HSBC Bank plc

Interim Report 2019

HSBC

Contents

Presentation of information

This document comprises the *Interim Report 2019* for HSBC Bank plc ('the bank') and its subsidiaries (together 'the group'). 'We', 'us' and 'our' refer to HSBC Bank plc together with its subsidiaries. References to 'HSBC' or 'the Group' within this document mean HSBC Holdings plc together with its subsidiaries.

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

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

Unless otherwise stated, commentary on the income statement compares the six months to 30 June 2019 with the same period in the prior year. Balance sheet commentary compares the position at 30 June 2019 to 31 December 2018.

In accordance with IAS 34, the Interim Report is intended to provide an update on the *Annual Report and Accounts 2018* and therefore focuses on events during the first six months of 2019, rather than duplicating information previously reported.

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

Cautionary statement regarding forward-looking statements

This *Interim Report 2019* contains certain forward-looking statements with respect to the financial condition, results of operations and business of the group.

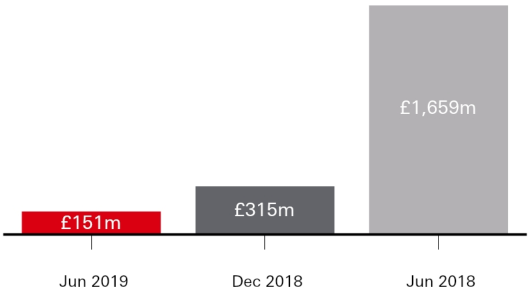
Statements that are not historical facts, including statements about the group's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. HSBC Bank plc makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statement.

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

Highlights

For the half-year ended 30 June 2019

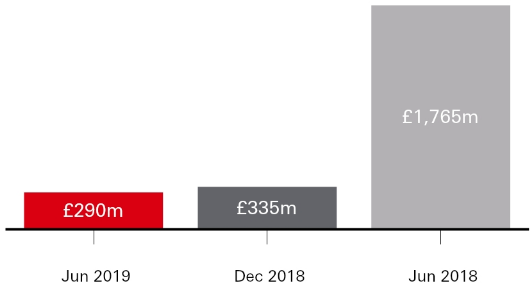
Reported profit before tax (£m)



£151m

(1H18: £1,659m)

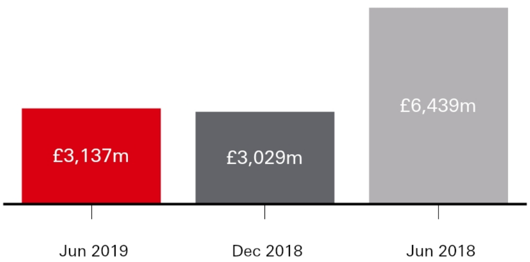
Adjusted profit before tax (£m)



£290m

(1H18: £1,765m)

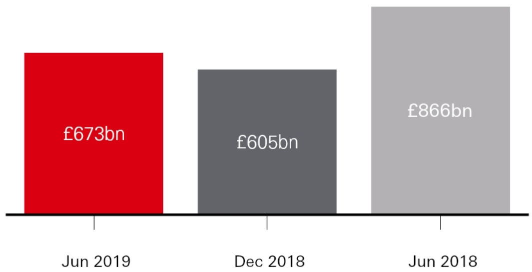
Reported revenue (£m)



£3,137m

(1H18: £6,439m)

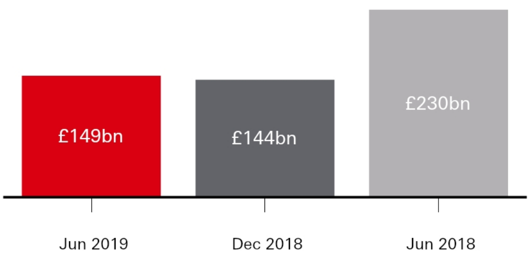
Total assets at period end (£bn)



£673bn

(31 Dec 2018: £605bn)

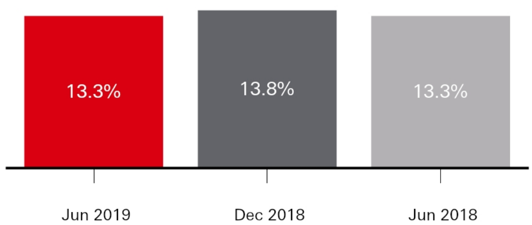
Reported risk-weighted assets at period end (£bn)



£149bn

(31 Dec 2018: £144bn)

Common equity tier 1 ratio at period end (%)



13.3%

(31 Dec 2018: 13.8%)

Key financial metrics

	Footnotes	Half-year to		
		30 Jun 2019	30 Jun 2018[1]	31 Dec 2018
For the period (£m)				
Profit before tax (reported basis)		**151**	1,659	315
Profit before tax (adjusted basis)	2	**290**	1,765	335
Net operating income before change in expected credit losses and other credit impairment charges	3	**3,137**	6,439	3,029
Profit attributable to shareholders of the parent company		**23**	1,203	303
At period end (£m)				
Total equity attributable to shareholders of the parent company		**25,917**	46,947	26,878
Total assets		**673,008**	865,870	604,958
Risk-weighted assets		**148,817**	230,386	143,875
Loans and advances to customers (net of impairment allowances)		**114,906**	278,682	111,964
Customer accounts		**183,084**	385,913	180,836
Capital ratios (%)	4			
Common equity tier 1		**13.3**	13.3	13.8
Tier 1		**15.4**	15.6	16.0
Total capital		**24.8**	19.0	26.2
Performance, efficiency and other ratios (annualised %)				
Return on average ordinary shareholders' equity	5	**(0.1)**	5.6	2.0
Return on tangible equity	6	**(0.7)**	7.1	5.1
Cost efficiency ratio (reported basis)	7	**92.6**	72.2	89.1
Cost efficiency ratio (adjusted basis)	7	**88.3**	70.3	88.4
Jaws (adjusted basis)	8	**(12.6)**	(9.3)	(11.3)
Ratio of customer advances to customer accounts		**62.8**	72.2	61.9

1 Comparatives for the half-year to 30 June 2018 include the discontinued operations (HSBC UK Bank plc).
2 Adjusted performance is computed by adjusting reported results for the effect of significant items as detailed on pages 10 to 12.
3 Net operating income before change in expected credit losses and other credit impairment charges is also referred to as revenue.
4 Capital ratios are detailed in the Capital section on pages 23 to 32.
5 The return on average ordinary shareholders' equity is defined as profit attributable to shareholders of the parent company divided by the average total shareholders' equity.
6 The Return on Tangible Equity ('RoTE') for 2018 includes those entities that formed part of HSBC Bank plc. The 31 December comparative displays the RoTE for the full year of 2018. RoTE is calculated as reported profit attributable to ordinary shareholders less changes in goodwill and present value of in-force long-term insurance business divided by average tangible shareholders' equity.
7 Reported cost efficiency ratio is defined as total operating expenses (reported) divided by net operating income before change in expected credit losses and other credit impairment charges (reported), while adjusted cost efficiency ratio is defined as total operating expenses (adjusted) divided by net operating income before change in expected credit losses and other credit impairment charges (adjusted).
8 Adjusted jaws measures the difference between adjusted revenue and adjusted cost growth rates.

About HSBC Bank plc

With assets of £673bn at 30 June 2019, HSBC Bank plc is one of Europe's largest banking and financial services organisations.

More than

1.3 million
customers bank with us

We employ around

20,000
people across our locations

Partner of choice for

7,300
multinationals in Europe

Purpose and strategy

Our purpose

Our purpose is to be where the growth is, connecting customers to opportunities. We help enable businesses to thrive and economies to prosper, helping people to fulfil their hopes, dreams and realise their ambitions.

HSBC values

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

Open

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

Connected

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

Dependable

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

Our role in society

How we do business is as important as what we do. Our responsibilities to our customers, employees and shareholders as well as to wider society go far beyond simply being profitable. We seek to build trusting and lasting relationships with our many stakeholders to generate value in society.

HSBC worldwide

We are part of the HSBC Group, which has approximately 235,000 employees working around the world to provide more than 39 million customers with a broad range of banking products and services to meet their financial needs.

HSBC Group strategy

The Group strategy is supported by its strategic advantage as a leading international bank with exceptional access to fast growing markets and balance sheet strength.

Leading international bank

- More than 50% of HSBC Group's client revenue is linked to international clients.
- HSBC has been chosen by large corporates across regions as their lead international bank (source: Greenwich Associates - percentage of large corporates choosing HSBC as their lead international bank).

Broad access to high growth markets

- Exceptional access to high growth developing markets.
- Investments aligned to high growth markets to deliver shareholder value.

Balance sheet strength

- Continue to maintain a strong capital, funding and liquidity position with a diversified business model across the Group.
- Conservative approach to credit risk and liquidity management.

HSBC in Europe

HSBC Bank plc operates in 19 markets. Our operating entities represent the group to customers, regulators, employees and other stakeholders. The bank and its subsidiaries have a physical presence in three main areas:

- The United Kingdom: The non ring-fenced bank in the UK provides a world class wholesale banking platform and is a global centre of excellence for HSBC. We continue to work closely with HSBC UK Bank plc (the ring-fenced bank) to ensure a seamless service to clients.
- European Union (excluding UK): We have a wide spread presence on the continent with a physical presence in Belgium, Czech Republic, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Poland and Spain. Two of these subsidiaries are located in Continental Europe's largest economies (i.e. France and Germany), with a universal banking presence in France.
- Network Markets: In addition to the above, our physical presence in Switzerland, Armenia, Israel, Russia, South Africa, and the Channel Islands and Isle of Man further enhances our client offering and global connectivity.

Our strategy

HSBC Bank plc's strategic vision is to be the leading international bank in Europe and we want to help businesses and customers across the region to continue to thrive and prosper. The HSBC Group's international network and expertise along with our extensive coverage and capabilities across Europe provide us with a strategic advantage to help clients achieve their goals, whether it is growing their businesses in the single market or breaking into international markets. Our strategic vision is based on the following key principles.

Supporting our clients

Europe is home to some of the best performing, forward thinking companies, ranging from entrepreneurial start-ups to large multinationals. The European Union ('EU') is the world's largest trading bloc set in a dynamic market of more than 500 million consumers. HSBC supports businesses of all sizes across Europe, including more than 7,300 multinationals. We offer a wide range of banking services including retail and private banking, corporate and investment banking, transaction banking, foreign exchange and fixed income. We have c.20,000 employees in Europe supporting our clients' needs.

Connecting to the world

Our global network enables us to connect clients in Europe with opportunities across the world's trade corridors. The HSBC Group network in developed and developing markets can help customers connect to global growth opportunities. More than 50% of HSBC Group's client revenue is linked to businesses and individuals with an international presence. Our core capabilities in Global Trade and Receivables Finance ('GTRF'); Global Liquidity and Cash Management ('GLCM'); and Foreign Exchange have been tailored to meet the needs of our clients in Europe.

Strengthening intra-regional ties

Strong trading relationships exist within Europe, supported by the region's interlinked infrastructure and transport connections and the EU's single market framework. With intra-regional trade in the EU expected to grow by 4.6% per year on average, we are committed to helping customers in the region flourish. With dedicated teams in 19 European markets, we have extensive European capability across traditional trade and structured trade finance, cash management, payments and financing to serve the needs of all customers from SMEs to global multinationals.

Driving sustainable growth

Europe is at the forefront of international efforts to fight climate change and is a world leader in sustainable finance. We share these values and want to help governments and businesses achieve their aims of developing a sustainable future for all.

How we do business

HSBC conducts business with the commitment to supporting the sustained success of our customers, people and communities.

Customers

HSBC create value by providing the products and services our customers need, and aim to do so in a way that fits seamlessly into their lives. This helps us to build long-lasting relationships with our customers. HSBC maintain trust by striving to protect our customers' data and information, and delivering fair outcomes for them–and if things go wrong, we need to address complaints in a timely manner. Operating with high standards of conduct is central to our long-term success and underpins our ability to serve our customers.

Embracing innovation

Digitisation is radically reshaping the region, driven by new technology and consumer demand for excellent products and services. We actively embrace innovation through the adoption of new technologies and fintech partnerships, which will make a positive difference for our customers. Globally, 80% of all HSBC banking transactions are now digital and 40% of our retail customer log-ins are password-less. HSBC is investing $15-17bn globally in growth and new technology to enable customers to bank when they want, where they want and how they want.

Employees

Our people at HSBC span many cultures, communities and continents. HSBC want to build trusted relationships, where our people feel empowered in their roles and inspired to grow.

HSBC help our leaders set the tone by listening and valuing the behaviours that get a job done as much as the outcome. HSBC understand the importance of building a diverse and inclusive workforce, valuing individuals and their contribution. This allows us to better represent our customers and the communities we serve. The path to achieving the healthiest human system is being defined by our people in conversations around the world.

Healthiest Human System

HSBC want to create the healthiest human system in our industry. HSBC are working to create the right environment so everyone can fulfil their potential. A healthy and happy workforce is essential for a positive working environment. Our priorities for our people are mental health, flexible working and financial well-being.

At HSBC, diversity is not just about a particular demographic group. It is about who we are, what we have learned and the experience we have gained. HSBC seek to reflect the diversity of the markets we serve, not only in our people but also by encouraging diversity across our customers, communities and suppliers. We believe in an enterprise-wide approach to diversity and inclusion.

The 2019 UK Gender pay gap report is available on the website at www.hsbc.com/our-approach/culture-and-people/diversity-and-inclusion.

In 2018, we made good progress in updating our global procurement processes to improve supplier diversity and will continue this in 2019. HSBC conducted a refresh of our brand to include inclusive imagery and principles so our customers and people can see themselves in HSBC. HSBC has introduced talking cash machines and sign language services on smartphones to provide 'barrier-free banking' and insurance products.

Supporting sustainable growth

Europe is at the forefront of international efforts to fight climate change and is a world leader in sustainable finance. We share these values and want to help governments and businesses achieve their aims of developing a sustainable future for all.

HSBC are also engaging with our customers on transition risk, and embedding climate risk within our own risk management practices. HSBC understands that it is important to provide disclosures on both climate-related opportunities and risks to our stakeholders, and include our second disclosure under the Task Force on Climate-related Financial Disclosure ('TCFD') on page 29 of the Group *Annual Report and Accounts, 2018*.

HSBC has shown progress against our targets in sustainable finance, and have set out how we are partnering with our customers to assist with the transition to a low-carbon economy.

Since the start of 2017, we have achieved $19.2bn, being 2018 results ($15.0bn) plus green, social & sustainability bonds only, as validated on Dealogic ($4.3bn). HSBC Group's commitment to provide and facilitate $100bn of sustainable financing and investment by 2025, 56% of the progress has occurred in Europe since the implementation.

A data dictionary, including detailed definitions of contributing activities, may be found on the Group's website: www.hsbc.com/our-approach/measuring-our-impact.

HSBC France is actively involved in developing the Green Bond market. In 2018, HSBC France was Joint Manager for the Green and Responsible issue from the Île-de-France Region and the inaugural Green issue for the Pays de la Loire Region. For other public sector issuers in France, HSBC France was Joint Book runner for the inaugural Green Bond issue for Société du Grand Paris and the third Climate issue from Agence Française de Développement.

A responsible business culture

HSBC aim to maintain high standards of governance across the Group.

HSBC acts on our responsibility to run our business in a way that upholds high standards of corporate governance. We are committed to working with our regulators to manage the safety of the financial system, adhering to the spirit and the letter of the rules and regulations governing our industry. In our endeavour to restore trust in our industry, we aim to act with courageous integrity and learn from past events to prevent their recurrences. We meet our responsibility to society through paying taxes and being transparent in our approach to this.

We also seek to ensure we respect global standards on human rights in our workplace and our supply chains, and continually work to improve our compliance management capabilities.

We acknowledge that increasing financial inclusion is a continuing effort, and we are carrying out a number of initiatives to increase access to financial services.

The Group's latest Environmental, Social and Governance ('ESG') Update was published on 8 April 2019 is available on our website: www.hsbc.com/our-approach/esg-information/esg-reporting-and-policies.

Economic background and outlook

UK

Uncertainty at home and abroad

Real quarterly UK GDP growth accelerated in the first quarter of 2019 to 0.5% from 0.2% in the fourth quarter of 2018. A material portion of that increase, however, appears to have reflected a surge in stockpiling ahead of 29 March, when the UK had been scheduled to withdraw from the European Union (‘EU’). As this effect unwinds, GDP is expected to contract slightly in the second quarter, by 0.1%. Looking through the volatility, the underlying pace of UK economic growth remains subdued, relative to historic averages. In part, that reflects uncertainty relating to the UK's departure from the EU, alongside softer global economic growth. The labour market remains firm, however. The unemployment rate stood at an average of 3.8% in the three months to May, the lowest rate since December 1974. The annual rate of inflation, according to the Consumer Price Index (‘CPI’), was 2.0% in June 2019. The ‘core’ CPI rate, which strips out food and energy prices, stood at 1.8%.

UK-EU relations crucial to the outlook

Prospects for the UK economy are likely to depend on the nature of the UK's future economic relationship with the EU. The UK is now scheduled to leave the EU on 31 October 2019. Based on an assumption that the UK withdraws from the EU with transition arrangements, HSBC Research forecasts real GDP to grow by 1.2% in 2019 and 1.1% in 2020. In such a scenario, given global growth headwinds and limited signs of inflationary pressure, the Bank of England's policy rate, Bank Rate, is expected to remain at 0.75% until at least the end of 2020. On the other hand, ‘no deal Brexit’, and the possible economic disruption it might entail, is a downside risk to that outlook. In that case, the Bank of England might respond by loosening monetary policy.

Eurozone

Global headwinds

Eurozone real quarterly economic growth slowed to 0.2% in the second quarter of 2019, after 0.4% growth in the first quarter, 'flash' official estimates showed. That brought growth back in line with the sluggish rates seen through the second half of 2018. However, despite the subdued pace of GDP growth, the labour market has continued to improve - the eurozone unemployment rate has seen continued declines and stood at a post-2008 low of 7.5% in June.

A softening in world trade growth appears to have weighed on activity, particularly in those countries and sectors with significant export exposures. Eurozone industrial production has been weak - in May 2019 the level of industrial output was 1.8% lower than the peak seen in December 2017. Meanwhile, inflation remains soft. The annual rate of core eurozone consumer price inflation - which strips out food and energy prices - has trended close to the 1% mark over the past two years, and stood at 0.9% in July.

Subdued growth and lower policy rates in prospect

Given the impact of global headwinds on the eurozone, which has been accompanied by a weakening in leading indicators, HSBC Research forecasts GDP growth to hold steady in the third quarter, at 0.2%. Trade-related uncertainty is expected to weigh on net trade and investment through this year and next. On the other hand, a relatively robust labour market should underpin modest growth in consumer spending. Taken together, HSBC Research projections are for eurozone GDP growth of 1.0% in 2019 and 1.1% in 2020.

Against this subdued growth backdrop and low inflation, HSBC Research forecasts the European Central Bank (‘ECB’) to cut its deposit rate by 20 basis points in September, taking the rate to -0.60%. It also forecasts a re-start of net asset purchases under the ECB's Asset Purchase Programme (‘APP’), with purchases starting in January for 12 months, at EUR30bn a month.

Financial summary

Use of non-GAAP financial measures

Our reported results are prepared in accordance with IFRSs, as detailed in the Financial Statements starting on page 35. In measuring our performance, the financial measures that we use include those derived from our reported results in order to eliminate factors that distort period-on-period comparisons. These are considered non-GAAP financial measures.

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

The global business segmental results on pages 9 to 13 are presented on an adjusted basis in accordance with IFRS 8 'Operating Segments' as detailed in 'Basis of preparation' on page 42.

Adjusted performance

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

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

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

Summary consolidated income statement

	Half-year to		
	30 Jun 2019	30 Jun 2018	31 Dec 2018
	£m	£m	£m
Net interest income	**670**	2,997	663
Net fee income	**679**	1,368	676
Net income from financial instruments measured at fair value	**2,273**	1,797	848
Gains less losses from financial investments	**41**	(3)	15
Net insurance premium income	**1,248**	1,055	950
Other operating income	**254**	200	380
Total operating income[1]	**5,165**	7,414	3,532
– *of which: Discontinued operations*[2]	—	*3,132*	—
Net insurance claims, benefits paid and movement in liabilities to policyholders	**(2,028)**	(975)	(503)
Net operating income before change in expected credit losses and other credit impairment charges	**3,137**	6,439	3,029
Change in expected credit losses and other credit impairment charges	**(84)**	(138)	(21)
Net operating income	**3,053**	6,301	3,008
– *of which: Discontinued operations*[2]	—	*3,037*	—
Total operating expenses[1]	**(2,906)**	(4,652)	(2,699)
– *of which: Discontinued operations*[2]	—	*(1,894)*	—
Operating profit	**147**	1,649	309
Share of profit in associates and joint ventures	**4**	10	6
Profit before tax	**151**	1,659	315
– *of which: Discontinued operations*[2]	—	*1,143*	—
Tax expense[3]	**(118)**	(442)	—
Profit for the period	**33**	1,217	315
Profit attributable to shareholders of the parent company	**23**	1,203	303
Profit attributable to non-controlling interests	**10**	14	12

1 *Total operating income and expenses include significant items as detailed on pages 10 to 12. In 2018, total operating expenses do not include the impact of right-of-use assets recognised under IFRS 16 on adoption on the 1 January 2019.*
2 *Profit from discontinued operations relates to profit attributable to shareholders of the group from the separation of HSBC UK Bank plc from the group. HSBC completed the ring-fencing of its UK retail banking activities on 1 July 2018, transferring qualifying RBWM, CMB and GPB customers of the group to HSBC UK Bank plc, HSBC's ring-fenced bank.*
3 *From 2019, due to an amendment to IAS12 'Income Taxes', the tax relief on payments in relation to Additional Tier 1 instruments has been recognised in the tax charge shown in the income statement, whereas previously it was recorded directly in equity. The H1 2019 tax credit was £13m (H1 2018: £20m) with no effect on equity. Comparatives have not been restated.*

Reported performance

Reported profit before tax was £151m, down by £1,508m compared with the first half of 2018. Excluding 2018 discontinued operations (HSBC UK Bank plc), reported profit before tax was down £364m or 71%. The following commentary excludes discontinued operations from the first half of 2018 comparative figures.

