333)
Net increase/(decrease) in cash and cash equivalents	**29,752**	27,397	(13,648)
Cash and cash equivalents at the beginning of the period	**82,037**	62,995	95,588
Exchange difference in respect of cash and cash equivalents	**1,148**	5,196	97
Cash and cash equivalents at the end of the period	**112,937**	95,588	82,037

1 *Half-year to 30 June 2016 restated for cash flow hedge correction explained on page 28.*
2 *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.*
3 *This does not include the distribution in-specie of HSBC Bank A.S. as described on page 5.*

Consolidated statement of changes in equity

					Other reserves					
	Called up share capital	Share premium	Other equity instru-ments	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 2017	797	20,733	3,781	12,737	1,007	89	786	39,930	695	40,625
Profit for the period	—	—	—	1,370	—	—	—	1,370	21	1,391
Other comprehensive income (net of tax)	—	—	—	1,032	65	(75)	286	1,308	11	1,319
– available-for-sale investments	—	—	—	—	65	—	—	65	(4)	61
– cash flow hedges	—	—	—	—	—	(75)	—	(75)	—	(75)
– remeasurement of defined benefit asset/liability	—	—	—	1,178	—	—	—	1,178	2	1,180
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[4]	—	—	—	(146)	—	—	—	(146)	—	(146)
– exchange differences and other	—	—	—	—	—	—	286	286	13	299
Total comprehensive income for the period	—	—	—	2,402	65	(75)	286	2,678	32	2,710
Dividends to shareholders	—	—	—	(479)	—	—	—	(479)	(16)	(495)
Distribution in-specie of HSBC Bank A.S.[1]	—	—	—	(1,174)	—	(2)	533	(643)	—	(643)
Net impact of equity-settled share-based payments	—	—	—	(12)	—	—	—	(12)	—	(12)
Transfer of share premium to retained earnings[2]	—	(20,733)	—	20,733	—	—	—	—	—	—
Change in business combinations and other movements	—	—	—	2	—	—	—	2	(1)	1
Tax on items taken directly to equity	—	—	—	17	—	—	—	17	—	17
30 Jun 2017	797	—	3,781	34,226	1,072	12	1,605	41,493	710	42,203
At 1 Jan 2016	797	20,733	3,584	12,599	979	43	(1,238)	37,497	628	38,125
Profit for the period[3]	—	—	—	1,496	—	—	—	1,496	19	1,515
Other comprehensive income (net of tax)[3]	—	—	—	425	(172)	224	1,589	2,066	52	2,118
– available-for-sale investments	—	—	—	—	(172)		—	(172)	(1)	(173)
– cash flow hedges[3]	—	—	—	—	—	224	—	224	—	224
– remeasurement of defined benefit asset/liability	—	—	—	425	—	—	—	425	(6)	419
– exchange differences and other	—	—	—	—	—	—	1,589	1,589	59	1,648
Total comprehensive income for the period	—	—	—	1,921	(172)	224	1,589	3,562	71	3,633
Dividends to shareholders	—	—	—	(335)	—	—	—	(335)	(14)	(349)
Net impact of equity-settled share-based payments	—	—	—	63	—	—	—	63	—	63
Change in business combinations and other movements	—	—	—	(6)	(1)	—	—	(7)	41	34
Tax on items taken directly to equity	—	—	—	43	—	—	—	43	—	43
30 Jun 2016	797	20,733	3,584	14,285	806	267	351	40,823	726	41,549
At 1 Jul 2016	797	20,733	3,584	14,285	806	267	351	40,823	726	41,549
Profit for the period	—	—	—	(1,708)	—	—	—	(1,708)	14	(1,694)
Other comprehensive income (net of tax)	—	—	—	(608)	202	(178)	485	(99)	26	(73)
– available-for-sale investments	—	—	—	—	202	—	—	202	(2)	200
– cash flow hedges	—	—	—	—	—	(178)	—	(178)	—	(178)
– remeasurement of defined benefit asset/liability	—	—	—	(608)	—	—	—	(608)	5	(603)
– exchange differences and other	—	—	—	—	—	—	485	485	23	508
Total comprehensive income for the period	—	—	—	(2,316)	202	(178)	485	(1,807)	40	(1,767)
Capital securities issued	—	—	197	—	—	—	—	197	—	197
Dividends to shareholders	—	—	—	(469)	—	—	—	(469)	(6)	(475)
Net impact of equity-settled share-based payments	—	—	—	(38)	—	—	—	(38)	—	(38)
Capital contribution	—	—	—	1,229	—	—	—	1,229	—	1,229
Change in business combinations and other movements	—	—	—	2	(1)	—	(50)	(49)	(65)	(114)
Tax on items taken directly to equity	—	—	—	44	—	—	—	44	—	44
31 Dec 2016	797	20,733	3,781	12,737	1,007	89	786	39,930	695	40,625

