SUPPLEMENTARY LISTING PARTICULARS

HSBC Bank plc

(A company incorporated with limited liability in England with registered number 14259)

as Issuer

PROGRAMME FOR THE ISSUANCE OF NOTES AND WARRANTS

This supplement (the "**Supplement**") to the offering memorandum dated 18 June 2014 relating to the Programme for the Issuance of Notes and Warrants (the "**Offering Memorandum**", which constitutes listing particulars for the purposes of listing on the Official List of the Irish Stock Exchange ("**Listing**") and trading on the Global Exchange Market of the Irish Stock Exchange and, for the avoidance of doubt, which does not constitute (i) a prospectus for the purposes of Part VI of the Financial Services and Markets Act 2000 (as amended) or (ii) a base prospectus for the purposes of Directive 2003/71/EC (as amended)) constitutes supplementary listing particulars (pursuant to rule 3.10 of the Global Exchange Market Listing and Admission to Trading – Rules) for the purposes of Listing.

Terms defined in the Offering Memorandum have the same meaning when used in this Supplement.

This Supplement is supplemental to, and should be read in conjunction with, the Offering Memorandum and any other supplements to the Offering Memorandum prepared by HSBC Bank plc, as issuer (the "**Issuer**") in relation to its Programme for the Issuance of Notes and Warrants.

This Supplement has been approved by the Irish Stock Exchange for the purposes of Listing.

The Issuer accepts responsibility for the information contained in this Supplement. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

The purpose of this Supplement is to:

- disclose that on 4 August 2014, the Issuer published its unaudited consolidated interim report for the six months ended 30 June 2014 (the "**Unaudited Consolidated Interim Report**"), a copy of which is annexed hereto. Any document incorporated by reference into the Unaudited Consolidated Interim Report does not form part of this Supplement; and

- update the risk factors relating to the Issuer in the Offering Memorandum with the latest updated information set out in the sections entitled “Principal Risks and Uncertainties” on pages 7 to 11, “Areas of Special Interest” on pages 12 to 13, “Regulation and Supervision” on pages 13 to 14 and “Legal proceedings, investigations and regulatory matters” on pages 44 to 49, in each case, of the Unaudited Consolidated Interim Report.

To the extent that there is any inconsistency between (a) any statement in this Supplement and (b) any other statement in or incorporated by reference in the Offering Memorandum prior to the date of this Supplement, the statement in this Supplement will prevail.

Save as disclosed in this Supplement, no significant new factor, material mistake or inaccuracy relating to information included in the Offering Memorandum has arisen or been noted, as the case may be, since the publication of the Offering Memorandum.

19 August 2014

ANNEX

HSBC Bank plc 2014 Unaudited Consolidated Interim Report

HSBC Bank plc
Interim Report 2014

HSBC

Interim Report 2014

Contents

Presentation of Information

This document is the Interim Report 2014 for HSBC Bank plc ('the bank') (Company No. 14259) and its subsidiary undertakings (together 'the group'). It contains the Interim Management Report and Condensed Financial Statements of the group, together with the Auditor's review report, as required by the Financial Conduct Authority's ('FCA') Disclosure and Transparency Rules ('DTR'). References to 'HSBC' or 'the Group' within this document mean HSBC Holdings plc together with its subsidiaries.

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

Unless otherwise stated commentary on the income statement compares the six months to 30 June 2014 to the same period in the prior year. Balance sheet commentary compares the position as at 30 June 2014 to 31 December 2013.

In accordance with IAS 34 the Interim Report is intended to provide an update on the *Annual Report and Accounts 2013* and therefore focusses on events during the six months of 2014 rather than duplicating information previously reported.

Cautionary Statement Regarding Forward-Looking Statements

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

Certain statements that are not historical facts, including statements about the group's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they have been revised or updated in the light of new information or subsequent events.

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement.

Interim Management Report: Highlights

	Half-year to		
	30 June 2014	30 June 2013	31 December 2013
For the period (£m)			
Profit on ordinary activities before tax	**1,902**	2,273	1,021
Total operating income	**7,319**	8,377	7,491
Net operating income before loan impairment charges and other credit risk provisions	**6,111**	6,925	5,915
Profit attributable to shareholders of the parent company	**1,499**	1,681	814
At period end (£m)			
Total equity attributable to shareholders of the parent company	**33,394**	31,911	32,370
Risk-weighted assets[1]	**235,300**	200,368	185,879
Loans and advances to customers (net of impairment allowances)[2]	**278,204**	266,618	273,722
Customer accounts[3]	**356,932**	332,634	346,358
Capital ratios[1,4] (%)			
Common Equity Tier 1 / Core Tier 1 ratio	**9.3**	11.1	12.1
Total Tier 1 ratio	**10.0**	12.0	13.0
Total capital ratio	**14.1**	16.9	18.0
Performance and efficiency ratios (annualised %)			
Return on average shareholders' funds (equity)	**9.3**	10.6	5.2
Pre-tax return on average risk-weighted assets	**1.6**	2.3	1.1
Cost efficiency ratio[5]	**66.3**	59.2	75.6
Financial ratios (%)			
Ratio of customer advances to customer accounts	**77.9**	80.2	79.0
Average total shareholders' equity to average total assets[6]	**4.1**	3.7	3.8

1 *Current period RWAs and ratios are based on CRD IV capital rules (refer to page 13). Comparative period RWAs and ratios are based on CRD III capital rules.*
2 *Comparatives have been represented to exclude reverse repurchase agreements – non trading previously included (refer to Note 1).*
3 *Comparatives have been represented to exclude repurchase agreements – non trading previously included (refer to Note 1).*
4 *Includes profits for the period to 30 June 2014 after deducting the interim dividend of £0.6 billion declared by the Board of Directors after 30 June 2014.*
5 *The cost efficiency ratio is defined as total operating expenses divided by net operating income before loan impairment charges and other credit risk provisions.*
6 *This ratio differs from the calculation of the Basel III leverage ratio, which is based on regulatory Tier 1 capital to total exposure (also including off-balance sheet items and adjustments for derivatives, securitisation funding transactions and netting).*

Highlights

HSBC Bank plc and its subsidiaries reported a profit before tax of £1,902 million in the first half of 2014, compared with £2,273 million and £1,021 million in the first and second halves of 2013, respectively. The decrease was largely due to lower revenue in Global Banking and Markets ('GB&M') and Retail Banking and Wealth Management ('RBWM'). This was partially offset by a decline in loan impairment charges across the Global Businesses, notably Commercial Banking ('CMB').

In RBWM, the group approved £6.5 billion of new mortgage lending to over 56,000 customers, including £1.8 billion to over 13,000 first time buyers in the first half of 2014. RBWM continued to be rated the 'Best Bank Mortgage Provider' in the UK (*Moneyfacts Awards 2014*) for the sixth consecutive year. The loan-to-value ratio on new lending remained robust at 59.7 per cent compared to an average of 46.3 per cent for the total mortgage portfolio.

In CMB, the loan book declined compared to the first half of 2013. However, new lending and re-financing was up 23 per cent from 2013. This was offset by higher levels of repayments in the existing loan book. The business continued to approve over 80 per cent of small business loan applications. Following the success of the SME Fund last year, France allocated an additional £1.2 billion to support customers seeking international growth, approving £0.7 billion of lending in the first half of 2014. In Turkey, the business set up a strategic partnership with the Exporters' Association for customers seeking to trade internationally and embarked upon structural optimisation of the branch network to drive efficiencies. In addition, across Europe, Group Trade and Receivable Finance ('GTRF') launched a series of initiatives to enable customers to fulfil their international trade ambitions, which included the roll out of Trade Academies workshops and launch of the Trade Radar publication in local languages.

In GB&M the Capital Financing business was successful with a number of transactions. The Debt Capital Markets business continued to be rated in the top 3 in the UK. Through collaboration with CMB the business acted as joint book-runner on a rights issue for a UK client, the largest ever book-running mandate for a UK CMB client. This demonstrated the ability to leverage connections between global businesses.

HSBC Values and Global Standards

The role of HSBC Values in daily operating practice is fundamental to the group's culture, and is particularly important in the light of developments in regulatory policy, investor confidence and society's expectations of banks. The group requires high standards of behaviour from all its employees. HSBC's Values are dependable, open and connected form part of the performance assessment of every employee.

The group continued to educate employees at all levels about its values through induction and other learning programmes covering Group strategy, leadership and professional skills. Also, a number of employees have left the group for breaching Group values. To achieve a values-led high performance culture, leaders are being coached to listen, to be open to other people's views and to engage in honest and meaningful conversations. In 2014, the group expects participation in its Values-led High Performance Workshop to extend to 20,000 employees.

The group has continued to strengthen the alignment of employee compensation to its values and expected behaviours through the development of a malus and clawback policy, enhanced communication to employees and guidance to line management outlining how behaviours will impact remuneration. It is also developing a framework to more consistently apply consequence management across the Group for behaviours and outcomes that are not aligned with its values, business principles and regulation.

HSBC has developed Global Standards shaped by the highest or most effective standards of financial crime compliance available in any jurisdiction where HSBC operates and is now in the process of deploying these globally on a consistent basis. By definition, the impact of Global Standards is organisation-wide, and the principal means by which the group drives consistently high standards is through universal application of HSBC Values, strong systems of governance and the behaviours, performance and recognition of all its people in managing high quality customer relationships.

Following Board approval of HSBC's global anti-money laundering ('AML') and sanctions policies in January 2014, the programme to implement Global Standards is transitioning from the design phase into deployment.

The global businesses and Financial Crime Compliance organisation, supported by HSBC Technology and Services, are formally accountable for delivering business procedures, controls and the associated operating environment to implement new policies within each global business and jurisdiction.

To ensure that programme governance reflects this shift in accountability, the Group has revised the composition of the Global Standards Execution Committee ('GSEC') to include the Chief Executive Officers of each global business, under the chairmanship of the Group Chief Risk Officer.

Correspondingly, and to promote closer integration with business as usual, a report on the implementation of Global Standards has now become a standing item at the Group's Risk Management Meeting. This replaces the Global Standards Steering Meeting (formerly a meeting of the Group Management Board). The Financial System Vulnerabilities Committee and the Board continue to receive regular reports on the Global Standards programme. The implementation programme is described further on page 2 of the *Annual Report and Accounts 2013*.

Economic background

The UK recovery gained pace during the first half of 2014, with real Gross Domestic Product ('GDP') expanding by 0.8 per cent in the period and unemployment falling to 6.5 per cent in May. One measure of consumer confidence rose to a nine-year high in June, and house prices rose 10.5 per cent in the 12 months to May. Early signs of overheating in the housing market prompted the Bank of England to announce in June a number of macro-prudential measures to prevent a build-up of debt in the household sector. Consumer spending was the main contributor to the improvement in activity. Annual Consumer Price Index ('CPI') inflation meanwhile fell below the central bank's target of 2 per cent through the first half of the year. The Bank of England kept the Bank Rate and its Asset Purchase Programme steady at 0.5 per cent and £375 billion, respectively.

The recovery in the eurozone stalled in the first months of the year. Real GDP in the region as a whole grew by 0.2 per cent in the first quarter relative to the final quarter of 2013, but the recovery was increasingly uneven. The German and Spanish economies expanded but many other countries in the region saw economic activity contract. Domestic weakness and the strength of the euro contributed to a decline in inflation, which fell to 0.5 per cent in June. The likelihood that low growth and inflation could persist for an extended period prompted the European Central Bank ('ECB') to cut both the refinancing and deposit rates by 0.1 per cent in June, taking the latter into negative territory.

Interim Management Report: Business Review (continued)

In Turkey, GDP in the first quarter grew by 4.3 per cent relative to the same period one year ago. Growth was broadly balanced between domestic demand and net foreign demand. However, private investment fell by 1.3 per cent in the first quarter relative to last year. Inflation remained elevated in the first five months of the year, with the annual rate of CPI inflation averaging 8.6 per cent, well above the Central Bank of Turkey's ('CBRT') target of 5.0 per cent. In the first quarter the CBRT tightened monetary policy by raising the key policy rate by 225 basis points followed by a cut of 175 basis points in the second quarter and suggested that further easing was likely going forward.

Financial summary

Summary consolidated income statement

	Half year to		
	30 June 2014	30 June 2013	31 December 2013
	£m	£m	£m
Net interest income	**3,241**	3,437	3,524
Net fee income	**1,697**	1,648	1,688
Net trading income / (expense)	**585**	2,518	(145)
Net income / (expense) from financial instruments designated at fair value	**659**	(512)	1,412
Gains less losses from financial investments	**84**	123	(23)
Net earned insurance premiums	**943**	1,132	890
Other operating income	**110**	31	145
Total operating income	**7,319**	8,377	7,491
Net insurance claims incurred and movements in liabilities to policy holders	**(1,208)**	(1,452)	(1,576)
Net operating income before impairment charges and other credit risk provisions	**6,111**	6,925	5,915
Loan impairment charges and credit risk provisions	**(161)**	(550)	(421)
Net operating income	**5,950**	6,375	5,494
Total operating expenses	**(4,049)**	(4,103)	(4,472)
Operating profit	**1,901**	2,272	1,022
Share of profit/ (loss) of associates and joint ventures	**1**	1	(1)
Profit before tax	**1,902**	2,273	1,021
Tax (expense)	**(383)**	(567)	(187)
Profit for the period	**1,519**	1,706	834
Profit attributable to shareholders of the parent company	**1,499**	1,681	814
Profit attributable to non-controlling interests	**20**	25	20

Review of business performance

HSBC Bank plc and its subsidiaries reported a profit before tax of £1,902 million in the first half of 2014, compared with profits of £2,273 million and £1,021 million in the first and second halves of 2013, respectively.

Items arising in 2014 which are significant compared to 2013 have been summarised on page 15.

Net interest income decreased by £196 million compared with the first half of 2013. This was primarily due to a provision of £215 million arising from a review of compliance with the Consumer Credit Act ('CCA') in the first half of 2014, in RBWM and CMB. This was partially offset by a rise in GB&M primarily due to volume growth in Capital Financing and an increase in average balances of available-for-sale debt securities. Net interest income in CMB also increased, mainly in the UK, from higher spreads on new term lending and deposit growth in Payments and Cash Management ('PCM').

Net fee income increased by £49 million compared with the first half of 2013. In GB&M net fee income increased by £84 million primarily due to lower fees paid to HSBC entities from other regions relating to decreased Rates and Foreign Exchange trading activities undertaken for their clients. CMB fee income grew by £38 million, reflecting higher levels of lending in the UK, notably in the Corporate segment. This was partially offset by a £73 million reduction in RBWM fee income in the UK, as a result of the higher fees payable under partnership agreements.

Interim Management Report: Business Review (continued)

Net trading income decreased by £1,933 million compared with the first half of 2013. Of this decrease, £1,188 million was due to foreign exchange movements on trading assets held as economic hedges of foreign currency debt held at fair value. In addition, there was an adverse year-on-year movement in the derivatives debit valuation adjustment ('DVA') of £245 million.

In Markets, trading revenue declined in Foreign Exchange and to a lesser extent in Rates, reflecting lower client activity in an environment of investor uncertainty and reduced volatility in Foreign Exchange markets. This was partially offset by an increase in Equities revenues as the group successfully positioned the business to capture increased client activity.

In RBWM, net trading income decreased, driven by negative fair value adjustments on non-qualifying hedges in the French home loan portfolio.

Net income from financial instruments designated at fair value of £659 million improved by £1,171 million on the prior year due to hedged foreign currency. In addition, net income arising from financial assets held to meet liabilities under insurance and investment contracts increased, reflecting favourable equity market movements in France partly offset by adverse movements in the UK.

Gains less losses from financial investments decreased 32 per cent to £84 million, primarily due to lower net gains on the disposal of available-for-sale government debt securities in GB&M Balance Sheet Management, notably in the UK.

Net earned insurance premiums decreased 17 per cent to £943 million, primarily due to lower sales of investment contracts in RBWM France, as well as lower volumes following the run-off of business from independent financial advisor distribution channels in the UK in the second half of 2013.