Net interest income ('NII') decreased by £29m or 4%. This decrease was primarily driven by higher funding costs incurred as a result of additional liquidity requirements post ring-fencing in the UK and in preparation for the UK's withdrawal from the European Union. This was partly offset by an increase in income resulting from the UK interest rate rise in August 2018 generating higher asset yields in the first half of 2019 compared with the first half of 2018.

Net fee income decreased by £103m or 13%, primarily in GB&M in Global Banking. This reflected lower transaction volumes negatively impacting the Advisory and Equity Capital Markets businesses, as well as lower volumes and subdued market conditions resulting in lower net fee income within the Credit and Lending business. In RBWM, net fee income was lower primarily in Asset Management due to lower equity market indexes.

Net income from financial instruments measured at fair value increased by £712m or 46%. The increase was mainly in the RBWM insurance business primarily reflecting the improvement in equity market conditions in France, which impacted the value of equity and unit trust assets supporting insurance contracts. The offsetting movements are recorded in net insurance claims and benefits paid and movement in liabilities to policyholders. This was partly offset in GB&M in Global Markets due to lower income in Credit reflecting reduced market activity.

Gains less losses from financial investments increased by £44m, mainly in Corporate Centre. This was notably in the UK due to gains in Legacy Credit following portfolio disposals and higher gains on the disposal of bonds that are held at fair value through other comprehensive income ('FVOCI') in Balance Sheet Management ('BSM').

Net insurance premium income increased by £193m or 18%, mainly in RBWM. In the UK this was due to an increase in the volume of new underwriting as a result of additional product offerings within the Life Insurance business. Income was also higher in France due to improved commercial performance and business growth.

Other operating income increased by £65m or 35%. This was mainly in GB&M due to intercompany recoveries received from HSBC UK Bank plc relating to the Global Foreign Exchange business and a legal provision release in Global Markets. In RBWM there was higher income in the France Insurance business due to an increase in the present value of in-force ('PVIF') contracts due to a projected increase in commissions over the life of contracts, partly offset by adverse market movements. There were also lower intercompany recoveries from other entities in the Group (offset by lower intercompany costs in operating expenses).

Net insurance claims, benefits paid and movement in liabilities to policyholders increased by £1,053m. This was largely due to lower returns on contracts where the policyholder shares in the investment risk, partly offset by an increase in premium income.

Changes in expected credit losses and other impairment charges ('ECL') ECL were £39m higher compared with the first half of 2018, mainly in Corporate Centre in Legacy Credit due to lower releases on portfolio disposals in first half of 2019 compared with first half of 2018. This was partly offset by a reduction in ECL stage 3 provisions across Global Banking against clients within the construction and retail sectors.

Total operating expenses increased by £149m or 5%, offset in part by a number of significant items including:

- an increase of £66m in expenses related to severance costs arising from cost efficiency measures across our global businesses and functions, and
- an increase in costs of £9m associated with the Group's preparation for the UK's exit from the European Union.

Excluding these significant items, operating expenses increased by £74m or 2%. This was mainly in GB&M reflecting increases in staff and contractor costs due to regulatory and transformation programmes within the UK. In Corporate Centre, costs were lower reflecting the transfer of IT contractor costs to ServCo during the first quarter of 2018 (offsetting a commensurate reduction in intercompany recharges in revenue).

For further details of significant items affecting revenue and costs, please refer to significant revenue/cost items by business segment on pages 10 and 12.

Tax expense of £118m was £324m lower than in the first half of 2018. The effective rate for the first half of 2019 was 78.1% compared with 26.6% for the first half of 2018. In the first half of 2019, prior year adjustments increased the rate by 63.6 percentage points, partly offset by the tax deduction on AT1 coupon payments which decreased the rate by 9.3 percentage points. The impact of these adjustments to the rate is significantly greater than in previous years due to lower profits.

Global businesses

Basis of preparation
Global businesses are our reportable segments under IFRS 8.
The global business results are assessed by the Chief Operating Decision Maker on the basis of adjusted performance that removes the effects of significant items from reported results. We therefore present these results on an adjusted basis.
Reconciliations of reported and adjusted performance are presented on pages 10 to 12.
Our operations are closely integrated and, accordingly, the presentation of data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and global functions to the extent that they can be meaningfully attributed to operational business lines. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity. Costs which are not allocated to global businesses are included in Corporate Centre.
Where relevant, income and expense amounts presented include the results of inter-segment funding along with inter-company and inter-business line transactions. All such transactions are undertaken on arm's length terms. The intragroup elimination items are presented in Corporate Centre.

Our global businesses

Our operating model consists of four global businesses and a Corporate Centre, supported by HSBC Operations, Services and Technology, and 11 global functions, including risk, finance, compliance, legal, marketing and human resources.

Global Banking and Markets ('GB&M')

HSBC Global Banking and Markets operates in 19 markets offering clients geographical reach and deep local knowledge across Europe. We serve over 2,000 customers providing tailored financial solutions to major government, corporate and institutional clients worldwide. Operating as a global business, we also contribute significant revenues to other regions through our European client base.

We provide a comprehensive suite of services across capital financing, transaction and advisory banking services, trade services, research, securities services and global liquidity and cash management. Our teams bring together relationship managers and product specialists to deliver financial solutions customised to suit our clients' business specific growth ambitions and financial objectives.

Our business is underpinned by a focus on highest standards of conduct and financial crime risk management. We remain committed to deepening client relationships, improving synergies across the Group and with other Businesses, and digital programmes focused on clients. Cost discipline continues to be a priority as we strive to simplify the business through streamlining business lines, operations and technology.

Commercial Banking ('CMB')

We serve customers in 18 markets and territories from UK (non-RFB) and Ireland to Russia, ranging from small enterprises focused on their local market to corporates operating across borders. Whether it is an SME banking at one of our 23 business centres in key French cities, or one of the 5,300 multinationals we help support across the region, we provide the tools and expertise that European businesses need to thrive.

Our network of relationship managers and product specialists work closely to meet customer needs, from working capital financing to region-wide treasury and trade solutions. We are fully committed to helping European businesses navigate change, from managing the uncertainties of Brexit to seizing export opportunities as the EU strikes new trade agreements.

Retail Banking and Wealth Management ('RBWM')

In Continental Europe and the Channel Islands and Isle of Man, RBWM helps more than 1.2 million customers with their financial needs through Retail Banking, Wealth Management, Insurance and Asset Management. For customers with simpler banking needs, we offer a full suite of products reflecting local requirements; including personal banking, mortgages, loans, credit cards, savings, investments and insurance. Alongside this, RBWM provides various propositions in certain markets, including Jade, Premier, and Advance; as well as wealth solutions, financial planning and international services. We are also committed to supporting small business owners within France and Malta, through HSBC Fusion.

In RBWM, we serve our customers through four main channels: branches, self-service terminals, telephone service centres and digital services (internet and mobile banking). We are moving from having isolated interactions with our customers, to a world in which we are always listening, learning and innovating to offer simple and helpful solutions. We continue to focus on meeting the needs of our customers, the communities we serve, and our own people, whilst working to build the bank of the future. We aim to deliver growth and are targeting to grow revenue faster than costs, increasing return on equity over time.

Global Private Banking ('GPB')

We serve high net worth and ultra high net worth individuals and families in Channel Islands and Isle of Man, France and Germany, including those with international banking needs.

Services provided include Investment Management, which includes discretionary, advisory and brokerage services, and Private Wealth Solutions, which comprises trusts and estate planning.

	GB&M	CMB	RBWM	GPB
Adjusted profit before tax				
	£89m	**£241m**	**£88m**	**£19m**
	(1H18: £525m)[1]	(1H18: £1030m)[1]	(1H18: £425m)[1]	(1H18: £43m)[1]
Risk-Weighted Assets				
	£95,110m	**£32,343m**	**£6,957m**	**£1,925m**
	(31 Dec 2018: £91,259m)	(31 Dec 2018: £31,910m)	(31 Dec 2018: £7,032m)	(31 Dec 2018: £2,013m)

1 *Includes profit from the discontinued operations due to the separation of HSBC UK Bank plc from the group.*

Our global businesses are presented on an adjusted basis, which is consistent with the way in which we assess the performance of our global businesses.

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

	RBWM £m	CMB £m	GB&M £m	GPB £m	Corporate £m	Total £m
	Half-year to 30 Jun 2019					
Reported revenue	**575**	**593**	**1,925**	**90**	**(46)**	**3,137**
Significant revenue items	**–**	**–**	**21**	**–**	**(2)**	**19**
– customer redress programmes	**–**	**–**	**–**	**–**	**–**	**–**
– debit valuation adjustment on derivative contracts	**–**	**–**	**21**	**–**	**–**	**21**
– fair value movement on non-qualifying hedges	**–**	**–**	**–**	**–**	**(2)**	**(2)**
Adjusted revenue	**575**	**593**	**1,946**	**90**	**(48)**	**3,156**
	Half-year to 30 Jun 2018					
Reported revenue	2,104	1,912	2,294	165	(36)	6,439
Significant revenue items	–	(34)	(21)	–	–	(55)
– customer redress programmes	–	(34)	–	–	–	(34)
– debit valuation adjustment on derivative contracts	–	–	(21)	–	–	(21)
– fair value movement on non-qualifying hedges	–	–	–	–	–	–
Adjusted revenue	2,104	1,878	2,273	165	(36)	6,384
	Half-year to 31 Dec 2018					
Reported revenue	476	567	1,955	84	(53)	3,029
Significant revenue items	–	–	(21)	–	2	(19)
– customer redress programmes	–	–	–	–	–	–
– debit valuation adjustment on derivative contracts	–	–	(21)	–	–	(21)
– fair value movement on non-qualifying hedges	–	–	–	–	2	2
Adjusted revenue	476	567	1,934	84	(51)	3,010

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

	RBWM £m	CMB £m	GB&M £m	GPB £m	Corporate Centre £m	Total £m
	Half-year to 30 Jun 2019					
Reported operating expenses	**(492)**	**(322)**	**(1,856)**	**(73)**	**(163)**	**(2,906)**
Significant cost items	**1**	**4**	**62**	**1**	**52**	**120**
– costs of structural reform[1]	**–**	**3**	**18**	**–**	**37**	**58**
– UK customer redress programmes	**–**	**–**	**(3)**	**–**	**–**	**(3)**
– restructuring and other related costs	**1**	**1**	**47**	**1**	**16**	**66**
– settlements and provisions in connection with legal and regulatory matters	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Adjusted operating expenses	**(491)**	**(318)**	**(1,794)**	**(72)**	**(111)**	**(2,786)**
	Half-year to 30 Jun 2018					
Reported operating expenses	(1,641)	(837)	(1,633)	(121)	(420)	(4,652)
Significant cost items	68	6	(35)	–	122	161
– costs of structural reform[2]	–	1	11	–	122	134
– UK customer redress programmes	68	5	–	–	–	73
– restructuring and other related costs	–	–	–	–	–	–
– settlements and provisions in connection with legal and regulatory matters	–	–	(46)	–	–	(46)
Adjusted operating expenses	(1,573)	(831)	(1,668)	(121)	(298)	(4,491)
	Half-year to 31 Dec 2018					
Reported operating expenses	(461)	(306)	(1,702)	(67)	(163)	(2,699)
Significant cost items	–	3	(21)	–	57	39
– costs of structural reform[2]	–	3	15	–	32	50
– UK customer redress programmes	–	–	(17)	–	–	(17)
– restructuring and other related costs	–	–	–	–	30	30
– settlements and provisions in connection with legal and regulatory matters	–	–	(19)	–	(5)	(24)
Adjusted operating expenses	(461)	(303)	(1,723)	(67)	(106)	(2,660)

1 *Costs of structural reform includes costs associated with the UK's exit from the EU.*
2 *The full year 2018 'cost of structural reform' included 'costs associated with the UK's exit from the EU' of £97m and 'costs to establish UK ring-fenced bank' of £87m.*

Net impact on profit before tax by business segment

	Half-year to 30 Jun 2019					
	RBWM	**CMB**	**GB&M**	**GPB**	**Corporate Centre**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Reported profit/(loss) before tax	**87**	**237**	**6**	**18**	**(197)**	**151**
Net impact on reported profit or loss	**1**	**4**	**83**	**1**	**50**	**139**
– significant revenue items	**—**	**—**	**21**	**—**	**(2)**	**19**
– significant cost items	**1**	**4**	**62**	**1**	**52**	**120**
Adjusted profit/(loss) before tax	**88**	**241**	**89**	**19**	**(147)**	**290**

	Half-year to 30 Jun 2018					
Reported profit/(loss) before tax	357	1,058	581	43	(380)	1,659
Net impact on reported profit or loss	68	(28)	(56)	—	122	106
– significant revenue items	—	(34)	(21)	—	—	(55)
– significant cost items	68	6	(35)	—	122	161
Adjusted profit/(loss) before tax	425	1,030	525	43	(258)	1,765

	Half-year to 31 Dec 2018					
Reported profit/(loss) before tax	18	252	223	19	(197)	315
Net impact on reported profit or loss	—	3	(42)	—	59	20
– significant revenue items	—	—	(21)	—	2	(19)
– significant cost items	—	3	(21)	—	57	39
Adjusted profit/(loss) before tax	18	255	181	19	(138)	335

Adjusted profit/(loss) for the period

	Half-year to 30 Jun 2019					
	RBWM	**CMB**	**GB&M**	**GPB**	**Corporate Centre**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Net operating income/(expense) before change in expected credit losses and other credit impairment charges	**575**	**593**	**1,946**	**90**	**(48)**	**3,156**
– external	**575**	**577**	**2,089**	**90**	**(175)**	**3,156**
– inter-segment	**—**	**16**	**(143)**	**—**	**127**	**—**
Change in expected credit losses and other credit impairment charges	**4**	**(34)**	**(63)**	**1**	**8**	**(84)**
Net operating income	**579**	**559**	**1,883**	**91**	**(40)**	**3,072**
Total operating expenses	**(491)**	**(318)**	**(1,794)**	**(72)**	**(111)**	**(2,786)**
Operating profit/(loss)	**88**	**241**	**89**	**19**	**(151)**	**286**
Share of profit in associates and joint ventures	**—**	**—**	**—**	**—**	**4**	**4**
Adjusted profit/(loss) before tax	**88**	**241**	**89**	**19**	**(147)**	**290**
Adjusted cost efficiency ratio	**85.4%**	**53.6%**	**92.2%**	**80.0%**		**88.3%**

	Half-year to 30 Jun 2018					
	RBWM	CMB	GB&M	GPB	Corporate Centre	Total
	£m	£m	£m	£m	£m	£m
Net operating income before change in expected credit losses and other credit impairment charges	2,104	1,878	2,273	165	(36)	6,384
– external	2,051	1,798	2,372	165	(2)	6,384
– inter-segment	53	80	(99)	—	(34)	—
Change in expected credit losses and other credit impairment charges	(106)	(17)	(80)	(1)	66	(138)
Net operating income	1,998	1,861	2,193	164	30	6,246
Total operating expenses	(1,573)	(831)	(1,668)	(121)	(298)	(4,491)
Operating profit	425	1,030	525	43	(268)	1,755
Share of loss in associates and joint ventures					10	10
Adjusted profit before tax	425	1,030	525	43	(258)	1,765
Adjusted cost efficiency ratio	74.8%	44.2%	73.4%	73.3%		70.3%

Adjusted profit/(loss) for the period (continued)

	Half-year to 31 Dec 2018					
	RBWM	CMB	GB&M	GPB	Corporate Centre	Total
	£m	£m	£m	£m	£m	£m
Net operating income before change in expected credit losses and other credit impairment charges	476	567	1,934	84	(51)	3,010
– external	479	454	2,182	83	(188)	3,010
– inter-segment	(3)	113	(248)	1	137	—
Change in expected credit losses and other credit impairment charges	3	(9)	(30)	2	13	(21)
Net operating income	479	558	1,904	86	(38)	2,989
Total operating expenses	(461)	(303)	(1,723)	(67)	(106)	(2,660)
Operating profit	18	255	181	19	(144)	329
Share of loss in associates and joint ventures	—	—	—	—	6	6
Adjusted profit before tax	18	255	181	19	(138)	335
Adjusted cost efficiency ratio	96.8%	53.4%	89.1%	79.8%		88.4%

Adjusted performance

Adjusted profit before tax was £290m, down by £1,475m compared with the first half of 2018. Excluding 2018 discontinued operations (HSBC UK Bank plc), adjusted profit before tax was down £235m or 45%. This reflected higher operating expenses, higher ECL and lower revenue. The following commentary excludes discontinued operations from the first half of 2018 comparative figures.

Adjusted revenue decreased by £131m or 4%, primarily due to lower revenue in GB&M. Global Markets revenue was lower due to a decrease in primary and secondary flow activity within Credit in the UK. There was also lower revenue in Global Banking due to gains in the first half of 2018 on corporate lending restructuring, adverse mark-to-market valuations from a debt converted equity deal and lower event-driven activity (Equity Capital Markets and Mergers and Acquisitions). This was partly offset by higher revenue in Global Liquidity & Cash Management ('GLCM'), including the positive impact of the UK interest rate rise in August 2018. Revenue was also higher in RBWM, most notably in the UK and France in Insurance as well as in the Channel Islands and Isle of Man in Retail. Revenue was also higher in Corporate Centre due to gains from disposals within the Legacy Credit portfolio compared with losses in the first half of 2018.

Adjusted ECL were £39m higher compared with the first half of 2018, mainly in Corporate Centre in Legacy Credit due to lower releases on portfolio disposals in first half of 2019 compared with first half of 2018. This was partly offset by a reduction in ECL stage 3 provisions across Global Banking against clients within the construction and retail sectors.

Adjusted operating expenses increased by £59m or 2%, primarily due to increases in staff and contractor costs within GB&M due to business change and regulatory transformation programmes. This was partly offset by a decrease in operating expenses in Corporate Centre reflecting the transfer of IT contractor costs to ServCo during the first quarter of 2018.

Global Banking and Markets ('GB&M')

Adjusted profit before tax was £89m, down by £436m compared with the first half of 2018. Excluding 2018 discontinued operations (HSBC UK Bank plc), adjusted profit before tax was down £424m or 83%. This reflected a decrease in revenue and an increase in operating expenses. The following commentary excludes discontinued operations from the first half of 2018 comparative figures.

Revenue decreased by £260m or 12%. Global Markets revenue was lower in Credit due to reduced client activity reflecting low volatility. In Global Banking, revenue was lower due to gains on corporate lending restructuring in the first half of 2018 and lower event-driven activity (Advisory and Equity Capital Markets) in the first half of 2019. This was partly offset by a strong performance in GLCM, including the impact of the interest rate rise in the UK in August 2018. In Markets, the Equities business benefited from a legal provision release in the first half of 2019.

ECL decreased by £17m or 21%. In the first half of 2019 ECL charges of £63m were mainly in the construction and retail sectors in the UK and France. The first half of 2018 included higher ECL in the same sectors.

Operating expenses increased by £182m or 11% compared with the first half of 2018 mainly due to higher staff and contractor costs across GB&M businesses driven by transformation and regulatory programmes.

Retail Banking and Wealth Management ('RBWM')

Adjusted profit before tax was £88m, down by £337m compared with the first half of 2018. Excluding 2018 discontinued operations (HSBC UK Bank plc), adjusted profit before tax increased by £49m or 128%. This was primarily due to higher revenue which was partly offset by an increase in operating expenses. The following commentary excludes discontinued operations from the first half of 2018 comparative figures.

Revenue increased by £64m or 12%, mainly in the UK and France insurance businesses. In the UK, the revenue was higher due to the Insurance business from strong sales in 2019 in onshore investment bonds following market and fund price increases. In France, revenue was higher in the Insurance business due to strong sales particularly driven by Wealth Insurance products and an increase in the present value of in-force ('PVIF') contracts due to a projected increase in commissions over the life of contracts, partly offset by adverse market movements. In the Channel Islands and Isle of Man, there was an overall increase in mortgage revenue due to an increase in balances, particularly from higher yielding mortgages, and improved margins.
ECL reduced by £7m in the first half of 2019. The credit environment was relatively benign, with the first half of 2019 benefiting from a net release of £4m in France.

Operating expenses increased by £22m or 5%. This was primarily driven by higher staff costs within the UK. Operating expenses were also higher in France and the Channel Island and Isle of Man as a result of planned strategic investments undertaken to support future growth.

Commercial Banking ('CMB')

Adjusted profit before tax was £241m, down by £789m compared with the first half of 2018. Excluding 2018 discontinued operations (HSBC UK Bank plc), adjusted profit before tax increased by £26m or £12%. This was driven by an increase in revenue and a reduction in operating expenses. The following commentary excludes discontinued operations from the first half of 2018 comparative figures.

Revenue increased by £26m or 5% reflecting a strong performance within the UK and European international network countries ('International Markets') when compared to the first half of 2018. In the UK, higher revenue was noted due to an increase in GB&M client collaboration activities, principally in foreign exchange and fixed income. In the UK and the International Markets, deposit growth and favourable movements in interest rates during the first half of 2019 resulted in higher net interest income. This was further aided by strong balance sheet growth in GTRF in Germany, France and International Markets.

ECL increased by £9m or 36% compared with the first half of 2018. In the first half of 2019, the ECL net charge of £35m was mainly due to stage 3 charges in Germany in the automotive industry and, to a lesser extent, from clients in the infrastructure and health sectors in South Africa.

Operating expenses decreased by £10m or 3%, reflecting the transfer of IT and staff costs to ServCo during the first quarter of 2019.

Global Private Banking ('GPB')

Adjusted profit before tax was £19m, down by £24m compared with the first half of 2018. Excluding 2018 discontinued operations (HSBC UK Bank plc), adjusted profit before tax was £5m or 21% lower primarily due to an increase in operating expenses. The following commentary excludes discontinued operations from the first half of 2018 comparative figures.

