HSBC Bank plc

Interim Report 2018

HSBC

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Presentation of information

This document comprises the Interim Report 2018 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 2018 with the same period in the prior year. Balance sheet commentary compares the position at 30 June 2018 to 31 December 2017.

In accordance with IAS 34, the Interim Report is intended to provide an update on the *Annual Report and Accounts 2017* and therefore focuses on events during the first six months of 2018, 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 2018 contains certain forward-looking statements with respect to the financial condition, results of operations and business of the group.

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

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

Highlights

	Footnotes	Half-year to		
		30 Jun 2018	30 Jun 2017	31 Dec 2017
For the period (£m)	1			
Profit before tax (reported basis)		**1,659**	1,858	512
Profit before tax (adjusted basis)	2	**1,765**	2,530	1,302
Net operating income before change in expected credit losses and other credit impairment charges	3	**6,439**	6,913	6,139
Profit attributable to shareholders of the parent company		**1,203**	1,370	439
At period end (£m)	1			
Total equity attributable to shareholders of the parent company		**46,947**	41,493	43,462
Total assets		**865,870**	832,380	818,868
Risk-weighted assets		**230,386**	239,703	233,073
Loans and advances to customers (net of impairment allowances)		**278,682**	278,214	280,402
Customer accounts		**385,913**	385,766	381,546
Capital ratios (%)	1, 4			
Common equity tier 1		**13.3**	10.9	11.8
Tier 1		**15.6**	13.0	13.8
Total capital		**19.0**	16.4	16.9
Performance, efficiency and other ratios (annualised %)	1			
Return on average ordinary shareholders' equity	5	**5.6**	7.2	1.7
Return on average risk-weighted assets		**1.4**	1.5	0.4
Adjusted return on average risk-weighted assets		**1.5**	2.1	1.1
Cost efficiency ratio (reported basis)	6	**72.2**	73.3	83.7
Cost efficiency ratio (adjusted basis)	6	**70.3**	63.8	71.5
Jaws (adjusted basis)	7	**(9.3)**	0.5	(11.6)
Ratio of customer advances to customer accounts		**72.2**	72.1	73.5

1 The group adopted IFRS 9, as well as the European Union's regulatory transitional arrangements for IFRS 9, on 1 January 2018. Comparative information has not been restated. For further details, refer to 'Changes to accounting from 1 January 2018' on page 7, 'Standards applied during the half-year to 30 June 2018' on page 39 and Note 11 'Effects of reclassifications upon adoption of IFRS 9' on page 57.
2 Adjusted performance is computed by adjusting reported results for the effect of significant items as detailed on pages 9 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 as detailed in the Capital section on pages 22 to 30.
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 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).
7 Adjusted jaws measures the difference between adjusted revenue and adjusted cost growth rates.

Purpose and strategy

Our purpose

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

Geographical presence

The group operates in 18 countries. Our operating entities represent the group to customers, regulators, employees and other stakeholders. Our priority markets are the UK, France and Germany.

HSBC Values

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

Open

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

Connected

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

Dependable

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

Our role in society

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

We seek to build trusting and lasting relationships with our many stakeholders. This is the key to sustainable success. Any business that overlooks its wider impact on people and the planet is unlikely to succeed over the long term.

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

The HSBC Group supports calls for improved non-financial disclosure, including the Financial Stability Board's Task Force on Climate-related Financial Disclosures. HSBC publishes regular updates to stakeholders about our approach to key environmental, social and governance ('ESG') issues. In April 2018, HSBC published a new ESG update, including information on backing future skills. Full details of our sustainability risk policies, the ESG Update and other non-financial information can be found on our website at www.hsbc.com/sustainability.

Our strategy

The group's strategy and strategic direction is embedded in HSBC's strategy, which aims to capture value from its international network.

Our strategy is built around long-term trends and reflects our distinctive advantages.

Long-term trends

Increasing global connectivity

The international flow of goods, services and finance continues to expand, aided by the development of technology and data in personal and commercial exchanges.

Distinctive advantages

Unparalleled access to high growth markets

We enable clients to participate in global growth opportunities, and offer leading product capabilities to build deeper and more enduring relationships with businesses and individuals with international needs.

Universal banking model

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

This universal banking model enables us to effectively meet our clients' diverse financial needs, support a strong capital and funding base, reduce risk profile and volatility, and generate stable returns for shareholders.

Long-term strategy

Develop our international network

We develop our international network to facilitate international trade and capital flows and serve our clients as they grow from small enterprises into large multinationals.

Invest in wealth and retail businesses with local scale

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

Strategic priorities

In June 2018, the Group outlined eight strategic priorities to return HSBC to growth, improve returns and enhance customer and employee experience. We aim to achieve this through accelerating growth in areas of strength, embracing new technologies, and simplifying the organisation and investing in capabilities for the future. As a result of these strategic priorities, the group has defined overall financial targets. Growth in the UK is one of the strategic priorities. We established the UK ring-fenced bank ('HSBC UK') on the 1 July 2018. Key objectives include increasing mortgage market share, growing our commercial customer base and improving customer service.

Structural reform

UK exit from EU

As political and regulatory change in Europe continues, it is important that HSBC organises its business in a way that supports its pan-European proposition for customers. HSBC Bank plc decided to transfer to its subsidiary, HSBC France SA, two wholly owned subsidiaries, HSBC Polska Bank SA and HSBC Institutional Trust Services (Ireland) DAC on 1 August 2018.

In the same context, HSBC France SA will acquire the activities of seven European branches (in Belgium, the Czech Republic, Ireland, Italy, Luxembourg, the Netherlands and Spain) from HSBC Bank plc. The transfer of branches is expected to be completed during the first quarter of 2019.

Ring-fenced bank

Policy background

The UK Financial Services (Banking Reform) Act 2013 and associated secondary legislation and regulatory rules require UK deposit-taking banks with more than £25bn of 'core deposits' (broadly from individuals and small to medium-sized businesses) to separate their UK retail banking activities from their other wholesale and investment banking activities by 1 January 2019. The resulting UK ring-fenced bank ('RFB') entities need to be legally distinct, operationally separate and economically independent from the non-ring-fenced bank entities.

Ring-fencing rules have been published by the Prudential Regulation Authority ('PRA') determining how ring-fenced banks are permitted to operate. Further rules published by the FCA set out the disclosures that non-ring-fenced banks are required to make to prospective customers who are individuals.

Ring-fencing implementation

HSBC completed the ring-fencing of its UK retail banking activities on 1 July 2018, six months in advance of the legal requirement coming into force, transferring circa 14.5 million qualifying RBWM, CMB and GPB customers from HSBC Bank plc to HSBC UK Bank plc ('HSBC UK'), HSBC's ring-fenced bank. This included the transfer of relevant retail banking subsidiaries. HSBC Bank plc, which is HSBC's non-ring-fenced bank, has retained the non-qualifying components, primarily the UK GB&M business and the overseas branches and subsidiaries. The two banking entities will operate alongside each other, supported by services received from HSBC Global Services (UK) Limited ('UK ServCo').

The primary means of transferring HSBC Bank plc's qualifying customers and subsidiaries to HSBC UK was through a court-approved ring-fencing transfer scheme ('RFTS') as provided for in Part VII, section 106 of the Financial Services and Markets Act 2000 (as amended) ('FSMA'). In addition to these transfers, certain items were transferred through other legal arrangements.

The following section sets out key milestones in relation to HSBC's ring-fencing implementation:

2015

- HSBC UK, the legal entity which is now the ring-fenced bank, was incorporated in December 2015.

2016

- The Group presented the final ring-fencing project plan to the PRA and FCA.
- A bank licence application for HSBC UK was submitted to the regulators.
- A skilled person, as defined by the FSMA, responsible for preparing the RFTS report was appointed.

2017

- In January 2017, HSBC UK Holdings Limited was incorporated and in March 2017 HSBC UK was transferred from HSBC Holdings plc to this new intermediate holding company.
- In March 2017, HSBC Bank plc's share premium totalling £20.7bn was converted to distributable reserves through a court-approved process in preparation for the transfer of the ring-fenced businesses and related capital to HSBC UK.
- In July 2017, HSBC UK was granted a restricted banking licence from its regulators prior to the satisfaction of the PRA/FCA's Threshold Conditions, and HSBC began working on an agreed mobilisation plan to receive an unrestricted licence in 2018.
- In August 2017, HSBC UK was converted from a private company to a public limited company.
- On 1 October 2017, 21,571 employees were transferred from HSBC Bank plc to HSBC UK, but redeployed to HSBC Bank plc until 1 July 2018.
- During 2017 more than 250 IT systems were separated, establishing HSBC UK's IT infrastructure.
- HSBC UK's payments infrastructure was set up, providing the bank access to external payment schemes for making an expected £150trn worth of customer transactions each year.
- More than 400,000 customer accounts were successfully migrated to new HSBC UK sort codes.

2018

- In January 2018, the RFTS court process was initiated with the submission of an application to the High Court, followed by the first hearing to consider and approve the communications programme.
- The RFTS was sanctioned by the High Court in May 2018.
- All mobilisation restrictions to HSBC UK's banking licence under section 55I of the FSMA were lifted on 27 June 2018.
- On 1 July 2018, under an agreement between HSBC Holdings plc, HSBC Bank plc, HSBC UK and HSBC UK Holdings Limited, the following transfers were executed contemporaneously:
  - The qualifying components of HSBC Bank plc's UK RBWM and CMB businesses and related items were transferred to HSBC UK through the RFTS;
  - HSBC Bank plc's qualifying subsidiaries, notably Marks and Spencer Financial Services plc, HSBC Private Bank (UK) Limited and a number of asset finance entities, were transferred to HSBC UK as part of the RFTS; and
  - The capital supporting the above businesses and subsidiaries was transferred by HSBC Bank plc to HSBC UK, in the case of CET1, through a capital contribution, and by way of legal transfer in the case of Additional Tier 1 and Tier 2 capital.
- The migration of roles from London to Birmingham has completed and a fully functioning HSBC UK team is in place.
- HSBC Bank plc will be transferred to HSBC UK Holdings Limited in the second half of 2018.

The cost to HSBC Bank plc of ring-fencing in 2018 is £0.1bn (2017: £0.3bn). The total cost is expected to be £0.6bn over the lifetime of the restructuring.

Establishment of HSBC UK Bank plc

The disclosure below sets out the impact of the transfer on HSBC UK and the group. The impact of the transfer on the group and the bank is also presented in Note 12 'Events after the balance sheet date' on page 60. The disclosure is on a consolidated basis. As a consequence of the change in the group structure, intergroup assets and liabilities are created.

The numbers presented are subject to change for any final transfers identified.

Basis of preparation

The establishment of HSBC UK will be accounted for as a group restructuring. HSBC's accounting policy for such transactions requires that assets and liabilities are recognised by HSBC UK at their existing carrying amounts in the financial statements of HSBC Bank plc. Equity reserves relating to items such as cash flow hedging and fair values though other comprehensive income will not be recycled through profit and loss by HSBC Bank plc but will be transferred to, and accounted for on the same basis by HSBC UK, as if it had always been in place.

The consolidated balance sheet at 1 July 2018 is prepared in accordance with HSBC's accounting policy on group restructuring.

Pension asset

The surplus on the UK principal defined benefit plan has been recognised based on actuarial valuations.

Goodwill

Goodwill has been allocated to HSBC UK based on estimated risk-weighted assets, and will transfer from HBEU as an equity distribution and be recognised in HSBC UK as an equity contribution.

Following an acquisition goodwill loses its original identity and is managed and monitored by cash generating units, which for HSBC Bank plc are the global businesses that have benefited from those historical acquisitions. Given that a significant percentage of the global businesses that supported the goodwill have been transferred to HSBC UK, it therefore follows that a significant portion of the goodwill is also transferred with those businesses.

Provisions

Provisions have been recognised in HSBC UK based on the underlying business line that generated an obligating event.

Taxation

Deferred tax has been recognised in respect of the temporary differences arising on the underlying assets and liabilities transferred.

Equity and Subordinated liabilities

The £12,000m dividend distributed on 1 July 2018 by HSBC Bank plc to HSBC Holdings plc has been used to capitalise HSBC UK. A £12,000m capital injection was made indirectly by HSBC Holdings plc to HSBC UK through its immediate parent, HSBC UK Holdings Limited. The capitalisation in HSBC UK comprises £9,000m share premium and a £3,000m injection of common equity tier 1 ('CET1') recognised in Retained earnings. Two additional tier 1 capital instruments totalling £2,196m were transferred from HSBC Bank plc to HSBC UK. A transfer of subordinated liabilities, comprising £2,200m and $840m of tier 2 capital was also made from HSBC Bank plc to HSBC UK.