Other operating income increased by £79 million to £110 million, largely from gains in Legacy Credit in GB&M due to price appreciation across major asset classes in the asset-backed securities market. This was partially offset by a decrease in the present value of in-force ('PVIF') long term insurance business in RBWM.

Net insurance claims incurred and movement in liabilities to policyholders decreased by £244 million to £1,208 million reflecting the net trading loss on economic hedges and the decrease in new business written. This was partly offset by higher investment returns on equity products.

Loan impairment charges and other credit risk provisions decreased 71 per cent to £161 million. This was mainly due to lower individually and collectively assessed provisions in CMB, reflecting both the improved quality of the portfolio and the economic environment. GB&M in the UK recorded higher net releases on available-for-sale asset-backed securities partially offset by higher individually assessed provisions in France. In RBWM, there were lower individually and collectively assessed provisions in the UK, reflecting improved delinquency rates, partially offset by lower recoveries of written off debt.

Total operating expenses decreased by 1 per cent to £4,049 million, primarily due to lower UK customer redress provisions and lower litigation costs. Redress provisions included a charge of £116 million (H1 2013: £238 million) for additional estimated redress for possible mis-selling in previous years of payment protection insurance ('PPI') policies; and £25 million (H1 2013: £nil) in respect of interest rate protection products. Litigation related expenses decreased by £278 million, reflecting an insurance recovery recognised in 2014 relating to Madoff litigation costs that had been recognised in 2013, which did not recur in 2014.

The reduction in expenses was partially offset by the non-recurrence of a 2013 accounting gain of £280 million relating to the changes in delivering ill-health benefits to certain UK employees and the timing of the recognition of the Financial Services Compensation Scheme ('FSCS') levy in the UK. During the first half of 2014 the group also maintained its strict cost control discipline and benefited from the delivery of its organisational effectiveness programmes. Compared to the first half of 2013 full time equivalent staff numbers across the group have fallen by 1 per cent.

Tax expense totalled £383 million, compared to £567 million in the first half of 2013. The effective tax rate for the first half of 2014 was 20.1 per cent, compared to 24.9 per cent for the same period in 2013. The decrease in tax expense was driven by the reduction in the UK tax rate and an increase in non-taxable income.

Interim Management Report: Business Review (continued)

Review of business position

Summary consolidated balance sheet

	At 30 June 2014 £m	At 31 December 2013 £m
Total assets	**810,196**	811,695
Cash and balances at central banks	**47,999**	67,584
Trading assets	**149,282**	134,097
Financial assets designated at fair value	**11,312**	16,661
Derivative assets	**131,813**	137,239
Loans and advances to banks	**24,635**	23,013
Loans and advances to customers	**278,204**	273,722
Reverse repurchase agreements – non-trading	**63,484**	61,525
Financial investments	**76,119**	75,030
Other	**27,348**	22,824
Total liabilities	**776,243**	778,776
Deposits by banks	**31,931**	28,769
Customer accounts	**356,932**	346,358
Repurchase agreements – non-trading	**58,340**	65,573
Trading liabilities	**100,544**	91,842
Financial liabilities designated at fair value	**27,946**	34,036
Derivative liabilities	**131,301**	137,352
Debt securities in issue	**25,677**	32,895
Liabilities under insurance contracts issued	**17,470**	19,228
Other	**26,102**	22,723
Total equity	**33,953**	32,919
Total shareholders' equity	**33,394**	32,370
Non-controlling interests	**559**	549

Total assets remained largely unchanged at £810 billion, principally reflecting a reduction in cash and balances at central banks as surplus liquidity was redeployed, offset by higher settlement balances.

Customer deposits increased during the first half of 2014, further enhancing the group's strong liquidity position, and the group continued to support customers' borrowing requirements as mortgage balances in the UK and in other markets remained stable.

The group maintained a strong and liquid balance sheet with a ratio of customer advances to customer accounts of 77.9 per cent (December 2013: 79.0 per cent).

The group's Common Equity Tier 1 ratio was 9.3 per cent (December 2013 Core Tier 1 ratio: 12.1 per cent). Risk-weighted assets of £235,300 million were 27 per cent higher than at 31 December 2013, principally reflecting the transition to CRD IV. Underlying RWAs were broadly flat.

Assets

Cash and balances at central banks decreased by 29 per cent reflecting the redeployment of surplus liquidity.

Trading assets increased by 11 per cent primarily due to a rise in settlement balances, which vary according to customer trading activity, and are typically lower at the end of the year. Equity securities, held as economic hedges of client positions, also increased as a result of business expansion and strong stock market and index performance. These movements were partly offset by a reduction in trading reverse repo balances.

Financial assets designated at fair value decreased by 32 per cent, reflecting the decision to sell the pension insurance business in the UK as part of a strategic decision to cease manufacturing pensions in the UK insurance business. These assets have been classified as *'Held for sale'* and reported as part of *'Other assets'*.

Derivative assets decreased by 4 per cent, principally due to a reduction in fair value on foreign exchange contracts across major currencies. In addition, a moderate upward shift in the Euro yield curve led to a decline in the fair value of interest rate contracts.

Loans and advances to banks rose by 7 per cent principally driven by higher placements with financial institutions.

Interim Management Report: Business Review (continued)

Loans and advances to customers increased by 2 per cent, predominantly due to an increase in corporate overdraft balances that did not meet the criteria for netting combined with higher term lending, asset finance and settlement account balances.

Reverse repurchase agreements – non trading increased by 3 per cent. This reflected an increase in the deployment of surplus funds.

Financial investments were stable, with no major movement period-on-period.

Other assets increased by 20 per cent due to the reclassification of the UK pension insurance business as *'Held for sale'*.

Liabilities

Deposits by banks rose by 11 per cent, reflecting an increase in money market balances across a number of banks combined with an increase in settlement account balances.

Customer accounts grew by 3 per cent as the group continued to attract deposits from customers who, in the current environment, continued to have a preference for holding balances in readily accessible current and savings accounts. In addition there was an increase in balances that did not meet the criteria for netting.

Repurchase agreements – non trading decreased by 11 per cent. This reflected maturing repo positions that were not replaced due to lower funding requirements and a higher number of repo trades eligible for netting in the UK. This was partially offset by an increase in repo balances in France.

Trading liabilities increased by 9 per cent due to a rise in settlement account balances. In addition, net short bond and stock lending positions rose as a result of increase in client activity. This was partially offset by a decrease in trading repo balances.

Financial liabilities designated at fair value decreased by 18 per cent predominately due to the reclassification of the UK pension insurance business as *'Held for sale'* reported as part of '*Other liabilities'*.

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

Debt securities in issue decreased by 22 per cent due to net redemptions of debt securities in issue.

Liabilities under insurance contracts decreased by 9 per cent as a result of the agreed sale of the UK pension insurance business.

Other liabilities increased by 15 per cent due to the reclassification of the UK pension insurance business as *'Held for sale'*.

Equity

Total shareholders' equity increased by 3 per cent.

Liquidity position

The group's liquidity and funding metrics improved over the first half of 2014 driven by an increase in core customer deposits. As at 30 June 2014, the bank held sufficient buffers against all current regulatory liquidity requirements.

Risk

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

The group's risk profile is underpinned by its core philosophy of maintaining a strong balance sheet and liquidity position and capital strength. The group continued to sustain a conservative risk profile during the first half of 2014 by managing and, where appropriate, reducing exposure to the most likely areas of stress. In particular, the group

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

As a provider of banking and financial services, risk is at the core of the group's day-to-day activities. The group's activities involve, to varying degrees, the measurement, evaluation, acceptance and management of risk or a combination of risks. The group's risk culture is fundamental to the delivery of the Group's strategic priorities. It may be characterised as conservative, control-based and collegiate. It is reinforced by HSBC Values and Global Standards and forms the basis on which the group's risk appetite and risk management framework are established. These are instrumental in aligning the behaviour of individuals with the group's attitude to assuming and managing risk. Further details are set out in the *Annual Report and Accounts 2013*. There have been no material changes to our policies and practices regarding risk management and governance as described in the *Annual Report and Accounts 2013.*

Principal Risks and Uncertainties

During the first half of 2014, the group made a numbers of changes to its principal risks to reflect its revised assessment of their effect on the group. Social media risk was assessed as a principal risk due to the speed at which speculation about an institution or customer complaints, either specific to an institution or more generally in relation to a particular product, can spread through the use of social media channels. Whilst people risk is inherent within a number of principal risks, it has now been disclosed as a standalone risk, as the risks in this area continue to heighten. Further details on the group's principal risks and uncertainties are set out below.

Geopolitical

Increased geopolitical risk in certain regions

The group's operations are exposed to risks arising from political instability and civil unrest in a number of countries, which may have a wider effect on regional stability and regional and global economies.

Geopolitical risk rose in the first half of 2014 as a result of the crisis in Ukraine and the possibility of military escalation and/or civil war. Further sanctions against Russian individuals and entities remain a possibility, which could affect foreign investment in Russia. Geopolitical risk remained high in the Middle East with unrest in Egypt, the civil war in Syria and the conflict in Iraq. Negotiations continued on restricting the scope of Iranian nuclear activities, which add to the risks in the region.

In Turkey, the continued political uncertainty led to market volatility and placed the currency under pressure.

Potential impacts on the group:

- The group's results are subject to the risk of loss from unfavourable political developments, currency fluctuations, social instability and changes in government policies on matters such as expropriation, authorisations, international ownership, interest-rate caps, foreign exchange transferability and tax in the jurisdictions in which it operates. Actual conflict could put staff in harm's way and bring physical damage to assets.

Mitigating actions:

- The group monitors the geopolitical and economic outlook, in particular in countries where it has a material exposures and a physical presence. The internal credit risk rating of sovereign counterparties takes these factors into account and drives the appetite for conducting business in those countries. Where necessary, country limits and exposures are adjusted to reflect its appetite and mitigate risks as appropriate.

- The group's sanctions screening processes and governance have been strengthened through its Global Standards programme.

Macro-prudential, regulatory and legal risks

Financial service providers face increasingly stringent and costly regulatory and supervisory requirements, particularly in the areas of capital and liquidity management, conduct of business, operational structures and the integrity of financial services delivery. Increased government intervention and control over financial institutions, together with measures to reduce systemic risk, may significantly alter the competitive landscape. These measures may be introduced as formal requirements in a super-equivalent manner and to differing timetables across regulatory regimes.

Regulatory developments affecting the business model and profitability

Several regulatory changes are likely to affect the group's activities. These changes include:

- The UK's Financial Services (Banking Reform) Act 2013 ('the UK Banking Reform Act'), which gave effect to the recommendations of the Independent Commission on Banking ('ICB') in relation to the ring-fencing of the UK retail banking activities from wholesale banking, together with the structural separation of other activities as envisaged in the legislation and rules adopted in the US (including the Volcker Rule adopted in December 2013 under the Dodd-Frank Act) and potential changes across the EU (including a proposed Regulation on structural measures to improve the resilience of EU credit institutions);
- Changes arising from the implementation of Capital Requirements Directive ('CRD') IV in terms of the calculation of regulatory capital as well as the determination of capital, liquidity and funding requirements;
- Requirements flowing from arrangements for the recovery and resolution of HSBC and its main operating entities (including the bank), which may have different effects in different countries;
- The implementation of extra-territorial laws, including the Foreign Account Tax Compliance Act ('FATCA') and other related initiatives to share tax information such as those pursued by the OECD;
- Changes in the regime for the operation of capital markets, notably mandatory central clearing of over the counter ('OTC') derivatives, including under the Dodd-Frank Act and the EU's European Market Infrastructure Regulation ('EMIR');
- Changes arising from the increasing focus by regulators on how institutions conduct business, on remuneration and on increasing management accountability, the latter to meet requirements under the CRD IV and the UK Banking Reform Act;
- The tightening by regulators in a number of countries of credit controls on mortgage lending and unsecured portfolios; and
- The continued risk of further changes to regulation relating to taxes affecting financial service providers, including financial transaction taxes.

Potential impacts on the group:

- Proposed changes in and/or the implementation of regulations including mandatory central clearing of OTC derivatives, EMIR, ring-fencing and similar requirements, recovery and resolution plans, the Volcker Rule and FATCA may affect the manner in which the group's activities are conducted and how it is structured. These measures have the potential to increase the group's cost of doing business and curtail the types of business it can carry out, with the consequent risk of decreased profitability.
- The implementation of CRD IV may lead to changes in how the group operates and funds business over the next few years. HSBC's businesses may be affected by these developments.
- Mandatory central clearing also brings new risks to the group due to certain of its members acting as clearing members, as the group will be required to underwrite losses incurred by central clearing counterparties from the default of other clearing members and their clients. Hence central clearing brings with it a new element of interconnectedness between clearing members and clients which the group believes may increase rather than reduce its exposure to systemic risk.

Interim Management Report: Business Review (continued)

- Increased regulation of conduct of business (including incentive structures and remuneration) and management accountability may affect the industry in areas such as employee recruitment and retention, product pricing and profitability in both retail and wholesale markets. HSBC's businesses may be affected by these developments.
- Potential market disruption from the asset quality review ('AQR'), including the possible re-emergence of concerns over the eurozone, may affect the group directly through its exposure to eurozone banks and sovereigns, and indirectly should there be any diminution in economic activity in the eurozone.

Mitigating actions:

- The group is closely engaged with governments and regulators in the countries in which it operates to help ensure that the new requirements are properly considered and can be implemented in an effective manner.
- The Group is developing a global conduct framework and has established a Conduct & Values Committee as a sub-committee of the Board to oversee the framework and its implementation across the Group.
- The group has governance around central clearing counterparties and appointed specialists to manage the associated liquidity and collateral risks.

Regulatory commitments and consent orders

Financial service providers are at risk of regulatory sanctions or fines related to conduct of business and financial crime. The incidence of regulatory proceedings and other adversarial proceedings against financial service firms is increasing.

In December 2012, HSBC Holdings plc ('HSBC Holdings'), HSBC North America Holdings Inc. ('HNAH') and HSBC Bank USA, N.A. ('HSBC Bank USA') entered into agreements with US and UK authorities in relation to investigations regarding past inadequate compliance with anti-money laundering and sanctions laws. Among other agreements, HSBC Holdings and HSBC Bank USA entered into a five-year deferred prosecution agreement ('US DPA') with the US Department of Justice ('DoJ') and HSBC Holdings entered into a two-year DPA with the District Attorney of New York County (the 'DANY DPA'). HSBC Holdings also entered into an undertaking with the FSA (revised as the 'FCA Direction' following the UK regulatory restructuring in April 2013) to comply with certain forward-looking obligations with respect to anti-money laundering and sanctions requirements.

Under the agreements entered into with the DoJ, the FCA and the US Federal Reserve Board ('FRB'), it was agreed that an independent monitor ('the Monitor') would be appointed to evaluate HSBC's progress in fully implementing its obligations and produce regular assessments of the effectiveness of its compliance function.

Michael Cherkasky began his work as the Monitor in July 2013, charged with evaluating and reporting upon the effectiveness of the Group's internal controls, policies and procedures as they relate to ongoing compliance with applicable AML, sanctions, terrorist financing and proliferation financing obligations, over a five-year period.

The Monitor's work is proceeding as anticipated, consistent with the timelines and requirements set forth in the relevant agreements. HSBC is taking concerted action to remediate AML and sanctions compliance deficiencies and to implement Global Standards. HSBC recognises it is only at the start of a long journey, being one and a half years into the US DPA. The Group continues to maintain a strong, collaborative relationship with the Monitor and his team.

HSBC is also subject to regulatory consent orders with which it must comply, including the agreement entered into by HSBC Bank USA with the Office of the Comptroller of the Currency ('OCC') in December 2012, the Gramm-Leach-Bliley Act Agreement ('GLBA Agreement').