1 *The distribution in-specie of HSBC Bank A.S. comprises the distribution of retained profits of £643m and cash flow reserve of £(2)m, and the transfer of £533m from the foreign exchange reserve to retained earnings. The net assets distributed include an allocation of goodwill of £77m.*
2 *On 15 March 2017 the High Court confirmed the conversion of the share premium in full to distributable reserves by means of a capital reduction.*
3 *Half-year to 30 June 2016 restated for cash flow hedge correction explained on page 28.*
4 *At 1 January 2017, the cumulative changes in fair value attributable to changes in own credit risk of financial liabilities designated at fair value was a loss of £127m.*

Notes on the Condensed Financial Statements

1 Basis of preparation and significant accounting policies

(a) Compliance with International Financial Reporting Standards

The interim condensed consolidated financial statements of HSBC Bank plc ('the bank') and its subsidiaries (together 'the group') have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and IAS 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board ('IASB') and as endorsed by the EU. These financial statements should be read in conjunction with the *Annual Report and Accounts 2016*.

At 30 June 2017, there were no unendorsed standards effective for the half-year to 30 June 2017 affecting these financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the group.

(b) Standards applied during the half-year to 30 June 2017

The group has adopted the requirements of IFRS 9 'Financial Instruments' relating to the presentation of gains and losses on financial liabilities designated at fair value from 1 January 2017. As a result, the effects of changes in those liabilities' credit risk is presented in other comprehensive income with the remaining effect presented in profit or loss. As permitted by the transitional requirements of IFRS 9, comparatives have not been restated. Adoption increased profit after tax by £146m with the opposite effect on other comprehensive income, with no effect on net assets.

(c) Use of estimates and judgements

Management believes that the group's critical accounting estimates and judgements are those which relate to impairment of loans and advances, goodwill impairment, impairment of investments in subsidiaries, the valuation of financial instruments and provisions for liabilities. There was no change in the current period to the critical accounting estimates and judgements applied in 2016, which are stated on page 77 of the *Annual Report and Accounts 2016*.

(d) Composition of Group

The legal transfer of HSBC Bank A.S. from HSBC Bank plc to HSBC Middle East Holdings B.V. (89.99%) and HSBC Bank Middle East Limited (10.01%) completed on 29 June 2017.

There were no other material changes in the composition of the group in the half-year to 30 June 2017.

(e) Future accounting developments

Information on future accounting developments and their potential effect on the financial statements of the group are provided on pages 76 and 77 of the *Annual Report and Accounts 2016*. The joint Global Risk and Global Finance IFRS 9 Implementation Programme was set up to address IFRS 9 classification and measurement for financial assets, including impairment. Its focus is on the preparation for the impairment parallel run that will commence during the second half of 2017 in accordance with the project plan. Until this work is sufficiently advanced, we will not have a reliable understanding of the potential impact on the financial statements and any consequential effects on regulatory capital requirements.

IFRS 17 'Insurance contracts' was issued in May 2017 and sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. IFRS 17 is effective from 1 January 2021 and HSBC is considering its impact.

(f) Going concern

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

(g) Accounting policies

Except as described above, the accounting policies applied by the group for these interim condensed consolidated financial statements are consistent with those described on pages 76 to 84 of the *Annual Report and Accounts 2016*, as are the methods of computation.