Consolidated balance sheets

	Footnotes	HSBC UK Bank plc group	HSBC Bank plc group after transfer	Intercompany adjustments[6]	Other adjustments[7,8]	HSBC Bank plc group as reported
		1 Jul 2018	1 Jul 2018			30 Jun 2018
		£m	£m	£m	£m	£m
Assets						
Cash and balances at central banks		40,763	62,077	–	–	102,840
Items in the course of collection from other banks		1,013	806	–	–	1,819
Trading assets		–	107,873	–	–	107,873
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss		8	16,830	–	–	16,838
Derivatives	1	49	153,256	(237)	–	153,068
Loans and advances to banks		1,854	13,185	(2,726)	(15)	12,298
Loans and advances to customers		166,963	112,594	(875)	–	278,682
Reverse repurchase agreements – non-trading		–	61,656	–	–	61,656
Financial investments		10,700	47,904	–	–	58,604
Pension asset		6,368	18	–	–	6,386
Prepayments, accrued income and other assets		2,491	58,778	(2,356)	–	58,913
Current tax assets		–	298	–	–	298
Interest in associates and joint venture		8	391	–	–	399
Goodwill and intangible assets		3,739	2,340	–	–	6,079
Deferred tax assets		–	572	–	(455)	117
Total assets		233,956	638,578	(6,194)	(470)	865,870
Liabilities and equity						
Liabilities						
Deposits by banks		1,570	26,795	(2,721)	–	25,644
Customer accounts		200,192	186,596	(875)	–	385,913
Repurchase agreements – non-trading		–	45,360	–	–	45,360
Items in the course of transmission to other banks		351	694	–	–	1,045
Trading liabilities		–	49,550	(9)	–	49,541
Financial liabilities designated at fair value		–	39,212	–	–	39,212
Derivatives	1	255	148,101	(237)	–	148,119
Debt securities in issue		–	22,066	–	–	22,066
Accruals, deferred income and other liabilities		4,436	58,384	(2,352)	–	60,468
Liabilities under insurance contract		–	20,929	–	–	20,929
Current tax liabilities		112	62	–	–	174
Provisions		823	668	–	–	1,491
Deferred tax liabilities		1,334	–	–	(455)	879
Subordinated liabilities		2,917	14,592	–	–	17,509
Total liabilities		211,990	613,009	(6,194)	(455)	818,350
Total shareholders' equity		21,906	25,056	–	(15)	46,947
– Called up share capital	2	–	797	–	–	797
– Share premium account		9,015	–	–	(9,015)	–
– Other equity instruments	3	2,196	2,403	–	–	4,599
– Other reserves	4	7,695	(5,132)	–	–	2,563
– Retained earnings	5	3,000	26,988	–	9,000	38,988
Non-controlling interests		60	513	–	–	573
Total equity		21,966	25,569	–	(15)	47,520
Total liabilities and equity		233,956	638,578	(6,194)	(470)	865,870
		%	%			%
Customer advances to customer accounts ratio		83.4	60.3			72.2

HSBC UK group
1 *Derivative assets and liabilities relate solely to customer driven transactions and hedging instruments used to manage HSBC UK's risk.*
2 *50,002 issued and fully paid £1 ordinary shares.*
3 *Additional tier 1 capital.*
4 *Other reserves includes the Group reorganisation reserve of £7,720m, an accounting reserve , which relates primarily to the recognition of goodwill (£3,170m) and the pension asset net of deferred tax (£4,776m) which do not form part of regulatory capital.*
5 *£3,000m of CET1 capital injected into HSBC UK by its parent, HSBC UK Holdings Limited.*

Intercompany and Other adjustments
6 *As a consequence of the change in the group structure, intergroup assets and liabilities are created which were previously eliminated on consolidation. This includes balances between the group and HSBC UK, as well as balances between the group and subsidiaries of HSBC UK.*
7 *A deferred tax liability of £1,592m relating to the pensions asset was transferred from the group to HSBC UK. This resulted in a net deferred tax asset remaining within the group, and the adjustment of £455m reflects the reclassification of this asset between liabilities and assets.*
8 *The movement of £9,000m between Share premium and Retained earnings reflects the capitalisation of HSBC UK, which occurred on 1 July 2018.*

HSBC UK Bank plc group third-party Risk-Weighted Assets ('RWAs') by global business

		At 1 Jul 2018				
		RBWM	CMB	GPB	Corporate Centre	Total RWAs
	Footnote	£bn	£bn	£bn	£bn	£bn
Credit risk	1	15.7	59.4	1.6	0.7	77.4
Market risk		—	—	—	0.1	0.1
Operational risk		5.3	4.1	0.2	0.1	9.7
Total RWAs at 1 Jul 2018		21.0	63.5	1.8	0.9	87.2

1 *All figures are calculated using the EU's regulatory transitional arrangements for IFRS 9 in article 473a of the Capital Requirements Regulation.*

Economic background and outlook

UK

UK real GDP growth slowed from 0.4% quarter-on-quarter in the fourth quarter of 2017 to 0.2% in the first quarter of 2018. Real UK GDP was 1.2% higher than the same quarter a year earlier. The unemployment rate stood at 4.2% in June, a 43-year low. Employment as a percentage of the workforce stood at a record high of 75.7%. Annual wage growth stood at 2.7% in June. The annual rate of growth of the Consumer Price Index ('CPI') measure of inflation stood at 2.4% in June 2018. Activity in the housing market softened, with price growth moderating but remaining positive.

The outlook remains uncertain following the UK electorate's vote to leave the European Union ('EU') and the invocation of Article 50 (triggering a two-year countdown to leaving) in March 2017. The annual pace of UK real GDP growth is now expected to slow from 1.8% in 2017 to 1.3% in 2018. Investment could be hit by uncertainty over the UK's future relationship with the EU, and the risk of leaving without a transition deal. CPI inflation is expected to fall back, reflecting the waning impact of 2016's fall in the value of sterling. However, wages are expected to grow only slightly faster than inflation, meaning real income growth remains weak. This is expected to weigh on consumption. Given its outlook for consumer price inflation to run above its 2% target, the Bank of England's ('BoE') Monetary Policy Committee voted for a 25 basis point increase in Bank Rate in August 2018. However, due to soft growth and an uncertain outlook, Bank Rate is expected to remain at 0.75% until at least the end of 2018.

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Eurozone

Economic growth in the eurozone has slowed. Real GDP grew by 0.4% in the first quarter of 2018, following three quarters of growth at 0.7%. Among the four largest eurozone countries, Spain continues to out-perform, with growth of 0.7% quarter-on-quarter in the first quarter of 2018. Germany and Italy grew by 0.3%, while France experienced an expansion of 0.2%. Growth was probably partly depressed by temporary factors, including wintry weather in northern Europe. Partly as a result of continued improvements in the labour market, household spending growth picked up in the first quarter of 2018 to 0.5% quarter-on-quarter. Meanwhile, low interest rates and limited levels of spare capacity are encouraging investment growth which, in year-on-year terms, rose by 3.6% in the first quarter of 2018.

Following an expansion of 2.6% in 2017, HSBC Global Research expects GDP growth to decelerate to 2.0% in 2018, before easing further to 1.7% in 2019. The balance of risks – which include the threat of further trade protectionism and political uncertainty in Italy and Germany – is tilted to the downside.

The CPI inflation rate rose from 1.2% to 1.9% in May, then to 2.0% in June, mainly reflecting the impact of recent oil price rises. But the core inflation rate remains low, at 0.9% in June. Given continued softness in underlying inflation, moves by the European Central Bank ('ECB') to tighten monetary policy are likely to be very gradual. It's current guidance is that net asset purchases under its Quantitative Easing ('QE') programme will end this year and that interest rates will not rise until 'at least through the summer' of 2019. HSBC Global Research expects the first rate increase – a 15 basis point rise in the deposit rate, to -0.25% – to take place in October 2019.

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 33. 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 12 are presented on an adjusted basis in accordance with IFRS 8 'Operating Segments' as detailed in 'Basis of preparation'.

Adjusted performance

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

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

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

Changes to accounting from 1 January 2018

IFRS 9

The group adopted the requirements of IFRS 9 'Financial Instruments' on 1 January 2018, with the exception of the provisions relating to the presentation of gains and losses on financial liabilities designated at fair value, which were adopted on 1 January 2017. The impact of transitioning to IFRS 9 at 1 January 2018 on the consolidated financial statements of the group was a decrease in net assets of £532m, arising from:

- a decrease of £764m from additional impairment allowances;
- an increase of £58m from the remeasurement of financial assets and liabilities as a consequence of classification changes, mainly from revoking fair value accounting designations for certain subordinated debt instruments; and
- an increase in net deferred tax assets of £174m.

Refer to 'Standards applied during the half-year to 30 June 2018' on page 39 and Note 11 'Effects of reclassifications upon adoption of IFRS 9' for further details.

Changes in accounting policy

We have considered market practices for the presentation of certain financial liabilities which contain both deposit and derivative components and were previously included in 'Trading liabilities'. Such liabilities amounted to £17,958m at 31 December 2017. We have concluded that a change in accounting policy and presentation is appropriate, since it would better align with the presentation of similar financial instruments by peers and therefore provide more relevant information about the effect of these financial liabilities on our financial position and performance.

As a result, rather than being classified as held for trading, these liabilities are classified as 'Financial liabilities designated at fair value' from 1 January 2018. Comparative information has not been restated.

A further consequence of this change in presentation is that movements in fair value attributable to changes in own credit risk of these liabilities are presented in other comprehensive income with the remaining fair value movements presented in profit or loss in accordance with the accounting policy adopted in 2017. Previously, all fair value movements related to these liabilities were included in profit or loss. For the half-year to 30 June 2017, a loss of £230m relating to changes in the credit risk of these liabilities was included in 'Net income from financial instruments held for trading or managed on a fair value basis' (half year to 31 December 2017: loss of £105m) with a credit of £66m recognised in 'Tax expense' (half-year to 31 December 2017: credit of £30m). If the change in accounting policy had been applied retrospectively, these amounts would have been recognised in other comprehensive income, thereby resulting in a net increase in profit after-tax for the half-year to 30 June 2017 of £164m (half-year to 31 December 2017: £75m).

Cash collateral, margin and settlement accounts included in 'Trading assets' (£26,447m), 'Loans and advances to banks' (£573m) and 'Loans and advances to customers' (£394m) at 31 December 2017 were reclassified to 'Prepayments, accrued income and other assets' at 1 January 2018 in accordance with IFRS 9. Cash collateral, margin and settlement accounts included in 'Trading liabilities' (£30,755m), 'Deposits by banks' (£570m) and 'Customer accounts' (£548m) at 31 December 2017 were reclassified to 'Accruals, deferred income and other liabilities' at 1 January 2018 as this presentation is considered to provide more relevant information, given the change in presentation for the financial assets. Comparative information has not been restated.

Refer to 'Standards applied during the half-year to 30 June 2018' on page 39 and Note 11 'Effects of reclassifications upon adoption of IFRS 9' for further details.

Income statement presentation

The classification and measurement requirements under IFRS 9, which was adopted from 1 January 2018, are based on an entity's assessment of both the business model for managing the assets and the contractual cash flow characteristics of the assets. The standard contains a classification for items measured mandatorily at fair value through profit or loss as a residual category. Given its residual nature, the presentation of the income statement has been updated to separately present items in this category which are of a dissimilar nature or function, in line with IAS 1 'Presentation of Financial Statements' requirements. Comparative information has been re-presented. There is no net impact on total operating income.

Prior to 2018, foreign exchange movements on some financial instruments designated at fair value was presented in the same line in the income statement as the underlying fair value movement on these instruments. In 2018, foreign exchange movements on these instruments and their economic hedges are presented together within 'Net income from financial instruments held for trading or managed on a fair value basis'. Comparative information has been re-presented. As a result, the amount reported in 'Changes in fair value of long-term debt and related derivatives' decreased by £218m for the half-year to 30 June 2017 (half-year to 31 December 2017: £184m). There is no net impact on total operating income.

Summary consolidated income statement

	Half-year to		
	30 Jun 2018	30 Jun 2017	31 Dec 2017
	£m	£m	£m
Net interest income	**2,997**	3,190	2,991
Net fee income	**1,368**	1,612	1,377
Net income from financial instruments measured at fair value[2]	**1,797**	1,890	1,615
Gains less losses from financial investments	**(3)**	178	84
Dividend income	**5**	7	3
Net insurance premium income	**1,055**	926	883
Other operating income	**195**	393	393
Total operating income[3]	**7,414**	8,196	7,346
Net insurance claims, benefits paid and movement in liabilities to policyholders	**(975)**	(1,283)	(1,207)
Net operating income before change in expected credit losses and other credit impairment charges	**6,439**	6,913	6,139
Change in expected credit losses and other credit impairment charges	**(138)**	N/A	N/A
Loan impairment release/(charges) and other credit risk provisions	**N/A**	10	(505)
Net operating income	**6,301**	6,923	5,634
Total operating expenses[3]	**(4,652)**	(5,069)	(5,139)
Operating profit	**1,649**	1,854	495
Share of profit in associates and joint ventures	**10**	4	17
Profit before tax[1, 2]	**1,659**	1,858	512
Tax expense[2]	**(442)**	(467)	(61)
Profit for the period[2]	**1,217**	1,391	451
Profit attributable to shareholders of the parent company	**1,203**	1,370	439
Profit attributable to non-controlling interests	**14**	21	12

1 *The group adopted IFRS 9 on 1 January 2018. Comparative information has not been restated, apart from the re-presentation of certain income statement line items. For further details, refer to 'Changes to accounting from 1 January 2018' on page 7, 'Standards applied during the half-year to 30 June 2018' on page 39, and Note 11 'Effects of reclassifications upon adoption of IFRS 9' on page 57.*

2 *We have considered market practices for the presentation of certain financial liabilities which contain both deposit and derivative components and were previously included in 'Trading liabilities'. Such liabilities amounted to £17,958m at 31 December 2017. These liabilities are classified as 'Financial liabilities designated at fair value' from 1 January 2018. Comparative information has not been restated. For the half-year to 30 June 2017, a loss of £230m relating to changes in the credit risk of these liabilities was included in 'Net income from financial instruments held for trading or managed on a fair value basis' (half year to 31 December 2017: loss of £105m) with a credit of £66m recognised in 'Tax expense' (half-year to 31 December 2017: credit of £30m). If the change in accounting policy had been applied retrospectively, these amounts would have been recognised in other comprehensive income, thereby resulting in a net increase in profit for the half-year to 30 June 2017 of £164m (half-year to 31 December 2017: £75m). Refer to 'Changes to accounting from 1 January 2018' on page 7 and Note 11 'Effects of reclassifications upon adoption of IFRS 9' for further details.*

3 *Total operating income and expenses include significant items as detailed on pages 9 to 12.*

Reported performance

Reported profit before tax was £1,659m, down by £199m or 11% compared to the first half of 2017.

Net interest income ('NII') decreased by £193m or 6%. In Corporate Centre, income decreased by £361m mainly due to the reclassification of certain items to net income from financial instruments measured at fair value. In GB&M, Fixed Income revenue was lower in Rates and Credit due to narrower spreads and lower activity compared to the first half of 2017. This was partly offset by higher income in CMB reflecting balance sheet growth, notably in term lending and Global Liquidity and Cash Management ('GLCM').

Net fee income decreased by £244m or 15%, primarily in GB&M due to reduced fee income as a result of lower spreads in Debt Capital Markets despite our higher market share in this business. In RBWM, net fee income decreased mainly due to the transfer of our operations in Turkey to our Middle East and North Africa region ('MENA') in June 2017.

Net income from financial instruments measured at fair value decreased by £93m or 5%. The decrease was mainly due to lower income from financial assets and liabilities from investment contracts, primarily driven by weaker equity market performance. This was partly offset by higher income in Corporate Centre due to the reclassification of certain items from NII. In GB&M, income decreased mainly in Rates due to limited secondary client activity reflecting reduced volumes and liquidity.

Gains less losses from financial investments decreased by £181m, mainly in Corporate Centre, notably in the UK, due to a loss in Legacy Credit following a portfolio disposal and lower gains on the disposal of available-for-sale bonds in Balance Sheet Management ('BSM').

Dividend income decreased by £2m, broadly in line with prior year.

Net insurance premium income increased by £129m or 14%, primarily in France reflecting higher volumes of unit-linked and protection products and improved commercial performance.

Other operating income decreased by £198m, partly due to lower intercompany recoveries from other entities in the Group (offset by lower intercompany costs in operating expenses). This was partly offset by favourable movements in the present value of in-force long-term insurance business ('PVIF') in France, driven by investment assumption changes.