Potential impacts on HSBC:

- It is difficult to predict the outcome of the regulatory proceedings involving HSBC's businesses. Unfavourable outcomes may have a material adverse effect on the group's reputation, brand and results, including loss of business and withdrawal of funding.
- The Group's significant involvement in facilitating international capital flows and trade exposes the Group to the risk of financial crime or inadvertently breaching restrictions and sanctions imposed by OFAC and other regulators.
- Breach of the US DPA at any time during its term allows the DoJ to prosecute HSBC Holdings or HSBC Bank USA in relation to the matters which are the subject of the US DPA. Breach of the DANY DPA allows the District Attorney of New York County to prosecute HSBC Holdings in relation to the matters which are the subject of that DPA.
- Failure to comply with the requirements of consent orders or the GLBA within the time periods specified in them or otherwise, as may be extended, could result in supervisory action. Any such action could have a

material adverse effect on the consolidated results and operation of the group.

Mitigating actions:

- Steps to address many of the requirements of the DPAs, the FCA Direction, the GLBA Agreement and associated regulatory agreements have either already been taken or are under way in consultation with the relevant regulatory agencies. These include simplifying the Group's control structure, strengthening the governance structure with new leadership appointments, revising key policies and implementing consistent procedures and controls shaped by the highest or most effective standards available in any location where the Group operates to detect, deter and protect against financial crime through its Global Standards programme. In addition, the group has substantially increased spending and staffing in the Financial Crime Compliance and Regulatory Compliance functions in the past few years.
- There can be no assurance that the remedial measures taken to date will be effective or that HSBC will not have to take additional remedial measures in the future to comply with the terms of the DPAs, the FCA Direction or the GLBA Agreement.

Conduct of business

Regulators in the UK and other countries have continued to increase their focus on 'conduct' matters including sales processes and incentives (including remuneration practices), product and investment suitability and more general conduct of business and market conduct concerns. The group has included specific concerns in the 'Area of special interest' section on page 12.

Potential impacts on the group:

- Regulators in the UK and other countries may identify future industry-wide mis-selling or other issues that could affect the group. This may lead from time to time to significant direct costs or liabilities and/or changes in the practices of such businesses. Also, decisions taken in the UK by the Financial Ombudsman Service in relation to customer complaints (or any overseas equivalent with jurisdiction) could, if applied to a wider class or grouping of customers, have a material adverse effect on the operating results, financial condition and prospects of the group.

Mitigating actions:

- Programmes to actively manage and mitigate conduct risk have been initiated in all global businesses.
- Incentive plans introduced in RBWM in 2013 and 2014 have removed the formulaic link between product sales and variable pay, focusing instead on relationship management activities that support meeting customer needs, improving customer experience and sales quality.
- HSBC and/or its subsidiaries are cooperating fully with all regulatory investigations and reviews.

Dispute risk

HSBC is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Further details are provided in Note 12 of these Financial Statements.

Potential impact on the group:

- Dispute risk gives rise to potential financial loss and significant reputational damage which could adversely affect customer and investor confidence.

Mitigating actions

- The group continues to focus on identifying emerging regulatory and judicial trends in order to limit exposure to litigation or regulatory enforcement action in the future.
- The group is enhancing its financial crime and regulatory compliance controls and resources.

Business operations, governance and control

Heightened execution risk

HSBC is facing heightened execution risk due to a number of factors including the volume and complexity of projects needed to meet regulatory requirements and support business initiatives which are moving into implementation phases in 2014. The challenging macroeconomic environment and the extent and pace of regulatory change and other external factors contributed to heightened execution risk. In addition, the implementation of the group's strategy to simplify its business, which involves withdrawing from certain markets, presents disposal risks.

Interim Management Report: Business Review (continued)

Potential impacts on the group:

- These factors may affect the successful delivery of the group's strategic priorities.
- The potential risks of disposals include regulatory breaches, industrial action, loss of key personnel and interruption to systems and processes during business transformation. They can have both financial and reputational implications.

Mitigating actions:

- The group has strengthened its prioritisation and governance processes for significant projects and has invested in its project implementation and IT capabilities.
- Risks related to organisational change and disposals are subject to close management oversight.

People Risk

The demands being placed on the human capital of the Group are unprecedented. The cumulative workload arising from a regulatory reform programme that is often extra-territorial and still evolving is hugely consumptive of human resources, placing increased complex and conflicting demands on a workforce where the expert capability set is in short supply and globally mobile.

Potential impacts on the group:

- Changes in remuneration policy and practice resulting from the new regulations under CRD IV which apply globally to all employees of EU headquartered banks. The key change is the application of a cap on variable pay that can be paid to any 'material risk taker' (being employees who have been identified as having a material impact on the institution's risk profile). This presents significant challenges for HSBC given the fact that as a worldwide business, a significant number of our material risk takers are based outside the EU.
- The proposals for a senior persons regime are being made to set clearer expectations of the behaviour of both senior and more junior employees.
- The PRA consultation on 'Clawback' which proposes extending the Remuneration Code to require all PRA-authorised firms to amend employment contracts to be able to apply clawback to vested variable remuneration on a group-wide basis.

Mitigating actions:

- The changes in remuneration under the new CRD IV regulations has necessitated a review of the group's remuneration policy, especially the balance between fixed and variable pay, to ensure we can remain competitive on a total compensation basis and retain our key talent.
- Risks related to organisational change and disposals are subject to close management oversight.

Social media risk

The rapid growth of social media increases the risk that speculation about HSBC or customer complaints, either specific to an institution or more generally in relation to a particular product, may be spread through the use of these channels.

Potential impact on the group:

- A potential adverse effect on the group's reputation and brand and potentially its share price.

Mitigating actions:

- The group monitors social media activity globally, using a dedicated software platform. This enables it to identify, manage and respond to issues where required.

Further business operation, governance and control risks are:

- Internet crime and fraud;
- Information security;
- Data management; and
- Model risk

These are described in detail in the *Annual Report and Accounts 2013* on page 24.

Areas of special interest

During the first half of 2014, there were a number of particular areas of focus as a result of the effect they have on the group. Whilst these areas may already have been identified in principal risks, further details of the actions taken in the last six months are provided below.

Financial crime compliance and regulatory compliance

In recent years, the group has experienced increasing levels of compliance risk as regulators and other agencies pursued investigations into historical activities and it continues to work with them in relation to existing issues. This has included the matters giving rise to the DPAs reached with US authorities in relation to investigations regarding inadequate compliance with anti-money laundering and sanctions law, and the related FCA Direction undertaking. The work of the Monitor, who has been appointed to assess its progress against various obligations, including the DPAs, is discussed on page 9.

The group has also responded to a number of investigations by the FCA into the possible mis-selling in the UK of certain products, including PPI and interest rate hedging products sold to SMEs. In addition, it has been involved in investigations and reviews by various regulators and competition enforcement authorities relating to certain past submissions made by panel banks and the process for making submissions in connection with the setting of Libor, Euribor and other benchmark interest rates, along with investigations into currency benchmarks and credit default swaps. It is clear from both HSBC's own and wider industry experience that the level of activity among regulators and law enforcement agencies in investigating possible breaches of regulations has increased, and that the direct and indirect costs of such breaches can be significant. Coupled with a substantial rise in the volume of new regulation, much of which has some element of extra-territorial reach, and the geographical spread of HSBC's businesses, the group believes that the level of inherent compliance risk that it faces as part of the Group will continue to remain high for the foreseeable future.

Further, in 2014 the group has undertaken a review of compliance with the fixed-sum unsecured loan agreement requirements of the UK Consumer Credit Act. Further details are set out in Note 9 to these accounts.

Regulatory Stress Tests

The frequency and granularity of information required by supervisors in relation to regulatory stress testing has increased and as part of the Group, HSBC Bank plc is subject to regulatory stress testing exercises in the United Kingdom and Europe. These exercises, designed to assess the resilience of banks to adverse market development and ensure that they have robust, forward-looking capital planning processes that account for their unique risks, include the programmes of the Prudential Regulatory Authority ('PRA'), the European Banking Authority ('EBA'), and the European Central Bank ('ECB').

HSBC Bank plc has taken part in the PRA concurrent stress test exercise covering the Group in the first half of 2014. This programme included common base and stress scenarios applied across all major UK banks, supported by a complementary programme of data provision to the Bank of England under its Firm Data Submission Framework. The results of this exercise, which will be announced in the fourth quarter of 2014, will inform the setting of the PRA Buffer, Countercyclical Capital Buffer, Sectoral Capital Requirements and other FPC recommendations to the PRA.

HSBC France and HSBC Malta participated in the ECB's Comprehensive Assessment, which included a supervisory risk assessment to review key risks; an AQR to enhance the transparency around the adequacy of asset and collateral valuation and other provisions; and a stress test to examine banks' balance sheet resilience to stress based on a capital benchmark of respectively 8 and 5.5 per cent CET1 under the baseline and adverse scenarios. In line with the Single Supervisory Mechanism Regulation, the comprehensive assessment was conducted by credit institutions deemed "significant" in their respective jurisdictions, and are hence to be supervised directly by the ECB as of November 2014.

HSBC Bank plc is also providing input in the related Group exercise run by the European Banking Authority ('EBA'). Disclosures of the results of these exercises are planned in the fourth quarter of 2014.

The number, granularity and timelines of these stress tests give rise to a number of risks. Banks that do not meet both the quantitative and qualitative requirements of the stress test exercises may be required to hold additional capital, may have restrictions placed on their planned capital actions including the payment of dividends or may have to implement other remedial measures. The Group created a Stress Testing Management Board in early 2014, chaired by the Group Finance Director, to ensure appropriate senior management oversight and governance of the stress test programmes.

Russia and the Ukraine

Since the beginning of March 2014, tensions have risen between the Russian Federation ('Russia') and western countries ('the West') in respect of the Ukraine. The West's response to date, led by the US and EU plus other countries, has been to impose sanctions on a selected list of Russian individuals, banks and corporates. Monitoring and action in response to the sanctions requirements is ongoing and will impose some restrictions on the business in Russia, although the impact on the group is not expected to be significant. Group exposures to counterparties incorporated or domiciled in the Ukraine are not considered material.

Russian bond, equity and foreign exchange markets have broadly recovered from the broad sell-off that took place in March. Resolution of issues affecting the Ukraine and Russia's relations with the West will take time. Potentially additional sanctions could, if the environment deteriorated, be imposed and reciprocal actions taken by Russia, which may impact upon the activities of the group in Russia and with Russian counterparties.

The group's Russian on-balance sheet exposures within loans and advances to banks was £666 million (31 December 2013: £768 million) and loans and advances to customers was £2,336 million (31 December 2013: £2,995 million).

In addition to the above, a number of the group's multinational clients have indirect exposure to Russia through majority or minority stakes in Russia-based entities, via dependency of supply, or from reliance on exports. The operations and businesses of such clients may be negatively impacted should the scope and nature of sanctions and other actions be widened. Management is monitoring the quantum and potential severity of such risks.

Regulation and supervision

Regulatory Capital

On 1 January 2014, CRD IV came into force and capital and Risk Weighted Assets ('RWAs') at 30 June 2014 are calculated and presented on this basis. Prior to this date, they were calculated and presented in accordance with the previous regime under CRD III.

The capital and RWAs on a CRD IV basis incorporate the effect of the PRA's final rules in their Policy Statement ('PS 7/13') issued in December 2013. This transposed various areas of national discretion within the final CRD IV legislation into UK law. In its final rules, the PRA did not adopt most of the CRD IV transitional provisions available, instead opting for an acceleration of the CRD IV end point definition of Common Equity Tier ('CET') 1. Albeit, the CRD IV transitional provisions for unrealised gains were applied, such that unrealised gains on investment property are derecognised until 1 January 2015.

Despite the final PRA rules, there remains continued uncertainty around the precise amount of capital that banks will be required to hold. This relates to the quantification and interaction of capital buffers and Pillar 2, where further PRA consultations are due in 2014. Furthermore, there are a notable number of draft and unpublished EBA technical and implementation standards due in 2014 which will potentially impact the bank's capital position and RWAs.

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

CRD IV also introduced the leverage ratio to supplement risk-based capital requirements from 1 January 2018. In January 2014, the Basel Committee published its finalised leverage ratio framework, along with the public disclosure requirements applicable from 1 January 2015. This is currently in the process of being transposed into European law. Under CRD IV, the legislative proposals and final calibration of the leverage ratio are expected to be determined following a review of the revised Basel proposals and the basis of the EBA's assessment of the impact and effectiveness of the leverage ratio during a monitoring period, between 1 January 2014 and 30 June 2016.

In July 2014, the Financial Policy Committee (UK) ('FPC') of the Bank of England published a consultation on the review of the role of a leverage ratio within the capital framework for banks in the UK. The calibration of the leverage ratio is outside the scope of this review and the FPC is expected to publish its report by November 2014.

The table below provides a comparison of the key capital numbers based on the applicable capital requirements for each period.

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	At 30 June 2014	At 30 June 2013	At 31 December 2013
Capital resources (£m)			
CET 1[1] /Core Tier 1 Capital	**21,771**	22,208	22,438
Tier 1 Capital	**23,623**	23,972	24,108
Total Capital	**33,114**	33,864	33,543
Risk Weighted Assets (£m)			
Counterparty Credit Risk	**33,128**	18,171	16,450
Non-Counterparty Credit Risk	**158,737**	137,007	129,459
Market Risk	**21,396**	23,323	17,931
Operational Risk	**22,039**	21,867	22,039
Total Risk Weighted Assets	**235,300**	200,368	185,879
Capital Ratios (%)			
CET 1/Core Tier 1	**9.3**	11.1	12.1
Total Tier 1	**10.0**	12.0	13.0
Total Capital	**14.1**	16.9	18.0

1 *CET 1 is a new measure of capital introduced by CRD IV which replaces the previous Basel II measure, Core Tier 1. Capital measures introduced by CRD IV differ significantly to previous measures.*

Methodology and policy changes – capital and RWA

Methodology and policy updates mainly related to the implementation of the CRD IV rules at 1 January 2014, and increased RWAs by approximately £37 billion. The main movement arose from non-investment grade securitisation positions which were previously deducted from capital. These are now included in RWAs with a 1,250 per cent risk weight, causing a rise of £22.5 billion.

Further increases stem from other changes such as the need to hold capital against credit valuation adjustment of £9.2 billion, the risk of failure of central counterparties of £2 billion and the £4.9 billion increase in RWAs caused by the asset value correlation multiplier applied to exposures to large or unregulated counterparties in the financial sector.

The change in treatment of non-investment grade securitisation positions was also responsible for an increase in capital of £1.8 billion. This was offset by other CRD IV changes, notably the £1.1 billion impact of a progressive cap on grandfathered capital instruments and a £0.9 billion deduction for a prudential valuation adjustment.

In addition, with effect from 31 March 2014, a 45 per cent loss given default floor has applied to bank exposures and UK corporate portfolios which did not fully meet modelling requirements, resulting in an increase of RWAs of £10.1 billion.

Economic Outlook

The bank expects global growth to rise 2.4 per cent in 2014, from 2.1 per cent in 2013. This turnaround reflects a shift from contraction to modest expansion in the eurozone and an acceleration in growth in the US and UK.

The bank expects UK GDP to rise by 3.2 per cent in 2014, the fastest growth rate since 2007, driven by higher household consumption and a strong recovery in investment growth. Although inflation has fallen below the Bank of England's 2 per cent target, wage growth remains weak, meaning little or no income growth in real-terms. Early signs of overheating in the housing market prompted the Bank of England to announce in June a number of macro-prudential measures to prevent a build-up of leverage in the household sector.

Recent developments in the eurozone suggest that the recovery is stalling and increasingly uneven with the German and Spanish economies outperforming the rest of the region. The ECB announced further liquidity measures in its June meeting, which may help improve the flow of credit to small and medium-sized businesses. With public debt levels still high, public expenditure will remain under pressure. Additionally, consumer spending will remain weak given persistently high unemployment and household debt. As a result, the bank expects the eurozone to grow by 0.9 per cent in 2014 and 1.1 per cent in 2015.

Turkey was one of the main countries affected by the US Federal Reserve's announcement in December 2013 to begin tapering its asset purchases. However the group expects activity to moderate in the second half of the year and to grow by 2.7 per cent in 2015. This reflects the ongoing structural imbalances that need to be resolved in order to raise potential growth.