2 Dividends

Dividends to shareholders of the parent company

	Half-year to					
	30 Jun 2017		30 Jun 2016		31 Dec 2016	
	£ per share	**£m**	£ per share	£m	£ per share	£m
Dividends paid on ordinary shares						
Second interim dividend in respect of previous year	**0.52**	**415**	0.34	272	—	—
First interim dividend in respect of current year	**—**	**—**	—	—	0.32	255
Total	**0.52**	**415**	0.34	272	0.32	255
Dividends on preference shares classified as equity						
Dividend on HSBC Bank plc non-cumulative third dollar preference shares	—	—	—	—	1.54	54
Total	—	—	—	—	1.54	54

Distribution in-specie of HSBC Bank A.S.

An interim dividend in-specie of the bank's shareholding in HSBC Bank A.S. was declared by the board on 4 May 2017 and distributed on 29 June 2017 to the parent company, representing the bank's 100% holding of the 0.01 Turkish Lira common shares.

Other equity instruments

		Half-year to		
		30 Jun 2017	30 Jun 2016	31 Dec 2016
Total coupons on capital securities classified as equity	**First call**	**£m**	£m	£m
Undated Subordinated additional Tier 1 instruments				
– £1,096m	Dec 2019	30	31	30
– £1,100m	Dec 2024	30	32	31
– €1,900m	Dec 2020	—	—	95
– €235m	Jan 2022	1	—	—
		61	63	156

3 Operating profit

External net operating income before loan impairment charges and other credit risk provisions ('LICs') is attributed to countries on the basis of the location of the branch responsible for reporting the results or advancing the funds:

External net operating income before LICs by country

	Half-year to		
	30 Jun 2017	30 Jun 2016	31 Dec 2016
	£m	£m	£m
United Kingdom	**5,159**	5,066	4,841
France[1]	**909**	1,016	890
Germany	**329**	286	312
Turkey	**132**	221	185
Other countries	**384**	282	206
Total	**6,913**	6,871	6,434

1 *Half-year to 30 June 2016 restated for cash flow hedge correction explained on page 28.*

4 Fair values of financial instruments carried at fair value

The accounting policies, control framework and the hierarchy used to determine fair values are consistent with those applied for the *Annual Report and Accounts 2016*.

Financial instruments carried at fair value and bases of valuation

	At							
	30 Jun 2017				31 Dec 2016			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Recurring fair value measurements								
Assets								
Trading assets	**91,620**	**74,657**	**2,164**	**168,441**	72,327	50,021	2,721	125,069
Financial assets designated at fair value	**8,757**	**329**	**27**	**9,113**	8,048	276	21	8,345
Derivatives	**545**	**152,085**	**2,058**	**154,688**	242	197,026	2,151	199,419
Financial investments: available for sale	**52,376**	**10,964**	**1,317**	**64,657**	69,288	12,865	982	83,135
Liabilities								
Trading liabilities	**24,220**	**96,774**	**1,078**	**122,072**	22,165	71,007	762	93,934
Financial liabilities designated at fair value	**3,580**	**15,161**	**1**	**18,742**	3,446	15,035	5	18,486
Derivatives	**438**	**146,690**	**1,561**	**148,689**	763	187,452	1,877	190,092

An Available-for-sale ('AFS') portfolio of German corporate bonds with a value of £673m was transferred from Level 1 to Level 2 during the period to June 2017. (December 2016: an AFS portfolio with a value of £978m was reclassified from Level 2 to Level 1, while derivative assets of £377m and derivative liabilities of £166m were transferred from Level 1 to Level 2.)