Net insurance claims, benefits paid and movement in liabilities to policyholders decreased by £308m or 24%. 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') were £138m in the first half of 2018. This was primarily due to an increase in stage 2 provisions in the first half of 2018, and higher stage 3 charges in GB&M, notably in the construction and retail sectors in the UK. This was partly offset by provision releases in Corporate Centre in Legacy Credit following portfolio disposals.

Loan impairment charges and other credit risk provisions ('LICs') were £10m (net credit) in the first half of 2017. This reflected provision releases in Corporate Centre in Legacy Credit. There were also net releases of individually assessed impairment charges in CMB in the UK in relation to the UK construction sector and, to a lesser extent, in the Greek shipping sector, as well as releases in Spain. There were also net releases of collectively assessed impairment charges. The provision releases were partly offset by charges in RBWM relating to non-delinquent secured and unsecured debt, mainly in the UK.

Total operating expenses decreased by £417m or 8%, driven by a number of significant items including:

- a decrease of £565m in costs-to-achieve, comprising specific costs relating to the achievement of the strategic actions following the completion of this programme at the end of 2017;
- UK customer redress provisions decreased by £166m, notably in estimated redress for possible mis-selling of payment protection insurance ('PPI') policies;
- costs to establish the UK ring-fenced bank decreased by £63m compared with 2017; partly offset by
- higher settlements and provisions in connection with legal and regulatory matters, reflecting lower net provision releases of £46m in the first half of 2018 compared with a release in 2017 of £299m.

Excluding these items, operating expenses increased by £50m or 1%, notably in CMB and RBWM partly offset by Corporate Centre. Higher costs in CMB were mainly due to the release of a customer redress provision in the first half of 2017 and higher staff and technology costs driven by continued investment in digital capabilities. In RBWM, costs increased driven by investments in digital capabilities, marketing costs and investments to grow the business, particularly in the UK. This was partly offset by lower costs in Corporate Centre.

For further details of significant items affecting revenue and costs, please refer to Significant revenue/cost items by business segment on pages 9 and 10.

Tax expense of £442m was £25m lower than in the first half of 2017. The effective tax rate for the first half of 2018 was 26.6%, compared with 25.1% for the first half of 2017. In both periods, the tax rate was reduced by litigation provision releases which were non-taxable. The provision release in the first half of 2018 was lower compared with 2017, resulting in a higher effective tax rate.

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 9 to 11.

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.

A description of the global businesses is provided on page 4 of the Annual Report and Accounts 2017.

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

	Half-year to 30 Jun 2018					
	RBWM	CMB	GB&M	GPB	Corporate Centre	Total
	£m	£m	£m	£m	£m	£m
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 30 Jun 2017					
Reported revenue	2,092	1,751	2,465	159	446	6,913
Significant revenue items	–	–	108	–	(64)	44
– debit valuation adjustment on derivative contracts	–	–	108	–	–	108
– fair value movement on non-qualifying hedges	–	–	–	–	(3)	(3)
– gain on disposal of HSBC's interest in VocaLink Holdings Limited	–	–	–	–	(61)	(61)
Adjusted revenue	2,092	1,751	2,573	159	382	6,957
	Half-year to 31 Dec 2017					
Reported revenue	2,005	1,739	1,971	162	262	6,139
Significant revenue items	2	77	58	–	(1)	136
– customer redress programmes	–	73	2	–	–	75
– debit valuation adjustment on derivative contracts	–	–	56	–	–	56
– fair value movement on non-qualifying hedges	–	–	–	–	(1)	(1)
– provisions arising from on-going review of compliance with the CCA in UK	2	4	–	–	–	6
Adjusted revenue	2,007	1,816	2,029	162	261	6,275

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

	Half-year to 30 Jun 2018					
	RBWM	CMB	GB&M	GPB	Corporate Centre	Total
	£m	£m	£m	£m	£m	£m
Reported operating expenses	**(1,641)**	**(837)**	**(1,633)**	**(121)**	**(420)**	**(4,652)**
Significant cost items	**68**	**6**	**(35)**	**—**	**122**	**161**
– costs of structural reform[1]	**—**	**1**	**11**	**—**	**122**	**134**
– UK customer redress programmes	**68**	**5**	**—**	**—**	**—**	**73**
– 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 30 Jun 2017					
Reported operating expenses	(1,816)	(768)	(1,417)	(120)	(948)	(5,069)
Significant cost items	291	1	(238)	—	574	628
– costs to achieve	52	1	60	—	452	565
– costs to establish UK ring-fenced bank	—	—	—	—	120	120
– UK customer redress programmes	239	—	—	—	—	239
– settlements and provisions in connection with legal and regulatory matters	—	—	(299)	—	—	(299)
– costs associated with the UK's exit from the EU	—	—	1	—	2	3
Adjusted operating expenses	(1,525)	(767)	(1,655)	(120)	(374)	(4,441)
	Half-year to 31 Dec 2017					
Reported operating expenses	(1,825)	(803)	(1,468)	(131)	(912)	(5,139)
Significant cost items	278	19	(158)	(1)	516	654
– costs to achieve	17	5	87	(1)	365	473
– costs to establish UK ring-fenced bank	5	1	—	—	131	137
– UK customer redress programmes	256	12	2	—	—	270
– settlements and provisions in connection with legal and regulatory matters	—	—	(252)	—	11	(241)
– costs associated with the UK's exit from the EU	—	1	5	—	9	15
Adjusted operating expenses	(1,547)	(784)	(1,626)	(132)	(396)	(4,485)

1 *Costs of structural reform includes cost to establish UK ring-fenced bank and the costs associated with the UK's exit from the EU.*

Net impact on profit before tax by business segment

	Half-year to 30 Jun 2018					
	RBWM	CMB	GB&M	GPB	Corporate Centre	Total
	£m	£m	£m	£m	£m	£m
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 30 Jun 2017					
Reported profit/(loss) before tax	181	1,030	1,056	41	(450)	1,858
Net impact on reported profit or loss	291	1	(130)	—	510	672
– significant revenue items	—	—	108	—	(64)	44
– significant cost items	291	1	(238)	—	574	628
Adjusted profit/(loss) before tax	472	1,031	926	41	60	2,530
	Half-year to 31 Dec 2017					
Reported profit/(loss) before tax	148	749	137	19	(541)	512
Net impact on reported profit or loss	280	96	(100)	(1)	515	790
– significant revenue items	2	77	58	—	(1)	136
– significant cost items	278	19	(158)	(1)	516	654
Adjusted profit/(loss) before tax	428	845	37	18	(26)	1,302

Adjusted profit for the period

	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 profit in associates and joint ventures	**—**	**—**	**—**	**—**	**10**	**10**
Adjusted profit before tax[1]	**425**	**1,030**	**525**	**43**	**(258)**	**1,765**
Adjusted cost efficiency ratio	**74.8%**	**44.2%**	**73.4%**	**73.3%**		**70.3%**

	Half-year to 30 Jun 2017					
	RBWM	CMB	GB&M	GPB	Corporate Centre	Total
	£m	£m	£m	£m	£m	£m
Net operating income before loan impairment charges and other credit risk provisions	2,092	1,751	2,573	159	382	6,957
– external	2,004	1,850	2,845	123	135	6,957
– inter-segment	88	(99)	(272)	36	247	—
Loan impairment charges and other credit risk provisions	(95)	47	8	2	48	10
Net operating income	1,997	1,798	2,581	161	430	6,967
Total operating expenses	(1,525)	(767)	(1,655)	(120)	(374)	(4,441)
Operating profit	472	1,031	926	41	56	2,526
Share of loss in associates and joint ventures	—	—	—	—	4	4
Adjusted profit before tax[1]	472	1,031	926	41	60	2,530
Adjusted cost efficiency ratio	72.9%	43.8%	64.3%	75.5%		63.8%

	Half-year to 31 Dec 2017					
	RBWM	CMB	GB&M	GPB	Corporate Centre	Total
	£m	£m	£m	£m	£m	£m
Net operating income before loan impairment charges and other credit risk provisions	2,007	1,816	2,029	162	261	6,275
– external	1,836	1,934	2,297	119	89	6,275
– inter-segment	171	(118)	(268)	43	172	—
Loan impairment charges and other credit risk provisions	(32)	(187)	(366)	(12)	92	(505)
Net operating income	1,975	1,629	1,663	150	353	5,770
Total operating expenses	(1,547)	(784)	(1,626)	(132)	(396)	(4,485)
Operating profit	428	845	37	18	(43)	1,285
Share of loss in associates and joint ventures	—	—	—	—	17	17
Adjusted profit before tax[1]	428	845	37	18	(26)	1,302
Adjusted cost efficiency ratio	77.1%	43.2%	80.1%	81.5%		71.5%

1 *The group adopted IFRS 9 on 1 January 2018. Comparative information has not been restated.*

Adjusted performance

Our adjusted profit before tax decreased by £765m or 30% compared with the first half of 2017. This reflected lower revenue, higher ECL/LICs, and higher operating expenses.

Adjusted revenue decreased by £573m or 8%, primarily due to lower revenue in Corporate Centre reflecting higher losses on the disposal of available-for-sale bonds in BSM and a loss in Legacy Credit following portfolio disposals. Revenue also decreased in GB&M, notably in Markets in Fixed Income, Currencies and Commodities ('FICC'). Lower revenue in Rates and Credit reflected tighter margins and reduced client activity. Revenue was also impacted by adverse movements in foreign exchange.

Adjusted ECL/LICs were £148m higher. In the first half of 2018 there was an ECL charge of £138m. This reflected increased stage 2 provisions in RBWM due to higher credit risk, and in GB&M there were increased stage 3 charges in Global Banking, notably in the construction and retail sectors. This was partly offset by provision releases in Corporate Centre in Legacy Credit. In the first half of 2017, there was a LICs credit of £10m, mainly due to net releases of collectively assessed impairments in the UK and provision releases in Corporate Centre in Legacy Credit.

Adjusted operating expenses increased by £51m or 1%, partly due to unfavourable movements in foreign exchange. Excluding this, operating expenses increased primarily in CMB driven by the non-repeat of a customer redress provision release in the first half of 2017 and higher staff costs in the first half of 2018; and in RBWM due to an increase in fraud related costs. This was partly offset by lower operating expenses in Corporate Centre.

Retail Banking and Wealth Management ('RBWM')

Adjusted profit before tax of £426m was £46m or 10% lower than the first half of 2017, primarily due to higher operating expenses.

Revenue increased by £13m or 1%, primarily in the UK due to balance growth, notably in savings and deposits, and in France due to higher favourable movements in PVIF in 2018 (£39m) compared with the first half of 2017 (£25m). This was partly offset by lower revenue due to the transfer of our operations in Turkey to our Middle East and North Africa region ('MENA') in June 2017.

ECL/LICs increased by £11m or 11%. In the first half of 2018, ECL of £106m, notably in the UK, were due to stage 2 provisions reflecting higher credit risk. In the first half of 2017, LICs net charges of £95m were mainly due to unsecured lending portfolios in the UK.

Operating expenses increased by £48m or 3% driven by investments in digital capabilities, marketing costs and investments to grow the business, particularly in the UK. There was also higher consultancy fees and training costs in France.

Commercial Banking ('CMB')

Adjusted profit before tax of £1,030m was £3m lower than in the first half of 2017, driven by higher ECL/LICs and higher operating expenses, partly offset by higher revenue.

Revenue increased by £127m or 7% compared to the first half of 2018, mainly in net interest income in the UK reflecting growth in average balances, notably in L&TM and GLCM.

ECL/LICs increased by £65m compared with the first half of 2017. In the first half of 2018, the ECL net charge of £17m was mainly due to stage 2 and 3 charges in France and to a lesser extent, in the UK. In the first half of 2017, the LICs net credit of £47m was primarily in the UK due to net releases of collectively assessed impairments, notably in the oil and gas sector, and net releases of individually assessed provisions, mainly in the consumer and manufacturer sectors.

Operating expenses increased by £64m or 8%, due to higher staff costs, higher technology costs driven by continued investment in digital capabilities and the release of a customer redress provision in the first half of 2017.

Global Banking and Markets ('GB&M')

Adjusted profit before tax of £525m was £400m lower than in the first half of 2017, due to lower revenue and higher ECL/LICs.

Revenue decreased by £299m or 12%, notably in Markets in Fixed Income due to tighter margins and reduced primary and secondary client activity. Revenue also decreased in Global Banking, mainly in DCM where, although we increased our market share, fee income reduced as a result of lower spreads. This was partly offset by higher disposal gains in Principal Investments.

ECL/LICs increased by £87m. In the first half of 2018, the ECL net charge of £80m was mainly due to stage 3 charges in Global Banking, notably in the construction and retail sector. In the first half of 2017, the LICs net credit of £8m was due to a relatively benign credit environment.

Operating expenses were £13m or 1% higher than in the first half of 2018 mainly due to higher staff costs.

Global Private Banking ('GPB')

Adjusted profit before tax of £43m was £2m or 5% higher than the first half of 2017, due to higher revenue partly offset by higher ECL/LICs.

Revenue increased by £5m or 3%, primarily due to higher net interest income in the Channel Islands reflecting more efficient deployment of the group's balance sheet following a restructuring.

ECL/LICs increased by £3m compared to the first half of 2017. There was ECL of £1m in the first half of 2018 compared to LICs net releases of £2m in the first half of 2017.

Operating expenses increased by £1m or 1% compared with the first half of 2017.

Corporate Centre

Adjusted loss before tax of £258m was £320m lower than in the first half of 2017. This reflected lower revenue partly offset by lower operating expenses.

Revenue decreased by £418m, primarily due to lower gains on disposal of available-for-sale bonds in BSM, notably in the UK, and a loss in Legacy Credit following portfolio disposals.

ECL/LICs decreased by £18m or 37%. There was an ECL net credit of £66m in the first half of 2018 and a LICs net credit of £48m in the first half of 2017, both reflecting Legacy Credit provision releases following portfolio disposals.

Operating expenses decreased by £74m or 20%, reflecting lower intercompany costs relating to technology recharges from other entities in the Group. These decreases were partly offset by the introduction in the first half of 2018 of a mark-up on services provided by the Group's UK service company ('Servco').