Interim Management Report: Business Review (continued)

Performance and Business Review

Profit on ordinary activities before tax

	Half year to		
	30 June 2014	30 June 2013	31 December 2013
	£m	£m	£m
Retail Banking and Wealth Management	**287**	680	497
Commercial Banking	**933**	704	629
Global Banking and Markets	**784**	973	50
Global Private Banking	**69**	66	74
Other/Intersegment	**(171)**	(150)	(229)
	1,902	2,273	1,021

The following items are significant in a comparison of the 2014 half year results to the 2013 first and second halves year results:

Significant revenue items by business segment

	RBWM	**CMB**	**GB&M**	**GPB**	**Other**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Half year to						
30 June 2014						
Change in credit spread on long-term debt	–	–	–	–	**(38)**	**(38)**
Debt valuation adjustment on derivatives	**–**	**–**	**(47)**	**–**	**–**	**(47)**
Fair value movement on non-qualifying hedges	**(75)**	**–**	**69**	**–**	**–**	**(6)**
Losses arising from a review of compliance with the Consumer Credit Act in the UK	**(207)**	**(8)**	**–**	**–**	**–**	**(215)**
30 June 2013						
Change in credit spread on long-term debt	–	–	–	–	(14)	(14)
Debt valuation adjustment on derivatives	–	–	198	–	–	198
Fair value movement on non-qualifying hedges	23	–	(30)	–	–	(7)
Losses arising from a review of compliance with the Consumer Credit Act in the UK	–	–	–	–	–	–
31 December 2013						
Change in credit spread on long-term debt	–	–	–	–	(153)	(153)
Debt valuation adjustment on derivatives	–	–	(153)	–	–	(153)
Fair value movement on non-qualifying hedges	10	–	(11)	–	–	(1)
Losses arising from a review of compliance with the Consumer Credit Act in the UK	–	–	–	–	–	–

Significant cost items by business segment

	RBWM	**CMB**	**GB&M**	**GPB**	**Other**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Half year to						
30 June 2014						
UK customer redress programmes	**119**	**12**	**13**	**–**	**–**	**144**
Restructuring and other related costs	**6**	**–**	**5**	**–**	**20**	**31**
Madoff related litigation costs	**–**	**–**	**(85)**	**–**	**–**	**(85)**
Gain on change in delivering ill-health benefits	**–**	**–**	**–**	**–**	**–**	**–**
30 June 2013						
UK customer redress programmes	267	–	–	–	–	267
Restructuring and other related costs	38	13	3	1	11	66
Madoff related litigation costs	–	–	193	–	–	193
Gain on change in delivering ill-health benefits	(123)	(104)	(53)	–	–	(280)
31 December 2013						
UK customer redress programmes	343	91	84	2	–	520
Restructuring and other related costs	3	5	3	–	19	30
Madoff related litigation costs	–	–	–	–	–	–
Gain on change in delivering ill-health benefits	–	–	–	–	–	–

Interim Management Report: Business Review (continued)

Retail Banking and Wealth Management

	Half year to		
	30 June 2014 £m	30 June 2013 £m	31 December 2013 £m
Net interest income	**1,540**	1,770	1,799
Net fee income	**670**	743	759
Net trading income	**(79)**	83	64
Other income	**(47)**	(84)	(63)
Net operating income before impairments and provisions	**2,084**	2,512	2,559
Loan impairment charges and credit risk provisions	**(78)**	(123)	(100)
Net operating income	**2,006**	2,389	2,459
Total operating expenses	**(1,720)**	(1,710)	(1,963)
Operating profit	**286**	679	496
Share of profit of associates and joint ventures	**1**	1	1
Profit before tax	**287**	680	497

Profit/(loss) before tax – by country

	Half year to		
	30 June 2014 £m	30 June 2013 £m	31 December 2013 £m
United Kingdom	**338**	581	414
France	**(23)**	85	97
Germany	**9**	9	10
Turkey	**(50)**	(12)	(35)
Malta	**10**	14	8
Other	**3**	3	3
Profit before tax	**287**	680	497

Overview

RBWM's profit before tax was £287 million compared to £680 million and £497 million in the first and second halves of 2013, respectively. The decrease reflected a decline in revenues, partly offset by lower loan impairment charges.

RBWM approved £6.5 billion of new UK mortgage lending to over 56,000 customers, including £1.8 billion to over 13,000 first time buyers in the first half of 2014. Mortgage balances remained broadly unchanged when compared to the first half of 2013. The loan-to-value ratio on new lending remained robust at 59.7 per cent compared to an average of 46.3 per cent for the total mortgage portfolio. In addition, the UK mobile banking app has had nearly one million log-ons each week since its launch last year, offering a range of new functions such as a Cash ISAs application and Paym.

In Turkey, the business launched a new customer incentive programme ('Big Step'), attracting over 59,000 customers in the first half of the year. In France, the business continued to focus on growing the home loans proposition by generating high quality new business and long term relationships with affluent clients, increasing average balances by £1.9 billion.

Financial performance

Net interest income decreased by £230 million or 13 per cent. The fall was driven by a £207 million provision arising from a review of compliance with the Consumer Credit Act (CCA). Excluding this, net interest income increased in the UK, principally reflecting growth in deposit volumes and widening spreads, offset by narrower lending spreads. In France, net interest income rose, primarily from growth in home loan balances as well as improved spreads. This was partly offset by a decrease in lending margins in Turkey following a regulatory interest rate cap on cards and overdrafts imposed by the local regulator in the second half of 2013.

Net fee income decreased by £73 million or 10 per cent primarily in the UK due to higher fees payable under partnership agreements along with lower overdraft and investment fees. This was partly offset by growth in card revenue in Turkey.

Net trading income decreased by £162 million, primarily due to adverse fair value adjustments on non-qualifying hedges on the French home loan portfolio. In addition, there were adverse market movements in France on derivatives used as economic hedges in the insurance business.

Other income increased by £37 million or 44 per cent. Higher net trading gains on economic hedges and an increase in net income from financial assets designated at fair value were partly offset by lower levels of net earned premiums and higher levels of claims on credit protection and term-lending policies.

Interim Management Report: Business Review (continued)

Loan impairment charges and other credit risk provisions decreased by £45 million or 37 per cent. The fall in loan impairment charges in the UK resulted from the improved economic environment and customer behaviour partly offset by lower recoveries of previously written-off debt. In Turkey, loan impairment charges increased, due to growth in card delinquency rates.

Total operating expenses increased by £10 million or 1 per cent compared to the first half of 2013. Excluding the £123 million accounting gain relating to the change in ill-health benefits in the first half of 2013, the £148 million reduction in customer redress and a reduction in restructuring costs of £32 million, operating expenses were 4 per cent higher, driven by the timing of the recognition of the FSCS levy in the UK.

Commercial Banking

	Half year to		
	30 June 2014 £m	30 June 2013 £m	31 December 2013 £m
Net interest income	**1,082**	1,062	1,082
Net fee income	**585**	547	596
Net trading income	**12**	20	3
Other income	**20**	18	42
Net operating income before impairments and provisions	**1,699**	1,647	1,723
Loan impairment charges and credit risk provisions	**(76)**	(323)	(278)
Net operating income	**1,623**	1,324	1,445
Total operating expenses	**(690)**	(620)	(817)
Operating profit	**933**	704	628
Share of profit of associates and joint ventures	**–**	–	1
Profit before tax	**933**	704	629

Profit before tax – by country

	Half year to		
	30 June 2014 £m	30 June 2013 £m	31 December 2013 £m
United Kingdom	**797**	579	496
France	**74**	87	76
Germany	**23**	20	25
Turkey	**13**	20	4
Malta	**13**	19	14
Other	**13**	(21)	14
Profit before tax	**933**	704	629

Overview

CMB's profit before tax was £933 million, 33 per cent higher than the first half of 2013 and 48 per cent higher than the second half of 2013. The performance, excluding a £104 million gain relating to the change in ill-health benefits and the impact of restructuring costs in the first half of 2013, reflected lower loan impairments and reduced costs delivered through sustainable cost savings.

In the UK, the CMB loan book declined compared to the first half of 2013. New lending and re-financing was up 23 per cent from 2013, however this was offset by higher levels of repayments in the existing loan book. The business approved over 80 per cent of small business loan applications. In addition, Business Banking UK launched a campaign to offer further support and lending to SME customers that trade either domestically or internationally. As a part of this, £5.8 billion of lending has been made available along with a programme of events and activities, such as 'Fast Lane to Growth' for larger SMEs and workshops for micro-businesses. CMB also continued to grow the Payments and Cash Management business through a targeted deposit acquisition strategy.

In France, CMB signed innovative partnership agreements with Bpifrance and UBIFRANCE, designed to make it easier for clients, who aspire to trade internationally, to expand. Following the success of the SME Fund last year, the business allocated an additional £1.2 billion to support customers seeking international growth, approving £0.7 billion of lending in the first half of 2014. In Turkey, the business set up a strategic partnership with the Exporters' Association for customers seeking to trade internationally and embarked upon structural optimisation of the branch network to drive efficiencies.

CMB continued growth initiatives in Germany with the aim of positioning the corporate banking business as the 'Leading International Bank'. Product offerings to internationally operating middle market enterprises ('Mittelstand') and international corporations were extended. The business launched a series of fully integrated marketing campaigns, including a full year media cooperation with a leading daily business newspaper aimed especially at 'Mittelstand' audiences.

In addition, across CMB Europe, GTRF had launched a series of initiatives to enable customers to fulfil their international trade ambitions, which include the roll out of Trade Academies workshops and the launch of the Trade Radar publication in local languages.

Financial performance

Net interest income increased by £20 million or 2 per cent, mainly in the UK due to growth in term lending revenues from higher spreads on new business and deposit growth in PCM. This was partially offset by a decrease in lending margins in Turkey following a regulatory overdraft interest rate cap in the second half of 2013.

Net fee income increased by £38 million or 7 per cent, due to an increase in lending fees in the UK from strong new business volumes, particularly in the Corporate segment.

Loan impairment charges and other credit risk provisions decreased by £247 million or 76 per cent, mainly due to lower individually and collectively assessed provisions reflecting the improved quality of the portfolio and improved economic conditions in the UK and Spain.

Total operating expenses increased by £70 million or 11 per cent compared to the first half of 2013. The increase was primarily due to the non-recurrence of an accounting gain of £104 million arising from the change in UK employee ill-health benefits in the first half of 2013 and the provisioning of £12 million in 2014 in relation to the possible mis-selling of interest rate protection products partly offset by lower restructuring costs of £13 million. Excluding these items, operating expenses were 5 per cent lower. This reflected the benefits being delivered through re-engineering of the business processes and lower intra-group recharges, partially offset by the timing of the recognition of the FSCS levy in the UK.

Interim Management Report: Business Review (continued)

Global Banking and Markets

	Half year to		
	30 June 2014 £m	30 June 2013 £m	31 December 2013 £m
Net interest income[1]	**599**	509	592
Net fee income	**386**	302	286
Net trading income	**578**	2,420	(228)
Other income	**622**	(555)	955
Net operating income before impairments and provisions	**2,185**	2,676	1,605
Loan impairment charges and credit risk provisions	**(5)**	(97)	(36)
Net operating income	**2,180**	2,579	1,569
Total operating expenses	**(1,396)**	(1,606)	(1,516)
Operating profit	**784**	973	53
Share of profit / (loss) of associates and joint ventures	**–**	–	(3)
Profit before tax	**784**	973	50

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

Profit before tax – by country

	Half year to		
	30 June 2014 £m	30 June 2013 £m	31 December 2013 £m
United Kingdom	**374**	869	(202)
France	**143**	195	32
Germany	**51**	30	85
Turkey	**21**	47	23
Malta	**9**	12	10
Other	**186**	(180)	102
Profit before tax	**784**	973	50

Overview

GB&M's pre-tax profit was £784 million, £189 million lower than the first half of 2013. The decrease in profit before tax was due to adverse debit valuation adjustment ('DVA') on derivative contracts and lower Markets revenue, notably in the Foreign Exchange and Rates businesses. These movements were partly offset by higher net releases on impairments for available-for-sale asset-backed securities.

In GB&M, the Capital Financing business was successful with a number of transactions. Through collaboration with CMB, the business acted as joint book-runner on a rights issue for a UK client, the largest ever book-running mandate for a UK CMB customer. This demonstrated an ability to leverage connections between global businesses.

GB&M strengthened support of the renminbi internationalisation as the business became the first custodian bank serving London based Renminbi Qualified Foreign Institutional Investors ('RQFII').

Financial performance

Net interest income increased by £90 million or 18 per cent compared to the first half of 2013, notably in the UK. The rise in Capital Financing revenue reflected growth in volumes, partially offset by continuing spread compression, and in Balance Sheet Management net interest income rose due to an increase in average balances in available-for-sale debt securities portfolios.

Net fee income was £84 million or 28 per cent higher compared to the first half of 2013, principally due to lower levels of fees paid to other HSBC entities in respect of lower volumes in Rates and Foreign Exchange trading activities from other geographic regions.

Net trading income was £1,842 million or 76 per cent lower than the first half of 2013. This was driven, in part, by adverse foreign exchange movements on trading assets held as economic hedges of foreign currency debt designated at fair value, compared with favourable movements in the first half of 2013. A corresponding offset was reported within *'Other Income'*. In addition, the first half of 2013 included a favourable DVA of £198 million, compared to a charge of £47 million in the first half of 2014.

In a challenging trading environment, revenue in Markets declined, in Foreign Exchange and to a lesser extent in Rates. This reflected lower client activity in a climate of investor uncertainty and reduced volatility in Foreign Exchange markets. These were partially offset by an increase in Equities, despite the non-recurrence of revaluation gains reported in the first half of 2013, as the group successfully positioned the business to capture increased client activity.

Other income increased by £1,177 million which includes the £1,188 million offset of the adverse foreign exchange movements on trading assets held as economic hedges noted in *'Net trading income'* above. In addition, the increase in Legacy Credit revenues in the UK was driven by price appreciation across major asset classes in the asset-backed securities market. This was partially offset by lower net gains from the disposal of available-for-sale debt securities in Balance Sheet Management.

Loan impairment charges and other credit risk provisions decreased by £92 million. Other credit risk provisions decreased following higher releases of impairments against available-for-sale asset-backed securities as underlying asset prices improved compared to the first half of 2013. This was partially offset by higher loan impairment provisions, primarily due to the increase in individually assessed provisions relating to a small number of customers in France in 2014.

Total operating expenses were £210 million or 13 per cent lower than the first half of 2013. This movement reflected a £278 million decrease in Madoff related litigations costs, a £53 million accounting gain in 2013 relating to the change in ill-health benefits and a provision of £13 million for the possible mis-selling of interest rate protection products. Excluding these items, operating expenses were broadly unchanged.

Global Private Banking

	Half year to		
	30 June 2014	30 June 2013	31 December 2013
	£m	£m	£m
Net interest income	**113**	104	120
Net fee income	**54**	55	45
Net trading income	**7**	7	3
Other income	**5**	2	(6)
Net operating income before impairments and provisions	**179**	168	162
Loan impairment charges and credit risk provisions	**(3)**	(7)	(7)
Net operating income	**176**	161	155
Total operating expenses	**(107)**	(95)	(81)
Operating profit	**69**	66	74
Share of profit of associates and joint ventures	**–**	–	–
Profit before tax	**69**	66	74

Profit before tax – by country

	Half year to		
	30 June 2014	30 June 2013	31 December 2013
	£m	£m	£m
United Kingdom	**60**	52	47
France	**(1)**	-	13
Germany	**10**	14	14
Profit before tax	**69**	66	74

Overview

Global Private Banking's ('GPB') profit before tax in the first half of 2014 was £69 million, £3 million higher than the first half of 2013 reflecting the acquisition of Private Banking Channel Islands in November 2013. The business continued to reposition the GPB business model and client base in 2014 with a review of its portfolio and ensuring that all clients continually comply with Global Standards. GPB remains focused on clients with wider Group connectivity who meet its segmentation thresholds within home and priority markets, while reducing the number of clients in non-priority markets.