Fair value valuation bases

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

	Assets					**Liabilities**			
	Available for sale	**Held for trading**	**Designated at fair value**	**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	**450**	**21**	**26**	**–**	**497**	**20**	**–**	**–**	**20**
Asset-backed securities	**854**	**522**	**–**	**–**	**1,376**	**–**	**–**	**–**	**–**
Structured notes	**–**	**2**	**–**	**–**	**2**	**1,058**	**–**	**–**	**1,058**
Derivatives	**–**	**–**	**–**	**2,058**	**2,058**	**–**	**–**	**1,561**	**1,561**
Other portfolios	**13**	**1,619**	**1**	**–**	**1,633**	**–**	**1**	**–**	**1**
30 Jun 2017	**1,317**	**2,164**	**27**	**2,058**	**5,566**	**1,078**	**1**	**1,561**	**2,640**
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
31 Dec 2016	982	2,721	21	2,151	5,875	762	5	1,877	2,644

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

Movement in Level 3 financial instruments

	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 2017	**982**	**2,721**	**21**	**2,151**	**762**	**5**	**1,877**
Total gains/(losses) recognised in profit or loss	**12**	**(77)**	**(3)**	**(60)**	**36**	**(4)**	**161**
– trading income/(expense) excluding net interest income	**–**	**(77)**	**–**	**(60)**	**36**	**–**	**161**
– net income/(expense) from other financial instruments designated at fair value	**–**	**–**	**(3)**	**–**	**–**	**(4)**	**–**
– gains less losses from financial investments	**12**	**–**	**–**	**–**	**–**	**–**	**–**
Total gains/(losses) recognised in other comprehensive income ('OCI')[1]	**24**	**(75)**	**1**	**8**	**8**	**–**	**2**
– available-for-sale investments: fair value gains/(losses)	**36**	**–**	**–**	**–**	**–**	**–**	**–**
– exchange differences	**(12)**	**(75)**	**1**	**8**	**8**	**–**	**2**
Purchases	**17**	**418**	**8**	**–**	**–**	**–**	**–**
New issuances	**–**	**–**	**–**	**–**	**438**	**–**	**–**
Sales	**(59)**	**(725)**	**–**	**–**	**(9)**	**–**	**–**
Settlements	**(4)**	**(213)**	**–**	**(4)**	**(105)**	**–**	**(196)**
Transfers out	**(197)**	**(27)**	**–**	**(118)**	**(52)**	**–**	**(296)**
Transfers in	**542**	**142**	**–**	**81**	**–**	**–**	**13**
30 Jun 2017	**1,317**	**2,164**	**27**	**2,058**	**1,078**	**1**	**1,561**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2017	**–**	**17**	**(1)**	**(100)**	**135**	**–**	**88**
– trading income/(expense) excluding net interest income	**–**	**17**	**–**	**(100)**	**135**	**–**	**88**
– net income/(expense) from other financial instruments designated at fair value	**–**	**–**	**(1)**	**–**	**–**	**–**	**–**
At 1 Jan 2016	1,465	2,442	2	1,458	497	2	745
Total gains/(losses) recognised in profit or loss	–	100	–	978	196	–	845
– trading income/(expense) excluding net interest income	–	100	–	978	196	–	845
Total gains/(losses) recognised in other comprehensive income ('OCI')[1]	173	21	–	30	25	–	3
– available-for-sale investments: fair value gains/(losses)	120	–	–	–	–	–	–
– exchange differences	53	21	–	30	25	–	3
Purchases	83	49	–	–	–	–	–
New issuances	–	–	–	–	619	–	–
Sales	(487)	(731)	(1)	–	(11)	(1)	–
Settlements	(25)	(10)	–	(69)	(98)	–	(147)
Transfers out	(398)	(25)	–	(83)	(74)	–	(82)
Transfers in	227	605	–	6	1	–	224
30 Jun 2016	1,038	2,451	1	2,320	1,155	1	1,588
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2016	2	25	–	829	163	–	165
– trading income/(expense) excluding net interest income	–	25	–	829	163	–	165
– loan impairment charges and other credit risk provisions	2	–	–	–	–	–	–

Movement in Level 3 financial instruments (continued)