Review of business position

Summary consolidated balance sheet

	At	
	30 Jun 2018	31 Dec 2017
	£m	£m
Total assets[1]	**865,870**	818,868
– cash and balances at central banks	**102,840**	97,601
– trading assets[2]	**107,873**	145,725
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**16,838**	N/A
– financial assets designated at fair value	**N/A**	9,266
– derivatives	**153,068**	143,335
– loans and advances to banks[2]	**12,298**	14,149
– loans and advances to customers[2]	**278,682**	280,402
– reverse repurchase agreements – non-trading	**61,656**	45,808
– financial investments	**58,604**	58,000
– other assets[2]	**74,011**	24,582
Total liabilities[1]	**818,350**	774,819
– deposits by banks[3]	**25,644**	29,349
– customer accounts[3]	**385,913**	381,546
– repurchase agreements – non-trading	**45,360**	37,775
– trading liabilities[3, 4]	**49,541**	106,496
– financial liabilities designated at fair value[4]	**39,212**	18,249
– derivatives	**148,119**	140,070
– debt securities in issue	**22,066**	13,286
– liabilities under insurance contracts	**20,929**	21,033
– other liabilities[3]	**81,566**	27,015
Total equity[1]	**47,520**	44,049
– total shareholders' equity	**46,947**	43,462
– non-controlling interests	**573**	587

1 *The group adopted IFRS 9 together with voluntary changes to accounting policy and presentation on 1 January 2018. Comparative information has not been restated. For further details, refer to 'Changes to accounting from 1 January 2018' on page 7, 'Standards applied during the half-year to 30 June 2018' on page 39, and Note 11 'Effects of reclassifications upon adoption of IFRS 9' on page 57.*

2 *Cash collateral, margin and settlement accounts included in 'Trading assets' (£26,447m), 'Loans and advances to banks' (£573m) and 'Loans and advances to customers' (£394m) at 31 December 2017 were reclassified to 'Prepayments, accrued income and other assets' at 1 January 2018 in accordance with IFRS 9. Comparative information has not been restated. Refer to 'Changes to accounting from 1 January 2018' on page 7 and Note 11 'Effects of reclassifications upon adoption of IFRS 9' for further details.*

3 *Cash collateral, margin and settlement accounts included in 'Trading liabilities' (£30,755m), 'Deposits by banks' (£570m) and 'Customer accounts' (£548m) at 31 December 2017 were reclassified to 'Accruals, deferred income and other liabilities' at 1 January 2018 as this presentation is considered to provide more relevant information, given the change in presentation for the financial assets. Comparative information has not been restated. Refer to 'Changes to accounting from 1 January 2018' on page 7 and Note 11 'Effects of reclassifications upon adoption of IFRS 9' for further details.*

4 *We have considered market practices for the presentation of certain financial liabilities which contain both deposit and derivative components and were previously included in 'Trading liabilities'. Such liabilities amounted to £17,958m at 31 December 2017. These liabilities are classified as 'Financial liabilities designated at fair value' from 1 January 2018. Comparative information has not been restated. Refer to 'Changes to accounting from 1 January 2018' on page 7 and Note 11 'Effects of reclassifications upon adoption of IFRS 9' for further details.*

By operating segment:

Balance sheet information by global business

	RBWM	CMB	GB&M	GPB	Corporate Centre	Total
	£m	£m	£m	£m	£m	£m
30 Jun 2018						
Loans and advances to customers	**121,307**	**88,764**	**59,698**	**7,334**	**1,579**	**278,682**
Customer accounts	**154,044**	**99,904**	**105,281**	**12,810**	**13,874**	**385,913**
31 Dec 2017						
Loans and advances to customers	117,933	84,947	63,379	7,372	6,771	280,402
Customer accounts	151,985	100,831	94,069	12,774	21,887	381,546

Total reported assets were 6% higher than at 31 December 2017. The group maintained a strong and liquid balance sheet with the ratio of customer advances to customer accounts remaining broadly constant at 72.2%, compared to 73.5% at 31 December 2017.

Assets

Cash and balances at central banks increased by 5% as a result of deploying surplus liquidity.

Trading assets decreased by 26% due to effects of reclassifications upon adoption of IFRS 9 and a reduction of the equity business.

Derivative assets increased by 7%. This was largely due to an increase in FX derivatives.

Loans and advances to customers decreased by 1% due to effects of reclassifications upon adoption of IFRS 9, which were partially offset by an increase of corporate and retail mortgage lending.

Non-trading reverse repurchase agreements increased by 35%, primarily due to an increase in market activity relative to year-end.

Financial investments increased by 1% as a result of deploying surplus liquidity.

Liabilities

Customer accounts increased by 1% due to growth in current accounts.

Trading liabilities decreased by 53% due to changes in accounting policy and a reduction of the equity business.

Debt securities in issue increased by 66% due to funding initiatives taken to date.

Derivative liabilities increased by 6%. This is in line with derivative assets as the underlying risk is broadly matched.

Non-trading repurchase agreements increased by 20% due to increased market activity relative to year-end.

Equity

Total shareholders' equity increased by 8% due to retained earnings from profit generated in the period, as well as capital issuances to HSBC Holdings plc.

Reported performance by country

Profit before tax – by country

	Half-year to 30 Jun 2018					
	RBWM	**CMB**	**GB&M**	**GPB**	**Corporate Centre**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
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 30 Jun 2017					
United Kingdom	155	869	692	35	(429)	1,322
France	22	76	160	3	(67)	194
Germany	9	28	76	3	15	131
Turkey[1]	(8)	8	19	—	2	21
Other	3	49	109	—	29	190
Profit/(loss) before tax	181	1,030	1,056	41	(450)	1,858
	Half-year to 31 Dec 2017					
United Kingdom	165	622	12	15	(521)	293
France	(30)	82	21	1	(54)	20
Germany	7	20	35	4	15	81
Other	7	25	69	(1)	19	119
Profit/(loss) before tax	148	749	137	19	(541)	512

1 *On 29 June 2017, the Turkish operations transferred to HSBC Middle East Holdings B.V. and HSBC Bank Middle East Limited.*

Risk

Risk overview

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

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

In addition to these banking risks, we have identified top and emerging risks with the potential to have a material impact on our financial results or reputation and the sustainability of our long-term business model. There have been no new top and emerging risks identified since 31 December 2017.

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 55 of the *Annual Report and Accounts 2017*.

Risk		Mitigants
Externally driven		
UK exit from EU	▶	With complex negotiations taking place between the UK and the EU, we will continue to meet customers' needs and minimise disruption by making appropriate adjustments to our cross border banking model.
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.
Turning of the credit cycle	▶	We continue to monitor closely our Oil and Gas, Metals and Mining and Shipping portfolios to re-set risk appetite and undertake specific risk action in vulnerable areas, reducing limits where appropriate. Other sector reviews undertaken in the first half of 2018 have included Insurance, Retail, Construction,and Leverage Finance. A number of tactical country exposure reports have also been undertaken to understand the portfolio positions, including, Russia, Italy, and Spain (including Catalonia).
Cyber threat and unauthorised access to systems	▲	We continue to strengthen our cyber control framework and implement initiatives to improve our resilience and cybersecurity capabilities, including threat detection and analysis, access control, payment systems controls, data protection and backup and recovery.
Increasing regulatory expectations	▶	We proactively engage with regulators wherever possible to help ensure that new regulatory requirements are effectively implemented, and work with them in relation to their investigations into historical activities.
Regulatory focus on conduct of business	▲	We continue to enhance our management of conduct in areas including, the treatment of potentially vulnerable customers, market surveillance, employee training and performance.
Financial crime compliance	▶	We are on track to fully implement the Global Standards Programme into normal business activities by the end of 2018 ensuring that core capabilities defined in the Target end state for Financial Crime Risk management are embedded. Initiatives are underway to improve these capabilities using artificial intelligence and advanced analytics techniques. We also continue to make good progress with the three-year programme to further strengthen the bank's Anti-Bribery and Corruption ('ABC') risk management capability.
Market illiquidity and volatility	▶	We monitor risks closely and report regularly on illiquidity and concentration risks to the PRA.
Libor replacement	▲	We are evaluating the impact on HSBC's products, services and processes as the industry accord evolves, with the intention of minimising disruption through appropriate mitigating actions.
Internally driven		
IT systems infrastructure and resilience	▶	We continue to monitor and improve service resilience across our technology infrastructure, enhancing our problem diagnosis/resolution and change execution capabilities, reducing 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 implementation of the ring-fenced and non-ring-fenced bank, and the operational implications of updating our business model post the EU referendum.
Model risk	▲	We have elevated the status of model risk through the creation of a Model Risk Management function and a number of initiatives are underway to enhance our Model Risk capabilities in order to address evolving regulatory, external and internal requirements.
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 2018

▶ Risk remains at the same level as 31 December 2017

Managing risk

The group's risk profile is underpinned by its core philosophy of maintaining a strong balance sheet, a robust liquidity position and capital strength. The group continued to have a conservative risk profile during the first half of 2018.

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 and 24 of the *Annual Report and Accounts 2017*. There have been no material changes to our policies and practices regarding risk management and governance as described in the *Annual Report and Accounts 2017*.

Top and emerging risks

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

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

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

The theme 'Libor replacement' has been added, as the expected replacement or changes to key interbank offered rates such as Libor with alternative benchmark rates introduces uncertainty to HSBC, its clients and the financial services industry. Discontinuation of, or changes to, benchmark rates may require amendments to agreements that refer to current benchmarked rates made by HSBC, our clients and other market participants, as well as to our systems and processes.

In addition, 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.

Areas of special interest

Process of UK withdrawal from the European Union

The UK is due to formally leave the EU in March 2019. Before then, the UK and the EU have to finalise the Article 50 Withdrawal Agreement which will need to be approved by their respective Parliaments. A comprehensive trade deal will not be concluded within this timeframe. A period of transition until 31 December 2020 has therefore been agreed between the UK and the EU. However, there will be no legal certainty until this is enshrined in the Withdrawal Agreement, in autumn 2018 at the earliest.

Our objective in all scenarios is to continue to meet customers' needs and minimise disruption. This will require adjustments to our cross-border banking model, with affected business transferring from the UK to our existing subsidiary in France or other European subsidiaries, as appropriate.

Given the complexity of negotiations, we have put in place a robust contingency plan. It is based on a scenario whereby the UK exits the EU, without the existing passporting or regulatory equivalence framework which supports cross-border business. When negotiation positions become clearer, we will update our contingency plan.

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.

1 January 2018 comparative credit tables reflecting the adoption of IFRS 9 have been included where available. 31 December 2017 comparative credit tables, which do not reflect the adoption of IFRS 9, have been disclosed separately on page 21 as they are not directly comparable.

Refer to 'Standards applied during the half-year to 30 June 2018' on page 39 and Note 11 'Effects of reclassifications upon adoption' of IFRS 9 for further details.

There were no material changes to the policies and practices for the management of credit risk in the first half of 2018.

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 27 of the Annual Report and Accounts 2017.

Measurement uncertainty and sensitivity analysis of ECL estimates

The recognition and measurement of ECL is highly complex and involves the use of significant judgement and estimation, including in the formulation and incorporation of multiple forward-looking economic conditions into the ECL estimates to meet the measurement objective of IFRS 9.

Methodology

For most portfolios, the group has adopted the use of three economic scenarios, representative of our view of forecast economic conditions, sufficient to calculate unbiased ECL. They represent a 'most likely outcome' (the Central scenario) and two, less likely, 'outer' scenarios, referred to as the 'Upside' and 'Downside' scenarios. Each outer scenario is consistent with a probability of 10%, while the Central scenario is assigned the remaining 80%. Key scenario assumptions are set using the average of forecasts from external economists, helping to ensure the IFRS 9 scenarios are unbiased and maximise the use of independent information.

For the Central scenario, the group sets key assumptions - such as GDP growth, inflation, unemployment and policy interest rates - using the average of external forecasts (commonly referred to as consensus forecasts). An external provider's global macro model, conditioned to follow the consensus forecasts, projects the other paths required as inputs to credit models. This external provider model is subject to the group's risk governance framework, with oversight by a specialist internal unit.

The Upside and Downside scenarios are designed to be cyclical, in that GDP growth, inflation and unemployment usually revert back to the Central scenario after the first three years for major economies. We determine the maximum divergence of GDP

growth from the Central scenario using the 10th and the 90th percentile of the entire distribution of forecast outcomes for major economies. Using externally available forecast distributions helps ensure independence in scenario construction. While key economic variables are set with reference to external distributional forecasts, we also align the overall narrative of the scenarios to the macroeconomic risks described in the group's top and emerging risks. This ensures that scenarios remain consistent with the more qualitative assessment of risks captured in top and emerging risks.

We project additional variable paths using the external provider's global macro model.

The Central, Upside and Downside scenarios, selected with reference to external forecast distributions using the above approach, are termed the 'Consensus Economic Scenarios'.

The group recognises that the Consensus Economic Scenario approach, using three scenarios, will be insufficient in certain economic environments. Additional analysis may be requested at management's discretion, including the production of extra scenarios. We anticipate there will be only limited instances when the standard approach will not apply. But we had occasion to invoke this additional step at 1 January 2018, due to the specific uncertainties facing the UK economy, resulting in the recognition of additional ECL, a 'management overlay' for economic uncertainty. At 30 June 2018, the UK economy continued to face similar levels of uncertainty and, accordingly, the management overlay has been retained, as explained below.

Economic forecasts (average 3Q18 – 2Q23)

	UK			France		
	Central scenario	Upside scenario	Downside scenario	Central scenario	Upside scenario	Downside scenario
GDP growth rate (%)	1.7	2.5	1.2	1.6	1.9	1.1
Inflation (%)	2.1	2.5	1.8	1.6	1.8	1.2
Unemployment (%)	4.8	4.8	5.6	7.7	8.3	9.0
House price growth (%)	2.9	4.0	0.9	2.8	4.6	0.8

The central scenario was generated for 30 June 2018. The upside and downside scenarios were generated for the adoption of IFRS 9 on 1 January 2018.

How economic scenarios are reflected in the wholesale calculation of ECL

The group has developed a globally consistent methodology for the application of forward economic guidance ('FEG') in the calculation of ECL. This involves the incorporation of FEG into the estimation of the term structure of probability of default ('PD') and loss given default ('LGD'). For PDs, we consider the correlation of FEG to default rates for a particular industry in a country. For LGD calculations, we consider the correlation of FEG to collateral values and realisation rates for a particular country and industry. PDs and LGDs are estimated for the entire term structure of each instrument.

For stage 3 impaired loans, LGD estimates take into account independent recovery valuations provided by external consultants where available, or internal forecasts corresponding to anticipated economic conditions and individual company conditions. In estimating the ECL on impaired loans that are considered individually not to be significant, the group incorporates FEG via the application of a scalar. The scalar reflects the ratio of the probability-weighted outcome to the Central scenario outcome for non-stage 3 populations.

How economic scenarios are reflected in the retail calculation of ECL

The impact of FEG on PD is modelled at a portfolio level. Historical relationships between observed default rates and macroeconomic variables are integrated into ECL estimates by using economic response models. The impact of FEG on PD is modelled over a period equal to the remaining maturity of underlying asset(s). The impact on LGD is modelled for mortgage portfolios by forecasting future loan-to-value ('LTV') profiles for the remaining maturity of the asset, by using national-level forecasts of the house price index ('HPI') and applying the corresponding LGD expectation.