Interim Management Report: Business Review (continued)

Other

	Half year to		
	30 June 2014 £m	30 June 2013 £m	31 December 2013 £m
Net interest income	**(21)**	(28)	(45)
Net fee income	**2**	1	2
Net trading income	**(5)**	(1)	(21)
Change in credit spread on long-term debt	**(38)**	(14)	(153)
Other income	**66**	2	100
Net operating income / (expense)	**4**	(40)	(117)
Loan impairment charges and credit risk provisions	**1**	–	–
Net operating income / (expense)	**5**	(40)	(117)
Total operating expenses	**(176)**	(110)	(112)
Operating loss	**(171)**	(150)	(229)
Share of loss of associates and joint ventures	**–**	–	–
Loss before tax	**(171)**	(150)	(229)

Reported loss before tax in 'Other' was £171 million compared with a loss of £150 million in the first half of 2013 and a loss of £229 million in the second half of 2013.

Other includes:

- The change in own credit spread on long-term debt, which resulted in a £38 million loss in the first half of 2014 compared with a loss of £14 million for the first half of 2013 and a loss of £153 million in the second half of 2013;
- Restructuring costs of £20 million in the first half of 2014 and £11 million and £19 million in the first and second halves of 2013, respectively; and
- Other operating income and other operating expenses increased as a result of higher intra-group recharges in line with the increase in costs from centralised activities.

Statement of Directors' Responsibilities

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

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

- the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU; and
- the interim management report includes a fair review of the information required by DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year ending 31 December 2014 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); A M Keir (Chief Executive); P Antika*; S Assaf; S N Cooper; Dame Denise Holt†; S W Leathes†; Dame Mary Marsh†; R E S Martin†; T B Moulonguet†; A P Simoes (Deputy Chief Executive and Chief Executive Officer, UK); A M Thomson†; and J F Trueman† (Deputy Chairman).

On behalf of the Board
J R Symonds
Chairman

4 August 2014

† *Independent non-executive Director*

* *Non-executive Director*

Condensed Financial Statements (unaudited)

Consolidated income statement for the half-year to 30 June 2014

	Notes	**30 June 2014 £m**	30 June 2013 £m
Interest income		**4,694**	5,030
Interest expense		**(1,453)**	(1,593)
Net interest income		**3,241**	3,437
Fee income		**2,406**	2,386
Fee expense		**(709)**	(738)
Net fee income		**1,697**	1,648
Trading income excluding net interest income		**315**	2,136
Net interest income on trading activities		**270**	382
Net trading income		**585**	2,518
Net income/(expense) from financial instruments designated at fair value		**659**	(512)
Gains less losses from financial investments		**84**	123
Dividend income		**10**	9
Net earned insurance premiums		**943**	1,132
Other operating income		**100**	22
Total operating income		**7,319**	8,377
Net insurance claims incurred and movement in liabilities to policyholders		**(1,208)**	(1,452)
Net operating income before loan impairment charges and other credit risk provisions		**6,111**	6,925
Loan impairment charges and other credit risk provisions	*3*	**(161)**	(550)
Net operating income		**5,950**	6,375
Employee compensation and benefits		**(2,053)**	(1,842)
General and administrative expenses		**(1,735)**	(1,995)
Depreciation and impairment of property, plant and equipment		**(157)**	(163)
Amortisation and impairment of intangible assets		**(104)**	(103)
Total operating expenses		**(4,049)**	(4,103)
Operating profit		**1,901**	2,272
Share of profit in associates and joint ventures		**1**	1
Profit before tax		**1,902**	2,273
Tax expense		**(383)**	(567)
Profit for the period		**1,519**	1,706
Profit attributable to shareholders of the parent company		**1,499**	1,681
Profit attributable to non-controlling interests		**20**	25

Condensed Financial Statements (unaudited) (continued)

Consolidated statement of comprehensive income for the half-year to 30 June 2014

	30 June 2014 £m	30 June 2013 £m
Profit for the period	**1,519**	1,706
Other comprehensive income		
Items that will be reclassified subsequently to profit or loss when specific conditions are met		
Available-for-sale investments:		
– fair value gains	**415**	300
– fair value losses transferred to the income statement on disposal	**61**	107
– amounts transferred to the income statement in respect of impairment losses	**6**	123
– income taxes	**(154)**	23
Cash flow hedges:		
– fair value gains/(losses)	**177**	(156)
– fair value gains transferred to the income statement	**(144)**	(149)
– income taxes	**(22)**	88
Exchange differences and other	**(471)**	522
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of the defined benefit asset		
– before income taxes	**310**	(1,095)
– income taxes	**(59)**	254
Other comprehensive income for the period, net of tax	**119**	17
Total comprehensive income for the period	**1,638**	1,723
Total comprehensive income for the period attributable to:		
– shareholders of the parent company	**1,630**	1,683
– non-controlling interests	**8**	40
	1,638	1,723

Condensed Financial Statements (unaudited) (continued)

Consolidated statement of financial position at 30 June 2014

	Notes	30 June 2014 £m	31 December 2013 £m
ASSETS			
Cash and balances at central banks		**47,999**	67,584
Items in the course of collection from other banks		**1,428**	1,948
Trading assets	*6*	**149,282**	134,097
Financial assets designated at fair value	*6*	**11,312**	16,661
Derivatives	*6,8*	**131,813**	137,239
Loans and advances to banks	*7*	**24,635**	23,013
Loans and advances to customers	*7*	**278,204**	273,722
Reverse repurchase agreements – non-trading	*5,7*	**63,484**	61,525
Financial investments	*6*	**76,119**	75,030
Other assets		**12,005**	6,621
Current tax assets		**116**	210
Prepayments and accrued income		**2,526**	2,584
Interests in associates and joint ventures		**68**	67
Goodwill and intangible assets		**7,527**	7,934
Property, plant and equipment		**1,945**	2,004
Deferred tax assets		**123**	222
Retirement benefit assets		**1,610**	1,234
Total assets		**810,196**	811,695
LIABILITIES AND EQUITY			
Liabilities			
Deposits by banks	*7*	**31,931**	28,769
Customer accounts	*7*	**356,932**	346,358
Repurchase agreements – non-trading	*5,7*	**58,340**	65,573
Items in the course of transmission to other banks		**750**	960
Trading liabilities	*6*	**100,544**	91,842
Financial liabilities designated at fair value	*6*	**27,946**	34,036
Derivatives	*6,8*	**131,301**	137,352
Debt securities in issue	*7*	**25,677**	32,895
Other liabilities		**10,557**	5,850
Current tax liabilities		**198**	89
Liabilities under insurance contracts issued		**17,470**	19,228
Accruals and deferred income		**2,683**	2,990
Provisions	*9*	**1,116**	1,707
Deferred tax liabilities		**18**	24
Retirement benefit liabilities		**323**	318
Subordinated liabilities	*7*	**10,457**	10,785
Total liabilities		**776,243**	778,776
Equity			
Called up share capital		**797**	797
Share premium account		**20,427**	20,427
Other reserves		**799**	921
Retained earnings		**11,371**	10,225
Total equity attributable to shareholders of the parent company		**33,394**	32,370
Non-controlling interests		**559**	549
Total equity		**33,953**	32,919
Total equity and liabilities		**810,196**	811,695

Condensed Financial Statements (unaudited) (continued)

Consolidated statement of cash flows for the half-year to 30 June 2014

	30 June 2014 £m	30 June 2013 £m
Cash flows from operating activities		
Profit before tax	**1,902**	2,273
Adjustments for:		
– non-cash items included in profit before tax	**813**	1,208
– change in operating assets	**(32,657)**	(9,307)
– change in operating liabilities	**(4,861)**	34,682
– elimination of exchange differences[1]	**2,645**	(6,421)
– net gain from investing activities	**(91)**	(138)
– share of profit in associates and joint ventures	**(1)**	(1)
– contributions paid to defined benefit plans	**(93)**	(175)
– tax paid	**(307)**	(124)
Net cash (used in)/generated from operating activities	**(32,650)**	21,997
Cash flows from investing activities		
Purchase of financial investments	**(18,421)**	(17,628)
Proceeds from the sale and maturity of financial investments	**16,597**	15,340
Purchase of property, plant and equipment	**(138)**	(162)
Proceeds from the sale of property, plant and equipment	**13**	14
Purchase of goodwill and intangible assets	**(93)**	(92)
Net cash inflow from acquisition of businesses	**–**	305
Proceeds from disposal of subsidiaries	**–**	8
Purchase of HSBC Holdings plc shares to satisfy share-based payment transactions	**(10)**	–
Net cash used in investing activities	**(2,052)**	(2,215)
Cash flows from financing activities		
Subordinated loan capital repaid	**(29)**	–
Dividends paid to shareholders	**(630)**	(1,400)
Dividends paid to non-controlling interests	**(14)**	(16)
Net cash used in financing activities	**(673)**	(1,416)
Net (decrease)/increase in cash and cash equivalents	**(35,375)**	18,366
Cash and cash equivalents at 1 January	**108,769**	98,158
Effect of exchange rate changes on cash and cash equivalents	**(1,637)**	3,336
Cash and cash equivalents at 30 June	**71,757**	119,860

1 *Adjustment to bring changes between opening and closing statement of financial position amounts to average rates. This is not done on a line-by-line basis, as details cannot be determined without unreasonable expense.*

Consolidated statement of changes in equity for the half-year to 30 June 2014

	Half year to 30 June 2014								
				Other reserves					
	Called up share capital £m	Share premium £m	Retained earnings £m	Available-for-sale fair value reserve £m	Cash flow hedging reserve £m	Foreign exchange reserve £m	Total share-holders' equity £m	Non-controlling interests £m	Total equity £m
At 1 January 2014	797	20,427	10,225	634	(13)	300	32,370	549	32,919
Profit for the period	–	–	1,499	–	–	–	1,499	20	1,519
Other comprehensive income (net of tax)	–	–	253	323	11	(456)	131	(12)	119
Available-for-sale investments	–	–	–	323	–	–	323	5	328
Cash flow hedges	–	–	–	–	11	–	11	–	11
Actuarial (losses)/gains on defined benefit plans	–	–	253	–	–	–	253	(2)	251
Exchange differences and other	–	–	–	–	–	(456)	(456)	(15)	(471)
Total comprehensive income for the period	–	–	1,752	323	11	(456)	1,630	8	1,638
Dividends to shareholders	–	–	(630)	–	–	–	(630)	(14)	(644)
Net impact of equity-settled share-based payments	–	–	24	–	–	–	24	–	24
Acquisition and disposal of subsidiaries/businesses	–	–	–	–	–	–	–	16	16
At 30 June 2014	797	20,427	11,371	957	(2)	(156)	33,394	559	33,953

	Half year to 30 June 2013								
				Other reserves					
	Called up share capital £m	Share premium £m	Retained earnings £m	Available-for-sale fair value reserve £m	Cash flow hedging reserve £m	Foreign exchange reserve £m	Total share-holders' equity £m	Non-controlling interests £m	Total equity £m
At 1 January 2013	797	20,025	10,459	(131)	259	266	31,675	525	32,200
Profit for the period	–	–	1,681	–	–	–	1,681	25	1,706
Other comprehensive income (net of tax)	–	–	(841)	557	(217)	503	2	15	17
Available-for-sale investments	–	–	–	557	–	–	557	(4)	553
Cash flow hedges	–	–	–	–	(217)	–	(217)	–	(217)
Actuarial gains/(losses) on defined benefit plans	–	–	(841)	–	–	–	(841)	–	(841)
Exchange differences and other	–	–	–	–	–	503	503	19	522
Total comprehensive income for the period	–	–	840	557	(217)	503	1,683	40	1,723
Dividends to shareholders	–	–	(1,400)	–	–	–	(1,400)	(16)	(1,416)
Net impact of equity-settled share-based payments	–	–	(125)	–	–	–	(125)	–	(125)
Acquisition and disposal of subsidiaries/businesses			85	(1)	(5)		79	(1)	78
Tax on items taken directly to equity			(1)				(1)		(1)
At 30 June 2013	797	20,025	9,858	425	37	769	31,911	548	32,459

Notes on the Condensed Financial Statements (unaudited)

1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

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

The consolidated financial statements of the group at 31 December 2013 were prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the IASB and as endorsed by the EU. EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2013, there were no unendorsed standards effective for the year ended 31 December 2013 affecting the consolidated financial statements at that date, 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. Accordingly, the group's financial statements for the year ended 31 December 2013 were prepared in accordance with IFRSs as issued by the IASB.

IFRSs comprise accounting standards issued by the IASB and its predecessor body as well as interpretations issued by the IFRS Interpretations Committee ('IFRIC') and its predecessor body.

At 30 June 2014, there were no unendorsed standards effective for the period ended 30 June 2014 affecting these interim consolidated financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the group.

Standards adopted during the period ended 30 June 2014

On 1 January 2014, the group adopted 'Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32)' which clarified the requirements for offsetting financial instruments and addressed inconsistencies in current practice when applying the offsetting criteria in IAS 32 'Financial Instruments: Presentation'. The amendments have been applied retrospectively and have not had a material effect on the group's financial statements.

There were no new standards adopted during the period ended 30 June 2014.

During the period ended 30 June 2014, the group also adopted interpretations and amendments to standards which had an insignificant effect on the interim consolidated financial statements.

These interim consolidated financial statements include comparative information as required by IAS 34 and the UK Disclosure and Transparency Rules.

(b) Consolidation

There were no material changes in the composition of the group in the period. The interim consolidated financial statements of the group comprise the condensed financial statements of HSBC Bank plc and its subsidiaries. The method adopted by the group to consolidate its subsidiaries is described on pages 104 to 105 of the *Annual Report and Accounts 2013*.

(c) Accounting policies

The accounting policies adopted by the group for these interim consolidated financial statements are consistent with those described on pages 103 to 126 of the *Annual Report and Accounts 2013* except as discussed in (a) above. The methods of computation applied by the group for these interim consolidated financial statements are consistent with those applied for the *Annual Report and Accounts 2013.*

From 1 January 2014, the group has chosen to present non-trading reverse repos and repos separately on the face of the balance sheet. These items are classified for accounting purposes as loans and receivables or financial liabilities measured at amortised cost. Previously, they were presented on an aggregate basis together with other loans or deposits measured at amortised cost under 'Loans and advances to banks', 'Loans and advances to customers', 'Deposits by banks' or 'Customer accounts'.

The separate presentation aligns disclosure of reverse repos and repos with market practice and provides more meaningful information in relation to loans and advances. Further information is provided in Note 6. The comparative period has been presented accordingly. In addition, certain securities financing transactions with other HSBC group companies, which had not previously been classified as reverse repos or repos, have also been re-presented. There is no other effect of this change in presentation.

(d) Future accounting developments

In addition to the projects to complete financial instrument accounting, discussed below, the IASB is continuing to work on projects on insurance and lease accounting which could represent significant changes to accounting requirements in the future.

Standards and amendments issued by the IASB but not endorsed by the EU

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers'. The standard is effective for annual periods beginning on or after 1 January 2017 with early adoption permitted. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. The standard should be applied retrospectively, with certain practical expedients available. HSBC is currently assessing the impact of this standard but it is not practicable to quantify the effect as at the date of the publication of these interim financial statements.

In July 2014 the IASB issued IFRS 9 'Financial Instruments', which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement

The classification and measurement of financial assets will depend on the entity's business model for their management and their contractual cash flow characteristics and result in financial assets being held at amortised cost, fair value through other comprehensive income ('OCI') or fair value through profit or loss. In many instances, the classification and measurement outcomes will be similar to IAS 39, although differences will arise, for example, since IFRS 9 does not apply embedded derivative accounting to financial assets and equity securities will be measured at fair value through profit or loss or, in limited circumstances, at fair value through OCI. The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in population of financial assets measured at amortised cost or fair value compared to IAS 39. The classification of financial liabilities is essentially unchanged except that for certain liabilities measured at fair value gains or losses relating to changes in the entity's own credit risk are to be included in OCI.

Impairment

The impairment requirements apply to financial assets measured at amortised cost and fair value through OCI, and lease receivables and certain loan commitments and financial guarantee contracts. An amount equivalent to 12-month expected credit losses ('ECL') is initially recognised and, in the event of a significant increase in credit risk, an amount equivalent to lifetime ECL is recognised.