	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 Jul 2016	1,038	2,451	1	2,320	1,155	1	1,588
Total gains/(losses) recognised in profit or loss	(3)	(85)	–	16	12	–	201
– trading income/(expense) excluding net interest income	–	(85)	–	16	12	–	201
– gains less losses from financial investments	(3)	–	–	–	–	–	–
Total gains/(losses) recognised in other comprehensive income ('OCI')[1]	89	5	–	13	8	–	3
– available-for-sale investments: fair value gains/(losses)	61	–	–	–	–	–	–
– exchange differences	28	5	–	13	8	–	3
Purchases	37	403	21	–	16	4	–
New issuances	–	–	–	–	231	–	–
Sales	(45)	(419)	(1)	–	(19)	–	–
Settlements	(24)	(184)	–	(99)	(537)	–	140
Transfers out	(306)	(74)	–	(100)	(104)	–	(94)
Transfers in	196	624	–	1	–	–	39
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	23	(160)	(1)	(523)	(221)	–	(314)
– trading income/(expense) excluding net interest income	–	(160)	–	(523)	(221)	–	(314)
– net income from other financial instruments designated at fair value	–	–	(1)	–	–	–	–
– loan impairment charges and other credit risk provisions	23	–	–	–	–	–	–

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

	At							
	30 Jun 2017				31 Dec 2016			
	Reflected in profit or loss		**Reflected in OCI**		Reflected in profit or loss		Reflected in OCI	
	Favourable changes	**Unfavourable changes**	**Favourable changes**	**Unfavourable changes**	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Derivatives, trading assets and trading liabilities[1]	**129**	**(125)**	**–**	**–**	136	(128)	–	–
Financial assets and liabilities designated at fair value	**–**	**–**	**–**	**–**	–	(1)	–	–
Financial investments: available for sale	**10**	**(4)**	**63**	**(56)**	10	(3)	62	(54)
Total	**139**	**(129)**	**63**	**(56)**	146	(132)	62	(54)

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

	At							
	30 Jun 2017				31 Dec 2016			
	Reflected in profit or loss		**Reflected in OCI**		Reflected in profit or loss		Reflected in OCI	
	Favourable changes	**Unfavourable changes**	**Favourable changes**	**Unfavourable changes**	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Private equity including strategic investments	**7**	**(6)**	**36**	**(29)**	7	(5)	41	(33)
Asset-backed securities	**19**	**(11)**	**26**	**(26)**	30	(7)	21	(21)
Structured notes	**5**	**(5)**	**–**	**–**	5	(6)	–	–
Derivatives	**81**	**(78)**	**–**	**–**	71	(70)	–	–
Other portfolios	**27**	**(29)**	**1**	**(1)**	33	(44)	–	–
Total	**139**	**(129)**	**63**	**(56)**	146	(132)	62	(54)

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

	At											
	30 Jun 2017								31 Dec 2016			
	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	497	20	See notes[2]	See notes[2]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Asset-backed securities	1,376	–										
– CLO/CDO[3]	154	–	Market proxy	Bid quotes	–	100	50	77	–	101	42	94
– other ABSs	1,222	–	Market proxy	Bid quotes	–	100	51	98	–	96	57	90
Structured notes	2	1,058										
– equity-linked notes	–	729	Model-Option model	Equity volatility	7%	73%	12%	28%	12%	96%	13%	40%
	–	250	Model-Option model	Equity correlation	33%	97%	43%	61%	33%	91%	43%	80%
– fund-linked notes	–	5	Model-Option model	Fund volatility	6%	8%	6%	8%	6%	11%	6%	11%
– FX-linked notes	–	21	Model-Option model	FX volatility	5%	17%	5%	17%	6%	24%	6%	24%
– other	2	53										
Derivatives	2,058	1,561										
– interest rate												
securitisation swaps	666	943	Model-Discounted cash flow	Prepayment rate	1%	90%	5%	13%	–%	90%	8%	27%
long-dated swaptions	889	76	Model-Option model	IR volatility	–%	70%	17%	68%	8%	101%	21%	39%
other	24	14										
– FX derivatives												
FX options	63	41	Model-Option model	FX volatility	–%	30%	–%	30%	1%	26%	11%	17%
– equity derivatives												
long-dated single stock options	64	146	Model-Option model	Equity volatility	7%	82%	7%	29%	11%	84%	15%	34%
other	344	318										
– credit derivatives	8	23										
Other portfolios	1,633	1										
– structured certificates	934	–	Model-Discounted cash flow	Credit volatility	3%	4%	2%	3%	3%	4%	3%	4%
– other	699	1										
Total	5,566	2,640										