UK economic uncertainty

A management overlay of £185m has been included in the 30 June 2018 ECL estimate, adding to the result from the consensus economic scenarios; £114m of this relates to Wholesale, and £71m to Retail, to address the current economic uncertainty in the UK. This overlay was raised at transition on 1 January 2018 and reflected management's judgement that the consensus economic scenarios did not fully reflect the high degree of uncertainty in estimating the distribution of ECL for UK portfolios. Management considers that the overlay remains appropriate at 30 June 2018. At transition, in arriving at the overlay, the following risks were considered and alternative scenarios modelled to understand potential impacts:

- Alternative scenario (a) - While the Central scenario reflects current consensus forecasts, there is the potential for large forecast revisions in the coming quarters, as economic and political events unfold. The consensus Downside scenario was modelled as an alternative to the consensus Central scenario to understand the impact of a significant downward shift in consensus forecasts.
- Alternative scenario (b) - Management modelled a further downside scenario of similar severity to (but of longer duration than) the consensus Downside scenario, to reflect the risk that in a downside scenario there may be a longer-term impact on growth than that currently envisaged.
- Alternative scenario (c) - Finally, management modelled an alternative, severe downside scenario reflecting a deeper cyclical shock, resulting in a steep depreciation in sterling and an increase in inflation, with an associated monetary policy response.

The table below compares the core macroeconomic variables under the consensus Central and Upside scenarios, shown as five-year averages, to the most severe assumptions relating to the consensus and alternative scenarios:

UK

	GDP growth %	Unemployment level %
Consensus upside (5 year average)	2.5	4.8
Consensus central (5 year average)	1.8	5.2
Consensus downside (central under Alternative (a)) (most severe value)	0.1	6.3
Alternative (b) (most severe value)	(1.0)	7.2
Alternative (c) (most severe value)	(2.4)	8.9

These scenarios were generated for the adoption of IFRS 9 on 1 January 2018.

The management overlay adjusts the ECL calculated on the UK consensus economic scenarios to reflect the alternative scenarios described above, within the 10:80:10 weighting scheme, as follows: half the impact of Alternative scenario (a) is included, in effect giving equal weighting within the central band to consensus Central and consensus Downside assumptions. For the downside, the overlay has the effect of replacing the consensus Downside with Alternative scenario (b) but including a small risk of Alternative scenario (c).

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 2018		1 Jan 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	**281,524**	**(2,842)**	276,852	(2,893)
– personal	**124,390**	**(678)**	120,277	(685)
– corporate and commercial	**136,549**	**(1,994)**	133,742	(2,093)
– non-bank financial institutions	**20,585**	**(170)**	22,833	(115)
Loans and advances to banks at amortised cost	**12,303**	**(5)**	13,227	(8)
Other financial assets measured at amortised cost	**219,677**	**(5)**	179,750	(2)
– cash and balances at central banks	**102,841**	**(1)**	97,601	(1)
– items in the course of collection from other banks	**1,819**	**—**	2,023	—
– reverse repurchase agreements – non-trading	**61,656**	**—**	45,808	—
– financial investments[2]	**19**	**—**	6	—
– prepayments, accrued income and other assets[3]	**53,342**	**(4)**	34,312	(1)
Total gross carrying amount on balance sheet	**513,504**	**(2,852)**	469,829	(2,903)
Loans and other credit related commitments	**143,269**	**(121)**	134,856	(108)
– personal	**41,637**	**(3)**	39,462	—
– corporate and commercial	**82,188**	**(116)**	81,323	(105)
– financial	**19,444**	**(2)**	14,071	(3)
Financial guarantee and similar contracts	**22,610**	**(64)**	21,370	(51)
– personal	**93**	**—**	116	—
– corporate and commercial	**17,352**	**(63)**	17,921	(51)
– financial	**5,165**	**(1)**	3,333	—
Total nominal amount off-balance sheet[4]	**165,879**	**(185)**	156,226	(159)
	679,383	**(3,037)**	626,055	(3,062)

	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')	**58,496**	**(100)**	55,046	(166)

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 financial investments measured at amortised cost. 'Financial investments' as presented within the consolidated balance sheet on page 35 include financial assets measured at amortised cost and debt and equity instruments measured at fair value through other comprehensive income.*
3 *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 35 include both financial and non-financial assets.*
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 2018

	Gross carrying/nominal amount[1]					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	257,560	18,496	5,388	80	281,524	(409)	(629)	(1,769)	(35)	(2,842)	0.2	3.4	32.8	43.8	1.0
– personal	119,443	3,546	1,401	–	124,390	(124)	(226)	(328)	–	(678)	0.1	6.4	23.4	–	0.5
– corporate and commercial	118,439	14,193	3,837	80	136,549	(259)	(371)	(1,329)	(35)	(1,994)	0.2	2.6	34.6	43.8	1.5
– non-bank financial institutions	19,678	757	150	–	20,585	(26)	(32)	(112)	–	(170)	0.1	4.2	74.7	–	0.8
Loans and advances to banks at amortised cost	12,244	47	12	–	12,303	(3)	–	(2)	–	(5)	–	–	16.7	–	–
Other financial assets measured at amortised cost	219,412	251	14	–	219,677	(4)	–	(1)	–	(5)	–	–	7.1	–	–
Loan and other credit-related commitments	139,400	3,587	274	8	143,269	(45)	(30)	(46)	–	(121)	–	0.8	16.8	–	0.1
– personal	41,239	357	41	–	41,637	(3)	–	–	–	(3)	–	–	–	–	–
– corporate and commercial	78,967	2,980	233	8	82,188	(40)	(30)	(46)	–	(116)	0.1	1.0	19.7	–	0.1
– financial	19,194	250	–	–	19,444	(2)	–	–	–	(2)	–	–	–	–	–
Financial guarantee and similar contracts	20,674	1,647	275	14	22,610	(16)	(20)	(28)	–	(64)	0.1	1.2	10.2	–	0.3
– personal	87	3	3	–	93	–	–	–	–	–	–	–	–	–	–
– corporate and commercial	15,542	1,528	268	14	17,352	(15)	(20)	(28)	–	(63)	0.1	1.3	10.4	–	0.4
– financial	5,045	116	4	–	5,165	(1)	–	–	–	(1)	–	–	–	–	–
At 30 Jun 2018	649,290	24,028	5,963	102	679,383	(477)	(679)	(1,846)	(35)	(3,037)	0.1	2.8	31.0	34.3	0.4

Stage 2 days past due analysis at 30 June 2018

	Gross carrying/nominal amount[1]			Allowance for ECL			ECL coverage %		
		Of which:			Of which:			Of which:	
	Stage 2	1 to 29 DPD[2]	30 and > DPD[2]	Stage 2	1 to 29 DPD[2]	30 and > DPD[2]	Stage 2	1 to 29 DPD[2]	30 and > DPD[2]
	£m	£m	£m	£m	£m	£m	%	%	%
Loans and advances to customers at amortised cost	18,496	646	535	(629)	(49)	(48)	3.4	7.6	9.0
– personal	3,546	481	210	(226)	(41)	(40)	6.4	8.5	19.0
– corporate and commercial	14,193	160	325	(371)	(8)	(8)	2.6	5.0	2.5
– non-bank financial institutions	757	5	–	(32)	–	–	4.2	–	–
Loans and advances to banks at amortised cost	47	–	10	–	–	–	–	–	–
Other financial assets measured at amortised cost	251	2	4	–	–	–	–	–	–

1 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
2 *Days past due ('DPD'). Up-to-date accounts in Stage 2 are not shown in amounts presented above.*
3 *Purchased or originated credit-impaired ('POCI').*

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 1 January 2018

	Gross carrying/nominal amount[1]					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	256,850	14,526	5,063	413	276,852	(401)	(566)	(1,852)	(74)	(2,893)	0.2	3.9	36.6	17.9	1.0
– personal	115,877	3,153	1,247	—	120,277	(129)	(195)	(361)	—	(685)	0.1	6.2	28.9	—	0.6
– corporate and commercial	118,985	10,699	3,645	413	133,742	(267)	(368)	(1,384)	(74)	(2,093)	0.2	3.4	38.0	17.9	1.6
– non-bank financial institutions	21,988	674	171	—	22,833	(5)	(3)	(107)	—	(115)	—	0.4	62.6	—	0.5
Loans and advances to banks at amortised cost	12,966	250	11	—	13,227	(5)	(2)	(1)	—	(8)	—	0.8	9.1	—	0.1
Other financial assets measured at amortised cost	179,519	225	4	2	179,750	(2)	—	—	—	(2)	—	—	—	—	—
Loan and other credit related commitments	131,233	3,364	225	34	134,856	(42)	(49)	(17)	—	(108)	—	1.5	7.6	—	0.1
– personal	39,300	112	50	—	39,462	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	77,932	3,182	175	34	81,323	(40)	(48)	(17)	—	(105)	0.1	1.5	9.7	—	0.1
– financial	14,001	70	—	—	14,071	(2)	(1)	—	—	(3)	—	1.4	—	—	—
Financial guarantee and similar contracts	19,940	1,306	99	25	21,370	(13)	(9)	(29)	—	(51)	0.1	0.7	29.3	—	0.2
– personal	115	—	1	—	116	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	16,660	1,138	98	25	17,921	(13)	(9)	(29)	—	(51)	0.1	0.8	29.6	—	0.3
– financial	3,165	168	—	—	3,333	—	—	—	—	—	—	—	—	—	—
At 1 Jan 2018	600,508	19,671	5,402	474	626,055	(463)	(626)	(1,899)	(74)	(3,062)	0.1	3.2	35.2	15.6	0.5

Stage 2 days past due analysis at 1 January 2018

	Gross carrying/nominal amount[1]			Allowance for ECL			ECL coverage %		
		Of which:			Of which:			Of which:	
	Stage 2	1 to 29 DPD[2]	30 and > DPD[2]	Stage 2	1 to 29 DPD[2]	30 and > DPD[2]	Stage 2	1 to 29 DPD[2]	30 and > DPD[2]
	£m	£m	£m	£m	£m	£m	%	%	%
Loans and advances to customers at amortised cost	14,526	477	590	(566)	(49)	(50)	3.9	10.3	8.5
– personal	3,153	411	183	(195)	(36)	(36)	6.2	8.8	19.7
– corporate and commercial	10,699	66	405	(368)	(13)	(14)	3.4	19.7	3.5
– non-bank financial institutions	674	—	2	(3)	—	—	0.4	—	—
Loans and advances to banks at amortised cost	250	1	2	(2)	(2)	—	0.8	200.0	—
Other financial assets measured at amortised cost	225	1	16	—	—	—	—	—	—

For footnotes, see page 19.

Reconciliation of allowances for loans and advances to banks and customers including loan commitments and financial guarantees

	ECL allowance
	£m
At 1 Jan 2018	**3,060**
ECL income statement charge/(release) for the period	**269**
Assets written off	**(292)**
Exchange and other movements	**(5)**
At 30 Jun 2018	**3,032**
ECL income statement charge/(release) for the period	**269**
Add: Recoveries	**(75)**
Add: Modification gains or (losses) on contractual cash flows that did not result in derecognition	**(1)**
Add/(less): Others	**9**
Total ECL income charge/(release) for the period[1]	**202**

1 *Excludes movements in ECL on other financial assets measured at amortised cost and debt instruments measured at FVOCI.*

2017 credit disclosures

The below disclosures were included in the *Interim Report 2017* and the *Annual Report and Accounts 2017* and do not reflect the adoption of IFRS 9. As these tables are not directly comparable to the current 2018 credit risk tables which are disclosed on an IFRS 9 basis, the 2017 disclosures have been shown below and not adjacent to the 2018 tables.

Distribution of total financial instruments exposed to credit risk by credit quality

	Neither past due nor impaired								
	Strong	Good	Satisfactory	Sub-standard	Past due not impaired	Impaired	Total gross amount	Impairment allowances	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cash and balances at central banks	97,601	—	—	—	—	—	97,601	—	97,601
Items in the course of collection from other banks	2,023	—	—	—	—	—	2,023	—	2,023
Trading assets	57,965	11,279	12,132	1,218	—	—	82,594	—	82,594
– treasury and other eligible bills	775	252	139	782	—	—	1,948	—	1,948
– debt securities	29,038	3,577	4,744	177	—	—	37,536	—	37,536
– loans and advances to banks	12,980	4,207	3,385	18	—	—	20,590	—	20,590
– loans and advances to customers	15,172	3,243	3,864	241	—	—	22,520	—	22,520
Financial assets designated at fair value	898	118	24	—	—	—	1,040	—	1,040
Derivatives	122,547	17,143	3,113	532	—	—	143,335	—	143,335
Loans and advances to customers held at amortised cost	157,147	56,744	57,092	4,871	973	5,817	282,644	(2,242)	280,402
– personal	109,224	5,687	2,860	453	607	1,458	120,289	(437)	119,852
– corporate and commercial	30,262	45,954	49,458	4,266	355	4,218	134,513	(1,671)	132,842
– non-bank financial institutions	17,661	5,103	4,774	152	11	141	27,842	(134)	27,708
Loans and advances to banks held at amortised cost	11,509	1,651	982	7	—	—	14,149	—	14,149
Reverse repurchase agreements – non-trading	36,667	4,563	4,274	304	—	—	45,808	—	45,808
Financial investments	51,478	3,271	1,132	920	—	537	57,338	—	57,338
Other assets	2,118	609	1,358	185	4	4	4,278	—	4,278
At 31 Dec 2017	539,953	95,378	80,107	8,037	977	6,358	730,810	(2,242)	728,568
Percentage of total gross amount	73.8%	13.1%	11.0%	1.1%	0.1%	0.9%	100.0%		

Loan impairment charges and other credit risk provisions

	Half-year to	
	30 Jun 2017	31 Dec 2017
	£m	£m
Net impairment charge on loans and advances	(41)	(583)
Release of impairment on available-for-sale debt securities	55	90
Other credit risk provisions	(4)	(12)
Total	10	(505)

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

	Banks	Customers		
	Individually assessed	Individually assessed	Collectively assessed	Total
	£m	£m	£m	£m
At 1 Jan 2017	—	1,729	828	2,557
Amounts written off	—	(310)	(173)	(483)
Recoveries of loans and advances written off in previous years	—	14	96	110
Loan impairment charge	—	10	31	41
Exchange and other movements	—	(53)	(236)	(289)
At 30 June 2017	—	1,390	546	1,936
As a percentage of gross loans and advances[1]	—	0.50%	0.20%	0.65%
At 1 July 2017	—	1,390	546	1,936
Amounts written off	—	(243)	(185)	(428)
Recoveries of loans and advances written off in previous years	—	10	136	146
Loan impairment charge	—	519	64	583
Exchange and other movements	—	1	4	5
At 31 Dec 2017	—	1,677	565	2,242
As a percentage of gross loans and advances[1]		0.59%	0.20%	0.76%

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

Capital

Capital overview

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

We manage group capital to ensure we exceed current regulatory requirements and respect the payment priority of our capital providers. Throughout the six months to 30 June 2018, 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 56 of the *Annual Report and Accounts 2017*.