Revenue increased by £1m or 1%, primarily due to higher net interest income in France notably from higher lending balances.

ECL increased by £1m compared with the first half of 2018. This is primarily driven by a net release of ECL booked in the Channel Islands in the first half of 2018 which was not repeated in 2019.

Operating expenses increased by £7m or 12% compared with the first half of 2018 as a result of the implementation of a cost sharing agreement between the Channel Islands and HSBC UK in the second half of 2018 due to regulatory requirements.

Corporate Centre

Adjusted loss before tax was £147m, compared to a £258m loss in the first half of 2018. Excluding 2018 discontinued operations (HSBC UK Bank plc), the adjusted loss before tax was £120m or 45% lower. This reflected a decrease in operating expenses, partly offset by an increase in ECL. The following commentary excludes discontinued operations from the first half of 2018 comparative figures.

Revenue increased by £15m, primarily in Balance Sheet Management through money market loans and deposits and derivative contracts used as a part of internal funding. Revenue was also higher in Legacy Credit reflecting lower losses from portfolio disposals undertaken during the first half of 2019. This was partly offset by a reduction in recharges to other entities in the Group reflecting the transfer of costs to ServCo part way through 2018, which was offset by lower operating expenses.

ECL decreased by £55m or 85%. There was a net credit of £10m in the first half of 2019 and a net credit of £66m in the first half of 2018, both reflecting provision releases following Legacy Credit portfolio disposals.

Operating expenses decreased by £166m or 50%, mainly reflecting the transfer of IT contractor costs to ServCo during the first quarter of 2018. There was an offsetting reduction in intercompany recharges in revenue.

Review of business position

Summary consolidated balance sheet

	At	
	30 Jun 2019	31 Dec 2018
	£m	£m
Total assets	**673,008**	604,958
– cash and balances at central banks	**61,570**	52,013
– trading assets	**107,178**	95,420
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**16,147**	17,799
– derivatives	**164,219**	144,522
– loans and advances to banks	**14,784**	13,628
– loans and advances to customers	**114,906**	111,964
– reverse repurchase agreements – non-trading	**72,175**	80,102
– financial investments	**52,849**	47,272
– other assets	**69,180**	42,238
Total liabilities	**646,565**	577,549
– deposits by banks	**31,711**	24,532
– customer accounts	**183,084**	180,836
– repurchase agreements – non-trading	**45,100**	46,583
– trading liabilities	**55,830**	49,514
– financial liabilities designated at fair value	**42,399**	36,922
– derivatives	**159,940**	139,932
– debt securities in issue	**24,774**	22,721
– liabilities under insurance contracts	**22,287**	20,657
– other liabilities	**81,440**	55,852
Total equity	**26,443**	27,409
– total shareholders' equity	**25,917**	26,878
– non-controlling interests	**526**	531

By operating segment:

Balance sheet information by global business

	RBWM £m	CMB £m	GB&M £m	GPB £m	Corporate Centre £m	Total £m
30 Jun 2019						
Loans and advances to customers	**22,472**	**29,775**	**58,189**	**3,988**	**482**	**114,906**
Customer accounts	**31,436**	**36,153**	**100,272**	**9,317**	**5,906**	**183,084**
31 Dec 2018						
Loans and advances to customers	21,924	29,021	56,464	3,541	1,014	111,964
Customer accounts	29,961	34,716	103,387	6,514	6,258	180,836

Total reported assets were 11% higher than at 31 December 2018. The group maintained a strong and liquid balance sheet with the ratio of customer advances to customer accounts remaining broadly constant at 62.8%, compared with 61.9% at 31 December 2018.

Assets

Cash and balances at central banks increased by 18% as a result of deploying increased liquidity.

Trading assets increased by 12% primarily due to increase in debt securities positions.

Derivative assets increased by 14%. This was largely due to an increase in mark-to-market of interest rate contracts as a result of a downward shift of yield curves for major currencies.

Non-trading reverse repurchase agreements decreased by 10%, primarily due to a reduction in market activity relative to year-end.

Financial investments increased by 12% as a result of deploying surplus liquidity.

Liabilities

Customer accounts increased by 1% due to growth in current and other interest bearing accounts.

Trading liabilities increased by 13% due primarily to increase in short positions and reduction in netting balances.

Financial liabilities designated at fair value increased by 15% due primarily to mark to market increases in the value of the structured notes.

Debt securities in issue increased by 9% due to a net increase in certificates of deposits as part of funding initiatives taken to date.

Derivative liabilities increased by 14%. This is in line with derivative assets as the underlying risk is broadly matched.

Equity

Total shareholders' equity decreased by 4% as a result of dividends in respect of 2018, declared and paid in the first half of 2019.

Reported performance by country

Profit before tax – by country

	RBWM £m	CMB £m	GB&M £m	GPB £m	Corporate Centre £m	Total £m
	Half-year to 30 Jun 2019					
United Kingdom	**71**	**108**	**(32)**	**13**	**(184)**	**(24)**
France	**6**	**68**	**(52)**	**4**	**(25)**	**1**
Germany	**5**	**6**	**24**	**1**	**5**	**41**
Other	**5**	**55**	**66**	**—**	**7**	**133**
Profit/(loss) before tax	**87**	**237**	**6**	**18**	**(197)**	**151**
	Half-year to 30 Jun 2018					
United Kingdom	354	927	453	35	(342)	1,427
France	(6)	56	(1)	4	(45)	8
Germany	6	28	39	4	(4)	73
Other	3	47	90	—	11	151
Profit/(loss) before tax	357	1,058	581	43	(380)	1,659
	Half-year to 31 Dec 2018					
United Kingdom	48	91	129	9	(193)	84
France	(36)	72	21	8	(30)	35
Germany	4	36	35	2	1	78
Other	2	53	38	—	25	118
Profit/(loss) before tax	18	252	223	19	(197)	315

Risk

Risk overview

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

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

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

The exposure to our risks and risk management of these are explained in more detail in the Report of the Directors on pages 19 to 77 of the *Annual Report and Accounts 2018*.

Risk		Mitigants
Externally driven		
UK exit from EU	▲	The UK is due to leave the EU by 31 October 2019 but political discussions are ongoing. We will continue to work with regulators and our customers to manage the risks of the UK's exit from the EU (and the current period of uncertainty) as they arise, particularly across those sectors most impacted.
Geopolitical risk	▶	We continually assess the impact of geopolitical events on our businesses and exposures, and take steps to mitigate them, where required, to help ensure we remain within our risk appetite. We have also strengthened physical security at our premises where the risk of terrorism is heightened.
Cyber threat and unauthorised access to systems	▶	We continue to further strengthen our controls to prevent, detect and respond to increasingly sophisticated cybersecurity threats. This includes threat detection, systems and network access controls, payment systems controls, data protection and backup and recovery.
Regulatory focus on conduct of business	▶	We continue to enhance our management of conduct in areas including the treatment of potentially vulnerable customers, market surveillance, employee training and performance.
Financial crime compliance	▶	The Global Standards programme continued to integrate the final elements of our capabilities for Anti-Money Laundering ('AML') and sanctions into our day to day operations throughout the first half of 2019. We continue to enhance our financial crime risk management capabilities and the effectiveness of our financial crime controls, and we are maintaining our investment in the next generation of tools to fight financial crime through the application of advanced analytics and artificial intelligence.
Market illiquidity and volatility	▶	We monitor risks closely and report regularly on illiquidity and concentration risks to the PRA.
IBOR transition	▶	We are evaluating and addressing the impact of the replacement of IBORs (including LIBOR) with alternative risk-free rates on HSBC's products, services and processes as the industry accord evolves, with the intention of minimising disruption through appropriate mitigating actions.
Climate-related risks.	▲	The Group is committed to supporting our customers in the transition to a low-carbon economy and has pledged to provide USD100bn of sustainable financing and investment by 2025. We continue to assess the impact of Physical and Transition Risk on our customers, embed Climate Risks in risk management processes, enhance our climate related disclosures and develop scenario analysis.
Internally driven		
IT systems infrastructure and resilience	▶	We continue to monitor and improve service resilience across our technology infrastructure, enhancing our problem identification/diagnosis/resolution and change execution capabilities to reduce service disruption to our customers.
People risk	▶	We have increased our focus on resource planning and employee retention, and are developing initiatives to equip line managers with skills to both manage change and support their employees.
Execution risk	▶	We have strengthened our prioritisation and governance processes for significant strategic, regulatory and compliance projects to help ensure a consistent quality delivery of these, on time and to budget. Current major change initiatives include the operational implications of updating our business model in readiness for the UK's departure from the EU.
Model risk	▲	We continue to evolve our capability and practice with regards to the risk management of our model risk governance framework in line with regulatory expectations and industry best practice.
Data management	▲	We continue to improve our insights, consistency of data aggregation, reporting and decision making through ongoing enhancement of our data governance, data quality, data privacy and architecture framework.

▲ Risk has heightened during the first half of 2019

▶ Risk remains at the same level as 31 December 2018

Managing risk

The group's risk profile is underpinned by its core philosophy of maintaining a strong balance sheet, a robust liquidity position and capital strength.

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

The risk management framework promotes a strong risk culture which is reinforced by the HSBC Values and our Global Standards programme and ensures that our risk profile remains conservative and aligned to our risk appetite. Further details are set out on pages 23 to 35 of the *Annual Report and Accounts 2018*. There have been no material changes to our policies and practices regarding risk management and governance as described in the *Annual Report and Accounts 2018*.

Top and emerging risks

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

The group made a number of changes to its assessment of existing top and emerging risks to reflect their current effect on the group and changes in the scope of risk definitions, to ensure appropriate focus.

Further details on the group's top and emerging risks and principal banking risks are set out on page 15.

Update on Ibor risks

The impact of the replacement of interbank offered rates ('Ibors') with alternative risk-free rates on our products and services remains a key area of focus. We have a significant and growing volume of contracts referencing Ibors, such as Libor and Eonia, extending past 2021 when it is likely that these Ibors will cease being published. The global programme to coordinate our transition activities aims to minimise the volume of such contracts outstanding upon the cessation of these Ibors, and therefore the associated disruption to financial flows and potential economic losses.

The programme is significant for the bank in terms of scale and complexity and will impact all global businesses as well as multiple products, currencies, systems and processes. In addition to the consequent execution risks, the process of adopting new reference rates exposes the bank to a wide range of material conduct, operational and financial risks, such as earnings volatility resulting from contract modifications and changes in hedge accounting. We continue to engage with industry participants, the official sector and our clients to support an orderly transition and the mitigation of the risks resulting from the transition.

Areas of special interest

Process of UK withdrawal from the European Union

The UK was due to leave the EU on 31 March 2019, but after agreeing an extension with the EU it is now due to leave by 31 October 2019. Before then, a Withdrawal Agreement under Article 50 will need to be approved by the UK and European parliaments. If an agreement is not approved by this date, the default legal position is that the UK will leave the EU without a deal, unless another extension is agreed.

Once the UK has formally left the EU, a comprehensive trade deal will take several years to negotiate. A period of transition until 31 December 2020 has been agreed between the UK and the EU, which can be extended by up to two years. However, there will be no legal certainty until this is enshrined in the Withdrawal Agreement.

Our programme to manage the impact of the UK leaving the EU has now been broadly completed. It is based on the assumption of a scenario whereby the UK exits the EU without the existing passporting or regulatory equivalence framework that supports cross-border business. Our focus has been on four main components: legal entity restructuring, product offering, customer migrations, and employees.

Legal entity restructuring

Our branches in seven European Economic Area ('EEA') countries (Belgium, the Netherlands, Luxembourg, Spain, Italy, Ireland and Czech Republic) relied on passporting out of the UK. We have worked on the assumption that passporting will no longer be possible following the UK's departure from the EU and therefore transferred our branch business to newly established branches of HSBC France, our primary banking entity authorised in the EU. This was completed in the first quarter of 2019.

Product offering

To accommodate for customer migrations and new business after the UK's departure from the EU, we expanded and enhanced our existing product offering in France, the Netherlands and Ireland.

Customer migrations

The UK's departure from the EU is likely to have an impact on our customers' operating models, including their working capital requirements, investment decisions and financial markets infrastructure access. Our priority is to provide continuity of service, and while our intention is to minimise the level of change for our customers, we will be required to migrate some EEA-incorporated customers from the UK to HSBC France, or another EEA entity. Customer migrations are ongoing and we are working in close collaboration with our customers to make the transition as smooth as possible.

Employees

The migration of EEA-incorporated customers will require us to strengthen our local teams in the EU, and France in particular. We are also providing support to our UK employees resident in EEA countries and EEA employees resident in the UK (e.g. on settlement applications).

Across the programme, we have made good progress in terms of ensuring we are prepared for the UK leaving the EU. However, there remain execution risks, many of them linked to the uncertain political environment and customers wanting to wait for as long as possible before they migrate to HSBC France or another EU entity.

Key developments and risk profile

Credit risk profile

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. Credit risk arises principally from direct lending, trade finance and leasing business, but also from certain other products, such as guarantees and derivatives.

There were no material changes to the policies and practices for the management of credit risk in the first half of 2019.

A summary of our current policies and practices for the management of credit risk is set out in 'Credit risk management' on pages 26 and 28 of the *Annual Report and Accounts 2018*.

Measurement uncertainty and sensitivity analysis of ECL estimates

ECL impairment allowances recognised in the financial statements reflect the effect of a range of possible economic outcomes, calculated on a probability-weighted basis, based on the economic scenarios described below. The recognition and measurement of ECL involves the use of significant judgement and estimation. It is necessary to formulate multiple forward-looking economic forecasts and incorporate them into the ECL estimates. HSBC uses a standard framework to form economic scenarios to reflect assumptions about future economic conditions, supplemented with the use of management judgement, which may result in using alternative or additional economic scenarios and/or management adjustments.

Methodology

Our methodology in relation to the adoption and generation of economic scenarios is described on page 42 of the *Annual Report and Accounts 2018*. There have been no significant changes during the 1H19 period.

Description of consensus economic scenario

The economic assumptions presented in this section have been formed internally specifically for the purpose of calculating ECL.

The consensus Central scenario

HSBC's Central scenario is one of moderate growth over the forecast period 3Q19–2Q24. Across the key markets, we note that:

- Expected average rates of GDP growth over the 2019-2024 period are lower than those experienced in the recent past for all key economies except France. For the UK, this reflects expectations that the long-term impact of current economic uncertainty will be moderately adverse.
- The average unemployment rate over the projection horizon is expected to remain at or below the averages observed in the 2013–2017 period across all of our major markets.
- Consumer price inflation is expected to be lower in 2019 across most of our key markets compared with 2018, and remains broadly consistent with central bank inflation targets over the projection period in these countries.
- Major central banks are expected to adopt a cautious approach to adjust their policy interest rate. Policy interest rates in advanced economies are expected to remain below their historical long-term averages over the five-year forecast horizon.
- The West Texas Intermediate oil price is forecast to average $63 per barrel over the projection period.

The following table describes the key macroeconomic variables and the probability assigned in the consensus central scenario at 30 June 2019 and 31 December 2018.

Central scenario

	Average 3Q19-2Q24		Average 2019-2023	
	UK	**France**	UK	France
GDP growth rate (%)	**1.6**	**1.4**	1.7	1.5
Inflation (%)	**2.0**	**1.7**	2.1	1.7
Unemployment (%)	**4.5**	**7.7**	4.5	7.8
House price growth (%)	**2.9**	**1.7**	2.9	1.7
Probability (%)	**50.0**	**80.0**	50.0	80.0

Upside and Downside scenarios

The Upside and Downside scenarios are generated at the year-end and are only updated during the year if economic conditions change significantly. Our Upside and Downside scenarios are described on page 43 of the *Annual Report and Accounts 2018*. There have been no significant changes to the scenarios over the first half of 2019. The probabilities attached to the Upside and Downside scenarios remain as in the *Annual Report and Accounts 2018*.

Alternative Downside scenarios

UK economic uncertainty

A number of events occurred over the course of 2018 and the first half of 2019 that led management to re-evaluate the shape of the consensus distribution for the UK. Given the challenges facing economic forecasters in this environment, management was concerned that this distribution did not adequately represent downside risks for the UK. The high level of economic uncertainty that prevailed at the end of the first half of 2019, including the lack of progress in agreeing a clear plan for an exit from the EU and the uncertain performance of the UK economy after an exit, was a key factor in this consideration. In management's view, the extent of this uncertainty justifies the use of the following Alternative Downside scenarios, used in place of the consensus Downside, with the assigned probabilities:

Alternative Downside scenario 1 ('AD1'): Economic uncertainty could have a large impact on the UK economy resulting in a long-lasting recession with a weak recovery. This scenario reflects the consequences of such a recession with an initial risk-premium shock and weaker long-run productivity growth. This scenario has been used with a 30% weighting.

Alternative Downside scenario 2 ('AD2'): This scenario reflects the possibility that economic uncertainty could result in a deep cyclical shock triggering a steep depreciation in sterling, a sharp increase in inflation and an associated monetary policy response. This represents a tail risk and has been assigned a 5% weighting.

Alternative Downside scenario 3 ('AD3'): This scenario reflects the possibility that the adverse impact associated with economic uncertainty currently in the UK could manifest over a far longer period of time with the worst effects occurring later than in the above two scenarios. This scenario is also considered a tail risk and has been assigned a 5% weighting.

The table below describes key macroeconomic variables and the probabilities for each of the Alternative Downside scenarios at 30 June 2019 and 31 December 2018:

Average 3Q19-2Q24

	Alternative Downside scenario 1	**Alternative Downside scenario 2**	**Alternative Downside scenario 3**
GDP growth rate (%)	**0.5**	**(0.1)**	**(0.7)**
Inflation (%)	**2.2**	**2.4**	**2.7**
Unemployment (%)	**6.5**	**8.0**	**7.7**
Short-term interest rate (%)	**0.4**	**2.5**	**2.5**
10-year treasury bond yields (%)	**1.9**	**4.0**	**4.0**
House price growth (%)	**(1.7)**	**(3.4)**	**(5.0)**
Equity price growth (%)	**(1.2)**	**(2.6)**	**(7.8)**
Probability (%)	**30.0**	**5.0**	**5.0**

Average 2019-2023

	Alternative Downside scenario 1	Alternative Downside scenario 2	Alternative Downside scenario 3
GDP growth rate (%)	0.5	(0.1)	(0.7)
Inflation (%)	2.2	2.4	2.7
Unemployment (%)	6.5	8.0	7.7
Short-term interest rate (%)	0.4	2.5	2.5
10-year treasury bond yields (%)	1.8	4.0	4.0
House price growth (%)	(1.5)	(3.3)	(4.8)
Equity price growth (%)	(0.9)	(2.3)	(7.5)
Probability (%)	30.0	5.0	5.0

The conditions which resulted in departure from the consensus economic forecasts will be reviewed regularly as economic conditions change in future to determine whether this adjustment continues to be necessary.

How economic scenarios are reflected in the wholesale and retail calculation of ECL

HSBC's methodology in relation to the adoption and generation of economic scenarios is described on pages 42 to 44 of the

Annual Report and Accounts 2018. There have been no significant changes during the 1H19 period.

Effect of multiple economic scenarios on ECL

The ECL recognised in the financial statements reflects the combined effects of a range of probability weighted outcomes calculated using economic scenarios mentioned above and management adjustments were required. The probability-weighted amount is typically a higher number than would result from using only the Central (most likely) economic scenario. Expected losses typically have a non-linear relationship to the many factors that influence credit losses, such that more favourable macroeconomic factors do not reduce defaults as much as less favourable macroeconomic factors increase defaults.

Impact of UK economic uncertainty on ECL

At 30 June 2019, management made an adjustment that increased ECL allowances in the UK by £55m, of which £53m was attributed to GB&M and £2m to CMB (31 December 2018: £64m, attributed £62m to GB&M and £2m to CMB). The adjustment represents incremental ECL based on a probability-weighted distribution of the Upside (10%), consensus (50%) and Alternative Downside scenarios (40% combined). The decrease in the adjustment reflects a change in portfolio composition rather than a reduction in uncertainty: an increase in exposures to banks, supranational agencies and sovereign entities relative to corporate customers mitigated the impact of the alternative downside scenarios on ECL allowances; this outweighed the effect of the updated central scenario.

Economic scenarios sensitivity analysis of ECL estimates

Management have assessed and considered the sensitivity estimate outcomes for both the retail and wholesale businesses at 30 June 2019 and have determined that there is no material change from 31 December 2018, as presented on page 44 of the *Annual Report and Accounts 2018*.

Summary of credit risk

The following tables analyse loans by industry sector which represent the concentration of exposures on which credit risks are managed.