1 *The core range of inputs is the estimated range within which 90% of the inputs fall.*
2 *See notes on page 104 of the* Annual Report and Accounts 2016*.*
3 *Collateralised loan obligation/collateralised debt obligation.*

5 Fair values of financial instruments not carried at fair value

Fair values of financial instruments not carried at fair value and bases of valuation

		Fair value			
	Carrying amount	Quoted market price Level 1	Observable inputs Level 2	Significant unobservable inputs Level 3	Total
	£m	£m	£m	£m	£m
30 Jun 2017					
Assets					
Loans and advances to banks	**18,162**	**–**	**16,487**	**1,675**	**18,162**
Loans and advances to customers	**278,214**	**–**	**1,535**	**278,515**	**280,050**
Reverse repurchase agreements – non-trading	**42,854**	**–**	**42,853**	**–**	**42,853**
Liabilities					
Deposits by banks	**27,796**	**–**	**27,771**	**–**	**27,771**
Customer accounts	**385,766**	**–**	**384,915**	**857**	**385,772**
Reverse repurchase agreements – non-trading	**32,803**	**–**	**32,803**	**–**	**32,803**
Debt securities in issue	**14,225**	**–**	**14,223**	**–**	**14,223**
Subordinated liabilities	**9,246**	**–**	**9,549**	**–**	**9,549**
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[1]	31,660	–	31,660	–	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

1 *Restated to include instruments that are valued using observable inputs in Level 2 rather than Level 3.*

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.

The basis for measuring the fair values of loans and advances to banks and customers, financial investments, deposits by banks, customer accounts, debt securities in issue and subordinated liabilities is consistent with that detailed in the *Annual Report and Accounts 2016*.

6 Goodwill and intangible assets

Impairment testing

As described on page 114 of the *Annual Report and Accounts 2016*, we test goodwill for impairment as at 1 July each year and whenever there is an indication that goodwill may be impaired. At 30 June 2017, we reviewed the inputs used in our most recent impairment test in the light of current economic and market conditions and there was no indication of goodwill impairment.

7 Provisions

	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 2017	**897**	**1,095**	**253**	**53**	**133**	**2,431**
Additions	**253**	**23**	**42**	**4**	**32**	**354**
Amounts utilised	**(187)**	**(74)**	**(104)**	**(1)**	**(19)**	**(385)**
Unused amounts reversed	**(29)**	**(317)**	**(52)**	**(7)**	**(19)**	**(424)**
Exchange and other movements	**(1)**	**(28)**	**(24)**	**(4)**	**(4)**	**(61)**
30 Jun 2017	**933**	**699**	**115**	**45**	**123**	**1,915**
At 1 Jan 2016	868	884	163	27	115	2,057
Additions	79	102	52	6	27	266
Amounts utilised	(241)	(3)	(36)	—	(29)	(309)
Unused amounts reversed	(9)	(3)	(4)	(15)	(16)	(47)
Exchange and other movements	1	109	4	5	24	143
30 Jun 2016	698	1,089	179	23	121	2,110
At 1 Jul 2016	698	1,089	179	23	121	2,110
Additions	489	29	126	30	64	738
Amounts utilised	(232)	(31)	(32)	—	(36)	(331)
Unused amounts reversed	(55)	(64)	(27)	(6)	(23)	(175)
Exchange and other movements	(3)	72	7	6	7	89
31 Dec 2016	897	1,095	253	53	133	2,431

Customer remediation

Provisions include £933m (2016: £897m) in respect of customer redress programmes. The most significant of these provisions relates to Payment Protection Insurance.

Payment Protection Insurance

£816m (2016: £746m) relates 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 £3.6bn of which £2.8bn has been paid as at 30 June 2017.

An increase in provisions of £239m was recognised during the period, primarily reflecting a recent increase in complaint volumes, along with a delay to the inception of the expected time bar on inbound complaint volumes.