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the probability of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL.

The assessment of credit risk, as well as the estimation of ECL, is unbiased, probability-weighted and incorporates all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL takes into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward looking than IAS 39 and will tend to be more volatile. It will also tend to result in an increase in the total level of allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting creating a stronger link between hedge accounting and risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. The standard does not explicitly address macro hedge accounting strategies, which are being considered in a separate project. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge accounting requirements, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting.

The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at 1 January 2018, with no requirement to restate comparative periods. Hedge accounting is applied prospectively from that date.

Implementation

The mandatory application date for the standard as a whole is 1 January 2018, but it is possible to apply the revised presentation for certain liabilities measured at fair value from an earlier date. HSBC intends to revise the presentation of fair value gains and losses relating to the entity's own credit risk on certain liabilities as soon as permitted by EU law. If this presentation were applied at 30 June 2014, the effect would be to increase profit before tax by £38 million and reduce other comprehensive income by the same amount with no effect on net assets.

HSBC is currently assessing the impact that the rest of IFRS 9 will have on the financial statements through a group-wide project which has been in place since 2012, but due to the complexity of the classification and measurement, impairment, and hedge accounting requirements and their inter-relationship, it is not possible at this stage to quantify the potential impact.

The group is currently assessing the impact of the general hedge accounting requirements.

2 Dividends

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

Dividends declared on ordinary shares

	Half-year to					
	30 June 2014		30 June 2013		31 December 2013	
	£ per share	**Total £m**	£ per share	Total £m	£ per share	Total £m
Third interim dividend in respect of 2012			1.76	1,400	–	–
First interim dividend in respect of 2013	–	–	–	–	0.71	570
Second interim dividend in respect of 2013	**0.79**	**630**				
	0.79	**630**	1.76	1,400	0.71	570

Dividends on preference shares classified as equity

An annual dividend of £1.16 per share, totalling £41 million, on the HSBC Bank plc non-cumulative third dollar preference shares was paid in the second half of 2013.

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

3 Loan impairment charges and other credit risk provisions

	Half-year to	
	30 June 2014	30 June 2013
	£m	£m
Loan impairment charges on loans and advances		
– new allowances net of allowance releases	**450**	788
– recoveries of amounts previously written off	**(164)**	(177)
	286	611
Impairment releases on debt securities and other credit risk provisions	**(125)**	(61)
	161	550

Movement in impairment allowances on loans and advances

	Individually assessed	Collectively assessed	Total
	£m	£m	£m
At 1 January 2014	**2,423**	**934**	**3,357**
Amounts written off	**(567)**	**(293)**	**(860)**
Recoveries of amounts previously written off	**8**	**156**	**164**
Charge to income statement	**196**	**90**	**286**
Foreign exchange and other movements	**(51)**	**(9)**	**(60)**
At 30 June 2014	**2,009**	**878**	**2,887**
At 1 January 2013	2,351	919	3,270
Amounts written off	(340)	(258)	(598)
Recoveries of amounts previously written off	14	163	177
Charge to income statement	462	149	611
Foreign exchange and other movements	52	5	57
At 30 June 2013	2,539	978	3,517

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

4 Segmental analysis

	RBWM £m	CMB £m	GB&M £m	GPB £m	Other £m	Inter-segment £m	Total £m
Net operating income[1]							
Half year to 30 June 2014							
Net operating income	**2,084**	**1,699**	**2,185**	**179**	**4**	**(40)**	**6,111**
External	**1,926**	**1,788**	**2,484**	**169**	**(256)**	**–**	**6,111**
Inter segment	**158**	**(89)**	**(299)**	**10**	**260**	**(40)**	
Half year to 30 June 2013							
Net operating income	2,512	1,647	2,676	168	(40)	(38)	6,925
External	2,318	1,770	2,927	165	(255)	–	6,925
Inter segment	194	(123)	(251)	3	215	(38)	–
Profit before tax							
Half year to 30 June 2014	**287**	**933**	**784**	**69**	**(171)**	**–**	**1,902**
Half year to 30 June 2013	680	704	973	66	(150)	–	2,273
Balance sheet information							
At 30 June 2014							
Total assets	**146,190**	**70,542**	**628,137**	**16,043**	**25,308**	**(76,024)**	**810,196**
Total liabilities	**136,515**	**62,549**	**612,994**	**15,248**	**24,961**	**(76,024)**	**776,243**
At 31 December 2013							
Total assets	148,065	81,509	631,114	16,174	22,335	(87,502)	811,695
Total liabilities	152,599	108,662	555,911	16,108	15,308	(69,812)	778,776
Average number of persons employed by the group							
Half year to 30 June 2014	**29,239**	**8,893**	**6,958**	**863**	**22,227**	**–**	**68,180**
Half year to 30 June 2013	31,211	8,585	6,920	725	22,468	–	69,909

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

5 Non-trading reverse repurchase and repurchase agreements

Repos and reverse repos are classified as held at amortised cost or held for trading as appropriate. Repos and reverse repos classified as held for trading are included within 'Trading liabilities' and 'Trading assets', respectively. Repos and reverse repos classified as amortised cost, or non-trading, are presented as separate lines in the balance sheet. This separate presentation was adopted with effect from 1 January 2014 and comparatives are re-presented accordingly. Previously, non-trading reverse repos were included within 'Loans and advances to banks' and 'Loans and advances to customers' and non-trading repos were included within 'Deposits by banks' and 'Customer accounts'. The extent to which reverse repos and repos represent loans to/from customers and banks is set out in the following table.

In the second half of 2013, GB&M changed the way it manages repo and reverse repo activities in the Credit and Rates businesses as explained on page 13 of the *Annual Report and Accounts 2013*, resulting in a greater proportion of repo and reverse repo activity being measured at amortised cost.

	30 June 2014 £m	31 December 2013 £m
Assets		
Banks	**37,565**	30,215
Customers	**25,919**	31,310
	63,484	61,525
Liabilities		
Banks	**27,648**	21,914
Customers	**30,692**	43,659
	58,340	65,573

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

6 Fair values of financial instruments

Fair values are determined in accordance with the methodology set out in the *Annual Report and Accounts 2013* in the accounting policies on pages 106 to 126, and in Note 31 and Note 32 on pages 179 to 193.

Financial instruments carried at fair value

	Valuation techniques			
	Level 1 quoted market price £m	Level 2 using observable inputs £m	Level 3 with significant unobservable inputs £m	Total £m
At 30 June 2014				
Assets				
Trading assets	**102,812**	**44,902**	**1,568**	**149,282**
Financial assets designated at fair value	**7,081**	**4,231**	**–**	**11,312**
Derivatives	**907**	**129,704**	**1,202**	**131,813**
Financial investments: available-for-sale	**58,530**	**15,510**	**2,079**	**76,119**
Liabilities				
Trading liabilities	**50,746**	**48,402**	**1,396**	**100,544**
Financial liabilities designated at fair value	**1,340**	**26,606**	**–**	**27,946**
Derivatives	**988**	**129,217**	**1,096**	**131,301**
At 31 December 2013				
Assets				
Trading assets	83,241	49,294	1,562	134,097
Financial assets designated at fair value	10,818	5,843	–	16,661
Derivatives	323	135,844	1,072	137,239
Financial investments: available-for-sale	55,737	17,640	1,653	75,030
Liabilities				
Trading liabilities	42,064	48,417	1,361	91,842
Financial liabilities designated at fair value	4,078	29,958	–	34,036
Derivatives	1,236	134,819	1,297	137,352

Valuation of uncollateralised derivatives

HSBC values uncollateralised derivatives by discounting expected future cash flows at a benchmark interest rate, typically Libor or its equivalent. This approach has historically been adopted across the industry, and has therefore been an appropriate basis for fair value. HSBC and other industry participants are currently considering whether this approach appropriately reflects the manner in which the derivatives are funded, which may occur at rates other than interbank offer rates. No consensus has yet emerged on how such funding should be reflected in the fair value measurement for uncollateralised derivatives. In the future, and possibly in 2014, HSBC may adopt a 'funding fair value adjustment' to reflect funding of uncollateralised derivatives at rates other than interbank offer rates.

The table below shows transfers between Level 1 and Level 2 fair values.

	Assets			Liabilities	
	Available for sale £m	Held for trading £m	Derivatives £m	Held for trading £m	Derivatives £m
At 30 June 2014					
Transfers from Level 1 to Level 2	**–**	**–**	**–**	**514**	**–**
Transfers from Level 2 to Level 1	**–**	**–**	**–**	**–**	**–**

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

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

	Assets			Liabilities	
	Available for sale £m	Held for trading £m	Derivatives £m	Held for trading £m	Derivatives £m
At 30 June 2014					
Private equity investments	**630**	**92**	**–**	**–**	**–**
Asset-backed securities	**1,433**	**259**	**–**	**–**	**–**
Structured notes	**–**	**–**	**–**	**1,396**	**–**
Derivatives	**–**	**–**	**1,202**	**–**	**1,096**
Other portfolios	**16**	**1,217**	**–**	**–**	**–**
	2,079	**1,568**	**1,202**	**1,396**	**1,096**
At 31 December 2013					
Private equity investments	642	56	–	–	–
Asset-backed securities	1,011	264	–	–	–
Structured notes	–	–	–	1,361	–
Derivatives	–	–	1,072	–	1,297
Other portfolios	–	1,242	–	–	–
	1,653	1,562	1,072	1,361	1,297

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

	Assets			Liabilities	
	Available-for-sale £m	Held for trading £m	Derivatives £m	Held for trading £m	Derivatives £m
At 1 January 2014	**1,653**	**1,562**	**1,072**	**1,361**	**1,297**
Total gains or losses recognised in profit or loss	**1**	**–**	**131**	**11**	**(64)**
- trading income excluding net interest income	**–**	**–**	**134**	**11**	**(64)**
- gains less losses from financial investments	**1**	**–**	**(3)**	**–**	**–**
Total gains or losses recognised in other comprehensive income					
- available-for-sale investments: fair value gains/(losses)	**41**	**–**	**–**	**–**	**–**
Purchases	**531**	**54**	**–**	**(18)**	**–**
Issues	**–**	**–**	**–**	**423**	**–**
Sales	**(150)**	**(128)**	**–**	**–**	**–**
Settlements	**(41)**	**(14)**	**7**	**(331)**	**(75)**
Transfer out	**(206)**	**(9)**	**(73)**	**(73)**	**(113)**
Transfer in	**267**	**110**	**71**	**–**	**54**
Exchange differences	**(17)**	**(7)**	**(6)**	**23**	**(3)**
At 30 June 2014	**2,079**	**1,568**	**1,202**	**1,396**	**1,096**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 June	**(8)**	**2**	**152**	**53**	**69**
- trading income excluding net interest income	**–**	**2**	**152**	**53**	**69**
- gains less losses from financial investments	**(8)**	**–**	**–**	**–**	**–**

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

	Assets			Liabilities	
	Available-for-sale £m	Held for trading £m	Derivatives £m	Held for trading £m	Derivatives £m
At 1 January 2013	2,071	1,375	1,160	1,517	1,308
Total gains or losses recognised in profit or loss	5	90	36	(239)	129
- trading income excluding net interest income	–	90	36	(239)	129
- gains less losses from financial investments	5	–	–	–	–
Total gains or losses recognised in other comprehensive income					
- available-for-sale investments: fair value gains/(losses)	95	–	–	–	–
Purchases	46	44	–	–	–
Issues	–	–	–	432	–
Sales	(46)	(47)	–	(9)	–
Settlements	(131)	(27)	4	(273)	77
Transfer out	(485)	(5)	(21)	(9)	(30)
Transfer in	96	49	23	–	22
Exchange differences	65	74	2	21	3
At 30 June 2013	1,716	1,553	1,204	1,440	1,509

Effects of changes in significant unobservable assumptions to reasonably possible alternatives

	Reflected in profit or loss		Reflected in other comprehensive income	
	Favourable changes £m	Unfavourable changes £m	Favourable changes £m	Unfavourable changes £m
At 30 June 2014				
Derivatives/trading assets/trading liabilities[1]	**133**	**(116)**	**–**	**–**
Financial investments: available-for-sale	**–**	**–**	**96**	**(142)**
At 31 December 2013				
Derivatives/trading assets/trading liabilities[1]	180	(133)	–	–
Financial investments: available-for-sale	–	–	89	(133)

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

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

	Reflected in profit or loss		Reflected in other comprehensive income	
	Favourable changes £m	Unfavourable changes £m	Favourable changes £m	Unfavourable changes £m
At 30 June 2014				
Private equity investments	**5**	**(11)**	**38**	**(88)**
Asset-backed securities	**23**	**(6)**	**57**	**(53)**
Structured notes	**5**	**(5)**	**–**	**–**
Derivatives	**83**	**(75)**	**–**	**–**
Other portfolios	**17**	**(19)**	**1**	**(1)**
At 31 December 2013				
Private equity investments	–	(7)	24	(74)
Asset–backed securities	28	(8)	65	(59)
Structured notes	6	(6)	–	–
Derivatives	129	(93)	–	–
Other portfolios	17	(19)	–	–

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

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

Key unobservable inputs to Level 3 financial instruments

The table below lists key unobservable inputs to level 3 financial instruments, and provides the range of those inputs as at 30 June 2014. The categories of key unobservable inputs are described further on pages 189 to 191 of the *Annual Report and Accounts 2013.*

Quantitative information about significant unobservable inputs in level 3 valuations

	Fair value Assets £m	Fair value Liabilities £m	Valuation technique	Key unobservable inputs	Full range of inputs Lower	Full range of inputs Higher	Core range of inputs Lower	Core range of inputs Higher
At 30 June 2014								
Private equity including strategic investments	722	–	See notes below[1]					
Asset–backed securities	1,692	–						
CLO/CDO[2]	986	–	Market proxy	Bid quotes	–	101	67	95
Other ABSs	706	–	Market proxy	Bid quotes	–	98	32	88
Structured notes	–	1,396						
Equity–linked notes	–	743	Model – option model	Equity Volatility	12%	66%	13%	42%
				Equity correlation	8%	54%	11%	32%
Fund–linked notes	–	304	Model – option model	Fund Volatility	7%	37%	7%	37%
FX–linked notes	–	212	Model – option model	FX Volatility	1%	24%	1%	24%
Other	–	137						
Derivatives	1,202	1,096						
Interest rate derivatives:								
– securitisation swaps	174	508	Model – DCF[3]	Prepayment Rate	0%	50%	8%	20%
– long–dated swaptions	431	78	Model – option model	IR Volatility	4%	52%	14%	32%
– other	233	144						
Foreign exchange derivatives:								
– Foreign exchange options	55	46	Model – option model	FX Volatility	0%	24%	4%	13%
Equity derivatives:								
– long–dated single stock options	110	84	Model – option model	Equity Volatility	5%	62%	12%	35%
– other	123	197						
Credit derivatives:								
– other	76	39						
Other portfolios	1,233	–						
– structured certificates	915	–	Model – DCF[3]	Credit volatility	1%	3%	1%	3%
– other	318	–						
	4,849	2,492						

1 *Further described on pages 189 to 191 of the Annual Report and Accounts 2013.*
2 *Collateralised loan obligation/ collateralised debt obligation*
3 *Discounted cash flow*

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

	Fair value Assets £m	Fair value Liabilities £m	Valuation technique	Key unobservable inputs	Full range of inputs Lower	Full range of inputs Higher	Core range of inputs Lower	Core range of inputs Higher
At 31 December 2013								
Private equity including strategic investments	698	–	See notes below[1]					
Asset–backed securities	1,275	–						
CLO/CDO[2]	601	–	Market proxy	Bid quotes	–	102	46	95
Other ABSs	674	–			–	99	30	82
Structured notes	–	1,361						
Equity–linked notes	–	649	Model – Option model	Equity volatility	7%	67%	13%	39%
			Model – Option model	Equity correlation	54%	54%	54%	54%
Fund–linked notes	–	311	Model – Option model	Fund volatility	18%	22%	19%	21%
FX–linked notes	–	229	Model – Option model	FX volatility	0%	28%	0%	28%
Other	–	172						
Derivatives	1,072	1,297						
Interest rate derivatives:								
– securitisation swaps	166	681	Model – DCF[3]	Prepayment rate	0%	22%	2%	20%
– long–dated swaptions	384	111	Model – Option model	IR volatility	4%	78%	13%	40%
– other	99	77						
Foreign exchange derivatives:								
– Foreign exchange options	89	109	Model – Option model	FX volatility	0%	28%	5%	13%
Equity derivatives:								
– long–dated single stock options	226	228	Model – Option model	Equity volatility	7%	67%	13%	39%
– other	14	50						
Credit derivatives:								
– other	94	41						
Other portfolios	1,242	–						
	4,287	2,658						

1 *Further described on pages 189 to 191 of the Annual Report and Accounts 2013.*
2 *Collateralised loan obligation/ collateralised debt obligation*
3 *Discounted cash flow*

7 Fair values of financial instruments not carried at fair value

The accounting policies which determine the classification of financial instruments and the use of assumptions and estimates in valuing them are described on pages 106 to 125 of the *Annual Report and Accounts 2013*.