Summary of financial instruments to which the impairment requirements in IFRS 9 are applied

	At			
	30 Jun 2019		31 Dec 2018	
	Gross carrying/ nominal amount	**Allowance for ECL[1]**	Gross carrying/ nominal amount	Allowance for ECL[1]
	£m	**£m**	£m	£m
Loans and advances to customers at amortised cost	**116,151**	**(1,245)**	113,306	(1,342)
– personal	**24,609**	**(192)**	23,903	(206)
– corporate and commercial	**73,271**	**(1,002)**	74,058	(1,106)
– non-bank financial institutions	**18,271**	**(51)**	15,345	(30)
Loans and advances to banks at amortised cost	**14,789**	**(5)**	13,631	(3)
Other financial assets measured at amortised cost	**192,497**	**(6)**	165,525	(2)
– cash and balances at central banks	**61,570**	**—**	52,014	(1)
– items in the course of collection from other banks	**1,033**	**—**	839	—
– reverse repurchase agreements – non-trading	**72,175**	**—**	80,102	—
– financial investments	**7**	**—**	13	—
– prepayments, accrued income and other assets[2]	**57,712**	**(6)**	32,557	(1)
Total gross carrying amount on-balance sheet	**323,437**	**(1,256)**	292,462	(1,347)
Loans and other credit related commitments	**153,486**	**(55)**	141,620	(66)
– personal	**2,346**	**—**	2,062	—
– corporate and commercial	**66,918**	**(52)**	69,119	(65)
– financial	**84,222**	**(3)**	70,439	(1)
Financial guarantees[3]	**4,970**	**(14)**	6,054	(17)
– personal	**39**	**—**	43	—
– corporate and commercial	**3,548**	**(13)**	4,429	(16)
– financial	**1,383**	**(1)**	1,582	(1)
Total nominal amount off-balance sheet[4]	**158,456**	**(69)**	147,674	(83)
	481,893	**(1,325)**	440,136	(1,430)

	Fair value	**Memorandum allowance for ECL[5]**	Fair value	Memorandum allowance for ECL[5]
	£m	**£m**	£m	£m
Debt instruments measured at fair value through other comprehensive income ('FVOCI')	**52,754**	**(34)**	47,172	(45)

1 *The total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.*
2 *Includes only those financial instruments which are subject to the impairment requirements of IFRS 9. 'Prepayments, accrued income and other assets' as presented within the consolidated balance sheet on page 37 includes both financial and non-financial assets.*
3 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
4 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
5 *Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in the income statement.*

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 30 June 2019

	Gross carrying/nominal amount[2]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI[3]	Total	Stage 1	Stage 2	Stage 3	POCI[3]	Total	Stage 1	Stage 2	Stage 3	POCI[3]	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%	%
Loans and advances to customers at amortised cost	105,438	8,574	2,059	80	116,151	(137)	(153)	(897)	(58)	(1,245)	0.1	1.8	43.6	72.5	1.1
– personal	22,950	1,138	521	–	24,609	(7)	(26)	(159)	–	(192)	–	2.3	30.5	–	0.8
– corporate and commercial	64,538	7,223	1,430	80	73,271	(106)	(125)	(713)	(58)	(1,002)	0.2	1.7	49.9	72.5	1.4
– non-bank financial institutions	17,950	213	108	–	18,271	(24)	(2)	(25)	–	(51)	0.1	0.9	23.1	–	0.3
Loans and advances to banks at amortised cost	14,525	264	–	–	14,789	(4)	(1)	–	–	(5)	–	0.4	–	–	–
Other financial assets measured at amortised cost	192,446	27	22	2	192,497	–	–	(6)	–	(6)	–	–	27.3	–	–
Loan and other credit-related commitments	149,482	3,788	212	4	153,486	(27)	(16)	(12)	–	(55)	–	0.4	5.7	–	–
– personal	2,262	81	3	–	2,346	–	–	–	–	–	–	–	–	–	–
– corporate and commercial	63,481	3,225	208	4	66,918	(25)	(15)	(12)	–	(52)	–	0.5	5.8	–	0.1
– financial	83,739	482	1	–	84,222	(2)	(1)	–	–	(3)	–	0.2	–	–	–
Financial guarantees[1]	4,181	706	81	2	4,970	(5)	(8)	(1)	–	(14)	0.1	1.1	1.2	–	0.3
– personal	38	–	1	–	39	–	–	–	–	–	–	–	–	–	–
– corporate and commercial	2,935	532	79	2	3,548	(5)	(7)	(1)	–	(13)	0.2	1.3	1.3	–	0.4
– financial	1,208	174	1	–	1,383	–	(1)	–	–	(1)	–	0.6	–	–	0.1
At 30 Jun 2019[4]	**466,072**	**13,359**	**2,374**	**88**	**481,893**	**(173)**	**(178)**	**(916)**	**(58)**	**(1,325)**	**–**	**1.3**	**38.6**	**65.9**	**0.3**

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
2 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
3 *Purchased or originated credit-impaired ('POCI').*
4 *The probability-weighted ECL allowance for Wholesale reflects the impact of all scenarios including the additional downside scenarios for the UK economic uncertainty adjustment as disclosed on page 18. The gross carrying values/nominal amounts for Wholesale lending in each non-credit impaired stage reflect a probability-weighted view of stage allocation for the consensus scenarios only. In addition, the stage allocation of gross carrying/nominal amounts for Retail lending reflect the impact of the UK economic uncertainty adjustment.*

Stage 2 days past due analysis at 30 June 2019

	Gross carrying			Allowance for ECL			ECL coverage %		
		Of which:			Of which:			Of which:	
	Stage 2	1 to 29 DPD[1]	30 and > DPD[1]	Stage 2	1 to 29 DPD[1]	30 and > DPD[1]	Stage 2	1 to 29 DPD[1]	30 and > DPD[1]
	£m	£m	£m	£m	£m	£m	%	%	%
Loans and advances to customers at amortised cost	8,574	127	123	(153)	(2)	(3)	1.8	1.6	2.4
– personal	1,138	91	55	(26)	(2)	(2)	2.3	2.2	3.6
– corporate and commercial	7,223	36	68	(125)	–	(1)	1.7	–	1.5
– non-bank financial institutions	213	–	–	(2)	–	–	0.9	–	–
Loans and advances to banks at amortised cost	264	–	–	(1)	–	–	0.4	–	–
Other financial assets measured at amortised cost	27	6	3	–	–	–	–	–	–

1 *Days past due ('DPD'). Up-to-date accounts in stage 2 are not shown in amounts presented above.*

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 31 December 2018

	Gross carrying/nominal amount[2]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI[3]	Total	Stage 1	Stage 2	Stage 3	POCI[3]	Total	Stage 1	Stage 2	Stage 3	POCI[3]	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%	%
Loans and advances to customers at amortised cost	102,129	8,816	2,244	117	113,306	(121)	(171)	(972)	(78)	(1,342)	0.1	1.9	43.3	66.7	1.2
– personal	22,170	1,206	527	—	23,903	(9)	(27)	(170)	—	(206)	—	2.2	32.3	—	0.9
– corporate and commercial	64,822	7,476	1,643	117	74,058	(99)	(132)	(797)	(78)	(1,106)	0.2	1.8	48.5	66.7	1.5
– non-bank financial institutions	15,137	134	74	—	15,345	(13)	(12)	(5)	—	(30)	0.1	9.0	6.8	—	0.2
Loans and advances to banks at amortised cost	13,565	66	—	—	13,631	(2)	(1)	—	—	(3)	—	1.5	—	—	—
Other financial assets measured at amortised cost	165,496	24	5	—	165,525	(1)	—	(1)	—	(2)	—	—	20.0	—	—
Loan and other credit related commitments	136,539	4,827	249	5	141,620	(27)	(26)	(13)	—	(66)	—	0.5	5.2	—	—
– personal	2,005	54	3	—	2,062	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	64,428	4,441	245	5	69,119	(26)	(26)	(13)	—	(65)	—	0.6	5.3	—	0.1
– financial	70,106	332	1	—	70,439	(1)	—	—	—	(1)	—	—	—	—	—
Financial guarantees[1]	5,423	565	64	2	6,054	(4)	(9)	(4)	—	(17)	0.1	1.6	6.3	—	0.3
– personal	42	—	1	—	43	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	3,866	499	62	2	4,429	(4)	(8)	(4)	—	(16)	0.1	1.6	6.5	—	0.4
– financial	1,515	66	1	—	1,582	—	(1)	—	—	(1)	—	1.5	—	—	0.1
At 31 Dec[4]	423,152	14,298	2,562	124	440,136	(155)	(207)	(990)	(78)	(1,430)	—	1.4	38.6	62.9	0.3

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
2 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
3 *Purchased or originated credit-impaired ('POCI').*
4 *The probability-weighted ECL allowance for Wholesale reflects the impact of all scenarios including the additional downside scenarios for the UK economic uncertainty adjustment as disclosed on page 18. The gross carrying values/nominal amounts for Wholesale lending in each non-credit impaired stage reflect a probability-weighted view of stage allocation for the consensus scenarios only. In addition, the stage allocation of gross carrying/nominal amounts for Retail lending reflect the impact of the UK economic uncertainty adjustment.*

Stage 2 days past due analysis at 31 December 2018

	Gross carrying amount			Allowance for ECL			ECL coverage %		
		Of which:			Of which:			Of which:	
	Stage 2	1 to 29 DPD[1]	30 and > DPD[1]	Stage 2	1 to 29 DPD[1]	30 and > DPD[1]	Stage 2	1 to 29 DPD[1]	30 and > DPD[1]
	£m	£m	£m	£m	£m	£m	%	%	%
Loans and advances to customers at amortised cost	8,816	117	178	(171)	(3)	(6)	1.9	2.6	3.4
– personal	1,206	80	83	(27)	(2)	(4)	2.2	2.5	4.8
– corporate and commercial	7,476	37	95	(132)	(1)	(2)	1.8	2.7	2.1
– non-bank financial institutions	134	—	—	(12)	—	—	9.0	—	—
Loans and advances to banks at amortised cost	66	5	—	(1)	—	—	1.5	—	—
Other financial assets measured at amortised cost	24	—	—	—	—	—	—	—	—

1 *Days past due ('DPD'). Up-to-date accounts in stage 2 are not shown in amounts presented above.*

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees[1]

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2019	**207,745**	**(154)**	**14,274**	**(207)**	**2,557**	**(989)**	**124**	**(78)**	**224,700**	**(1,428)**
Transfers of financial instruments:	**(1,058)**	**(36)**	**874**	**45**	**184**	**(9)**	**–**	**–**	**–**	**–**
– transfers from Stage 1 to Stage 2	(4,395)	8	4,395	(8)	–	–	–	–	–	–
– transfers from Stage 2 to Stage 1	3,362	(44)	(3,362)	44	–	–	–	–	–	–
– transfers to Stage 3	(27)	–	(187)	10	214	(10)	–	–	–	–
– transfers from Stage 3	2	–	28	(1)	(30)	1	–	–	–	–
Net remeasurement of ECL arising from transfer of stage		28		(14)		–				14
New financial assets originated or purchased	56,987	(48)					22	(17)	57,009	(65)
Asset derecognised (including final repayments)	(45,920)	2	(913)	5	(214)	53	(3)	1	(47,050)	61
Changes to risk parameters – further lending/repayments	(10,565)	27	(1,405)	17	–	(21)	(14)	2	(11,984)	25
Changes to risk parameters – credit quality		7		(21)		(120)		(9)		(143)
Assets written off					(120)	120	(42)	42	(162)	162
Credit-related modifications that resulted in derecognition					(66)	47	–	–	(66)	47
Foreign exchange	127	1	14	–	(2)	2	(2)	1	137	4
Others[2]	(2,774)	–	489	–	11	5	1	(1)	(2,273)	4
At 30 Jun 2019	**204,542**	**(173)**	**13,333**	**(175)**	**2,350**	**(912)**	**86**	**(59)**	**220,311**	**(1,319)**
ECL income statement (charge)/release		16		(13)		(88)		(23)		(108)
Add: Recoveries		–		–		3		–		3
Add/(less): Others		3		–		5		–		8
Total ECL income (charge)/release for the period		**19**		**(13)**		**(80)**		**(23)**		**(97)**

	At 30 Jun 2019		Half-year to 30 Jun 2019
	Gross carrying/nominal amount	Allowance for ECL	ECL charge
	£m	£m	£m
As above	**220,311**	**(1,319)**	**(97)**
Other financial assets measured at amortised cost	192,497	(6)	5
Non-trading reverse purchase agreement commitments	69,085	–	–
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/Summary consolidated income statement	**481,893**	**(1,325)**	**(92)**
Debt instruments measured at FVOCI	52,754	(34)	8
Total allowance for ECL/total income statement ECL charge for the period	**534,647**	**(1,359)**	**(84)**

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
2 *Includes the period on period movement in exposures relating to other HSBC Group companies. As at 30 June 2019, these amounted to £(3.9)bn and were classified as Stage 1 with no ECL.*

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees[1] (continued)

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2018	408,167	(452)	18,702	(618)	5,342	(1,897)	463	(74)	432,674	(3,041)
Transfers to HSBC UK and its subsidiaries	(216,026)	288	(9,502)	453	(2,711)	663	—	—	(228,239)	1,404
Transfers of financial instruments:	(5,852)	(120)	4,637	176	1,215	(56)	—	—	—	—
– transfers from Stage 1 to Stage 2	(15,141)	38	15,141	(38)	—	—	—	—	—	—
– transfers from Stage 2 to Stage 1	9,955	(154)	(9,955)	154	—	—	—	—	—	—
– transfers to Stage 3	(754)	11	(941)	79	1,695	(90)	—	—	—	—
– transfers from Stage 3	88	(15)	392	(19)	(480)	34	—	—	—	—
Net remeasurement of ECL arising from transfer of stage[2]	—	99	—	(114)	—	(7)	—	—		(22)
Net new and further lending / (repayments)	19,080	(143)	(421)	239	(769)	76	(330)	11	17,560	183
Changes to risk parameters – credit quality		138		(324)		(240)		(22)		(448)
Assets written off	—	—	—	—	(456)	456	—	—	(456)	456
Foreign exchange	779	(2)	86		14	(8)	(1)	—	878	(10)
Others[3]	1,597	38	772	(19)	(78)	24	(8)	7	2,283	50
At 31 Dec 2018	207,745	(154)	14,274	(207)	2,557	(989)	124	(78)	224,700	(1,428)
ECL release/(charge) for the full year		94		(199)		(171)		(11)		(287)
Recoveries										71
Others										(10)
Total change in ECL for the full year										(226)

	At 31 Dec 2018		12 months ended 31 Dec 2018
	Gross carrying/nominal amount	Allowance for ECL	ECL charge
	£m	£m	£m
As above	224,700	(1,428)	(226)
Other financial assets measured at amortised cost	165,525	(2)	—
Non-trading reverse purchase agreement commitments	49,911	—	—
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/Summary consolidated income statement	440,136	(1,430)	(226)
Debt instruments measured at FVOCI	47,172	(45)	79
Total allowance for ECL/total income statement ECL charge for the period[4]	487,308	(1,475)	(147)

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*

2 *The comparative 31 December 2018 Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers' disclosure presents 'new financial assets originated or purchased', 'assets derecognised (including financial repayments)' and 'changes to risk parameters – further lending/repayments' under 'net new lending and further lending/repayments'. To provide greater granularity these amounts have been separately presented in the 30 June 2019 disclosure.*

3 *Includes the period on period movement in exposures relating to other HSBC Group companies. As at 31 December 2018, these amounted to £2bn and were classified as Stage 1 with no ECL.*

4 *The 31 December 2018 £147m total ECL income statement charge can be attributable to £202m for the six months ended 30 June 2018 and £(55)m to the six months ended 31 December 2018.*

Capital

Capital overview

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

We manage group capital to ensure we exceed current regulatory requirements and respect the payment priority of our capital providers. Throughout the six months to 30 June 2019, we complied with the PRA's regulatory capital adequacy requirements, including those relating to stress testing.

A summary of our policies and practices regarding capital management, measurement and allocation is provided on page 69 of the *Annual Report and Accounts 2018*.

Regulatory developments

The Basel Committee ('Basel')

In December 2017, Basel published the Basel III Reforms. The final package includes:

- widespread changes to the risk weights under the standardised approach to credit risk;
- a change in the scope of application of the internal ratings based ('IRB') approach to credit risk, together with changes to the IRB methodology;
- the replacement of the operational risk approaches with a single methodology;
- an amended set of rules for the credit valuation adjustment ('CVA') capital framework;
- an aggregate output capital floor that ensures that banks' total RWAs are no lower than 72.5% of those generated by the standardised approaches; and
- changes to the exposure measure for the leverage ratio.

Following a recalibration, Basel published the final changes to the market risk RWA regime, the Fundamental Review of the Trading Book ('FRTB'), in January 2019. The new regime contains a more clearly defined trading book boundary, the introduction of an internal models approach based upon expected shortfall models, capital requirements for risk factors which cannot be modelled, and a more risk-sensitive standardised approach that can serve as a fall-back for the internal models method.

In June 2019, Basel published a revised treatment of client cleared derivatives for the purposes of the leverage ratio. This will permit both cash and non-cash initial and variation margin to offset derivative exposure in the leverage ratio. At the same time, Basel published revised leverage ratio disclosure requirements that will require banks to disclose their leverage ratios based on quarter-end and on daily average values for securities financing transactions ('SFT').

Basel has announced that the package will be implemented on 1 January 2022, with a five-year transitional provision for the output floor, commencing at a rate of 50%. The final standards will need to be transposed into the relevant local law before coming into effect. Given that the package contains a significant number of national discretions, the final outcome is uncertain both in substance and timing.

The Capital Requirements Regulation amendments

In June 2019, the European Union ('EU') enacted the final rules revising the Capital Requirements Regulation, known as the CRR2. This is the first tranche of changes to the EU's legislation to reflect the Basel III Reforms and includes the changes to the market risk rules under the FRTB, revisions to the standardised approach for measuring counterparty risk ('SA-CCR') and the new leverage ratio rules.

The CRR2 rules will follow a phased implementation with significant elements entering into force in 2021, in part in advance of Basel's timeline. The EU's timetable for the FRTB will be finalised once further legislation to reflect Basel's January 2019 amendments has been enacted. It remains uncertain how the elements of the CRR2 that come into force after the UK's withdrawal from the EU will be transposed into UK law.

The CRR2 also represents the EU's implementation of the Financial Stability Board's ('FSB') requirements for Total Loss Absorbing Capacity ('TLAC'), known in Europe as the Minimum Requirements for Own Funds and Eligible Liabilities ('MREL'). Furthermore, it also includes changes to the own funds regime. These rules applied in June 2019.

In June 2018, the Bank of England ('BoE') published its approach to setting MREL within groups, known as internal MREL, and its final policy on selected outstanding MREL policy matters. These requirements came into effect on 1 January 2019. The BoE will, before the end of 2020, review the calibration of MREL and final compliance date, prior to setting end-state MREL requirements.

The EU's implementation of the Basel III Reforms

In July 2019, the European Banking Authority ('EBA') issued its report on the implementation of a second tranche of changes to the EU legislation to reflect the remaining Basel III Reforms ('CRR3'). This included recommendations in relation to credit risk, operational risk and the output floor. A further report with recommendations on the reforms to the CVA framework and the FRTB is expected later this year.

The EBA's report is the first stage of the implementation process in the EU. The European Commission will consult upon its view of the policy choices in due course, and is expected to produce draft text in 2020. The package will then be subject to negotiation with the EU Council and Parliament. As a result, the final form of the rules remains unclear.

Given the UK's withdrawal from the EU, it remains uncertain whether the UK will implement the CRR3 or its own version of Basel's rules.

The UK's withdrawal from the EU

In August 2018, Her Majesty's Treasury ('HMT') commenced the process of transposing the current EU legislation into UK law to ensure that there is legal continuity in the event of the UK leaving the EU. This includes the Capital Requirements Regulation, Capital Requirements Directive ('CRD') and the Bank Recovery and Resolution Directive ('BRRD'). The amendments were made in December 2018 and will come into force in the event that the UK leaves the EU without an agreement on 31 October 2019. A statutory instrument is expected in due course that will detail the transposition into UK law of the elements of the CRR2 that are in force on exit day.

The BoE and the Prudential Regulation Authority ('PRA') have been given the power to grant transitional provisions to delay the implementation of these legislative changes for up to two years, following the UK leaving without an agreement. As part of finalising the changes to their rulebooks if the UK leaves without an agreement, the BoE and the PRA confirmed that they will exercise the transitional provision which allows firms to delay implementation until 30 June 2020, except in limited circumstances. Given the uncertainty regarding the UK's exit date, the transitional arrangements are being kept under review.

Other developments

In January 2019, the EU published final proposals for a prudential backstop for non-performing loans, which will result in a deduction from CET1 capital when a minimum impairment coverage requirement is not met. The rules entered into force in April. They apply to both the HSBC Group and its European regulated bank subsidiaries. The regime only applies to loans originated after the implementation date.

In July 2019, the EBA published a report marking the end of its 'IRB Repair' review, with the exception of the credit risk mitigation guidelines which remain subject to completion. This followed the publication in March 2019 of final guidelines on the estimation of loss given default ('LGD') appropriate for conditions of an economic downturn. The LGD guidelines are intended to supplement the final draft technical standard that specified the nature, severity and duration of an economic downturn, which was published in November 2018. The report sets out the next steps for implementation, confirming that the LGD guidelines will apply, at the latest, by the end of 2023.

In April 2019, the PRA issued statements setting out its expectations of how firms should manage the financial risks from climate change, focusing on governance, risk management, scenario analysis and disclosure areas. In particular, there is a requirement that the risk associated with climate change should be assessed and captured in firms' Pillar 2 assessments.

Key capital numbers

		At	
	Footnotes	**30 Jun 2019**	31 Dec 2018
Available capital (£m)	*1*		
Common equity tier 1 capital		**19,742**	19,831
Tier 1 capital		**22,936**	23,079
Total regulatory capital		**36,926**	37,671
Risk-weighted assets (£m)			
Credit risk	*2*	**91,765**	88,822
Counterparty credit risk		**25,694**	24,669
Market risk		**18,508**	17,534
Operational risk		**12,850**	12,850
Total risk-weighted assets		**148,817**	143,875
Capital ratios (%)			
Common equity tier 1		**13.3**	13.8
Tier 1		**15.4**	16.0
Total capital		**24.8**	26.2
Leverage ratio (transitional)			
Tier 1 capital (£m)		**22,936**	23,079
Total leverage ratio exposure measure (£m)		**621,940**	570,001
Leverage ratio (%)		**3.7**	4.0
Leverage ratio (fully phased-in)			
Tier 1 capital (£m)		**22,287**	22,213
Total leverage ratio exposure measure (£m)		**621,940**	570,001
Leverage ratio (%)		**3.6**	3.9

1 *Capital figures reported at 30 June 2019 are reported on a CRR2 transitional basis. The prior period capital figures are reported on a CRD IV transitional basis.*

2 *'Credit risk' here, and in all tables in this capital section where the term is used, excludes counterparty credit risk.*

From 2019, the bank has extended the table above to report its Tier 1 capital, leverage exposure and ratio on the transitional basis, as well as the fully phased-in basis. This change has been made to provide more insight into the bank's management of leverage; within our Risk Appetite Statement ('RAS'), the metric we use for this purpose is the transitional leverage ratio.