Regulatory developments

Risk-weighted assets ('RWAs') and leverage ratio

Basel Committee

In December 2017, the Basel Committee ('Basel') published revisions to the Basel III framework. 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.

Basel has announced that the package will be implemented on 1 January 2022, with a five-year transitional provision for the output floor from that date, commencing at a rate of 50%.

HSBC continues to evaluate the final Basel III reform package. Given that the package contains a significant number of national discretions and that Basel is in the process of re-calibrating the market risk and CVA elements of the final framework, significant uncertainty remains as to the impact.

In all instances, the final standards will have to be transposed into the relevant local law before coming into effect.

European Union

In the EU, elements of Basel's reforms are being implemented through revisions to the Capital Requirements Regulation and Capital Requirements Directive (collectively referred to as 'CRR2'). In relation to RWAs and the leverage ratio, the changes include the fundamental review of the trading book ('FRTB'), changes to the counterparty credit risk framework and a binding leverage ratio. The CRR2 changes are expected to complete in the second half of 2018 and apply from 1 January 2021, although certain elements, such as those related to the 'Minimum Requirements for own funds and Eligible Liabilities' ('MREL'), are expected to apply earlier.

In May 2018, the European Commission requested that the European Banking Authority ('EBA') perform a quantitative and qualitative impact analysis of the Basel III reforms on the EU banking sector and the wider economy, including an assessment of the final FRTB standards currently subject to re-calibration by Basel. This impact analysis is expected to commence in August 2018. The EBA's final report on the adoption of Basel's reforms is not due to be published until the end of June 2019.

Bank of England

In May 2018, the PRA published a consultation that sets out its approach to the new EU securitisation regulations. The regime is due to apply from 1 January 2019 for new transactions and on 1 January 2020 for existing transactions.

The PRA launched a consultation in June 2018 on the leverage ratio to be applied to the RFB from 1 January 2019. The proposals include extending the application of the UK leverage ratio framework, which is currently applied to the HSBC consolidated group, to the RFB on a sub-consolidated basis and amending the additional leverage ratio buffer to reflect the Systemic Risk Buffer.

Capital resources, resolution and total loss absorbing capacity ('TLAC')

European Union

The CRR2 also implements several changes are also introduced in the own funds calculation and eligibility criteria, the most important of which relates to Point of Non Viability ('PONV') requirements for Additional Tier 1 ('AT1') and Tier 2 instruments. These are expected to apply from 1 January 2019.

Bank of England

In June 2018, the Bank of England published its approach to setting MREL within groups ('internal MREL') and also its final policy on selected outstanding MREL policy matters. These are expected to apply from 1 January 2019. The PRA also published its expectations for MREL reporting which will apply from the same date.

The PRA has also published final rules on group risk and double leverage. Firms will be required to consider both elements as part of the Pillar 2 process. In June 2018, the PRA also published modifications to its intragroup large exposures framework, which came into force with immediate effect.

Key capital numbers

		At	
		30 Jun[1]	31 Dec[2]
	Footnotes	**2018**	2017
Available capital (£m)			
Common equity tier 1 capital		**30,577**	27,409
Tier 1 capital		**36,017**	32,243
Total regulatory capital		**43,678**	39,288
Risk-weighted assets (£m)			
Credit risk	3	**164,288**	164,767
Counterparty credit risk		**24,023**	24,018
Market risk		**19,313**	20,978
Operational risk		**22,762**	23,310
Total risk-weighted assets		**230,386**	233,073
Capital ratios (%)			
Common equity tier 1		**13.3**	11.8
Total tier 1		**15.6**	13.8
Total capital		**19.0**	16.9
Leverage ratio			
Tier 1 capital (£m)		**35,151**	31,165
Total leverage ratio exposure measure (£m)		**841,381**	787,220
Leverage ratio (%)		**4.2**	4.0

1 *All figures are calculated using the EU's regulatory transitional arrangements for IFRS 9 in article 473a of the Capital Requirements Regulation.*
2 *All figures presented as reported under IAS 39 at 31 December 2017.*
3 *'Credit risk' here, and in all tables where the term is used, excludes counterparty credit risk.*

Regulatory balance sheet

Structure of the regulatory group

Subsidiaries engaged in insurance activities are excluded from the regulatory consolidation by excluding assets, liabilities and post-acquisition reserves. The group's 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, profit or loss, 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	Deconsolidation of insurance/ other entities	Consolidation of banking associates	Regulatory balance sheet
		£m	£m	£m	£m
Assets					
Cash and balances at central banks		102,840	–	89	102,929
Items in the course of collection from other banks		1,819	–	–	1,819
Trading assets		107,873	7	–	107,880
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss		16,838	(10,739)	298	6,397
Derivatives		153,068	(32)	–	153,036
Loans and advances to banks		12,298	(167)	–	12,131
Loans and advances to customers		278,682	(1,712)	4	276,974
– *of which: impairment allowances on IRB portfolios*	h	*(2,486)*	–	–	*(2,486)*
Reverse repurchase agreements – non-trading		61,656	–	–	61,656
Financial investments		58,604	(10,165)	–	48,439
Capital invested in insurance and other entities		–	619	–	619
Prepayments, accrued income and other assets		65,299	(1,177)	32	64,154
– *of which: retirement benefit assets*	i	*6,386*	–	–	*6,386*
Current tax assets		298	(2)	–	296
Interests in associates and joint ventures		399	–	(333)	66
Goodwill and intangible assets	e	6,079	(604)	–	5,475
Deferred tax assets	f	117	132	–	249
Total assets at 30 Jun 2018	o	865,870	(23,840)	90	842,120
Liabilities and equity					
Deposits by banks		25,644	(26)	80	25,698
Customer accounts		385,913	394	–	386,307
Repurchase agreements – non-trading		45,360	–	–	45,360
Items in the course of transmission to other banks		1,045	–	–	1,045
Trading liabilities		49,541	–	–	49,541
Financial liabilities designated at fair value		39,212	156	–	39,368
– *of which:*					
included in tier 1	k	*323*	–	–	*323*
included in tier 2	l, m	*1,055*	–	–	*1,055*
Derivatives		148,119	59	–	148,178
Debt securities in issue		22,066	(1,723)	–	20,343
Accruals, deferred income and other liabilities		60,468	(1,026)	9	59,451
Current tax liabilities		174	(23)	–	151
Liabilities under insurance contracts		20,929	(20,929)	–	–
Provisions		1,491	(2)	–	1,489
– *of which: credit-related contingent liabilities and contractual commitments on IRB portfolios*	h	*163*	–	–	*163*
Deferred tax liabilities		879	(27)	1	853
Subordinated liabilities		17,509	–	–	17,509
– *of which:*					
included in tier 1	k	*700*	–	–	*700*
included in tier 2	l, m, n	*1,192*	–	–	*1,192*
Total liabilities at 30 Jun 2018		818,350	(23,147)	90	795,293
Called up share capital	a	797	–	–	797
Other equity instruments	j	4,599	–	–	4,599
Other reserves	c, g	2,563	–	–	2,563
Retained earnings	b, c	38,988	(693)	–	38,295
Total shareholders' equity		46,947	(693)	–	46,254
Non-controlling interests	d, k	573	–	–	573
Total equity at 30 Jun 2018		47,520	(693)	–	46,827
Total liabilities and equity at 30 Jun 2018		865,870	(23,840)	90	842,120

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		97,601	—	109	97,710
Items in the course of collection from other banks		2,023	—	—	2,023
Trading assets		145,725	94	127	145,946
Financial assets designated at fair value		9,266	(9,219)	—	47
Derivatives		143,335	(54)	—	143,281
Loans and advances to banks		14,149	(124)	1	14,026
Loans and advances to customers		280,402	(2,564)	—	277,838
– of which: impairment allowances on IRB portfolios	*h*	*(1,871)*	—	—	*(1,871)*
Reverse repurchase agreements – non-trading		45,808	—	—	45,808
Financial investments		58,000	(11,771)	157	46,386
Capital invested in insurance and other entities		—	630	—	630
Prepayments, accrued income and other assets		16,026	(1,446)	23	14,603
– of which: retirement benefit assets	*i*	*6,066*	—	—	*6,066*
Current tax assets		140	(3)	—	137
Interests in associates and joint ventures		327	(3)	(313)	11
Goodwill and intangible assets	*e*	5,936	(591)	—	5,345
Deferred tax assets	*f*	130	129	—	259
Total assets at 31 Dec 2017	*o*	818,868	(24,922)	104	794,050
Liabilities and equity					
Deposits by banks		29,349	(48)	92	29,393
Customer accounts		381,546	535	—	382,081
Repurchase agreements – non-trading		37,775	—	—	37,775
Items in the course of transmission to other banks		1,089	—	—	1,089
Trading liabilities		106,496	635	—	107,131
Financial liabilities designated at fair value		18,249	(537)	—	17,712
– of which:					
included in tier 1	*k*	*339*	—	—	*339*
included in tier 2	*l, m*	*1,751*	—	—	*1,751*
Derivatives		140,070	34	—	140,104
Debt securities in issue		13,286	(2,480)	—	10,806
Accruals, deferred income and other liabilities		6,615	(1,288)	12	5,339
Current tax liabilities		88	(38)	—	50
Liabilities under insurance contracts		21,033	(21,033)	—	—
Provisions		1,796	(6)	—	1,790
– of which: credit-related contingent liabilities and contractual commitments on IRB portfolios	*h*	*53*	—	—	*53*
Deferred tax liabilities		933	—	—	933
Subordinated liabilities		16,494	—	—	16,494
– of which:					
included in tier 1	*k*	*700*	—	—	*700*
included in tier 2	*l, m, n*	*5,690*	—	—	*5,690*
Total liabilities at 31 Dec 2017		774,819	(24,226)	104	750,697
Called up share capital	*a*	797	—	—	797
Other equity instruments	*j*	3,781	—	—	3,781
Other reserves	*c, g*	2,744	—	—	2,744
Retained earnings	*b, c*	36,140	(696)	—	35,444
Total shareholders' equity		43,462	(696)	—	42,766
Non-controlling interests	*d, k*	587	—	—	587
Total equity at 31 Dec 2017		44,049	(696)	—	43,353
Total liabilities and equity at 31 Dec 2017		818,868	(24,922)	104	794,050

† *The references (a) – (n) identify balance sheet components which are used in the calculation of regulatory capital on pages 25 and 26.*

Own funds

Own funds disclosure

Ref*		Ref †	At 30 Jun 2018 £m	CRD IV prescribed residual amount £m	Final CRD IV text £m
	Common equity tier 1 capital: instruments and reserves				
1	Capital instruments and the related share premium accounts		797		797
	– ordinary shares	*a*	797		797
2	Retained earnings	*b*	36,947		36,947
3	Accumulated other comprehensive income (and other reserves)	*c*	2,465		2,465
5	Minority interests (amount allowed in consolidated common equity tier 1)	*d*	340		340
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend	*b*	866		866
6	**Common equity tier 1 capital before regulatory adjustments**		41,415		41,415
	Common equity tier 1 capital: regulatory adjustments				
7	Additional value adjustments		(651)		(651)
8	Intangible assets (net of related deferred tax liability)	*e*	(5,468)		(5,468)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	*f*	(38)		(38)
11	Fair value reserves related to gains or losses on cash flow hedges	*g*	57		57
12	Negative amounts resulting from the calculation of expected loss amounts	*h*	(222)		(222)
14	Gains or losses on liabilities at fair value resulting from changes in own credit standing		273		273
15	Defined benefit pension fund assets	*i*	(4,789)		(4,789)
28	**Total regulatory adjustments to common equity tier 1**		(10,838)		(10,838)
29	**Common equity tier 1 capital**		30,577		30,577
	Additional tier 1 ('AT1') capital: instruments				
30	Capital instruments and the related share premium accounts		4,598		4,598
31	– classified as equity under IFRSs	*j*	4,598		4,598
33	Amount of qualifying items and the related share premium accounts subject to phase out from AT1	*k*	866	(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		21	–	21
36	**Additional tier 1 capital before regulatory adjustments**		5,485	(866)	4,619
	Additional tier 1 capital: regulatory adjustments				
37	Direct and indirect holdings of own AT1 instruments		(45)		(45)
43	**Total regulatory adjustments to additional tier 1 capital**		(45)	–	(45)
44	**Additional tier 1 capital**		5,440	(866)	4,574
45	**Tier 1 capital (T1 = CET1 + AT1)**		36,017	(866)	35,151
	Tier 2 capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	*l*	6,929		6,929
47	Amount of qualifying items and the related share premium accounts subject to phase out from T2	*m*	881	(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		160	(126)	34
49	*– of which: instruments issued by subsidiaries subject to phase out*	*n*	*126*	*(126)*	–
51	**Tier 2 capital before regulatory adjustments**		7,970	(1,007)	6,963
	Tier 2 capital: regulatory adjustments				
52	Direct and indirect holdings of own T2 instruments		(30)		(30)
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)		(279)	–	(279)
57	**Total regulatory adjustments to tier 2 capital**		(309)	–	(309)
58	**Tier 2 capital**		7,661	(1,007)	6,654
59	**Total capital (TC = T1 + T2)**		43,678	(1,873)	41,805
60	**Total risk-weighted assets**		230,386		230,386
	Capital ratios and buffers				
61	Common equity tier 1		13.3%		
62	Tier 1		15.6%		
63	Total capital		19.0%		
64	Institution specific buffer requirement		2.19%		
65	– capital conservation buffer requirement		1.88%		
66	– countercyclical buffer requirement		0.31%		
68	Common equity tier 1 available to meet buffers[1]		8.8%		

Own funds disclosure (continued)

Ref*		Ref †	At 30 Jun 2018 £m	CRD IV prescribed residual amount £m	Final CRD IV text £m
	Amounts below the threshold for deduction (before risk weighting)				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		**1,854**		
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)		**672**		
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)		**936**		
	Applicable caps on the inclusion of provisions in tier 2				
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		**390**		
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		**868**		
	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		**926**		
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		**573**		
84	Current cap on T2 instruments subject to phase-out arrangements		**1,075**		

* *The references identify the lines prescribed in the EBA template that are applicable and where there is a value.*
† *The references (a) – (n) identify balance sheet components on pages 23 and 24 that are used in the calculation of regulatory capital.*
1 *Common equity tier 1 available to meet buffers after Pillar 1 capital requirements.*

A list of the features of our capital instruments in accordance with Annex III of the Commission Implementing Regulation 1423/2013 is also being published on HSBC's website with reference to our balance sheet on 30 June 2018.