Fair values of financial instruments not carried at fair value

	30 June 2014 Carrying amount £m	**30 June 2014** Fair Value £m	31 December 2013 Carrying amount £m	31 December 2013 Fair Value £m
Assets				
Loans and advances to banks	**24,635**	**24,639**	23,013	23,013
Loans and advances to customers	**278,204**	**277,262**	273,722	272,165
Reverse repurchase agreements – non–trading	**63,484**	**63,484**	61,525	61,522
Liabilities				
Deposits by banks	**31,931**	**31,931**	28,769	28,769
Customer accounts	**356,932**	**356,988**	346,358	346,531
Repurchase agreements – non–trading	**58,340**	**58,340**	65,573	65,440
Debt securities in issue	**25,677**	**25,710**	32,895	32,929
Subordinated liabilities	**10,457**	**10,290**	10,785	10,487

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

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

8 Offsetting of financial assets and financial liabilities

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

	Gross amounts of recognised financial assets £m	Gross amounts offset in the balance sheet £m	Amounts presented in the balance sheet £m	Amounts not offset in the balance sheet: Financial Instruments[1] £m	Amounts not offset in the balance sheet: Cash collateral received £m	Net amount £m
At 30 June 2014						
Derivatives	**255,794**	**(123,981)**	**131,813**	**98,430**	**15,208**	**18,175**
Reverse repurchase, securities borrowing and similar agreements						
Classified as:						
– trading assets	**11,072**	**(929)**	**10,143**	**10,143**	**–**	**–**
– non–trading assets	**94,745**	**(31,261)**	**63,484**	**63,445**	**39**	**–**
Loans and advances to customers at amortised cost	**118,867**	**(55,606)**	**63,261**	**60,432**	**–**	**2,829**
	480,478	**(211,777)**	**268,701**	**232,450**	**15,247**	**21,004**
At 31 December 2013						
Derivatives	293,359	(156,120)	137,239	96,018	16,913	24,308
Reverse repurchase, securities borrowing and similar agreements						
Classified as:						
– trading assets	23,082	(11,234)	11,848	11,848	–	–
– non–trading assets	92,179	(30,654)	61,525	61,489	33	3
Loans and advances to customers at amortised cost	111,695	(54,236)	57,459	54,076	–	3,383
	520,315	(252,244)	268,071	223,431	16,946	27,694

1 *Including non–cash collateral*

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

	Gross amounts of recognised financial liabilities £m	Gross amounts offset in the balance sheet £m	Amounts presented in the balance sheet £m	Amounts not offset in the balance sheet: Financial Instruments[1] £m	Amounts not offset in the balance sheet: Cash collateral pledged £m	Net amount £m
At 30 June 2014						
Derivatives	**255,282**	**(123,981)**	**131,301**	**98,655**	**11,792**	**20,854**
Repurchase, securities lending and similar agreements						
Classified as:						
– trading liabilities	**12,309**	**(929)**	**11,380**	**11,380**	**–**	**–**
– non–trading liabilities	**89,601**	**(31,261)**	**58,340**	**58,293**	**47**	**–**
Customer accounts	**123,188**	**(55,606)**	**67,582**	**60,432**	**–**	**7,150**
	480,380	**(211,777)**	**268,603**	**228,760**	**11,839**	**28,004**
At 31 December 2013						
Derivatives	293,472	(156,120)	137,352	96,462	14,610	26,280
Repurchase, securities lending and similar agreements						
Classified as:						
– trading liabilities	27,596	(11,234)	16,362	16,362	–	–
– non–trading liabilities	96,227	(30,654)	65,573	65,524	49	–
Customer accounts	115,739	(54,236)	61,503	54,076	–	7,427
	533,034	(252,244)	280,790	232,424	14,659	33,707

1 *Including non–cash collateral*

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

9 Provisions

Provisions of £1,116 million (31 December 2013: £1,707 million) include £802 million (31 December 2013: £1,310 million) in respect to customer redress programmes and £106 million (31 December 2013: £140 million) in respect of litigation. The most significant of these provisions are as follows:

(i) £445 million (31 December 2013: £572 million) relating to the estimated liability for redress in respect of the possible mis–selling of Payment Protection Insurance ('PPI') policies in previous years. An increase in provisions of £116 million was recognised during 2014, primarily due to the identification of new rework populations and higher than expected in bound complaint volumes. Cumulative provisions made since the Judicial Review ruling in 2011 amounted to £1,932 million, of which £1,633 million had been paid as at 30 June 2014.

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

A total of 5.4 million PPI policies have been sold by the group since 2000, which generated estimated gross written premiums of approximately £3.2 billion and revenues of approximately £2.6 billion. At 30 June 2014, the estimated total complaints expected to be received were 1.7 million, representing 31 per cent of total policies sold. It is estimated that contact will be made with regard to 2.1 million policies, representing 38 per cent of total policies sold. This estimate includes inbound complaints as well as HSBC's proactive contact exercise on certain policies ('outbound contact').

The following table details the cumulative number of complaints received at 30 June 2014 and the number of claims expected in the future:

	Cumulative to 30 June	**Future expected**
Inbound complaints[1] (000s of policies)	**1,126**	**229**
Outbound contact (000s of policies)	**448**	**281**
Response rate to outbound contact	**51%**	**49%**
Average uphold rate per claim[2]	**78%**	**72%**
Average redress per upheld claim	**£1,524**	**£1,619**

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

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

A 100,000 increase/decrease in the total inbound complaints would increase/decrease the redress provision by approximately £122 million. Each 1% increase/decrease in the response rate to our outbound contact exercise would increase/decrease the redress provision by approximately £8 million.

In addition to these factors and assumptions, the extent of the required redress will also depend on the facts and circumstances of each individual customer's case. For these reasons, there is currently a high degree of uncertainty as to the eventual costs of redress for this matter. The decay rate for inbound complaint volumes implies that the redress programme will be complete by the end of 2015. However, this timing is subject to some level of uncertainty as the decay rate may change over time based on actual experience.

(ii) A provision of £186 million (31 December 2013: £469 million) relating to the estimated liability for redress in respect of the possible mis–selling of interest rate derivatives in the UK. The provision relates to the estimated redress payable to customers in respect of historical payments under derivative contracts, the expected write–off by the bank of open derivative contract balances and estimated project costs.

The extent to which HSBC is required to pay redress depends on the responses of contacted and other customers during the review period and the facts and circumstances of each individual case. Redress calculations have now been performed for the majority of affected customers, with provisional redress offer letters having been sent for over 90% of total expected claims.

HSBC has undertaken a review of compliance with the fixed-sum unsecured loan agreement requirements of the UK Consumer Credit Act (CCA). £215 million has been recognised as at 30 June 2014 within 'Other liabilities' for the repayment of interest to customers where annual statements did not remind them of their right to partially prepay the loan, notwithstanding that the customer loan documentation did include this right. There is uncertainty as to whether other technical requirements of the CCA have been met, for which we have assessed the contingent liability at up to £0.6 billion.

Further details of legal proceedings and regulatory matters are set out in Note 12. Legal proceedings include civil court, arbitration or tribunal proceedings brought against the group (whether by way of claim or counterclaim) or civil disputes that may, if not settled, result in court, arbitration or tribunal proceedings.

10 Credit quality of financial instruments

The five credit quality classifications set out and defined on page 40 of the *Annual Report and Accounts 2013* describe the credit quality of the group's lending, debt securities portfolios and derivatives. These classifications each encompass a range of more granular, internal credit rating grades assigned to wholesale and retail lending businesses, as well as the external ratings attributed by external agencies to debt securities. There is no direct correlation between internal and external ratings at granular level, except to the extent each falls within a single credit quality classification.

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

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

	30 June 2014							
	Neither past due nor impaired							
		Medium						
	Strong £m	Good £m	Satisfactory £m	Sub-standard £m	Past due not impaired £m	Impaired £m	Impairment allowances £m	Total £m
Cash and balances at central banks	**47,999**	**–**	**–**	**–**	**–**	**–**	**–**	**47,999**
Items in the course of collection from other banks	**1,428**	**–**	**–**	**–**	**–**	**–**	**–**	**1,428**
Trading assets[1]	**76,408**	**16,360**	**14,926**	**711**	**–**	**–**	**–**	**108,405**
– treasury and other eligible bills	**827**	**989**	**274**	**–**	**–**	**–**	**–**	**2,090**
– debt securities	**43,220**	**7,329**	**3,898**	**451**	**–**	**–**	**–**	**54,898**
– loans and advances to banks	**13,412**	**2,201**	**6,576**	**250**	**–**	**–**	**–**	**22,439**
– loans and advances to customers	**18,949**	**5,841**	**4,178**	**10**	**–**	**–**	**–**	**28,978**
Financial assets designated at fair value[1]	**639**	**235**	**4,130**	**23**	**–**	**–**	**–**	**5,027**
– treasury and other eligible bills	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– debt securities	**628**	**235**	**4,118**	**23**	**–**	**–**	**–**	**5,004**
– loans and advances to banks	**11**	**–**	**12**	**–**	**–**		**–**	**23**
– loans and advances to customers	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Derivatives	**107,107**	**18,610**	**5,698**	**398**	**–**	**–**	**–**	**131,813**
Loans and advances held at amortised cost	**166,194**	**74,264**	**49,551**	**7,239**	**1,594**	**6,884**	**(2,887)**	**302,839**
– loans and advances to banks	**18,456**	**4,170**	**1,964**	**49**	**–**	**22**	**(26)**	**24,635**
– loans and advances to customers	**147,738**	**70,094**	**47,587**	**7,190**	**1,594**	**6,862**	**(2,861)**	**278,204**
Reverse repurchase agreements - non-trading	**49,643**	**8,914**	**3,414**	**1,513**	**–**	**–**	**–**	**63,484**
Financial investments[1]	**64,215**	**5,746**	**2,121**	**1,739**	**–**	**1,355**	**–**	**75,176**
– treasury and other similar bills	**599**	**1,452**	**226**	**203**	**–**	**–**	**–**	**2,480**
– debt securities	**63,616**	**4,294**	**1,895**	**1,536**	**–**	**1,355**	**–**	**72,696**
Other assets	**5,347**	**408**	**1,941**	**144**	**1**	**9**	**–**	**7,850**
– endorsements and acceptances	**318**	**17**	**525**	**–**	**–**	**–**	**–**	**860**
– accrued income and other	**5,029**	**391**	**1,416**	**144**	**1**	**9**	**–**	**6,990**

1 *Excluding equity securities*

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

	31 December 2013							
	Neither past due nor impaired							
		Medium						
	Strong £m	Good £m	Satisfactory £m	Sub-standard £m	Past due not impaired £m	Impaired £m	Impairment allowances £m	Total £m
Cash and balances at central banks	67,584	–	–	–	–	–	–	67,584
Items in the course of collection from other banks	1,948	–	–	–	–	–	–	1,948
Trading assets[1]	69,228	18,062	10,289	511	–	–	–	98,090
– treasury and other eligible bills	1,182	1,267	174	–	–	–	–	2,623
– debt securities	45,892	7,145	2,991	386	–	–	–	56,414
– loans and advances to banks	9,469	2,762	3,720	116	–	–	–	16,067
– loans and advances to customers	12,685	6,888	3,404	9	–	–	–	22,986
Financial assets designated at fair value[1]	2,599	243	4,101	4	–	–	–	6,947
– treasury and other eligible bills	–	–	–	–	–	–	–	–
– debt securities	2,557	243	4,099	4	–	–	–	6,903
– loans and advances to banks	42	–	2	–	–	–	–	44
– loans and advances to customers	–	–	–	–	–	–	–	–
Derivatives	109,827	20,714	6,186	512	–	–	–	137,239
Loans and advances held at amortised cost	164,947	67,481	50,718	7,601	1,452	7,893	(3,357)	296,735
– loans and advances to banks	17,414	3,188	2,235	173	–	24	(21)	23,013
– loans and advances to customers	147,533	64,293	48,483	7,428	1,452	7,869	(3,336)	273,722
Reverse repurchase agreements - non-trading	45,743	10,225	4,345	1,212	-	-	-	61,525
Financial investments[1]	63,005	5,662	2,122	1,731	–	1,504	–	74,024
– treasury and other similar bills	834	1,108	254	–	–	–	–	2,196
– debt securities	62,171	4,554	1,868	1,731	–	1,504	–	71,828
Other assets	4,967	431	1,765	257	5	14	–	7,439
– endorsements and acceptances	387	16	300	–	–	–	–	703
– accrued income and other	4,580	415	1,465	257	5	14	–	6,736

1 *Excluding equity securities*

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

11 Contingent liabilities, contractual commitments and guarantees

	At 30 June 2014 £m	At 31 December 2013 £m
Guarantees and other contingent liabilities		
Guarantees	**14,144**	15,529
Other credit related contingent liabilities	**53**	40
	14,197	15,569
Commitments		
Documentary credits and short-term trade-related transactions	**3,033**	2,814
Forward asset purchases and forward deposits placed	**954**	18
Undrawn formal standby facilities, credit lines and other commitments to lend	**122,249**	120,185
	126,236	123,017

The above table discloses the nominal principal amounts of commitments, guarantees and other contingent liabilities. They are mainly credit-related instruments which include both financial and non-financial guarantees and commitments to extend credit. Nominal principal amounts represent the amounts at risk should contracts be fully drawn upon and clients default. As a significant proportion of guarantees and commitments is expected to expire without being drawn upon, the total of the nominal principal amounts is not representative of future liquidity requirements. Non-credit related contingent liabilities are disclosed in Note 9 'Provisions' and Note 12 'Legal proceedings, investigations and regulatory matters'.

12 Legal proceedings, investigations and regulatory matters

The group is party to legal proceedings, investigations and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, the group considers that none of these matters is material, either individually or in the aggregate. The group recognises a provision for a liability in relation to these matters when it is probable that an outflow of economic benefits will be required to settle an obligation which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of legal proceedings as at 30 June 2014. It is not practicable to provide an aggregate estimate of the potential liability for legal proceedings and regulatory matters as a class of contingent liabilities.

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

Bernard L. Madoff Investment Securities LLC

In December 2008, Bernard L. Madoff ('Madoff') was arrested for running a Ponzi scheme and a trustee was appointed for the liquidation of his firm, Bernard L. Madoff Investment Securities LLC ('Madoff Securities'), an SEC-registered broker-dealer and investment adviser. Since his appointment, the trustee has been recovering assets and processing claims of Madoff Securities customers. Madoff subsequently pleaded guilty to various charges and is serving a 150-year prison sentence. He has acknowledged, in essence, that while purporting to invest his customers' money in securities and, upon request, return their profits and principal, he in fact never invested in securities and used other customers' money to fulfil requests for the return of profits and principal. Other individuals associated with Madoff Securities have also pleaded guilty, and several former employees of Madoff Securities were recently convicted at trial in the US and are awaiting sentencing. Various non-US HSBC companies provided custodial, administration and similar services to a number of funds incorporated outside the US whose assets were invested with Madoff Securities. Based on information provided by Madoff Securities, as at 30 November 2008, the purported aggregate value of these funds was US$8.4 billion, an amount that includes fictitious profits reported by Madoff. Based on information available to HSBC, the Group has estimated that the funds' actual transfers to Madoff Securities minus their actual withdrawals from Madoff Securities during the time that HSBC serviced the funds totalled approximately US$4 billion.