Comparison of own funds, capital and leverage ratios, with and without the application of transitional arrangements for IFRS 9 (IFRS9-FL)

			At		
			30 Jun	31 Dec	30 Jun
		Footnotes	**2019**	2018	2018
	Available capital (£bn)	1			
1	Common equity tier 1 ('CET1') capital	^	**19.7**	19.8	30.6
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied		**19.7**	19.8	30.5
3	Tier 1 capital	^	**22.9**	23.1	36.0
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied		**22.9**	23.0	35.9
5	Total regulatory capital	^	**36.9**	37.7	43.7
6	Total capital as if IFRS 9 transitional arrangements had not been applied		**36.9**	37.6	43.6
	Risk-weighted assets ('RWAs') (£bn)				
7	Total RWAs		**148.8**	143.9	230.4
8	Total RWAs as if IFRS 9 transitional arrangements had not been applied		**148.7**	143.8	230.3
	Capital ratios (%)	1			
9	CET1	^	**13.3**	13.8	13.3
10	CET1 as if IFRS 9 transitional arrangements had not been applied		**13.2**	13.7	13.2
11	Total tier 1	^	**15.4**	16.0	15.6
12	Tier 1 as if IFRS 9 transitional arrangements had not been applied		**15.4**	16.0	15.6
13	Total capital	^	**24.8**	26.2	19.0
14	Total capital as if IFRS 9 transitional arrangements had not been applied		**24.8**	26.1	18.9
	Leverage ratio	2			
15	Total leverage ratio exposure (£bn)	^	**621.9**	570.0	841.4
16	Leverage ratio (%)	^	**3.6**	3.9	4.2
17	Leverage ratio as if IFRS 9 transitional arrangements had not been applied (%)		**3.6**	3.9	4.2

^ *Figures have been prepared on an IFRS9 transitional basis.*
1 *Capital figures reported at 30 June 2019 are reported on a CRR2 transitional basis. The prior period capital figures are reported on a CRD IV transitional basis.*
2 *Leverage ratio at 30 June 2019 is calculated using the CRR2 transitional basis for capital. Prior period leverage ratios are calculated using the CRD IV end point basis for capital.*

For regulatory reporting, the group has adopted the transitional arrangements (including paragraph 4 of CRR article 473a) published by the EU on 27 December 2017 for IFRS 9 'Financial Instruments'. These permit banks to add back to their capital base a proportion of the impact that IFRS 9 has upon their loan loss allowances during the first five years of use. The proportion that banks may add back starts at 95% in 2018, and reduces to 25% by 2022.

Reconciliation of capital with and without IFRS 9 transitional arrangements

	At 30 Jun 2019		
	CET1	Tier 1	Total own funds
	£m	£m	£m
Reported balance using IFRS 9 transitional arrangements	**19,742**	**22,936**	**36,926**
Expected credit losses ('ECL') reversed under transitional arrangements for IFRS 9	**(94)**	**(94)**	**(94)**
– standardised approach	**(94)**	**(94)**	**(94)**
Tax impacts	**24**	**24**	**24**
Changes in amounts deducted from CET1 for deferred tax assets and significant investments	**(1)**	**(1)**	**(1)**
– amounts deducted from CET1 for deferred tax assets	**(1)**	**(1)**	**(1)**
Reported balance excluding IFRS 9 transitional arrangements	**19,671**	**22,865**	**36,855**

Regulatory balance sheet

Structure of the regulatory group

Assets, liabilities and post-acquisition reserves of subsidiaries engaged in insurance activities are excluded from the regulatory consolidation. Our investments in these insurance subsidiaries are recorded at cost and deducted from common equity tier 1 ('CET1') capital, subject to thresholds.

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

Participating interests in banking associates are proportionally consolidated for regulatory purposes by including our share of assets, liabilities, profits and losses, and RWAs in accordance with the PRA's application of EU legislation. Non-participating significant investments, along with non-financial associates, are deducted from capital, subject to thresholds.

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

	Ref †	Accounting balance sheet £m	Deconsolidation of insurance/ other entities £m	Consolidation of banking associates £m	Regulatory balance sheet £m
Assets					
Cash and balances at central banks		61,570	—	24	61,594
Items in the course of collection from other banks		1,033	—	—	1,033
Trading assets		107,178	—	—	107,178
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss		16,147	(11,552)	347	4,942
– *of which: debt securities eligible as tier 2 issued by group FSEs that are outside the regulatory scope of consolidation*	*r*	—	*331*	—	*331*
Derivatives		164,219	(24)	—	164,195
Loans and advances to banks		14,784	(57)	—	14,727
– *of which: lending to FSE eligible as tier 2*	*r*	—	—	—	—
Loans and advances to customers		114,906	(1,599)	—	113,307
– *of which: expected credit losses on IRB portfolios*	*h*	*(932)*	—	—	*(932)*
Reverse repurchase agreements – non-trading		72,175	—	—	72,175
Financial investments		52,849	(10,718)	—	42,131
Capital invested in insurance and other entities		—	625	—	625
Prepayments, accrued income and other assets		63,857	(936)	19	62,940
– *of which: retirement benefit assets*	*j*	*26*	—	—	*26*
Current tax assets		551	(4)	—	547
Interests in associates and joint ventures		442	—	(390)	52
Goodwill and intangible assets	*e*	2,773	(699)	—	2,074
Deferred tax assets	*f*	524	145	3	672
Total assets at 30 Jun 2019		**673,008**	**(24,819)**	**3**	**648,192**
Liabilities and equity					
Liabilities					
Deposits by banks		31,711	(3)	—	31,708
Customer accounts		183,084	770	—	183,854
Repurchase agreements – non-trading		45,100	—	—	45,100
Items in the course of transmission to other banks		734	—	—	734
Trading liabilities		55,830	—	—	55,830
Financial liabilities designated at fair value		42,399	62	—	42,461
– *of which:*					
included in tier 1	*l*	*315*	—	—	*315*
included in tier 2	*n, q, i*	*1,073*	—	—	*1,073*
Derivatives		159,940	38	—	159,978
– *of which: debit valuation adjustment*	*i*	*34*	—	—	*34*
Debt securities in issue		24,774	(1,711)	—	23,063
Accruals, deferred income and other liabilities		66,331	(900)	2	65,433
Current tax liabilities		143	(14)	1	130
Liabilities under insurance contracts		22,287	(22,287)	—	—
Provisions		467	(2)	—	465
– *of which: credit-related contingent liabilities and contractual commitments on IRB portfolios*	*h*	*82*	—	—	*82*
Deferred tax liabilities		26	(26)	—	—
Subordinated liabilities		13,739	—	—	13,739
– *of which:*					
included in tier 1	*l*	*700*	—	—	*700*
included in tier 2	*n, q*	*12,055*	—	—	*12,055*
Total liabilities at 30 Jun 2019		**646,565**	**(24,073)**	**3**	**622,495**
Equity					
Called up share capital	*a*	797	—	—	797
Other equity instruments	*k*	2,578	—	—	2,578
Other reserves	*c, g*	(4,736)	5	—	(4,731)
Retained earnings	*b, c*	27,278	(751)	—	26,527
Total shareholders' equity		**25,917**	**(746)**	**—**	**25,171**
Non-controlling interests	*d, m, q*	526	—	—	526
Total equity at 30 Jun 2019		**26,443**	**(746)**	**—**	**25,697**
Total liabilities and equity at 30 Jun 2019		**673,008**	**(24,819)**	**3**	**648,192**

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

	Ref †	Accounting balance sheet £m	Deconsolidation of insurance/ other entities £m	Consolidation of banking associates £m	Regulatory balance sheet £m
Assets					
Cash and balances at central banks		52,013	—	22	52,035
Items in the course of collection from other banks		839	—	—	839
Trading assets		95,420	43	—	95,463
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss		17,799	(10,112)	341	8,028
– of which: debt securities eligible as tier 2 issued by group FSEs that are outside the regulatory scope of consolidation	*r*	*332*	*(332)*	—	—
Derivatives		144,522	(45)	—	144,477
Loans and advances to banks		13,628	(189)	—	13,439
– of which: lending to FSE eligible as tier 2	*r*	*40*	—	—	*40*
Loans and advances to customers		111,964	(1,375)	—	110,589
– of which: expected credit losses on IRB portfolios	*h*	*(958)*	—	—	*(958)*
Reverse repurchase agreements – non-trading		80,102	—	—	80,102
Financial investments		47,272	(10,103)	—	37,169
Capital invested in insurance and other entities		—	626	—	626
Prepayments, accrued income and other assets		37,497	(1,001)	27	36,523
– of which: retirement benefit assets	*j*	*25*	—	—	*25*
Current tax assets		337	(10)	—	327
Interests in associates and joint ventures		399	—	(385)	14
Goodwill and intangible assets	*e*	2,626	(652)	—	1,974
Deferred tax assets	*f*	540	134	—	674
Total assets at 31 Dec 2018		604,958	(22,684)	5	582,279
Liabilities and equity					
Liabilities					
Deposits by banks		24,532	—	—	24,532
Customer accounts		180,836	683	—	181,519
Repurchase agreements – non-trading		46,583	—	—	46,583
Items in the course of transmission to other banks		351	—	—	351
Trading liabilities		49,514	—	—	49,514
Financial liabilities designated at fair value		36,922	143	—	37,065
– of which:					
included in tier 1	*l*	*322*	—	—	*322*
included in tier 2	*n, q, i*	*994*	—	—	*994*
Derivatives		139,932	45	—	139,977
– of which: debit valuation adjustment	*i*	*50*	—	—	*50*
Debt securities in issue		22,721	(1,410)	—	21,311
Accruals, deferred income and other liabilities		41,036	(782)	4	40,258
Current tax liabilities		128	(3)	—	125
Liabilities under insurance contracts		20,657	(20,657)	—	—
Provisions		538	(2)	—	536
– of which: credit-related contingent liabilities and contractual commitments on IRB portfolios	*h*	*99*	—	—	*99*
Deferred tax liabilities		29	(29)	1	1
Subordinated liabilities		13,770	—	—	13,770
– of which:					
included in tier 1	*l*	*700*	—	—	*700*
included in tier 2	*n, q*	*12,532*	—	—	*12,532*
Total liabilities at 31 Dec 2018		577,549	(22,012)	5	555,542
Equity					
Called up share capital	*a*	797	—	—	797
Other equity instruments	*k*	2,403	—	—	2,403
Other reserves	*c, g*	(4,971)	9	—	(4,962)
Retained earnings	*b, c*	28,649	(681)	—	27,968
Total shareholders' equity		26,878	(672)	—	26,206
Non-controlling interests	*d, m, q*	531	—	—	531
Total equity at 31 Dec 2018		27,409	(672)	—	26,737
Total liabilities and equity at 31 Dec 2018		604,958	(22,684)	5	582,279

† *The references (a)–(r) identify balance sheet components which are used in the calculation of regulatory capital on pages 28 and 29.*

Own funds

Own funds disclosure

Ref*		Ref †	At 30 Jun 2019 £m	At 31 Dec 2018 £m
	Common equity tier 1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts		**797**	797
	– ordinary shares	*a*	**797**	797
2	Retained earnings	*b*	**18,811**	30,668
3	Accumulated other comprehensive income (and other reserves)	*c*	**2,719**	2,953
5	Minority interests (amount allowed in consolidated common equity tier 1)	*d*	**374**	372
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend[1]	*b*	**(94)**	(12,049)
6	**Common equity tier 1 capital before regulatory adjustments**		**22,607**	22,741
	Common equity tier 1 capital: regulatory adjustments			
7	Additional value adjustments[2]		**(669)**	(623)
8	Intangible assets (net of related deferred tax liability)	*e*	**(2,070)**	(1,970)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	*f*	**(40)**	(40)
11	Fair value reserves related to gains or losses on cash flow hedges	*g*	**(76)**	7
12	Negative amounts resulting from the calculation of expected loss amounts	*h*	**(189)**	(183)
14	Gains or losses on liabilities at fair value resulting from changes in own credit standing	*i*	**202**	(79)
15	Defined benefit pension fund assets	*j*	**(23)**	(22)
28	**Total regulatory adjustments to common equity tier 1**		**(2,865)**	(2,910)
29	**Common equity tier 1 capital**		**19,742**	19,831
	Additional tier 1 ('AT1') capital: instruments			
30	Capital instruments and the related share premium accounts		**2,578**	2,403
31	– classified as equity under IFRSs	*k*	**2,578**	2,403
33	Amount of qualifying items and the related share premium accounts subject to phase out from AT1[3]	*l*	**650**	866
34	Qualifying tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	*m*	**13**	26
36	**Additional tier 1 capital before regulatory adjustments**		**3,241**	3,295
	Additional tier 1 capital: regulatory adjustments			
37	Direct and indirect holdings of own AT1 instruments[4]		**(47)**	(47)
43	**Total regulatory adjustments to additional tier 1 capital**		**(47)**	(47)
44	**Additional tier 1 capital**		**3,194**	3,248
45	**Tier 1 capital (T1 = CET1 + AT1)**		**22,936**	23,079
	Tier 2 capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	*n*	**13,427**	13,757
	– of which: instruments grandfathered under CRR2		***1,454***	*N/A*
47	Amount of qualifying items and the related share premium accounts subject to phase out from T2[3]	*o*	**661**	881
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in CET1 or AT1) issued by subsidiaries and held by third parties[5]	*p, q*	**265**	357
49	*– of which: instruments issued by subsidiaries subject to phase out*[3]	*q*	***91***	*107*
51	**Tier 2 capital before regulatory adjustments**		**14,353**	14,995
	Tier 2 capital: regulatory adjustments			
52	Direct and indirect holdings of own T2 instruments[4]		**(32)**	(31)
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	*r*	**(331)**	(372)
57	**Total regulatory adjustments to tier 2 capital**		**(363)**	(403)
58	**Tier 2 capital**		**13,990**	14,592
59	**Total capital (TC = T1 + T2)**		**36,926**	37,671
60	**Total risk-weighted assets**		**148,817**	143,875
	Capital ratios and buffers			
61	Common equity tier 1		**13.3%**	13.8%
62	Tier 1		**15.4%**	16.0%
63	Total capital		**24.8%**	26.2%
64	Institution specific buffer requirement		**2.80%**	2.16%
65	– capital conservation buffer requirement		**2.50%**	1.88%
66	– countercyclical buffer requirement		**0.30%**	0.28%
68	Common equity tier 1 available to meet buffers		**8.8%**	9.3%
	Amounts below the threshold for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		**1,752**	1,383
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		**624**	669
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)		**648**	723

Own funds disclosure (continued)

Ref*		Ref †	At 30 Jun 2019 £m	At 31 Dec 2018 £m
	Applicable caps on the inclusion of provisions in tier 2			
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		**387**	387
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		**459**	459
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)			
82	Current cap on AT1 instruments subject to phase-out arrangements		**695**	926
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		**788**	581
84	Current cap on T2 instruments subject to phase-out arrangements		**807**	1,075
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		**546**	103

* *The references identify the lines prescribed in the EBA template that are applicable and where there is a value.*
† *The references (a)–(r) identify balance sheet components on pages 26 and 27 that are used in the calculation of regulatory capital.*

1 *This row includes losses that have been recognised and deducted as they arose and were therefore not subject to an independent review.*
2 *Additional value adjustments are calculated on all assets measured at fair value and subsequently deducted from CET1.*
3 *The reported amount also represents instruments grandfathered under CRR2.*
4 *As advised by the PRA a market making waiver has been applied to the deduction of holdings of own T1 and T2 instruments.*
5 *Eligible instruments issued by subsidiaries previously reported in row 46 'Capital instruments and the related share premium accounts' are now reported here. For comparative purposes, 2018 data have been re-presented to reflect this change.*

The main features of HSBC Group's capital instruments, including those of the bank, are published on the Group's website, https://www.hsbc.com/investors/fixed-income-investors/regulatory-capital-securities.

Leverage ratio

The leverage ratio was introduced into the Basel III framework as a non-risk-based limit, to supplement risk-based capital requirements. It aims to constrain the build-up of excess leverage in the banking sector, introducing additional safeguards against model risk and measurement errors. The Basel III leverage ratio is a volume-based measure calculated as tier 1 capital divided by total on- and off-balance sheet exposures. This ratio has been implemented in the EU for reporting and disclosure purposes but, at this stage, has not been set as a binding requirement.

The PRA's leverage ratio requirement applies at the highest level of UK consolidation. For HSBC, this applies at the Group level and not at the HSBC Bank plc level.

Although there is currently no binding leverage ratio requirement on the group, the risk of excess leverage is managed as part of HSBC's global risk appetite framework and monitored using a transitional leverage ratio metric within our Risk Appetite Statement ('RAS').

The RAS articulates the aggregate level and types of risk that HSBC is willing to accept in its business activities in order to achieve its strategic business objectives. The RAS is monitored via the risk appetite profile report, which includes comparisons of actual performance against the risk appetite and tolerance thresholds assigned to each metric, to ensure that any excessive risk is highlighted, assessed and mitigated appropriately. The risk appetite profile report is presented monthly to the Risk Management Meeting ('RMM').

For the group, the leverage exposure measure is also calculated and presented to the Asset & Liability Management Committee every month.

Our leverage ratio calculated in accordance with the Capital Requirements Regulation was 3.6% at 30 June 2019, down from 3.9% at 31 December 2018 as a result of balance sheet growth during the period.

Summary reconciliation of accounting assets and leverage ratio exposures (LRSum)

Ref*		At 30 Jun 2019 £m	At 31 Dec 2018 £m
1	Total assets as per published financial statements	**673,008**	604,958
	Adjustments for:		
2	– entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**(24,816)**	(22,679)
4	– derivative financial instruments	**(81,184)**	(61,186)
5	– securities financing transactions ('SFTs')	**(542)**	(8,350)
6	– off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**51,487**	52,215
EU-6a	– intragroup exposures excluded from the leverage ratio exposure measure	**(332)**	(517)
7	– other adjustments	**4,319**	5,560
8	**Total leverage ratio exposure**	**621,940**	570,001

Leverage ratio common disclosure (LRCom)

		At	
		30 Jun 2019	31 Dec 2018
Ref*		**£m**	£m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**402,791**	352,866
2	(Asset amounts deducted in determining Tier 1 capital)	**(2,370)**	(2,262)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**400,421**	350,604
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**35,944**	25,418
5	Add-on amounts for potential future exposure ('PFE') associated with all derivatives transactions (mark-to-market method)	**95,655**	82,721
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to IFRSs	**9,014**	4,269
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(32,672)**	(13,740)
8	(Exempted central counterparty ('CCP') leg of client-cleared trade exposures)	**(29,322)**	(19,566)
9	Adjusted effective notional amount of written credit derivatives	**180,456**	146,075
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**(176,063)**	(141,887)
11	**Total derivative exposures**	**83,012**	83,290
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**251,789**	250,933
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**(168,463)**	(171,313)
14	Counterparty credit risk exposure for SFT assets	**4,026**	4,789
16	**Total securities financing transaction exposures**	**87,352**	84,409
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	**125,497**	128,523
18	(Adjustments for conversion to credit equivalent amounts)	**(74,010)**	(76,308)
19	**Total off-balance sheet exposures**	**51,487**	52,215
	Exempted exposures		
EU-19	(Exemption of intragroup exposures (solo basis))	**(332)**	(517)
	Capital and total exposures		
20	**Tier 1 capital**	**22,287**	22,213
21	**Total leverage ratio exposure**	**621,940**	570,001
		%	%
22	**Leverage ratio**	**3.6**	3.9
EU-23	Choice of transitional arrangements for the definition of the capital measure	**Fully phased-in**	Fully phased-in

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

Risk-weighted assets

Credit risk – RWAs by exposure class

		At			
		30 Jun 2019		31 Dec 2018	
		RWAs	Capital required	RWAs	Capital required
	Footnotes	£m	£m	£m	£m
IRB advanced approach		**45,140**	**3,612**	44,315	3,545
– central governments and central banks		**2,548**	**204**	2,420	194
– institutions		**3,821**	**306**	3,196	256
– corporates	1	**35,891**	**2,871**	35,732	2,859
– total retail		**2,880**	**231**	2,967	236
– *of which:*					
secured by mortgages on immovable property – small and medium-sized enterprises ('SME')		***293***	***23***	*309*	*24*
secured by mortgages on immovable property – non-SME		***613***	***49***	*648*	*52*
qualifying revolving retail		***36***	***3***	*36*	*3*
other SME		***569***	***46***	*607*	*48*
other non-SME		***1,369***	***110***	*1,367*	*109*
IRB securitisation positions		**2,358**	**189**	4,147	332
IRB non-credit obligation assets		**3,070**	**246**	1,284	103
IRB foundation approach		**11,662**	**933**	11,558	925
– central governments and central banks		**4**	**—**	4	—
– institutions		**33**	**3**	46	4
– corporates		**11,625**	**930**	11,508	921
Standardised approach		**29,535**	**2,364**	27,518	2,200
– central governments and central banks		**1,621**	**130**	1,831	146
– regional governments or local authorities		**—**	**—**	—	—
– public sector entities		**5**	**—**	9	1
– international organisations		**—**	**—**	—	—
– institutions		**1,253**	**100**	1,309	105
– corporates		**14,882**	**1,191**	14,251	1,140
– retail		**384**	**31**	395	31
– secured by mortgages on immovable property		**1,300**	**104**	1,064	85
– exposures in default		**549**	**44**	632	50
– items associated with particularly high risk		**5,575**	**446**	4,911	393
– securitisation positions		**1,374**	**110**	541	43
– collective investments undertakings		**10**	**1**	19	2
– equity	2	**2,297**	**184**	2,285	183
– other items		**285**	**23**	271	21
Total		**91,765**	**7,344**	88,822	7,105

1 *'Corporates' includes specialised lending exposures subject to the supervisory slotting approach of £2,693m (2018: £4,442m) and RWAs of £1,497m (2018: £2,929m).*
2 *'Equity' includes investments in group insurance companies that are risk-weighted at 250%.*

Counterparty credit risk – RWAs by exposure class and product

		At			
		30 Jun 2019		31 Dec 2018	
		RWAs	**Capital required**	RWAs	Capital required
	Footnotes	**£m**	**£m**	£m	£m
By exposure class					
IRB advanced approach		**18,102**	**1,449**	16,923	1,355
– central governments and central banks		**360**	**29**	396	32
– institutions		**7,272**	**582**	6,543	523
– corporates		**10,470**	**838**	9,984	800
IRB foundation approach		**1,509**	**121**	1,312	105
– corporates		**1,509**	**121**	1,312	105
Standardised approach		**2,753**	**220**	2,679	214
– central governments and central banks		**84**	**7**	26	2
– institutions		**2,357**	**188**	2,326	186
– corporates		**312**	**25**	327	26
CVA advanced		**1,731**	**138**	2,438	195
CVA standardised		**1,058**	**85**	806	64
Central counterparties ('CCP') standardised		**541**	**43**	511	41
By product					
– derivatives (OTC and exchange traded derivatives)		**16,525**	**1,322**	14,953	1,197
– SFTs		**5,412**	**433**	5,448	436
– other	1	**722**	**58**	839	67
– CVA advanced		**1,731**	**138**	2,438	195
– CVA standardised		**1,058**	**85**	806	64
– CCP default funds	2	**246**	**20**	185	15
Total		**25,694**	**2,056**	24,669	1,974

1 *Includes free deliveries not deducted from regulatory capital.*
2 *Default fund contributions are cash balances posted to CCPs by all members.*

Market risk under standardised approach (MR1)

		At			
		30 Jun 2019		31 Dec 2018	
		RWAs	**Capital required**	RWAs	Capital required
		£m	**£m**	£m	£m
	Outright products				
1	Interest rate risk (general and specific)	**195**	**16**	634	51
2	Equity risk (general and specific)	**—**	**—**	27	2
4	Commodity risk	**39**	**3**	36	3
	Options				
6	Delta-plus method	**39**	**3**	40	3
8	**Securitisation**	**1,252**	**100**	1,126	90
9	**Total**	**1,525**	**122**	1,863	149

Market risk under IMA (MR2-A)

		At			
		30 Jun 2019		31 Dec 2018	
		RWAs	**Capital required**	RWAs	Capital required
		£m	**£m**	£m	£m
1	**VaR (higher of values a and b)**	**4,274**	**342**	4,408	353
(a)	Previous day's VaR		**80**		89
(b)	Average daily VaR		**342**		353
2	**Stressed VaR (higher of values a and b)**	**6,242**	**499**	6,641	531
(a)	Latest SVaR		**102**		135
(b)	Average SVaR		**499**		531
3	**Incremental risk charge (higher of values a and b)**	**4,809**	**385**	2,991	239
(a)	Most recent IRC value		**382**		214
(b)	Average IRC value		**385**		239
5	**Other**	**1,658**	**133**	1,631	131
6	**Total**	**16,983**	**1,359**	15,671	1,254

Operational risk RWA

	At			
	30 Jun 2019		31 Dec 2018	
	RWAs	**Capital required**	RWAs	Capital required
	£m	**£m**	£m	£m
Own funds requirement for operational risk	**12,850**	**1,028**	12,850	1,028

Statement of Directors' Responsibilities

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

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

- the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU; and
- the interim management report includes a fair review of the information required by DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year ending 31 December 2019 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.