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. The gross written premiums on these policies was approximately £3.4bn. At 30 June 2017, the estimated total complaints expected to be received were 2.1 million, representing 39% of total policies sold. It is estimated that contact will be made with regard to 2.5 million policies, representing 46% 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 30 June 2017 and the number of claims expected in the future:

Cumulative PPI complaints received to 30 June 2017 and future claims expected

	Cumulative actual to 30 Jun 2017	Future expected
Inbound complaints ('000s of policies)[1]	**1,443**	**356**
Outbound contact ('000s of policies)	**685**	**—**
Response rate to outbound contact	**44%**	**n/a**
Average uphold rate per claim[2]	**76%**	**83%**
Average redress per claim (£)	**1,970**	**2,153**
Complaints to Financial Ombudsman Service ('FOS') ('000s of policies)	**137**	**42**
Average uphold rate per FOS claim	**40%**	**47%**

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.

Legal proceedings and regulatory matters

Further details of legal proceedings and regulatory matters are set out in Note 9. 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.

8 Contingent liabilities, contractual commitments and guarantees

	At	
	30 Jun 2017	31 Dec 2016
	£m	£m
Guarantees and other contingent liabilities:		
Financial guarantees and similar contracts	**12,381**	12,895
Other guarantees	**8,350**	8,290
Other contingent liabilities	**243**	268
Total	**20,974**	21,453
Commitments:		
Documentary credits and short-term trade-related transactions	**3,319**	3,548
Forward asset purchases and forward deposits placed	**231**	322
Standby facilities, credit lines and other commitments to lend[1]	**152,120**	146,641
Total	**155,670**	150,511

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 9.

9 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 at 30 June 2017 (see Note 7). 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, 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. In March 2017, the Trustee submitted a notice of appeal to the US Court of Appeals for the Second Circuit (the 'Second Circuit Court of Appeals'), which has not yet determined whether it will hear the 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. In January 2017, the defendants filed their consolidated motion to dismiss, and opposition to, the Fairfield Liquidators' motion seeking leave to amend. These motions remain pending.

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. In March 2017, the court granted HSBC's motion to dismiss. The plaintiffs in that action have appealed to the Second Circuit Court of Appeals, where the matter is 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. The trial concluded in February 2017, and the case remains pending before the court for a decision.

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.

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 by the High Court in October 2015. In March 2017, the Irish Court of Appeal affirmed the dismissal. In April 2017, SPV OSUS filed an application seeking leave to appeal the dismissal to the Irish Supreme Court. A decision on leave has not yet been issued.

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 and regulatory 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 HSBC is reviewing further with the DoJ, FRB and/or FCA. 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 pages 17 and 31 of the *Annual Report and Accounts 2016*.

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. The lawsuit filed in Illinois has been transferred to New York. 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 imposed a fine on HSBC based on a one-month infringement. 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. The dismissal of the antitrust claims was appealed to the US Court of Appeals for the Second Circuit, which reversed the decisions in May 2016. In July 2016, defendants filed a joint motion to dismiss the antitrust claims on additional grounds not previously addressed by the court 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. Certain plaintiffs have appealed the December 2016 order to the US Court of Appeals for the Second Circuit. Separately, in October 2016, the New York District Court granted a motion to dismiss claims brought by certain individual plaintiffs for lack of personal jurisdiction, which is also on appeal to the Second Circuit. Finally, in January 2017, the District Court granted the defendants' motion to dismiss certain of the remaining antitrust claims against defendants that did not serve on the US dollar Libor submission panel. In the New York District Court, the cases with remaining claims against HSBC have been stayed while the court considers motions to certify classes in several putative class actions that are pending against HSBC's co-defendants.

In March 2017 and June 2017, respectively, HSBC reached an agreement with plaintiffs to resolve a putative class action brought on behalf of persons who purchased US dollar Libor-indexed bonds and a putative class action brought on behalf of persons who purchased exchange-traded instruments indexed to US dollar Libor. Both settlements are subject to court approval.

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 December 2016, HSBC reached an agreement with plaintiffs to resolve this action, subject to court approval. The court issued an order granting preliminary approval in January 2017, and has scheduled the final approval hearing in May 2018.

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

Supranational, sovereign and agency bonds

In April 2017, various HSBC companies, among other banks, were named as defendants in a putative class action alleging a conspiracy to manipulate the market for US dollar-denominated supranational, sovereign and agency bonds between 2005 and 2007 in violation of US antitrust laws. In July 2017, defendants filed a motion to dismiss. This action 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.