Plaintiffs (including funds, fund investors, and the Madoff Securities trustee) have commenced Madoff-related proceedings against numerous defendants in a multitude of jurisdictions. Various HSBC companies have been named as defendants in suits in the US, Ireland, Luxembourg, and other jurisdictions. Certain suits (which include US putative class actions) allege that the HSBC defendants knew or should have known of Madoff's fraud and breached various duties to the funds and fund investors.

In December 2011, claims against HSBC and other defendants by fund investors in three related putative class actions pending in the US District Court for the Southern District of New York (the 'New York District Court') were dismissed on grounds of *forum non conveniens*. In September 2013, the US Court of Appeals for the Second Circuit affirmed the dismissal of the claims. The plaintiffs filed a petition for panel rehearing, and rehearing *en banc*. In May 2014, the Court of Appeals denied the request for panel rehearing. The request for rehearing *en banc* remains pending.

The Madoff Securities trustee has commenced suits against various HSBC companies in the US Bankruptcy Court and in the English High Court. The US action (which also names certain funds, investment managers, and other non-HSBC companies and individuals) sought US$9 billion in damages and additional recoveries from HSBC and the various co-defendants and alleged that HSBC aided and abetted Madoff's fraud and breach of fiduciary duty. In July 2011, the New York District Court dismissed the trustee's various common law claims on the grounds that the trustee lacks standing to assert them and that dismissal was affirmed in a decision issued by the US Court of Appeals for the Southern Circuit in June 2013. On 30 June 2014, the US Supreme Court denied the trustee's petition for *writ of certiorari*, rendering final the dismissal of the trustee's common law claims.

The trustee's remaining US claims seek, pursuant to US bankruptcy law, recovery of unspecified amounts received by HSBC from funds invested with Madoff, including amounts that HSBC received when it redeemed units HSBC held in the various funds in connection with financing transactions HSBC had entered into with various clients, as well as fees earned by HSBC for providing custodial, administrative and similar services to the funds. These claims were withdrawn from the US Bankruptcy Court to the New York District Court in order to decide certain preliminary legal questions. The last of those questions was decided by the District Court on 7 July, 2014, when the New York District Court ruled that the US Bankruptcy Code does not provide the trustee a right to recover money that was transferred between foreign entities, even if that money is ultimately traceable to Madoff Securities. This decision, as well as the other New York District Court rulings, are subject to appeal and have not been applied to the facts of the trustee's case against HSBC, so their impact on the trustee's remaining claims is uncertain.

The trustee's English action seeks recovery of unspecified transfers of money from Madoff Securities to or through HSBC, on the ground that the HSBC defendants actually or constructively knew of Madoff's fraud. HSBC has not been served with the trustee's English action.

Between October 2009 and April 2012, Fairfield Sentry Limited, Fairfield Sigma Limited, and Fairfield Lambda Limited (collectively 'Fairfield'), funds whose assets were directly or indirectly invested with Madoff Securities, commenced multiple suits in the British Virgin Islands ('BVI') and the US against numerous fund shareholders, including various HSBC companies that acted as nominees for clients of HSBC's private banking business and other clients who invested in the Fairfield funds. The Fairfield actions seek restitution of amounts paid to the defendants in

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

connection with share redemptions, on the ground that such payments were made by mistake, based on inflated net asset values resulting from Madoff's fraud, and some actions also seek recovery of the share redemptions under BVI insolvency law. The UK Privy Council, on 16 April 2014, issued a decision that the funds' net asset values were binding despite Madoff Securities fraud and dismissed the BVI common law claims. An application seeking to remove the foreign representative's authority to pursue the US actions is pending in the BVI court. The Fairchild actions in the US remain stayed in the US Bankruptcy Court pending action on the part of the foreign representative to the lift the stay and further developments in the BVI litigation.

There are many factors that may affect the range of possible outcomes, and the resulting financial impact, of the various Madoff-related proceedings, including but not limited to the circumstances of the fraud, the multiple jurisdictions in which the proceedings have been brought and the number of different plaintiffs and defendants in such proceedings. For these reasons, among others, it is not practicable at this time for HSBC to estimate reliably the aggregate liabilities, or ranges of liabilities, that might arise as a result of all such claims but they could be significant. In any event, HSBC considers that it has good defences to the claims made against it and will continue to defend them vigorously.

Anti-money laundering and sanctions-related investigations

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

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

Under these agreements, HSBC Holdings and HSBC Bank USA made payments totalling US$1.9bn to US authorities and are continuing to comply with ongoing obligations. On 1 July 2013, the US District Court for the Eastern District of New York approved the US DPA and retained authority to oversee implementation of that agreement. Under the agreements with the DoJ, FCA, and FRB, an independent monitor (who is, for FCA purposes, a 'skilled person' under Section 166 of the Financial Services and Markets Act) will evaluate and regularly assess the effectiveness of HSBC's AML and sanctions compliance function and HSBC's progress in implementing its remedial obligations under the agreements. The monitorship, which began on 22 July 2013, is proceeding as anticipated.

If HSBC Holdings and HSBC Bank USA fulfil all of the requirements imposed by the US DPA, the DoJ charges against those entities will be dismissed at the end of the five-year period of that agreement. Similarly, if HSBC Holdings fulfils all of the requirements imposed by the DANY DPA, DANY's charges against it will be dismissed at the end of the two-year period of that agreement. The DoJ may prosecute HSBC Holdings or HSBC Bank USA in relation to the matters that are the subject of the US DPA if HSBC Holdings or HSBC Bank USA breaches the terms of the US DPA, and DANY may prosecute HSBC Holdings in relation to the matters which are subject of the DANY DPA if HSBC Holdings violates the terms of the DANY DPA.

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

The settlement with US and UK authorities does not preclude private litigation relating to, among other things, HSBC's compliance with applicable AML, BSA and sanctions laws or other regulatory or law enforcement actions for AML, BSA or sanctions matters not covered by the various agreements.

On 7 May 2014, a shareholder derivative action was filed by a shareholder of HSBC Holdings purportedly on behalf of HSBC Holdings, HSBC Bank USA, HNAH and HSBC USA Inc. in New York State Supreme Court against the directors, certain officers and certain former directors and officers of those HSBC companies, alleging that those directors and officers breached their fiduciary duties to the companies and caused a waste of corporate assets by allegedly permitting and/or causing the conduct underlying the US DPA. This action is at an early stage.

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

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

On 4 December 2013, the European Commission (the 'Commission') announced that it had imposed fines on eight financial institutions under its cartel settlement procedure for their participation in illegal activity related to euro interest rate derivatives and/or yen interest rate derivatives. Although HSBC was not one of the financial institutions fined, the Commission announced that it had opened proceedings against HSBC in connection with its Euribor-related investigation of euro interest rate derivatives only. This investigation will continue under the standard Commission cartel procedure. On 21 May 2014, HSBC received a Statement of Objections from the Commission alleging anticompetitive practices in connection with the pricing of euro interest rate derivatives. The Statement of Objections sets out the Commission's preliminary views and does not prejudge the final outcome of its investigation. HSBC intends to respond to the Commission's Statement of Objections in due course.

Based on the facts currently known, with respect to each of these on-going regulatory investigations, reviews and proceedings, there is a high degree of uncertainty as to the terms on which the on-going investigations, reviews or proceeding will be resolved and the timing of such resolutions, including the amounts of fines and/or penalties. As matters progress, it is possible that the fines and/or penalties imposed could be significant.

In addition, 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. These 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 complaints in those actions assert claims against HSBC and other US dollar Libor panel banks under various US laws, including US antitrust and racketeering laws, the US Commodity Exchange Act ('CEA'), and state law.

In March 2013, the New York District Court overseeing the consolidated proceedings that encompass a number of pending actions related to US dollar Libor issued an opinion and order in the six oldest actions, dismissing the plaintiffs' federal and state antitrust claims, racketeering claims and unjust enrichment claims in their entirety, but allowing certain of their CEA claims that were not barred by the applicable statute of limitations to proceed. Some of those plaintiffs appealed the New York District Court's decision to the US Court of Appeals for the Second Circuit, which later dismissed those appeals on the grounds that they were premature. The Court of Appeals also denied the plaintiffs' subsequent motion for reconsideration. On 30 June 2014, the US Supreme Court agreed to hear the plaintiffs' appeal from the Court of Appeals' decision.

Other plaintiffs sought to file amended complaints in the New York District Court to assert additional allegations, and the defendants filed motions to dismiss those amended complaints. On 23 June 2014, the New York District Court issued an opinion and order that, among other things, denied the plaintiffs' request for leave to amend their complaints to assert additional theories of Libor manipulation against HSBC and certain banks, but granted leave to assert such manipulation claims against two other banks; and granted defendants' motion to dismiss certain additional claims under the CEA as barred by the applicable statute of limitations. Proceedings with respect to all other actions in the consolidated proceedings were stayed pending this decision, and the New York District Court has not yet ruled on whether and to what extent those other actions may now proceed.

Separately, HSBC and other panel banks have also been named as defendants in a putative class action filed in the New York District Court on behalf of persons who transacted in euroyen futures and options contracts related to the euroyen Tokyo interbank offered rate (‘Tibor’). The complaint alleges, amongst other things, misconduct related to euroyen Tibor, although HSBC is not a member of the Japanese Bankers Association’s Euroyen TIBOR panel, as well as Japanese Yen Libor, in violation of US antitrust laws, the CEA, and state law. In April 2013, the plaintiff filed a second amended complaint, which the defendants moved to dismiss. On 29 March 2014, the New York District Court issued an opinion dismissing the plaintiffs’ claims under the US antitrust laws and state law, and sustaining their claims under the CEA. HSBC has moved for reconsideration of that aspect of the opinion sustaining the CEA claims, and its motion remains pending. In the meantime, on 17 June 2014, the plaintiff moved for leave to file a third amended complaint. HSBC expects to respond to the plaintiffs’ motion in due course.

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 related to Euribor. The complaint alleges, amongst other things, misconduct related to Euribor in violation of US antitrust laws, the CEA, and state law. On 2 May 2014, the plaintiffs filed a second amended complaint and subsequently sought and received leave to file a third amended complaint. By order of the court, the deadline for filing the third amended complaint has been stayed until 9 September 2014 or subsequent order of the court.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of these private lawsuits, including the timing and potential impact on HSBC.

Foreign exchange rate investigations and litigation

Various regulators and competition and enforcement authorities around the world including the UK, the US, the EU, Hong Kong and elsewhere are conducting investigations and reviews into a number of firms, including HSBC, related to trading on the foreign exchange markets. HSBC and its affiliates in relevant jurisdictions are cooperating with these investigations and reviews. These investigations and reviews are ongoing and based on the facts currently known, there is a high degree of uncertainty as to the terms on which they will be resolved and the timing of such resolutions, including the amounts of fines and/or penalties. As matters progress, it is possible that the fines and/or penalties imposed could be significant.

In addition, in late 2013 and early 2014, HSBC and a number of other banks were named as defendants in various putative class actions filed in the US New York District Court on behalf of persons who executed foreign currency trades that settled on the basis of foreign exchange rates published by WM/Reuters or that otherwise occurred during the time periods when the WM/Reuters rates were being set. The complaints allege, amongst other things, that the defendants conspired to manipulate the WM/Reuters foreign exchange rates in violation of US antitrust laws. In February 2014, the New York District Court appointed interim lead class counsel on behalf of putative class members in the US, and such counsel filed a consolidated amended complaint on 31 March 2014. A separate putative class action is also pending on behalf of a putative class comprised of Norwegian citizens. HSBC and other defendants filed motions to dismiss both actions on 30 May 2014. Those motions remain pending.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of these private lawsuits, including the timing and potential impact on HSBC.

Gold and silver fix-related litigation

Since Mach 2014, numerous putative class actions have been filed in the US District Courts for the Southern District of New York, the District of New Jersey and the Northern District of California naming HSBC and a number of other members of The London Gold Fixing Limited as defendants. The complaints allege that, from January 2004 to the present, defendants conspired to manipulate the price of gold and gold derivatives during the afternoon London gold fix in order to reap profits on proprietary trades. Plaintiffs have filed a motion for transfer and centralisation with the Judicial Panel on Multi-District Litigation requesting assignment to and consolidation in the New York District Court. The motion is pending.

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

In July 2014, a putative class action was filed in the US District Court for the Southern District of New York naming HSBC and a number of other members of The London Silver Market Fixing Ltd as defendants. The complaint alleges that, from January 2007 to the present, defendants conspired to manipulate the price of physical silver and silver derivatives for their collective benefit in violation of the US Commodity Exchange Act and US antitrust laws. This action is at a very early stage.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of these private lawsuits, including the timing and potential impact on HSBC.

Credit default swap regulatory investigation and litigation

In July 2013, HSBC received a Statement of Objections from the Commission relating to its on-going investigation of alleged anti-competitive activity by a number of market participants in the credit derivative market between 2006 and 2009. The Statement of Objections sets out the Commission's preliminary views and does not prejudge the final outcome of its investigation. HSBC has submitted a response and attended an oral hearing in May 2014 at which the other defendants were also present. Following the oral hearing the Commission decided to conduct a further phase of investigation before deciding whether or how to proceed with the case. HSBC is cooperating with this further 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 potential impact on HSBC.

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

On 16 October 2013, the Judicial Panel on Multi-District Litigation ordered that all cases be consolidated in the New York District Court as *In re Credit Default Swaps Antitrust Litigation*, (MDL No. 2476). On 5 December 2013, the New York District Court held its initial pretrial conference, at which time it selected lead interim class counsel and set a schedule for the filing of an amended, consolidated complaint and motions to dismiss that complaint. The amended, consolidated complaint was filed on 31 January 2014 naming HSBC Bank USA and HSBC Bank plc as defendants, among others. Following the filing of defendants' motions to dismiss in March 2014, plaintiffs filed a second amended consolidated complaint on 11 April 2014. Defendants have moved to dismiss that second amended consolidated complaint on 23 May 2014. That motion remains pending.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of these private lawsuits, including the timing and potential impact on HSBC.

13 Event after the balance sheet date

A first interim dividend for the financial year ending 31 December 2014 of £600 million was declared by the Directors after 30 June 2014.

14 Interim Report 2014 and statutory accounts

The information in this *Interim Report 2014* is unaudited and does not constitute statutory accounts within the meaning of section 434(3) of the Companies Act 2006. The *Interim Report 2014* was approved by the Board of Directors on 4 August 2014. The statutory accounts for the year ended 31 December 2013 have been delivered to the Registrar of Companies in England and Wales in accordance with section 446 of the Companies Act 2006. The auditor has reported on those accounts. Its report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Independent Review Report by KPMG Audit Plc to HSBC Bank plc

Introduction

We have been engaged by HSBC Bank plc ('the bank') to review the condensed set of financial statements in the half-yearly interim report for the six months ended 30 June 2014 which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated cash flow statement and the related explanatory notes. We have read the other information contained in the *Interim Report 2014* and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the bank in accordance with the terms of our engagement to assist the bank in meeting the requirements of the Disclosure and Transparency Rules ('the DTR') of the UK's Financial Conduct Authority ('the UK FCA'). Our review has been undertaken so that we might state to the bank those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the bank for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The *Interim Report 2014* is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the *Interim Report 2014* in accordance with the DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the bank are prepared in accordance with IFRSs as adopted by the European Union ('EU'). The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

Our responsibility is to express to the bank a conclusion on the condensed set of financial statements in the *Interim Report 2014* based on our review.

Scope of review

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 UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the *Interim Report 2014* for the six months ended 30 June 2014 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Nicholas Edmonds
For and on behalf of KPMG Audit Plc
Chartered Accountants
London, England

4 August 2014

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

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