S P O'Connor (Chairman); J F Trueman† (Deputy Chairman); J A Emmett (Chief Executive Officer); J Fleurant (Chief Financial Officer); Dame M E Marsh†; Y Omura†; E W Strutz†; and A M Wright†.

On behalf of the Board

S P O'Connor

Chairman

5 August 2019

Registered number 14259

† Independent non-executive Director

Independent Review Report to HSBC Bank plc

Report on the condensed financial statements

Our conclusion

We have reviewed the condensed financial statements (the "interim financial statements") of HSBC Bank plc and its subsidiaries (the 'group') in the *Interim Report 2019* for the 6 month period ended 30 June 2019. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the consolidated balance sheet as at 30 June 2019;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated statement of cash flows for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements and certain other information.[1]

The interim financial statements included in the *Interim Report 2019* have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

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

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the Directors

The *Interim Report 2019*, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the *Interim Report 2019* in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the *Interim Report 2019* based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

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

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

We have read the other information contained in the *Interim Report 2019* and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants

London

5 August 2019

1 *Certain other information comprises the following tables: 'Significant revenue items by business segments - (gains)/losses', 'Significant cost items by business segment - recoveries/(charges)', 'Net impact on profit before tax by business segment', 'Adjusted profit/(loss) for the period' and 'Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees'.*

Condensed Financial Statements

Consolidated income statement

		Half-year to		
		30 Jun 2019	30 Jun 2018	31 Dec 2018
	Notes	**£m**	£m	£m
Net interest income		**670**	2,997	663
– interest income		**2,774**	4,693	2,729
– interest expense		**(2,104)**	(1,696)	(2,066)
Net fee income	3	**679**	1,368	676
– fee income		**1,296**	2,091	1,311
– fee expense		**(617)**	(723)	(635)
Net income from financial instruments held for trading or managed on a fair value basis		**1,205**	1,643	1,090
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss		**814**	(100)	(504)
Changes in fair value of long-term debt and related derivatives		**(9)**	(1)	6
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss		**263**	255	256
Gains less losses from financial investments		**41**	(3)	15
Net insurance premium income		**1,248**	1,055	950
Other operating income		**254**	200	380
Total operating income		**5,165**	7,414	3,532
Net insurance claims, benefits paid and movement in liabilities to policyholders		**(2,028)**	(975)	(503)
Net operating income before change in expected credit losses and other credit impairment charges		**3,137**	6,439	3,029
Change in expected credit losses and other credit impairment charges		**(84)**	(138)	(21)
Net operating income		**3,053**	6,301	3,008
Total operating expenses		**(2,906)**	(4,652)	(2,699)
– employee compensation and benefits		**(1,142)**	(1,479)	(1,050)
– general and administrative expenses		**(1,591)**	(2,948)	(1,553)
– depreciation and impairment of property, plant and equipment and right of use assets[1]		**(107)**	(110)	(40)
– amortisation and impairment of intangible assets		**(66)**	(115)	(56)
Operating profit		**147**	1,649	309
Share of profit in associates and joint ventures		**4**	10	6
Profit before tax		**151**	1,659	315
Tax expense[2]		**(118)**	(442)	—
Profit for the period		**33**	1,217	315
– profit attributable to shareholders of the parent company		**23**	1,203	303
– profit attributable to non-controlling interests		**10**	14	12
Profit from discontinued operations attributable to shareholders of the company[3]		**—**	820	—

1 *2018 does not include the impact of right-of-use assets recognised under IFRS 16 on adoption on the 1 January 2019.*
2 *From 2019, due to an amendment to IAS12 'Income Taxes', the tax relief on payments in relation to Additional Tier 1 instruments has been recognised in the tax charge shown in the income statement, whereas previously it was recorded directly in equity. The H1 2019 tax credit was £13m (H1 2018: £20m) with no effect on equity. Comparatives have not been restated.*
3 *Profit from discontinued operations relates to profit attributable to shareholders of the group from the separation of HSBC UK Bank plc from the group. HSBC completed the ring-fencing of its UK retail banking activities on 1 July 2018, transferring qualifying RBWM, CMB and GPB customers of the group to HSBC UK Bank plc, HSBC's ring-fenced bank.*

The accompanying notes on pages 42 to 52, the 'Significant revenue items by business segments - (gains)/losses', 'Significant cost items by business segment - recoveries/(charges)', 'Net impact on profit before tax by business segment', 'Adjusted profit/(loss) for the period' tables in the financial summary section on pages 10 to 12 and the following disclosures in the Risk section on pages 15 to 22 form an integral part of these condensed financial statements: Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees'.

Consolidated statement of comprehensive income

	Half-year to		
	30 Jun 2019	30 Jun 2018	31 Dec 2018
	£m	£m	£m
Profit for the period	**33**	1,217	315
Other comprehensive income/(expense)			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Debt instruments at fair value though other comprehensive income	**162**	153	(70)
– fair value gains	**272**	167	11
– fair value gain transferred to the income statement on disposal	**(44)**	51	(53)
– expected credit losses recognised in income statement	**(8)**	(68)	(5)
– income taxes	**(58)**	3	(23)
Cash flow hedges	**66**	(20)	4
– fair value gains/losses	**2**	(62)	(97)
– fair value losses reclassified to the income statement	**86**	32	125
– income taxes	**(22)**	10	(24)
Exchange differences and other	**13**	(73)	173
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit asset/liability	**(28)**	176	(5)
– before income taxes	**(38)**	239	16
– income taxes	**10**	(63)	(21)
Equity instruments designated at fair value through other comprehensive income	**1**	(1)	37
– fair value gains	**1**	1	—
– income taxes	**—**	(2)	37
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	**(266)**	177	327
– before income taxes	**(370)**	252	455
– income taxes	**104**	(75)	(128)
Other comprehensive income for the period, net of tax	**(52)**	412	466
Total comprehensive income for the period	**(19)**	1,629	781
Attributable to:			
– shareholders of the parent company	**(33)**	1,622	765
– non-controlling interests	**14**	7	16

Consolidated balance sheet

		At	
		30 Jun	31 Dec
		2019	2018
	Notes	**£m**	£m
Assets			
Cash and balances at central banks		**61,570**	52,013
Items in the course of collection from other banks		**1,033**	839
Trading assets		**107,178**	95,420
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss		**16,147**	17,799
Derivatives		**164,219**	144,522
Loans and advances to banks		**14,784**	13,628
Loans and advances to customers		**114,906**	111,964
Reverse repurchase agreements – non-trading		**72,175**	80,102
Financial investments		**52,849**	47,272
Prepayments, accrued income and other assets		**63,857**	37,497
Current tax assets		**551**	337
Interests in associates and joint ventures		**442**	399
Goodwill and intangible assets	6	**2,773**	2,626
Deferred tax assets		**524**	540
Total assets		**673,008**	604,958
Liabilities and equity			
Liabilities			
Deposits by banks		**31,711**	24,532
Customer accounts		**183,084**	180,836
Repurchase agreements – non-trading		**45,100**	46,583
Items in the course of transmission to other banks		**734**	351
Trading liabilities		**55,830**	49,514
Financial liabilities designated at fair value		**42,399**	36,922
Derivatives		**159,940**	139,932
Debt securities in issue		**24,774**	22,721
Accruals, deferred income and other liabilities		**66,331**	41,036
Current tax liabilities		**143**	128
Liabilities under insurance contracts		**22,287**	20,657
Provisions	7	**467**	538
Deferred tax liabilities		**26**	29
Subordinated liabilities		**13,739**	13,770
Total liabilities		**646,565**	577,549
Equity			
Total shareholders' equity		**25,917**	26,878
– called up share capital		**797**	797
– other equity instruments		**2,578**	2,403
– other reserves		**(4,736)**	(4,971)
– retained earnings		**27,278**	28,649
Non-controlling interests		**526**	531
Total equity		**26,443**	27,409
Total liabilities and equity		**673,008**	604,958

Consolidated statement of cash flows

	Half-year to		
	30 Jun 2019	30 Jun 2018	31 Dec 2018
	£m	£m	£m
Profit before tax	**151**	1,659	315
Adjustments for non-cash items:			
Depreciation, amortisation and impairment of PP&E, RoU and intangibles[1]	**173**	225	96
Change in expected credit losses gross of recoveries and other credit impairment charges	**91**	205	15
Provisions including pensions	**60**	(65)	24
Share-based payment expense	**58**	61	38
Other non-cash items included in profit before tax	**(12)**	33	7
Change in operating assets	**(18,439)**	(22,140)	8,880
Change in operating liabilities	**34,479**	36,524	(11,476)
Elimination of exchange differences[2]	**(330)**	(370)	(1,743)
Net gain from investing activities	**(49)**	(5)	(9)
Share of profit in associates and joint ventures	**(4)**	(10)	(6)
Contributions paid to defined benefit plans	**(5)**	(17)	(3)
Tax paid	**(317)**	(514)	41
Net cash from operating activities	**15,856**	15,586	(3,821)
Purchase of financial investments	**(16,181)**	(19,201)	(10,034)
Proceeds from the sale and maturity of financial investments	**9,893**	16,462	10,475
Net cash flows from the purchase and sale of property, plant and equipment	**(25)**	(80)	(31)
Net purchase of intangible assets	**(180)**	(244)	(189)
Net cash outflow from acquisition of businesses and subsidiaries	**(33)**	(157)	(70)
Net cash flows on disposal of subsidiaries, businesses, associates and joint ventures[3]	**—**	1	(29,372)
Net cash from investing activities	**(6,526)**	(3,219)	(29,221)
Subordinated loan capital issued	**7,066**	3,304	8,970
Subordinated loan capital repaid	**(7,100)**	(2,925)	(9,840)
Dividends paid to shareholders of the parent company	**(1,130)**	(660)	(12,384)
Issue of ordinary share capital and other equity instruments	**175**	818	—
Funds received from the shareholder of the parent company	**—**	2,035	1,477
Dividend paid to non-controlling interests	**(16)**	(22)	(6)
Net cash from financing activities	**(1,005)**	2,550	(11,783)
Net increase/(decrease) in cash and cash equivalents	**8,325**	14,917	(44,825)
Cash and cash equivalents at the beginning of the period	**99,239**	127,960	142,812
Exchange differences in respect of cash and cash equivalents	**148**	(65)	1,252
Cash and cash equivalents at the end of the period[4]	**107,712**	142,812	99,239

1 *2018 does not include the impact of the right-of-use assets recognised under IFRS 16 beginning in 2019.*
2 *Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as details cannot be determined without unreasonable expense.*
3 *No cash or cash equivalent was received in consideration of the investment in subsidiaries and joint ventures as it formed part of the Part VII transfer of asset and liabilities on 1 July 2018. The aggregate amount of cash and cash equivalent in the subsidiaries and other businesses over which control transferred was £29,410m.*
4 *At 30 June 2019, the group changed its accounting practice to include settlement accounts with bank counterparties of one month or less on a net basis. Comparatives have been re-presented and also include other cash equivalents not included in 2018 cash and cash equivalents. The net effect of these changes increased cash and cash equivalents by £8.6bn (30 Jun 2018: £12.2bn and 31 Dec 2018: £10.2bn).*

Consolidated statement of changes in equity

				Other reserves						
	Called up share capital and share premium	Other equity instruments	Retained earnings	Financial assets at FVOCI reserve	Cash flow hedging reserve	Foreign exchange reserve	Group reorgani-sation reserve	Total share-holders' equity	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2019	**797**	**2,403**	**28,649**	**969**	**(25)**	**1,777**	**(7,692)**	**26,878**	**531**	**27,409**
Profit for the period	**—**	**—**	**23**	**—**	**—**	**—**	**—**	**23**	**10**	**33**
Other comprehensive income (net of tax)	**—**	**—**	**(291)**	**155**	**66**	**14**	**—**	**(56)**	**4**	**(52)**
– debt instruments at fair value through other comprehensive income	**—**	**—**	**—**	**154**	**—**	**—**	**—**	**154**	**8**	**162**
– equity instruments designated at fair value through other comprehensive income	**—**	**—**	**—**	**1**	**—**	**—**	**—**	**1**	**—**	**1**
– cash flow hedges	**—**	**—**	**—**	**—**	**66**	**—**	**—**	**66**	**—**	**66**
– remeasurement of defined benefit asset/ liability	**—**	**—**	**(25)**	**—**	**—**	**—**	**—**	**(25)**	**(3)**	**(28)**
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	**—**	**—**	**(266)**	**—**	**—**	**—**	**—**	**(266)**	**—**	**(266)**
– exchange differences	**—**	**—**	**—**	**—**	**—**	**14**	**—**	**14**	**(1)**	**13**
Total comprehensive income for the period	**—**	**—**	**(268)**	**155**	**66**	**14**	**—**	**(33)**	**14**	**(19)**
Capital securities issued during the period[2]	**—**	**175**	**—**	**—**	**—**	**—**	**—**	**175**	**—**	**175**
Dividends to shareholders	**—**	**—**	**(1,130)**	**—**	**—**	**—**	**—**	**(1,130)**	**(16)**	**(1,146)**
Net impact of equity-settled share-based payments	**—**	**—**	**2**	**—**	**—**	**—**	**—**	**2**	**—**	**2**
Change in business combinations and other movements	**—**		**25**	**—**	**—**	**—**	**—**	**25**	**(3)**	**22**
30 Jun 2019	**797**	**2,578**	**27,278**	**1,124**	**41**	**1,791**	**(7,692)**	**25,917**	**526**	**26,443**

1 *At 30 June 2019, the cumulative amount of change in fair value attributable to changes in own credit risk of financial liabilities designated at fair value was a loss of £301m. The cumulative change on 31 December 2018 was a gain of £201m.*
2 *HSBC Bank plc issued additional tier 1 capital instruments of £175m to HSBC UK Holdings Ltd in January 2019.*

Consolidated statement of changes in equity (continued)

	Called up share capital	Share premium	Other equity instruments	Retained earnings	Other reserves: Financial assets at FVOCI reserve	Other reserves: Cash flow hedging reserve	Other reserves: Foreign exchange reserve	Total share-holders' equity	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 31 Dec 2017	797	—	3,781	36,140	1,099	(38)	1,683	43,462	587	44,049
Impact on transition to IFRS 9	—	—	—	(283)	(249)	—	—	(532)	—	(532)
At 1 Jan 2018	797	—	3,781	35,857	850	(38)	1,683	42,930	587	43,517
Profit for the period	—	—	—	1,203	—	—	—	1,203	14	1,217
Other comprehensive income (net of tax)	—	—	—	354	156	(20)	(71)	419	(7)	412
– debt instruments at fair value through other comprehensive income	—	—	—	—	158	—	—	158	(5)	153
– equity instruments designated at fair value through other comprehensive income	—	—	—	—	(2)	—	—	(2)	1	(1)
– cash flow hedges	—	—	—	—	—	(20)	—	(20)	—	(20)
– remeasurement of defined benefit asset/liability	—	—	—	177	—	—	—	177	(1)	176
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	—	—	—	177	—	—	—	177	—	177
– exchange differences and other	—	—	—	—	—	—	(71)	(71)	(2)	(73)
Total comprehensive income for the period	—	—	—	1,557	156	(20)	(71)	1,622	7	1,629
Capital securities issued[2]	—	—	818	—	—	—	—	818	—	818
Dividends to shareholders	—	—	—	(660)	—	—	—	(660)	(22)	(682)
Net impact of equity-settled share-based payments	—	—	—	29	—	—	—	29	—	29
Capital contribution[3]	—	—	—	1,900	—	—	—	1,900	—	1,900
Change in business combinations and other movements[4]	—	—	—	274	2	1	—	277	1	278
Tax on items taken directly to equity	—	—	—	31	—	—	—	31	—	31
30 Jun 2018	797	—	4,599	38,988	1,008	(57)	1,612	46,947	573	47,520

1 *At 30 June 2018, the cumulative amount of change in fair value attributable to changes in own credit risk of financial liabilities designated at fair value was a loss of £296m. The cumulative change on 31 December 2017 was a loss of £221m, increased by the transfer of a cumulative gain of £31m to retained earnings on transition to IFRS 9, and further increased by a transfer of a cumulative loss of £222m from retained earnings, as a result of the classification of certain financial liabilities which contain both deposit and derivative components as 'Financial liabilities designated at fair value' from 1 January 2018.*

2 *HSBC Bank plc issued additional tier 1 capital instruments of £818m to HSBC Holdings plc in March 2018.*

3 *HSBC Holdings plc injected £1,900m of CET1 capital into HSBC Bank plc in March 2018. There was no new issuance of share capital.*

4 *HSBC Holdings plc provided £135m to HSBC Bank plc for the acquisition of HSBC Investment Bank Holdings Limited and its subsidiaries from HSBC Holdings plc in January 2018. The difference between the cost of investment and the net assets on acquisition was recognised as a further capital contribution of £119m.*

Consolidated statement of changes in equity (continued)

					Other reserves						
	Called up share capital	Share premium	Other equity instruments	Retained earnings	Financial assets at FVOCI reserve	Cash flow hedging reserve	Foreign exchange reserve	Group reorgani-sation reserve	Total share-holders' equity	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jul 2018	797	—	4,599	38,988	1,008	(57)	1,612	—	46,947	573	47,520
Profit for the period	—	—	—	303	—	—	—	—	303	12	315
Other comprehensive income (net of tax)	—	—	—	323	(30)	4	165	—	462	4	466
– debt instruments at fair value through other comprehensive income	—	—	—	—	(68)	—	—	—	(68)	(2)	(70)
– equity instruments designated at fair value through other comprehensive income	—	—	—	—	38	—	—	—	38	(1)	37
– cash flow hedges	—	—	—	—	—	4	—	—	4	—	4
– remeasurement of defined benefit asset/liability	—	—	—	(4)	—	—	—	—	(4)	(1)	(5)
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk	—	—	—	327	—	—	—	—	327	—	327
– exchange differences and other	—	—	—	—	—	—	165	—	165	8	173
Total comprehensive income for the period	—	—	—	626	(30)	4	165	—	765	16	781
Dividends to shareholders[1]	—	—	—	(12,384)	—	—	—	—	(12,384)	(6)	(12,390)
Transfer[2]	—	—	(2,196)	—	—	—	—	—	(2,196)	—	(2,196)
Net impact of equity-settled share-based payments	—	—	—	(12)	—	—	—	—	(12)	—	(12)
Capital contribution[3]	—	—	—	1,477	—	—	—	—	1,477	—	1,477
Change in business combinations and other movements	—	—	—	(56)	(5)	(1)	—	—	(62)	(52)	(114)
Tax on items taken directly to equity	—	—	—	10	—	—	—	—	10	—	10
Group Reorganisation Reserve ('GRR')[4]	—	—	—	—	(4)	29	—	(7,692)	(7,667)	—	(7,667)
31 Dec 2018	797	—	2,403	28,649	969	(25)	1,777	(7,692)	26,878	531	27,409

1 The dividend to shareholders includes a £12,000m dividend distributed to HSBC Holdings plc in July 2018 to capitalise HSBC UK Bank plc.
2 HSBC Bank plc transferred two additional tier 1 capital instruments of £2,196m to HSBC UK Bank plc in July 2018.
3 In December 2018 HSBC UK Holdings Ltd injected £1,477m of CET1 capital into HSBC Bank plc. There was no new issuance of share capital.
4 The group reorganisation reserve ('GRR') of £7,692m is an accounting reserve, which relates primarily to the recognition of goodwill (£3,285m) and the pension asset net of deferred tax (£4,776m), resulting from the ring-fencing implementation. The GRR does not form part of regulatory capital.