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 civil and criminal 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 two now-former HSBC employees 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. HSBC is in active discussions with US regulators and the DoJ regarding a potential resolution of their investigations into HSBC's foreign exchange conduct.

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. CADE has also publicly announced that it is initiating a separate investigation into the onshore foreign exchange market and has identified a number of banks, including HSBC, as subjects of its investigation.

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. In April 2017, HSBC filed an exception to the complaint, based on a lack of jurisdiction and statute of limitations. 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 settlement remains subject to final approval by the court.

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. The court dismissed the claims in the ERISA action, and the plaintiffs have appealed to the US Court of Appeals for the Second Circuit. In May 2015, another complaint was filed in the US District Court for the Northern District of California making similar allegations on behalf of retail customers. HSBC filed a motion to transfer that action from California to New York, which was granted in November 2015. In March 2017, the New York District Court dismissed the retail customers' complaint in response to the defendants' joint motion to dismiss. The retail customer plaintiffs have requested leave to file an amended complaint in response to the court's ruling. In April and June 2017, putative class actions making similar allegations on behalf of purported 'indirect' purchasers of foreign exchange products were filed in New York. Those plaintiffs subsequently filed a consolidated amended complaint. HSBC's motion to dismiss the consolidated amended complaint is due in August 2017.

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. In June 2017, HSBC reached an agreement with the plaintiffs to resolve these actions. The settlement is subject to court approval.

At 30 June 2017, the bank has revised the provision for these and similar matters to £621m. 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 June 2013, 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 June 2017, the court granted plaintiffs leave to file a third amended complaint, which names a new defendant. The court has denied the pre-existing defendants' request for leave to file a joint motion to dismiss. HSBC and the other pre-existing defendants have requested a stay of discovery.

Beginning in December 2015, numerous 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 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. These actions are 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 2007 to December 2013, 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 June 2017, the court granted plaintiffs leave to file a third amended complaint, which names several new defendants. The court has denied the pre-existing defendants' request for leave to file a joint motion to dismiss. HSBC and the other pre-existing defendants have requested a stay of discovery.

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 November 2014, 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. In March 2017, the Defendants' motion to dismiss the second amended consolidated complaint was granted in part and denied in part. In June 2017, plaintiffs filed a third amended complaint. The court has granted the defendants' request to file a joint motion to dismiss.

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

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. In June 2017, certain plaintiffs in the consolidated action brought a separate individual action in the New York District Court, against the same defendants, alleging similar violations of federal and antitrust laws and breaches of common law in relation to the credit default swap market. These matters 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 matters, including the timing or any possible impact on HSBC, which could be significant.

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

HSBC has received enquiries 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 have been stayed. It is possible that HSBC Private Bank (UK) Limited may be subject to additional claims, any of which could be significant.

10 Related party transactions

The only material change in the composition of the group in the half-year to 30 June 2017 is the transfer of HSBC Bank A.S. as described on pages 5 and 32. This was the only change in the related party transactions described in Note 31 of the *Annual Report and Accounts 2016* that has had a material effect on the financial position or performance of HSBC in the half-year to 30 June 2017.

All related party transactions that took place in the half-year to 30 June 2017 were similar in nature to those disclosed in the *Annual Report and Accounts 2016*.

11 Events after the balance sheet date

A first interim dividend for 2017 of £186m to the shareholder of the parent company was declared on 31 July 2017 by the Directors.

12 *Interim Report 2017* and statutory accounts

The information in this *Interim Report 2017* is unaudited and does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The *Interim Report 2017* was approved by the Board of Directors on 31 July 2017. The statutory accounts for the year ended 31 December 2016 have been delivered to the Registrar of Companies in England and Wales in accordance with section 447 of the Companies Act 2006. The group's auditor, PricewaterhouseCoopers LLP ('PwC'), has reported on those accounts. Its report was unqualified, did not include a reference to any matters to which PwC drew attention by way of emphasis without qualifying their report, and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

HSBC Bank plc

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

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