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 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 fully phased-in CRD IV leverage ratio was 4.2% at 30 June 2018, up from 4.0% at 31 December 2017. Growth in tier 1 capital was partly offset by a rise in the leverage exposure measure.

Summary reconciliation of accounting assets and leverage ratio exposures

			At	
			30 Jun 2018	31 Dec 2017
Ref*		Ref †	**£m**	£m
1	Total assets as per published financial statements	o	**865,870**	818,868
	Adjustments for:			
2	– entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	o	**(23,750)**	(24,818)
4	– derivative financial instruments		**(64,200)**	(68,615)
5	– securities financing transactions ('SFT')		**5,047**	4,860
6	– off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)		**63,044**	63,229
EU-6a	– intragroup exposures excluded from the leverage ratio exposure measure		**(4,199)**	(3,230)
7	– other adjustments		**(431)**	(3,074)
8	**Total leverage ratio exposure**		**841,381**	787,220

Leverage ratio common disclosure

Ref*		Ref †	At 30 Jun 2018 £m	31 Dec 2017 £m
	On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)		**620,725**	601,675
2	(Asset amounts deducted in determining Tier 1 capital)		**(10,517)**	(10,790)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**		**610,208**	590,885
	Derivative exposures			
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)		**18,195**	14,616
5	Add-on amounts for potential future exposure ('PFE') associated with all derivatives transactions (mark-to-market method)		**80,314**	71,031
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to IFRSs		**4,231**	3,428
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)		**(15,848)**	(15,245)
8	(Exempted central counterparty ('CCP') leg of client-cleared trade exposures)		**(3,742)**	(3,031)
9	Adjusted effective notional amount of written credit derivatives		**142,775**	141,679
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		**(137,090)**	(137,811)
11	**Total derivative exposures**		**88,835**	74,667
	Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions		**139,283**	113,493
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)		**(60,837)**	(56,684)
14	Counterparty credit risk exposure for SFT assets		**5,047**	4,860
16	**Total securities financing transaction exposures**		**83,493**	61,669
	Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount		**187,804**	175,514
18	(Adjustments for conversion to credit equivalent amounts)		**(124,760)**	(112,285)
19	**Total off-balance sheet exposures**		**63,044**	63,229
	Exempted exposures			
EU-19a	(Exemption of intragroup exposures (solo basis))		**(4,199)**	(3,230)
	Capital and total exposures			
20	**Tier 1 capital**		**35,151**	31,165
21	**Total leverage ratio exposure**		**841,381**	787,220
			%	%
22	**Leverage ratio**		**4.2**	4.0
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.*
† *The reference (o) identifies balance sheet components on pages 23 and 24.*

Risk-weighted assets

Credit risk – RWAs by exposure class[1]

	Footnotes	Exposure value £m	RWAs £m	Capital required £m
IRB advanced approach		343,721	112,862	9,028
– central governments and central banks		23,061	2,567	205
– institutions		9,596	3,001	240
– corporates	2	152,131	85,968	6,877
– total retail		158,933	21,326	1,706
– *of which:*				
secured by mortgages on immovable property – small- and medium-sized enterprises ('SME')		*1,972*	*1,058*	*85*
secured by mortgages on immovable property – non-SME		*104,800*	*5,486*	*439*
qualifying revolving retail		*25,675*	*5,193*	*415*
other SME		*5,061*	*3,858*	*309*
other non-SME		*21,425*	*5,731*	*458*
IRB securitisation positions		18,585	4,683	375
IRB non-credit obligation assets		6,296	3,579	286
IRB foundation approach		23,705	14,382	1,150
– central governments and central banks		12	4	–
– institutions		119	63	5
– corporates		23,574	14,315	1,145
Standardised approach		171,910	28,782	2,303
– central governments and central banks	3	127,883	2,370	190
– public sector entities		4,504	18	1
– regional governments or local authorities	3	2,219	–	–
– international organisations	3	1,490	–	–
– institutions		4,762	1,054	84
– corporates		19,979	15,416	1,234
– retail		856	632	51
– secured by mortgages on immovable property		3,194	1,167	93
– exposures in default		563	713	57
– items associated with particularly high risk		2,815	4,222	338
– securitisation positions		785	794	63
– claims in the form of collective investments undertakings		30	30	2
– equity	4	861	1,869	150
– other items		1,969	497	40
30 Jun 2018		564,217	164,288	13,142

Credit risk – RWAs by exposure class[1] (continued)

	Footnotes	Exposure value £m	RWAs £m	Capital required £m
IRB advanced approach		334,031	110,034	8,803
– central governments and central banks		19,345	2,297	184
– institutions		11,472	3,455	276
– corporates	2	149,279	84,049	6,724
– total retail		153,935	20,233	1,619
– *of which:*				
secured by mortgages on immovable property – SME		*490*	*301*	*24*
secured by mortgages on immovable property – non-SME		*102,203*	*5,287*	*423*
qualifying revolving retail		*23,277*	*5,026*	*402*
other SME		*6,755*	*4,309*	*345*
other non-SME		*21,210*	*5,310*	*425*
IRB securitisation positions		19,149	9,620	770
IRB non-credit obligation assets		6,009	3,845	308
IRB foundation approach		22,755	13,950	1,116
– central governments and central banks		12	4	—
– institutions		7	2	—
– corporates		22,736	13,944	1,116
Standardised approach		163,471	27,318	2,185
– central governments and central banks	3	126,800	1,990	159
– international organisations		1,614	—	—
– institutions		6,838	1,764	141
– corporates		19,447	16,868	1,349
– retail		1,044	745	60
– secured by mortgages on immovable property		3,063	1,125	90
– exposures in default		731	965	77
– items associated with particularly high risk		863	1,294	104
– securitisation positions		194	206	16
– claims in the form of collective investments undertakings		30	30	2
– equity	4	834	1,862	149
– other items		2,013	469	38
31 Dec 2017		545,415	164,767	13,182

1 *All figures are calculated using the EU's regulatory transitional arrangements for IFRS 9 in article 473a of the Capital Requirements Regulation.*
2 *'Corporates' includes specialised lending exposures subject to the supervisory slotting approach of £14,261m (2017: £14,374m) and RWAs of £9,106m (2017: £9,401m).*
3 *Standardised exposures to 'regional governments and local authorities' and 'public sector entities' are reported separately in 2018. In previous years, these exposures were grouped with 'central governments or central banks'. Prior reporting has not been restated.*
4 *'Equity' includes investment in group insurance companies that are risk-weighted at 250%.*

Counterparty credit risk – RWAs by exposure class and product

		At			
		30 Jun 2018		31 Dec 2017	
		RWAs	**Capital required**	RWAs	Capital required
	Footnotes	**£m**	**£m**	£m	£m
By exposure class					
IRB advanced approach		**15,938**	**1,275**	15,680	1,254
– central governments and central banks		**536**	**43**	539	43
– institutions		**5,831**	**466**	5,218	417
– corporates		**9,571**	**766**	9,923	794
IRB foundation approach		**1,332**	**107**	1,245	100
– corporates		**1,332**	**107**	1,245	100
Standardised approach		**3,025**	**242**	3,237	259
– central governments and central banks		**16**	**1**	—	—
– institutions		**2,683**	**215**	2,820	226
– corporates		**326**	**26**	417	33
CVA advanced		**2,198**	**176**	2,294	184
CVA standardised		**1,101**	**88**	1,083	86
Central counterparties ('CCP') standardised		**429**	**34**	479	38
By product					
– derivatives (OTC and exchange traded derivatives)		**14,712**	**1,177**	14,842	1,187
– SFTs		**4,992**	**399**	4,333	347
– other	*1*	**801**	**64**	1,215	97
– CVA advanced		**2,198**	**176**	2,294	184
– CVA standardised		**1,101**	**88**	1,083	86
– CCP default funds	*2*	**219**	**18**	251	20
Total		**24,023**	**1,922**	24,018	1,921

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

Market risk – RWA and capital required

		At			
		30 Jun 2018		31 Dec 2017	
		RWAs	**Capital required**	RWAs	Capital required
	Footnote	**£m**	**£m**	£m	£m
Internal model based		**16,765**	**1,342**	18,962	1,517
– VaR		**4,100**	**328**	4,880	390
– stressed VaR		**7,510**	**601**	8,559	685
– incremental risk charge		**3,910**	**313**	4,878	390
– other		**1,245**	**100**	645	52
Standardised approach	*1*	**2,548**	**204**	2,016	161
– interest rate position risk		**746**	**60**	673	54
– equity position risk		**561**	**45**	—	—
– commodity position risk		**17**	**1**	51	4
– securitisations		**1,224**	**98**	1,292	103
Total		**19,313**	**1,546**	20,978	1,678

1 *RWAs for products and sites that are not in the scope of the approved model permissions from the regulator are calculated using the Standardised approach specified in CRD IV.*

Operational risk RWA

		At			
		30 Jun 2018		31 Dec 2017	
		RWAs	**Capital required**	RWAs	Capital required
	Footnote	**£m**	**£m**	£m	£m
Own funds requirement for operational risk	*1*	**22,762**	**1,821**	23,310	1,865

1 *The reduction in 'Own funds requirement for operational risk' is due to the transfer of the Bank's shareholding in HSBC Bank Turkey A.S. to HSBC Middle East Holdings B.V. in 2017.*

Board of Directors

In anticipation of ring-fencing, and to ensure the right mix of skills and experience for the Board to deliver its remit after 1 July 2018, Stephen O'Connor, Yukiko Omura and Andrew Wright were appointed to the Board as independent non-executive directors on 17 May 2018. Jacques Fleurant will be appointed as Chief Financial Officer and as an executive director on 7 August 2018.

Jonathan Symonds will step down as a director and Chairman on 6 August 2018 and be succeeded by Stephen O'Connor with effect from 7 August 2018. Jim Coyle, Dame Denise Holt and David Lister - who are directors of HSBC UK Bank plc - will resign from the Board on 6 August 2018.

The Board would like to thank Jonathan Symonds and those directors resigning from the Board for their invaluable contribution and commitment, particularly in the lead-up to ring-fencing.

Antonio Simoes, Chief Executive Officer of HSBC Bank plc is currently taking a six-month leave of absence. James Emmett, previously Chief Operating Officer, Europe has been appointed acting Chief Executive Officer of HSBC Bank plc until Antonio Simoes resumes his duties in September 2018.

Board of Directors from 7 August 2018:

S P O'Connor† (Chairman), J F Trueman† (Deputy Chairman), Dame Mary Marsh†, E W Strutz†, T B Moulonguet†, A P S Simoes (Chief Executive), A M Wright†, Y Omura† and J Fleurant (Chief Financial Officer).

† Independent non-executive Director

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 2018 and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the financial year.

J R Symonds† (Chairman); J F Trueman† (Deputy Chairman); S P O'Connor† (Chairman Designate); A P S Simoes (Chief Executive); J Coyle†; Dame Denise Holt†; D W Lister†; Dame Mary Marsh†; Y Omura†; T B Moulonguet†; E W Strutz†; and A M Wright†.

On behalf of the Board

J R Symonds

Chairman

6 August 2018

Registered number 14259

† Independent non-executive Director

Independent Review Report to HSBC Bank plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed HSBC Bank plc's condensed financial statements (the 'interim financial statements') in the *Interim Report 2018* of HSBC Bank plc for the 6 month period ended 30 June 2018. 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 2018;
- 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 2018* 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 2018*, 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 2018* 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 2018* 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 2018* and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants

London

6 August 2018

1 *Certain other information comprises the following tables: 'Significant revenue items by business segment - (gains)/losses', 'Significant cost items by business segment - (recoveries)/ charges', 'Net impact on profit before tax by business segment', 'Adjusted profit for the period' and ''Reconciliation of 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	30 Jun	31 Dec
		2018	2017	2017
	Notes	**£m**	£m	£m
Net interest income		**2,997**	3,190	2,991
– interest income		**4,693**	4,563	4,480
– interest expense		**(1,696)**	(1,373)	(1,489)
Net fee income	3	**1,368**	1,612	1,377
– fee income		**2,091**	2,280	2,065
– fee expense		**(723)**	(668)	(688)
Net income from financial instruments held for trading or managed on a fair value basis[2, 3]		**1,643**	1,477	1,313
Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss[2]		**(100)**	322	280
Changes in fair value of long-term debt and related derivatives[2]		**(1)**	91	22
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss[2]		**255**	N/A	N/A
Gains less losses from financial investments		**(3)**	178	84
Dividend income		**5**	7	3
Net insurance premium income		**1,055**	926	883
Other operating income		**195**	393	393
Total operating income		**7,414**	8,196	7,346
Net insurance claims, benefits paid and movement in liabilities to policyholders		**(975)**	(1,283)	(1,207)
Net operating income before change in expected credit losses and other credit impairment charges		**6,439**	6,913	6,139
Change in expected credit losses and other credit impairment charges		**(138)**	N/A	N/A
Loan impairment charges and other credit risk provisions		**N/A**	10	(505)
Net operating income		**6,301**	6,923	5,634
Total operating expenses		**(4,652)**	(5,069)	(5,139)
– employee compensation and benefits		**(1,479)**	(1,554)	(1,575)
– general and administrative expenses		**(2,948)**	(3,254)	(3,269)
– depreciation and impairment of property, plant and equipment		**(110)**	(164)	(156)
– amortisation and impairment of intangible assets and goodwill		**(115)**	(97)	(139)
Operating profit		**1,649**	1,854	495
Share of profit in associates and joint ventures		**10**	4	17
Profit before tax[1,3]		**1,659**	1,858	512
Tax expense[3]		**(442)**	(467)	(61)
Profit for the period[3]		**1,217**	1,391	451
– Attributable to shareholders of the parent company		**1,203**	1,370	439
– Attributable to non-controlling interests		**14**	21	12

1 *The group adopted IFRS 9 on 1 January 2018. Comparative information has not been restated, apart from the re-presentation of certain income statement line items as explained in footnote 2. For further details, refer to 'Changes to accounting from 1 January 2018' on page 7, 'Standards applied during the half-year to 30 June 2018' on page 39, and Note 11 'Effects of reclassifications upon adoption of IFRS 9' on page 57.*

2 *The presentation of net income from financial instruments measured at fair value through profit or loss has been revised based on the classification and measurement requirements of IFRS 9. In addition, the effect of foreign exchange exposure on certain long-term debt instruments has been included in 'Net income from financial instruments held for trading or managed on a fair value basis' from 1 January 2018. Comparative information has been re-presented. The restatement decreased 'Changes in fair value of long-term debt and related derivatives' by £218m for the half-year to 30 June 2017 (half-year to 31 December 2017: £184m) with an equivalent increase in 'Net income from financial instruments held for trading or managed on a fair value basis'. For further details, refer to 'Changes to accounting from 1 January 2018' on page 7.*

3 *We have considered market practices for the presentation of certain financial liabilities which contain both deposit and derivative components and were previously included in 'Trading liabilities'. Such liabilities amounted to £17,958m at 31 December 2017. These liabilities are classified as 'Financial liabilities designated at fair value' from 1 January 2018. Comparative information has not been restated. For the half-year to 30 June 2017, a loss of £230m relating to changes in the credit risk of these liabilities was included in 'Net income from financial instruments held for trading or managed on a fair value basis' (half year to 31 December 2017: loss of £105m) with a credit of £66m recognised in 'Tax expense' (half-year to 31 December 2017: credit of £30m). If the change in accounting policy had been applied retrospectively, these amounts would have been recognised in other comprehensive income, thereby resulting in a net increase in profit for the half-year to 30 June 2017 of £164m (half-year to 31 December 2017: £75m). Refer to 'Changes to accounting from 1 January 2018' on page 7 and Note 11 'Effects of reclassifications upon adoption of IFRS 9' for further details.*

The accompanying notes on pages 39 to 60, the adjusted performance tables in the 'Financial summary' section on pages 9 to 11, and the following disclosures in the Risk section on pages 18 to 21 form an integral part of these financial statements: 'Reconciliation of allowances for loans and advances to banks and customers including loan commitments and financial guarantees', 'Distribution of total financial instruments exposed to credit risk by credit quality' (at 31 December 2017), 'Loan impairment charges and other credit risk provisions' (2017), and 'Movement in impairment allowances on loans and advances to customers and banks' (2017).