Notes on the Condensed Financial Statements

1 Basis of preparation and significant accounting policies

(a) Compliance with International Financial Reporting Standards

The interim condensed consolidated financial statements of HSBC Bank plc ('the bank') and its subsidiaries (together 'the group') have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and IAS 34 'Interim Financial Reporting,' as issued by the International Accounting Standards Board ('IASB') and as endorsed by the EU. These financial statements should be read in conjunction with the *Annual Report and Accounts 2018* and the information about the application of IFRS 16 'Leases' set out below.

At 30 June 2019, there were no unendorsed standards effective for the half-year to 30 June 2019 affecting these financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the group.

Standards applied during the half-year to 30 June 2019

IFRS 16 'Leases'

On 1 January 2019, we adopted the requirements of IFRS 16 retrospectively. The cumulative effect of initially applying the standard was recognised as an adjustment to the opening balance of retained earnings at that date. Comparatives were not restated. The adoption of the standard increased assets by £0.9bn in the group (£0.6bn in the separate financial statements of HSBC Bank plc), and increased financial liabilities by the same amount with no effect on net assets or retained earnings.

On adoption of IFRS 16, we recognised lease liabilities in relation to leases that had previously been classified as 'operating leases' in accordance with IAS 17 'Leases'. These liabilities were recognised in 'other liabilities' and were measured at the present value of the remaining lease payments, discounted at the lessee's incremental borrowing rate at 1 January 2019. The associated right-of-use ('ROU') assets were recognised in 'other assets' and were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments or provisions for onerous leases recognised on the balance sheet at 31 December 2018. In addition, the following practical expedients permitted by the standard were applied:

- reliance was placed on previous assessments on whether leases are onerous;
- operating leases with a remaining lease term of less than 12 months as at 1 January 2019 were treated as short-term leases; and
- initial direct costs were not included in the measurement of ROU assets for leases previously accounted for as operating leases.

The differences between IAS 17 and IFRS 16 are summarised in the table below:

IAS 17	IFRS 16
Leases were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.	Leases are recognised as an ROU asset and a corresponding liability at the date at which the leased asset is made available for use. Lease payments are allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant period rate of interest on the remaining balance of the liability. The ROU asset is depreciated over the shorter of the ROU asset's useful economic life and the lease term on a straight-line basis. In determining the lease term, we consider all facts and circumstances that create an economic incentive to exercise an extension option or not exercise a termination option over the planning horizon of five years. In general, it is not expected that the discount rate implicit in the lease is available so the lessee's incremental borrowing rate is used. This is the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of a similar value in a similar economic environment and for each term with similar terms and conditions. The rates are determined for each economic environment in which we operate by adjusting swap rates with funding spreads (own credit spread) and cross-currency basis where appropriate.

Amendment to IAS 12 'Income Taxes'

An amendment to IAS 12 was issued in December 2017 as part of the annual improvement cycle. The amendment clarifies that an entity should recognise the tax consequences of dividends where the transactions or events that generated the distributable profits are recognised. This amendment was applied on 1 January 2019 and had no material impact. The H1 2019 tax credit was £13m (H1 2018: £20m), the comparatives have not been restated.

(b) Use of estimates and judgements

Management believes that the group's critical accounting estimates and judgements are those which relate to impairment of amortised cost and FVOCI financial assets, the effect on hedge accounting of the fundamental review and reform of the major interest rate benchmarks, goodwill impairment, the valuation of financial instruments, deferred tax assets and provisions for liabilities. There were no changes in the current period to the critical accounting estimates and judgements applied in 2018, which are stated on pages 99 to 109 of the *Annual Report and Accounts 2018*.

(c) Composition of group

There were no material changes in the composition of the group in the half-year to 30 June 2019.

(d) Future accounting developments

IFRS 17 'Insurance Contracts' was issued in May 2017 and has not been endorsed for use in the EU. It sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. IFRS 17 is currently effective from 1 January 2021. However, the IASB is consulting on delaying the mandatory implementation date by one year and may make additional changes to the standard. The Group is in the process of implementing IFRS 17. Industry practice and interpretation of the standard is still developing and there may be changes to implementation decisions as practice evolves, therefore the likely impact of its implementation remains uncertain.

(e) Going concern

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

(f) Accounting policies

Except as described above, the accounting policies applied by the group for these interim condensed consolidated financial statements are consistent with those described on pages 99 to 109 of the *Annual Report and Accounts 2018*, as are the methods of computation.

2 Dividends

Dividends to shareholders of the parent company

	Half-year to					
	30 Jun 2019		30 Jun 2018		31 Dec 2018	
	£ per share	**£m**	£ per share	£m	£ per share	£m
Dividends paid on ordinary shares						
Second interim dividend in respect of previous year	**0.51**	**406**	0.73	583	—	—
First interim dividend in respect of current year	**—**	**—**	—	—	0.30	234
Special dividend in respect of previous year	**0.85**	**674**	—	—	—	—
Total	**1.36**	**1,080**	0.73	583	0.30	234
Dividends on preference shares classified as equity						
Dividend on HSBC Bank plc non-cumulative third dollar preference shares	**—**	**—**	—	—	1.47	51
Total	**—**	**—**	—	—	1.47	51
Total coupons on capital securities classified as equity		**50**		74		102
Dividends to shareholders		**1,130**		657		336

Other equity instruments

		Half-year to		
		30 Jun 2019	30 Jun 2018	31 Dec 2018
Total coupons on capital securities classified as equity	First call	**£m**	£m	£m
Undated Subordinated Additional Tier 1 instruments				
– £555m	Mar 2023	**28**	—	—
– £1,096m[1]	Dec 2019	**—**	31	—
– £1,100m[1]	Dec 2024	**—**	31	—
– €235m	Jan 2022	**12**	12	—
– €300m	Mar 2023	**10**	—	—
– €1,900m	Dec 2020	**—**	—	102
		50	74	102

1 *With effect from 1 July 2018 under the ring-fencing transfer scheme, all rights and obligations in respect of the existing £1,096m Undated Subordinated Additional Tier 1 Instrument issued 2014 (Callable December 2019 onwards) and £1,100m Undated Subordinated Additional Tier 1 Instrument issued 2014 (Callable December 2024 onwards) issued by HSBC Bank plc were transferred to HSBC UK Bank plc.*

3 Net fee income

Net fee income

	Half-year to		
	30 Jun 2019	30 Jun 2018	31 Dec 2018
	£m	£m	£m
Account services	**163**	453	156
Funds under management	**212**	248	203
Cards	**23**	125	25
Credit facilities	**141**	239	154
Broking income	**142**	150	132
Unit trusts	**2**	10	1
Underwriting	**156**	144	100
Imports/exports	**27**	52	28
Remittances	**31**	77	11
Global custody	**53**	62	67
Insurance agency commission	**9**	46	5
Other	**337**	485	429
Fee income	**1,296**	2,091	1,311
Less: fee expense	**(617)**	(723)	(635)
Net fee income	**679**	1,368	676
Global business			
Retail Banking and Wealth Management	**145**	446	152
Commercial Banking	**184**	562	151
Global Banking and Markets	**304**	294	345
Global Private Banking	**50**	62	47
Corporate Centre	**(4)**	4	(19)

4 Fair values of financial instruments carried at fair value

The accounting policies, control framework, and the hierarchy used to determine fair values are consistent with those applied for the *Annual Report and Accounts 2018*.

Financial instruments carried at fair value and bases of valuation

	At							
	30 Jun 2019				31 Dec 2018			
	Quoted market price Level 1	Using observable inputs Level 2	With significant un-observable inputs Level 3	Total	Quoted market price Level 1	Using observable inputs Level 2	With significant un-observable inputs Level 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Recurring fair value measurements								
Assets								
Trading assets	**76,210**	**27,173**	**3,795**	**107,178**	69,774	22,094	3,552	95,420
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**11,546**	**2,312**	**2,289**	**16,147**	10,128	5,590	2,081	17,799
Derivatives	**621**	**161,918**	**1,680**	**164,219**	1,101	141,341	2,080	144,522
Financial investments	**46,186**	**5,799**	**857**	**52,842**	40,237	6,232	790	47,259
Liabilities								
Trading liabilities	**41,111**	**14,681**	**38**	**55,830**	35,964	13,504	46	49,514
Financial liabilities designated at fair value	**6,720**	**34,734**	**945**	**42,399**	5,337	30,595	990	36,922
Derivatives	**632**	**157,651**	**1,657**	**159,940**	1,420	137,049	1,463	139,932

Transfers between Level 1 and Level 2 fair values

	Assets				Liabilities		
	Financial investments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading liabilities	Designated at fair value	Derivatives
	£m	£m	£m	£m	£m	£m	£m
At 30 Jun 2019[1]							
Transfers from Level 1 to Level 2	**–**	**216**	**–**	**18**	**72**	**–**	**-**
Transfers from Level 2 to Level 1	**–**	**330**	**141**	**85**	**97**	**–**	**90**
Full year to 31 Dec 2018							
Transfers from Level 1 to Level 2	—	183	—	—	33	—	—
Transfers from Level 2 to Level 1[2]	—	1,625	—	(96)	1,275	—	(103)

1 *In the current period, the majority of the transfers relate to the reclassification of certain positions where improved data is now available.*
2 *Liquid corporate bonds of £1,547m in trading assets and £1,220m in trading liabilities were transferred from Level 2 to Level 1 during the period.*

Fair value valuation bases

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

	Assets					Liabilities			
	Financial investments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Total	Trading liabilities	Designated at fair value	Derivatives	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Private equity including strategic investments	**62**	**5**	**1,929**	**–**	**1,996**	**5**	**–**	**–**	**5**
Asset-backed securities	**789**	**713**	**23**	**–**	**1,525**	**–**	**–**	**–**	**–**
Structured notes	**–**	**2**	**–**	**–**	**2**	**33**	**945**	**–**	**978**
Derivatives	**–**	**120**	**–**	**1,680**	**1,800**	**–**	**–**	**1,643**	**1,643**
Other portfolios	**6**	**2,955**	**337**	**–**	**3,298**	**–**	**–**	**14**	**14**
30 Jun 2019	**857**	**3,795**	**2,289**	**1,680**	**8,621**	**38**	**945**	**1,657**	**2,640**
Private equity including strategic investments	62	10	1,673	—	1,745	10	—	—	10
Asset-backed securities	723	730	24	—	1,477	—	—	—	—
Structured notes	—	2	—	—	2	36	990	—	1,026
Derivatives	—	—	—	2,080	2,080	—	—	1,463	1,463
Other portfolios	5	2,810	384	—	3,199	—	—	—	—
31 Dec 2018	790	3,552	2,081	2,080	8,503	46	990	1,463	2,499

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

Movement in Level 3 financial instruments

	Assets				Liabilities		
	Financial investments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading liabilities	Designated at fair value	Derivatives
	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2019	**790**	**3,552**	**2,081**	**2,080**	**46**	**990**	**1,463**
Total gains or losses recognised in profit or loss	**–**	**(14)**	**102**	**(63)**	**(4)**	**103**	**420**
– net income/(expense) from financial instruments held for trading or managed on a fair value basis	**–**	**(14)**	**–**	**(63)**	**(4)**	**–**	**420**
– net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**–**	**–**	**102**	**–**	**–**	**103**	**–**
Total gains or losses recognised in other comprehensive income	**3**	**2**	**(5)**	**1**	**–**	**(1)**	**–**
– financial investments: fair value gains/(losses)	**1**	**–**	**–**	**–**	**–**	**–**	**–**
– exchange differences	**2**	**2**	**(5)**	**1**	**–**	**(1)**	**–**
Purchases	**–**	**726**	**322**	**–**	**3**	**91**	**–**
Issues	**–**	**120**	**–**	**–**	**–**	**325**	**–**
Sales	**(5)**	**(223)**	**(57)**	**–**	**(7)**	**(138)**	**–**
Settlements	**(66)**	**(277)**	**(146)**	**122**	**–**	**(226)**	**(87)**
Transfers out	**(2)**	**(262)**	**(8)**	**(497)**	**(8)**	**(201)**	**(153)**
Transfers in	**137**	**171**	**–**	**37**	**8**	**2**	**14**
At 30 Jun 2019	**857**	**3,795**	**2,289**	**1,680**	**38**	**945**	**1,657**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2019	**–**	**2**	**–**	**195**	**18**	**(40)**	**217**
– net income from financial instruments held for trading or managed on a fair value basis	**–**	**2**	**–**	**195**	**18**	**–**	**217**
– net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	**–**	**–**	**–**	**–**	**–**	**(40)**	**–**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 1 Jan 2018	943	2,284	1,794	1,764	67	937	1,333
Total gains or losses recognised in profit or loss	–	86	99	136	(1)	(81)	(214)
– net income/(expense) from financial instruments held for trading or managed on a fair value basis	–	86	–	136	(1)	–	(214)
– net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	–	–	–	–	–	(81)	–
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	–	–	99	–	–	–	–
Total gains/(losses) recognised in other comprehensive income ('OCI')	41	93	(26)	(1)	–	–	–
– financial investments: fair value gains/(losses)	25	–	–	–	–	–	–
– exchange differences	16	93	(26)	(1)	–	–	–
Purchases	23	2,883	173	–	1	33	–
Issues	–	701	–	–	3	636	–
Sales	(17)	(814)	(58)	–	(3)	–	–
Settlements	(43)	(1,230)	(105)	119	1	(234)	397
Transfers out	(270)	(771)	(23)	(145)	(11)	(114)	(172)
Transfers in	84	91	25	101	–	–	136
At 30 Jun 2018	761	3,323	1,879	1,974	57	1,177	1,480
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2018	–	(35)	58	43	4	20	123
– net income from financial instruments held for trading or managed on a fair value basis	–	(35)	–	43	4	–	123
– net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	–	–	–	–	–	20	–
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	–	–	58	–	–	–	–

Movement in Level 3 financial instruments (continued)

	Assets				Liabilities		
	Financial investments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading liabilities	Designated at fair value	Derivatives
	£m	£m	£m	£m	£m	£m	£m
At 1 Jul 2018	761	3,323	1,879	1,974	57	1,177	1,480
Total gains or losses recognised in profit or loss	(1)	32	208	450	(1)	(30)	395
– net income/(expense) from financial instruments held for trading or managed on a fair value basis	—	32	—	450	(1)	—	395
– net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	—	—	307	—	—	(30)	—
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	(1)	—	(99)	—	—	—	—
Total gains or losses recognised in other comprehensive income	20	52	26	(3)	—	3	1
– financial investments: fair value gains/(losses)	—	—	—	—	—	—	—
– exchange differences	20	52	26	(3)	—	3	1
Purchases	2	176	351	6	2	24	79
Issues	—	—	—	6	1	651	26
Sales	(18)	(177)	(182)	—	(6)	—	(11)
Settlements	(50)	(233)	(177)	(242)	(2)	(578)	(338)
Transfers out	(77)	(343)	(48)	(112)	(5)	(257)	(182)
Transfers in	153	722	24	1	—	—	13
At 31 Dec 2018	790	3,552	2,081	2,080	46	990	1,463
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2018		30	31	259		36	122
– trading income/(expense) excluding net interest income		30		259		(20)	122
– net income/(expense) from other financial instruments designated at fair value			31			56	

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions

	At							
	30 Jun 2019				31 Dec 2018			
	Reflected in profit or loss		**Reflected in OCI**		Reflected in profit or loss		Reflected in OCI	
	Favourable changes	**Un-favourable changes**	**Favourable changes**	**Un-favourable changes**	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Derivatives, trading assets and trading liabilities[1]	**173**	**(161)**	**–**	**–**	155	(147)	—	—
Financial assets and liabilities designated and otherwise mandatorily measured at fair value	**208**	**(135)**	**–**	**–**	177	(124)	3	(1)
Financial investments	**8**	**(11)**	**20**	**(20)**	7	(9)	17	(17)
Total	**389**	**(307)**	**20**	**(20)**	339	(280)	20	(18)

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

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

	At							
	30 Jun 2019				31 Dec 2018			
	Reflected in profit or loss		**Reflected in OCI**		Reflected in profit or loss		Reflected in OCI	
	Favourable changes	**Un-favourable changes**	**Favourable changes**	**Un-favourable changes**	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Private equity including strategic investments	**206**	**(133)**	**–**	**–**	173	(119)	—	—
Asset-backed securities	**40**	**(18)**	**20**	**(20)**	38	(18)	20	(18)
Structured notes	**5**	**(5)**	**–**	**–**	10	(10)	—	—
Derivatives	**87**	**(84)**	**–**	**–**	74	(74)	—	—
Other portfolios	**51**	**(67)**	**–**	**–**	44	(59)	—	—
Total	**389**	**(307)**	**20**	**(20)**	339	(280)	20	(18)

The sensitivity analysis aims to measure a range of fair values consistent with the application of a 95% confidence interval. Methodologies take account of the nature of the valuation technique employed, as well as the availability and reliability of observable proxy and historical data.

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

Key unobservable inputs to Level 3 financial instruments

Quantitative information about significant unobservable inputs in Level 3 valuations

	At											
	30 Jun 2019								31 Dec 2018			
	Fair value											
	Assets	Liabilities	Valuation techniques	Key unobservable inputs	Full range of inputs		Core range of inputs[1]		Full range of inputs		Core range of inputs[1]	
	£m	£m			Lower	Higher	Lower	Higher	Lower	Higher	Lower	Higher
Private equity including strategic investments	1,997	5	See notes[2]	See notes[2]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Asset-backed securities	1,525	–										
– CLO/CDO[3]	164	–	Market proxy	Bid quotes	N/A	N/A	N/A	N/A	–	100	88	100
– other ABSs	1,361	–	Market proxy	Bid quotes	–	100	72	99	–	100	68	99
Structured notes	2	979										
– equity-linked notes	–	885	Model-Option model	Equity volatility	8%	65%	12%	50%	8%	79%	13%	43%
	–	–	Model-Option model	Equity correlation	20%	84%	37%	75%	31%	88%	40%	77%
– fund-linked notes	–	14	Model-Option model	Fund volatility	5%	21%	5%	21%	7%	21%	7%	21%
– FX-linked notes	–	27	Model-Option model	FX volatility	5%	31%	5%	27%	8%	27%	8%	25%
– other	2	53										
Derivatives	1,799	1,642										
Interest rate derivatives:	961	732										
– securitisation swaps	170	557	Model-Discounted cash flow	Prepayment rate	6%	7%	6%	7%	6%	7%	6%	7%
– long-dated swaptions	576	31	Model-Option model	IR volatility	9%	36%	18%	30%	13%	39%	18%	31%
– other	215	144										
FX derivatives:	319	387										
– FX options	319	387	Model-Option model	FX volatility	–%	31%	5%	18%	3%	27%	6%	18%
Equity derivatives:	347	486										
– long-dated single stock options	146	166	Model-Option model	Equity volatility	1%	58%	11%	40%	5%	83%	13%	46%
– other	201	320										
Credit derivatives	172	37										
Other portfolios:	3,298	14										
– structured certificates	790	–	Model-Discounted cash flow	Credit volatility	2%	4%	2%	4%	2%	4%	2%	4%
– other	2,508	14										
At 30 Jun 2019	8,621	2,640										

1 *The core range of inputs is the estimated range within which 90% of the inputs fall.*
2 *See notes on pages 127 and 128 of the* Annual Report and Accounts 2018.
3 *Collateralised loan obligation/collateralised debt obligation.*

5 Fair values of financial instruments not carried at fair value

The basis for measuring the fair values of loans and advances to banks and customers, financial investments, deposits by banks, customer accounts, debt securities in issue and subordinated liabilities is consistent with that detailed in the *Annual Report and Accounts 2018*.

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

	At 30 Jun 2019		At 31 Dec 2018	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	£m	**£m**	£m	£m
Assets				
Loans and advances to banks	**14,784**	**14,812**	13,628	13,632
Loans and advances to customers	**114,906**	**115,530**	111,964	112,665
Reverse repurchase agreements – non-trading	**72,175**	**72,175**	80,102	80,102
Financial investments – at amortised cost	**7**	**7**	13	13
Liabilities				
Deposits by banks	**31,711**	**31,693**	24,532	24,514
Customer accounts	**183,084**	**183,124**	180,836	180,838
Repurchase agreements – non-trading	**45,100**	**45,100**	46,583	46,582
Debt securities in issue	**24,774**	**24,774**	22,721	22,721
Subordinated liabilities	**13,739**	**14,120**	13,770	13,999

Other financial instruments not carried at fair value are typically short term in nature and reprice to current market rates frequently. Accordingly, their carrying amount is a reasonable approximation of fair value. They include cash and balances at central banks and items in the course of collection from and transmission to other banks, all of which are measured at amortised cost.

6 Goodwill impairment

As described on page 138 of the *Annual Report and Accounts 2018*, the group's impairment test in respect of goodwill allocated to each cash-generating unit ('CGU') is performed at 1 July each year, with a review for indicators of impairment at 30 June and 31 December. At 1 July 2018, as set out on page 139 of the *Annual Report and Accounts 2018*, the Commercial Banking CGU was sensitive to reasonably possible changes in the key assumptions supporting its recoverable amount. At that date, its recoverable amount exceeded its carrying value by £680m.

At 30 June 2019, we reviewed the inputs used in our most recent impairment test in the light of current economic and market conditions. This review did not identify any indicators of impairment.

7 Provisions

	Restructuring costs	Legal proceedings and regulatory matters	Customer remediation	Other provisions[2]	Total
	£m	£m	£m	£m	£m
Provisions (excluding contractual commitments)					
At 31 Dec 2018	**31**	**231**	**35**	**121**	**418**
Additions	**38**	**3**	**1**	**36**	**78**
Amounts utilised	**(17)**	**(25)**	**(5)**	**(13)**	**(60)**
Unused amounts reversed	**—**	**(3)**	**(3)**	**(29)**	**(35)**
Exchange and other movements	**(9)**	**(1)**	**(1)**	**(25)**	**(36)**
At 30 Jun 2019	**43**	**205**	**27**	**90**	**365**
Contractual commitments[1]					
At 31 Dec 2018					**120**
Net change in expected credit loss provisions					**(18)**
At 30 Jun 2019					**102**
Total provisions					
31 Dec 2018					**538**
30 Jun 2019					**467**

1 *The contractual commitments provisions at 30 June 2019 represented IAS 37 provisions on off-balance sheet loan commitments and guarantees, for which expected credit losses are provided following IFRS 9. Further analysis of the movement in the expected credit loss is disclosed within the 'Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees' table on page 21.*

2 *Since January, £95m has been transferred to right-of-use ('ROU') assets following IFRS 16. Other provisions at 30 June 2019 includes £10m for vacant space provision not applicable for transfer to the right-of-use assets as defined by IFRS 16 (e.g. rates, dilapidation and taxes etc).*

Customer remediation

Provisions include £27m (2018: £35m) in respect of customer redress programmes. The majority of the provisions relating to Payment Protection Insurance were transferred to HSBC UK Bank plc under the ring-fence implementation in 2018. At 30 June 2019, HSBC Bank plc holds £6m in provisions in respect to Payment Protection Insurance claims for Channel Island and Isle of Man customers.

Legal proceedings and regulatory matters

Further details of legal proceedings and regulatory matters are set out in Note 9. Legal proceedings include civil court, arbitration or tribunal proceedings brought against HSBC companies (whether by way of claim or counterclaim), or civil disputes that may, if not settled, result in court, arbitration or tribunal proceedings. Regulatory matters refer to investigations, reviews and other actions carried out by, or in response to the actions of, regulatory or law enforcement agencies in connection with alleged wrongdoing.

8 Contingent liabilities, contractual commitments and guarantees

	At	
	30 Jun 2019	31 Dec 2018
	£m	£m
Guarantees and other contingent liabilities:		
– financial guarantees	**4,970**	6,054
– performance and other guarantees	**17,195**	17,244
– other contingent liabilities	**623**	590
At the end of the period	**22,788**	23,888
Commitments: [1]		
– documentary credits and short-term trade-related transactions	**1,832**	2,186
– forward asset purchases and forward deposits placed	**69,104**	50,116
– standby facilities, credit lines and other commitments to lend	**94,920**	96,593
At the end of the period	**165,856**	148,895

1 *Includes £153,486m of commitments (2018: £141,620m), to which the impairment requirements in IFRS 9 are applied where the group has become party to an irrevocable commitment.*

The above table discloses the nominal principal amounts, which represents the maximum amounts at risk should the contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the nominal principal amounts is not indicative of future liquidity requirements.

In December 2017, HM Revenue & Customs ('HMRC') challenged the VAT status of certain UK branches of HSBC overseas entities. HMRC has also issued notices of assessment covering the period from 1 October 2013 to 31 December 2017 totalling £262m, with interest to be determined. No provision has been recognised in respect of these notices. In March 2018, HSBC requested that HMRC reconsider its assessment. In January 2019, HMRC reaffirmed its assessment that the UK branches are ineligible to be members of the UK VAT group. In February 2019, HSBC paid HMRC the sum of £262m and filed appeals which remain pending. The payment of £262m is recorded as an asset on HSBC's balance sheet at 30 June 2019. Since January 2018, HSBC's returns have been prepared on the basis that the UK branches are not in the UK VAT group. In the event that HSBC's appeals are successful, HSBC will seek a refund of this VAT. Contingent liabilities arising from legal proceedings, regulatory and other matters against group companies are disclosed in Note 9.

The expected credit loss provisions relating to guarantees and commitments under IFRS 9 is disclosed in Note 7.

9 Legal proceedings and regulatory matters

The group is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, the group considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 1 of the *Annual Report and Accounts 2018*. While the outcome of legal proceedings and regulatory matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters as at 30 June 2019 (see Note 7). Where an individual provision is material, the fact that a provision has been made is stated and quantified, except to the extent that doing so would be seriously prejudicial. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

Bernard L. Madoff Investment Securities LLC

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

Various non-US HSBC companies provided custodial, administration and similar services to a number of funds incorporated outside the US whose assets were invested with Madoff Securities. Based on information provided by Madoff Securities as at 30 November 2008, the purported aggregate value of these funds was $8.4bn, including fictitious profits reported by Madoff.

Based on information available to HSBC, the funds' actual transfers to Madoff Securities minus their actual withdrawals from Madoff Securities during the time HSBC serviced the funds are estimated to have totalled approximately $4bn. Various HSBC companies have been named as defendants in lawsuits arising out of Madoff Securities' fraud.

US litigation: The Trustee has brought lawsuits against various HSBC companies and others in the US Bankruptcy Court for the Southern District of New York (the 'US Bankruptcy Court'), seeking recovery of transfers from Madoff Securities to HSBC in an amount not yet pleaded or determined. HSBC and other parties to the actions have moved to dismiss the Trustee's claims. The US Bankruptcy Court granted HSBC's motion to dismiss with respect to certain of the Trustee's claims in November 2016. In February 2019, the US Court of Appeals for the Second Circuit (the 'Second Circuit Court of Appeals') reversed that dismissal and remanded the cases to the US Bankruptcy Court. Further proceedings in the US Bankruptcy Court have been stayed pending the filing and disposition of a petition by HSBC and other parties to the US Supreme Court.

Fairfield Sentry Limited, Fairfield Sigma Limited and Fairfield Lambda Limited (together, 'Fairfield') (in liquidation since July 2009) have brought a lawsuit in the US against fund shareholders, including HSBC companies that acted as nominees for clients, seeking restitution of redemption payments. In December 2018, the US Bankruptcy Court issued an opinion, which ruled in favour of the defendants' motion to dismiss in respect of certain claims by the liquidators for Fairfield and granted a motion by the liquidators to file amended complaints. As a result of that opinion, all claims against one of the HSBC companies have been dismissed, and certain claims against the remaining HSBC defendants have also been dismissed. In May 2019, the liquidators appealed certain issues from the US Bankruptcy Court opinion to the US District Court for the Southern District of New York (the 'New York District Court').

UK litigation: The Trustee has filed a claim against various HSBC companies in the High Court of England and Wales, seeking recovery of transfers from Madoff Securities to HSBC in an amount not yet pleaded or determined. The deadline for service of the claim has been extended to September 2019 for UK-based defendants and November 2019 for all other defendants.

Cayman Islands litigation: In February 2013, Primeo Fund Limited ('Primeo') (in liquidation since April 2009) brought an action against HSBC Securities Services Luxembourg ('HSSL') and Bank of Bermuda (Cayman) Limited (now known as HSBC Cayman Limited), alleging breach of contract and breach of fiduciary duty and claiming damages and equitable compensation. The trial concluded in February 2017 and, in August 2017, the court dismissed all claims against the defendants. In September 2017, Primeo appealed to the Court of Appeal of the Cayman Islands and, in June 2019, the Court of Appeal of the Cayman Islands dismissed Primeo's claims against HSSL and HSBC Cayman Limited. Primeo has the right to appeal to the UK Privy Council.

Luxembourg litigation: In April 2009, Herald Fund SPC ('Herald') (in liquidation since July 2013) brought an action against HSSL before the Luxembourg District Court, seeking restitution of cash and securities that Herald purportedly lost because of Madoff Securities' fraud, or money damages. The Luxembourg District Court dismissed Herald's securities restitution claim, but reserved Herald's cash restitution claim and its claim for money damages. Herald has appealed this judgment to the Luxembourg Court of Appeal, where the matter is pending. In late 2018, Herald brought additional claims against HSSL and HSBC Bank plc before the Luxembourg District Court, seeking further restitution and damages.

In October 2009, Alpha Prime Fund Limited ('Alpha Prime') brought an action against HSSL before the Luxembourg District Court, seeking the restitution of securities, or the cash equivalent, or money damages. This action has been temporarily suspended at the plaintiffs' request. In December 2018, Alpha Prime brought additional claims before the Luxembourg District Court seeking damages against various HSBC companies.

In December 2014, Senator Fund SPC ('Senator') brought an action against HSSL before the Luxembourg District Court, seeking restitution of securities, or the cash equivalent, or money damages. In April 2015, Senator commenced a separate action against the Luxembourg branch of HSBC Bank plc asserting identical claims before the Luxembourg District Court. In December 2018, Senator brought additional claims against HSSL and HSBC Bank plc Luxembourg branch before the Luxembourg District Court, seeking restitution of Senator's securities or money damages.

Ireland litigation: In November 2013, Defender Limited brought an action against HSBC Institutional Trust Services (Ireland) Limited ('HTIE') and others, based on allegations of breach of contract and claiming damages and indemnification for fund losses. The trial commenced in October 2018. In December 2018, the Irish High Court issued a judgment in HTIE's favour on a preliminary issue, holding that Defender Limited had no effective claim against HTIE. This judgment concluded the trial without further issues in dispute being heard. In February 2019, Defender Limited appealed the judgment.

There are many factors that may affect the range of possible outcomes, and the resulting financial impact, of the various Madoff-related proceedings described above, including but not limited to the multiple jurisdictions in which the proceedings have been brought. Based upon the information currently available, management's estimate of the possible aggregate damages that might arise as a result of all claims in the various Madoff-related proceedings is up to or exceeding $500m, excluding costs and interest. Due to uncertainties and limitations of this estimate, the ultimate damages could differ significantly from this amount.

Anti-money laundering and sanctions-related matters

In December 2012, among other agreements, HSBC Holdings plc ('HSBC Holdings') agreed to an undertaking with the UK Financial Conduct Authority ('FCA') and consented to a cease-and-desist order with the US Federal Reserve Board ('FRB'), both of which contained certain forward-looking anti-money laundering ('AML') and sanctions-related obligations. HSBC also agreed to retain an independent compliance monitor (who is, for FCA purposes, a 'Skilled Person' under section 166 of the Financial Services and Markets Act and, for FRB purposes, an 'Independent Consultant') to produce periodic assessments of the Group's AML and sanctions compliance programme (the 'Skilled Person/Independent Consultant'). In December 2012, HSBC Holdings also entered into an agreement with the Office of Foreign Assets Control ('OFAC') regarding historical transactions involving parties subject to OFAC sanctions. The Skilled Person/ Independent Consultant will continue to conduct country reviews and provide periodic reports for a period of time at the FCA's and FRB's discretion. The role of the Skilled Person/Independent Consultant is discussed on page 33 of the *Annual Report and Accounts 2018*.

Through the Skilled Person/Independent Consultant's country-level reviews, as well as internal reviews conducted by HSBC, certain potential AML and sanctions compliance issues have been identified that HSBC is reviewing further with the FRB, FCA and/or OFAC. The Financial Crimes Enforcement Network of the US Treasury Department, as well as the Civil Division of the US Attorney's Office for the Southern District of New York, are investigating the collection and transmittal of third-party originator information in certain payments instructed over HSBC's proprietary payment systems. The FCA is also conducting an investigation into HSBC Bank plc's compliance with UK money laundering regulations and financial crime systems and controls requirements. HSBC is cooperating with all of these investigations.

Since November 2014, a number of lawsuits have been filed in federal courts in the US against various HSBC companies and others on behalf of plaintiffs who are, or are related to, victims of terrorist attacks in Iraq. In each case, it is alleged that the defendants aided and abetted the unlawful conduct of various sanctioned parties in violation of the US Anti-Terrorism Act. Currently, eight actions against HSBC Bank plc are pending in federal court in New York. In July 2018, in one case, the magistrate judge issued a recommendation that the New York District Court should deny the defendants' motion to dismiss. A motion to dismiss in another case was granted by the court in March 2019. The plaintiffs in that case are now seeking to amend their complaint. The six remaining actions are 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 matters, including the timing or any possible impact on HSBC, which could be significant.

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

Euro interest rate derivatives: In December 2016, the European Commission (the 'EC') issued a decision finding that HSBC, among other banks, engaged in anti-competitive practices in connection with the pricing of euro interest rate derivatives in early 2007. The EC imposed a fine on HSBC based on a one-month infringement. HSBC has appealed the decision.

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

In 2017 and 2018, HSBC reached agreements with plaintiffs to resolve putative class actions brought on behalf of the following five groups of plaintiffs: persons who purchased US dollar Libor-indexed bonds; persons who purchased US dollar Libor-indexed exchange-traded instruments; US-based lending institutions that made or purchased US dollar Libor-indexed loans (the 'Lender class'); persons who purchased US dollar Libor-indexed interest rate swaps and other instruments directly from the defendant banks and their affiliates (the 'OTC class'); and persons who purchased US dollar Libor-indexed interest rate swaps and other instruments from certain financial institutions that are not the defendant banks or their affiliates. During 2018, the New York District Court granted final approval of the settlements with the OTC and Lender classes. The remaining settlements are subject to final court approval. Additionally, a number of other US dollar Libor-related actions remain pending against HSBC in the New York District Court and the Second Circuit Court of Appeals.

Intercontinental Exchange ('ICE') Libor: Between January and March 2019, HSBC and other panel banks were named as defendants in three putative class actions filed in the New York District Court on behalf of persons and entities who purchased instruments paying interest indexed to US dollar ICE Libor from a panel bank. The complaints allege, among other things, misconduct related to the suppression of this benchmark rate in violation of US antitrust and state law. In July 2019, the three putative class actions were consolidated, and the plaintiffs filed a consolidated amended complaint. This matter is at a very early stage.

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

Foreign exchange-related investigations and litigation

Various regulators and competition authorities around the world, including in the EU, Switzerland, Brazil and South Africa, are conducting investigations and reviews into trading by HSBC and others on the foreign exchange markets. HSBC is cooperating with these investigations and reviews.

In January 2018, HSBC Holdings entered into a three-year deferred prosecution agreement with the Criminal Division of the DoJ (the 'FX DPA'), regarding fraudulent conduct in connection with two particular transactions in 2010 and 2011. This concluded the DoJ's investigation into HSBC's historical foreign exchange activities. Under the terms of the FX DPA, HSBC has a number of ongoing obligations, including implementing enhancements to its internal controls and procedures in its Global Markets business, which will be the subject of annual reports to the DoJ. In addition, HSBC agreed to pay a financial penalty and restitution.

In December 2016, Brazil's Administrative Council of Economic Defense ('CADE') initiated an investigation into the onshore foreign exchange market and identified a number of banks, including HSBC, as subjects of its investigation.

In February 2017, the Competition Commission of South Africa referred a complaint for proceedings before the South African Competition Tribunal against 18 financial institutions, including HSBC Bank plc, for alleged misconduct related to the foreign exchange market in violation of South African antitrust laws. In April 2017, HSBC Bank plc filed an exception to the complaint based on a lack of jurisdiction and statute of limitations. In June 2019, the South African Competition Tribunal issued a decision requiring the Competition Commission to revise its complaint. Several financial institutions named in the complaint, have appealed part of the decision to the Competition Appeal Court of South Africa, and the Competition Commission has cross-appealed.

In October 2018, HSBC Holdings and HSBC Bank plc received an information request from the EC concerning potential coordination in foreign exchange options trading. This matter is at an early stage.

In late 2013 and early 2014, various HSBC companies and other banks were named as defendants in various putative class actions consolidated in the New York District Court. The consolidated complaint alleged, among other things, that the defendants conspired to manipulate the WM/Reuters foreign exchange benchmark rates. In September 2015, HSBC reached an agreement with the plaintiffs to resolve the consolidated action, and the court granted final approval of the settlement in August 2018. In 2017, putative class action complaints making similar allegations on behalf of purported 'indirect' purchasers of foreign exchange products were filed in New York and were subsequently consolidated in the New York District Court, where they remain pending.

In September 2018, various HSBC companies and other banks were named as defendants in two motions for certification of class actions filed in Israel alleging foreign exchange-related misconduct. In July 2019, the Tel Aviv Court allowed the plaintiffs to consolidate their claims and file a motion for certification of the consolidated class action. In November and December 2018, complaints alleging foreign exchange-related misconduct were filed in the New York District Court and the High Court of England and Wales against HSBC and other defendants, by certain plaintiffs that opted out of the US class action settlement. In February 2019, various HSBC companies were named as defendants in a claim issued in the High Court of England and Wales that alleges foreign exchange-related misconduct. These matters are at an early stage. It is possible that additional civil actions will be initiated against HSBC in relation to its historical foreign exchange activities.

As at 30 June 2019, the bank has recognised a provision for these and similar matters in the amount of £166m. There are many factors that may affect the range of outcomes, and the resulting financial impact, of these matters. Due to uncertainties and limitations of these estimates, the ultimate penalties could differ significantly from the amount provided.

Precious metals fix-related litigation

Gold: Beginning in March 2014, numerous putative class actions were filed in the New York District Court and the US District Courts for the District of New Jersey and the Northern District of California, naming HSBC and other members of The London Gold Market Fixing Limited as defendants. The complaints allege that, from January 2004 to June 2013, the defendants conspired to manipulate the price of gold and gold derivatives for their collective benefit in violation of US antitrust laws, the US CEA and New York state law. The actions were consolidated in the New York District Court. The defendants' motion to dismiss the consolidated action was granted in part and denied in part in October 2016. In June 2017, the court granted the plaintiffs leave to file a third amended complaint, naming a new defendant. The court has denied the pre-existing defendants' request for leave to file a joint motion to dismiss, and discovery is proceeding.

Beginning in December 2015, numerous putative class actions under Canadian law were filed in the Ontario and Quebec Superior Courts of Justice against various HSBC companies and other financial institutions. The plaintiffs allege that, among other things, from January

2004 to March 2014, the defendants conspired to manipulate the price of gold and gold derivatives in violation of the Canadian Competition Act and common law. These actions are at an early stage.

Silver: Beginning in July 2014, numerous putative class actions were filed in the US District Courts for the Southern and Eastern Districts of New York, naming HSBC and other members of The London Silver Market Fixing Limited as defendants. The complaints allege that, from January 2007 to December 2013, the defendants conspired to manipulate the price of silver and silver derivatives for their collective benefit in violation of US antitrust laws, the US CEA and New York state law. The actions were consolidated in the New York District Court. The defendants' motion to dismiss the consolidated action was granted in part and denied in part in October 2016. In June 2017, the court granted the plaintiffs leave to file a third amended complaint, which names several new defendants. The court has denied the pre-existing defendants' request for leave to file a joint motion to dismiss, and discovery is proceeding.

In April 2016, two putative class actions under Canadian law were filed in the Ontario and Quebec Superior Courts of Justice against various HSBC companies and other financial institutions. The plaintiffs in both actions allege that, from January 1999 to August 2014, the defendants conspired to manipulate the price of silver and silver derivatives in violation of the Canadian Competition Act and common law. The Ontario action is at an early stage. The Quebec action has been temporarily stayed.

Platinum and palladium: Between late 2014 and early 2015, numerous putative class actions were filed in the New York District Court, naming HSBC and other members of The London Platinum and Palladium Fixing Company Limited as defendants. The complaints allege that, from January 2008 to November 2014, the defendants conspired to manipulate the price of platinum group metals ('PGM') and PGM-based financial products for their collective benefit in violation of US antitrust laws and the US CEA. In March 2017, the defendants' motion to dismiss the second amended consolidated complaint was granted in part and denied in part. In June 2017, the plaintiffs filed a third amended complaint. The defendants filed a joint motion to dismiss, which remains pending.

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

Other regulatory investigations, reviews and litigation

HSBC Bank plc and/or certain of its affiliates are subject to a number of other investigations and reviews by various regulators and competition and law enforcement authorities, as well as litigation, in connection with various matters relating to the firm's businesses and operations, including:

- an investigation by the Swiss Competition Commission in connection with the setting of Euribor and Japanese yen Libor;
- an information request from the UK Competition and Markets Authority concerning the financial services sector;
- putative individual and class actions brought in the New York District Court relating to the credit default swap market and the Mexican government bond market, and putative class actions brought in the New York District Court and in the Superior and Federal Courts in Canada relating to the market for US dollar-denominated supranational sovereign and agency bonds; and
- putative class actions brought in the US District Court for the Northern District of Texas and a claim issued in the High Court of England and Wales in connection with HSBC Bank plc's role as a correspondent bank to Stanford International Bank Ltd from 2003 to 2009.

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

10 Transactions with related parties

Following the UK's potential departure from the EU, the transfer of branches in seven European Economic Area ('EEA') countries (Belgium, the Netherlands, Luxembourg, Spain, Italy, Ireland and Czech Republic) to HSBC France has been completed in the first quarter of 2019. Apart from the branch transfer, all other related party transactions that took place in the half-year to 30 June 2019 were similar in nature to those disclosed in the *Annual Report and Accounts 2018*.

There were no changes to the related party transactions described in Note 33 of the *Annual Report and Accounts 2018* that have had a material effect on the financial position or performance of the group in the half-year to 30 June 2019.

11 Events after the balance sheet date

There have been no significant events between 30 June 2019 and the date of approval of these financial statements which would require a change to or additional disclosure in the financial statements.

In its assessment of events after the balance sheet date, the group considered, amongst other, the events related to the process of the UK's withdrawal from the European Union that occurred between 30 June 2019 and the date when the financial statements were authorised for issue, and concluded that no adjustments to the financial statements were required.

12 Interim Report 2019 and statutory accounts

The information in this *Interim Report 2019* is unaudited and does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The *Interim Report 2019* was approved by the Board of Directors on 5 August 2019. The statutory accounts for the year ended 31 December 2018 have been delivered to the Registrar of Companies in England and Wales in accordance with section 447 of the Companies Act 2006. The group's auditor, PricewaterhouseCoopers LLP ('PwC'), has reported on those accounts. Its report was unqualified, did not include a reference to any matters to which PwC drew attention by way of emphasis without qualifying their report, and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

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