Consolidated statement of comprehensive income

	Half-year to		
	30 Jun 2018	30 Jun 2017	31 Dec 2017
	£m	£m	£m
Profit for the period[1, 2]	**1,217**	1,391	451
Other comprehensive income/(expense)			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Available-for-sale investments	**N/A**	61	23
– fair value gains	**N/A**	278	136
– fair value gains reclassified to the income statement	**N/A**	(183)	(171)
– amounts reclassified to the income statement in respect of impairment losses	**N/A**	–	26
– income taxes	**N/A**	(34)	32
Debt instruments at fair value though other comprehensive income	**153**	–	–
– fair value gains	**167**	N/A	N/A
– fair value losses transferred to the income statement on disposal	**51**	N/A	N/A
– expected credit losses recognised in income statement	**(68)**	N/A	N/A
– income taxes	**3**	N/A	N/A
Cash flow hedges	**(20)**	(75)	(50)
– fair value losses	**(62)**	(106)	(27)
– fair value losses/(gains) reclassified to the income statement	**32**	9	(35)
– income taxes	**10**	22	12
Exchange differences and other	**(73)**	299	81
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit asset/liability	**176**	1,180	617
– before income taxes[3]	**239**	1,575	818
– income taxes	**(63)**	(395)	(201)
Changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[2]	**177**	(146)	(18)
– before income taxes	**252**	(158)	(27)
– income taxes	**(75)**	12	9
Equity instruments designated at fair value through other comprehensive income	**(1)**	N/A	N/A
– fair value gains	**1**	N/A	N/A
– income taxes	**(2)**	N/A	N/A
Other comprehensive income for the period, net of tax[2]	**412**	1,319	653
Total comprehensive income for the period[1]	**1,629**	2,710	1,104
Attributable to:			
– shareholders of the parent company	**1,622**	2,678	1,094
– non-controlling interests	**7**	32	10

1 *The group adopted IFRS 9 on 1 January 2018. Comparative information has not been restated. For further details, refer to 'Changes to accounting from 1 January 2018' on page 7, 'Standards applied during the half-year to 30 June 2018' on page 39, and Note 11 'Effects of reclassifications upon adoption of IFRS 9' on page 57.*

2 *We have considered market practices for the presentation of certain financial liabilities which contain both deposit and derivative components and were previously included in 'Trading liabilities'. Such liabilities amounted to £17,958m at 31 December 2017. These liabilities are classified as 'Financial liabilities designated at fair value' from 1 January 2018. Comparative information has not been restated. For the half-year to 30 June 2017, a loss of £230m relating to changes in the credit risk of these liabilities was included in 'Net income from financial instruments held for trading or managed on a fair value basis' (half year to 31 December 2017: loss of £105m) with a credit of £66m recognised in 'Tax expense' (half-year to 31 December 2017: credit of £30m). If the change in accounting policy had been applied retrospectively, these amounts would have been recognised in other comprehensive income, thereby resulting in a net increase in profit for the half-year to 30 June 2017 of £164m (half-year to 31 December 2017: £75m). Refer to 'Changes to accounting from 1 January 2018' on page 7 and Note 11 'Effects of reclassifications upon adoption of IFRS 9' for further details.*

3 *An actuarial gain of £239m has arisen as a result of the remeasurement of the defined benefit pension. An increase in the discount rate of 0.2%, a 0.1% reduction in the inflation assumption and an update of demographic assumptions led to a gain of £1,078m. The change in discount rate was broadly offset by an adverse movement of £829m in plan assets, due to the hedged nature of the scheme. Other net losses totalled £10m. An error in an input to the actuarial model has been identified which resulted in the pension liability being understated by up to an estimated £150m at 31 December 2017. This has been corrected in the 30 June 2018 position.*

Consolidated balance sheet

		At	
		30 Jun	31 Dec
		2018	2017
	Notes	**£m**	£m
Assets			
Cash and balances at central banks		**102,840**	97,601
Items in the course of collection from other banks		**1,819**	2,023
Trading assets[2]		**107,873**	145,725
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss		**16,838**	N/A
Financial assets designated at fair value		**N/A**	9,266
Derivatives		**153,068**	143,335
Loans and advances to banks[2]		**12,298**	14,149
Loans and advances to customers[2]		**278,682**	280,402
Reverse repurchase agreements – non-trading		**61,656**	45,808
Financial investments		**58,604**	58,000
Prepayments, accrued income and other assets[2]		**65,299**	16,026
Current tax assets		**298**	140
Interests in associates and joint ventures		**399**	327
Goodwill and intangible assets	6	**6,079**	5,936
Deferred tax assets		**117**	130
Total assets[1]		**865,870**	818,868
Liabilities and equity			
Liabilities			
Deposits by banks[3]		**25,644**	29,349
Customer accounts[3]		**385,913**	381,546
Repurchase agreements – non-trading		**45,360**	37,775
Items in the course of transmission to other banks		**1,045**	1,089
Trading liabilities[3, 4]		**49,541**	106,496
Financial liabilities designated at fair value[4]		**39,212**	18,249
Derivatives		**148,119**	140,070
Debt securities in issue		**22,066**	13,286
Accruals, deferred income and other liabilities[3]		**60,468**	6,615
Current tax liabilities		**174**	88
Liabilities under insurance contracts		**20,929**	21,033
Provisions	7	**1,491**	1,796
Deferred tax liabilities		**879**	933
Subordinated liabilities		**17,509**	16,494
Total liabilities[1]		**818,350**	774,819
Equity			
Total shareholders' equity		**46,947**	43,462
– called up share capital		**797**	797
– other equity instruments		**4,599**	3,781
– other reserves		**2,563**	2,744
– retained earnings		**38,988**	36,140
Non-controlling interests		**573**	587
Total equity[1]		**47,520**	44,049
Total liabilities and equity[1]		**865,870**	818,868

1 *The group adopted IFRS 9 together with voluntary changes to accounting policy and presentation on 1 January 2018. Comparative information has not been restated. For further details, refer to 'Changes to accounting from 1 January 2018' on page 7, 'Standards applied during the half-year to 30 June 2018' on page 39, and Note 11 'Effects of reclassifications upon adoption of IFRS 9' on page 57.*

2 *Cash collateral, margin and settlement accounts included in 'Trading assets' (£26,447m), 'Loans and advances to banks' (£573m) and 'Loans and advances to customers' (£394m) at 31 December 2017 were reclassified to 'Prepayments, accrued income and other assets' at 1 January 2018 in accordance with IFRS 9. Comparative information has not been restated. Refer to 'Changes to accounting from 1 January 2018' on page 7 and Note 11 'Effects of reclassifications upon adoption of IFRS 9' for further details. In addition, intragroup trade receivables have been reclassified from 'Loans and advances to banks' and 'Loans and advances to customers' to 'Prepayments, accrued income and other assets'.*

3 *Cash collateral, margin and settlement accounts included in 'Trading liabilities' (£30,755m), 'Deposits by banks' (£570m) and 'Customer accounts' (£548m) at 31 December 2017 were reclassified to 'Accruals, deferred income and other liabilities' at 1 January 2018 as this presentation is considered to provide more relevant information, given the change in presentation for the financial assets. Comparative information has not been restated. Refer to 'Changes to accounting from 1 January 2018' on page 7 and Note 11 'Effects of reclassifications upon adoption of IFRS 9' for further details. In addition, intragroup trade payables have been reclassified from 'Deposits from banks' and 'Customer accounts' to 'Accruals, deferred income and other liabilities'.*

4 *We have considered market practices for the presentation of certain financial liabilities which contain both deposit and derivative components and were previously included in 'Trading liabilities'. Such liabilities amounted to £17,958m at 31 December 2017. These liabilities are classified as 'Financial liabilities designated at fair value' from 1 January 2018. Comparative information has not been restated. Refer to 'Changes to accounting from 1 January 2018' on page 7 and Note 11 'Effects of reclassifications upon adoption of IFRS 9' for further details.*

Consolidated statement of cash flows

	Half-year to		
	30 Jun 2018	30 Jun 2017	31 Dec 2017
	£m	£m	£m
Profit before tax	**1,659**	1,858	512
Adjustments for non-cash items:			
Depreciation, amortisation and impairment of intangible assets	**225**	261	295
Change in expected credit losses gross of recoveries and other credit impairment charges	**205**	N/A	N/A
Loan impairment losses gross of recoveries and other credit risk provisions	**N/A**	151	726
Provisions including pensions	**(65)**	(31)	201
Share-based payment expense	**61**	65	49
Other non-cash items included in profit before tax	**69**	(39)	(91)
Change in operating assets	**(42,362)**	(18,311)	(250)
Change in operating liabilities	**42,942**	29,526	1,634
Elimination of exchange differences	**(351)**	(346)	413
Net gain from investing activities	**(5)**	(179)	(135)
Share of profit in associates and joint ventures	**(10)**	(4)	(17)
Loss on disposal of associates, joint ventures, subsidiaries and businesses	**—**	(61)	—
Contributions paid to defined benefit plans	**(17)**	(81)	(152)
Tax paid	**(514)**	(765)	(143)
Net cash from operating activities	**1,837**	12,044	3,042
Purchase of financial investments	**(19,672)**	(6,693)	(9,880)
Proceeds from the sale and maturity of financial investments	**16,745**	23,848	16,142
Net cash flows from the purchase and sale of property, plant and equipment	**(80)**	(105)	(199)
Net purchase of intangible assets	**(244)**	(174)	(183)
Net cash outflow from acquisition of businesses and subsidiaries	**(157)**	(25)	(18)
Net cash inflow on disposal of subsidiaries, businesses, associates and joint ventures	**1**	(18)	(1)
Net cash from investing activities	**(3,407)**	16,833	5,861
Subordinated loan capital issued	**3,304**	1,584	8,508
Subordinated loan capital repaid	**(2,925)**	(214)	(1,037)
Dividends paid to shareholders of the parent company[2]	**(660)**	(479)	(394)
Issue of ordinary share capital and other equity instruments	**818**	—	—
Funds received from the shareholder of the parent company	**2,035**	—	1,081
Dividend paid to non-controlling interests	**(22)**	(16)	(6)
Net cash from financing activities	**2,550**	875	8,152
Net increase/(decrease) in cash and cash equivalents	**980**	29,752	17,055
Cash and cash equivalents at the beginning of the period	**129,737**	82,037	112,937
Exchange differences in respect of cash and cash equivalents	**(81)**	1,148	(255)
Cash and cash equivalents at the end of the period	**130,636**	112,937	129,737

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

2 *Dividends paid to the shareholder of the parent company in 2017 do not include the distribution in-specie of HSBC Bank A.S.*

Consolidated statement of changes in equity

	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**
At 1 Jan 2017	797	20,733	3,781	12,737	1,007	89	786	39,930	695	40,625
Profit for the period	—	—	—	1,370	—	—	—	1,370	21	1,391
Other comprehensive income (net of tax)	—	—	—	1,032	65	(75)	286	1,308	11	1,319
– available-for-sale investments	—	—	—	—	65	—	—	65	(4)	61
– cash flow hedges	—	—	—	—	—	(75)	—	(75)	—	(75)
– remeasurement of defined benefit asset/liability	—	—	—	1,178	—	—	—	1,178	2	1,180
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk	—	—	—	(146)	—	—	—	(146)	—	(146)
– exchange differences and other	—	—	—	—	—	—	286	286	13	299
Total comprehensive income for the period	—	—	—	2,402	65	(75)	286	2,678	32	2,710
Dividends to shareholders	—	—	—	(479)	—	—	—	(479)	(16)	(495)
Distribution in-specie of HSBC Bank A.S.[5]	—	—	—	(1,174)	—	(2)	533	(643)	—	(643)
Net impact of equity-settled share-based payments	—	—	—	(12)	—	—	—	(12)	—	(12)
Transfer of share premium to retained earnings[6]	—	(20,733)	—	20,733	—	—	—	—	—	—
Change in business combinations and other movements	—	—	—	2	—	—	—	2	(1)	1
Tax on items taken directly to equity	—	—	—	17	—	—	—	17	—	17
30 Jun 2017	797	—	3,781	34,226	1,072	12	1,605	41,493	710	42,203

For footnotes, see page 38.

Consolidated statement of changes in equity (continued)

	Called up share capital	Share premium	Other equity instruments	Retained earnings	Other reserves: Available-for-sale fair value 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 1 Jul 2017	797	—	3,781	34,226	1,072	12	1,605	41,493	710	42,203
Profit for the period	—	—	—	439	—	—	—	439	12	451
Other comprehensive income (net of tax)	—	—	—	600	27	(50)	78	655	(2)	653
– available-for-sale investments	—	—	—	—	27	—	—	27	(4)	23
– cash flow hedges	—	—	—	—	—	(50)	—	(50)	—	(50)
– remeasurement of defined benefit asset/liability	—	—	—	618	—	—	—	618	(1)	617
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk	—	—	—	(18)	—	—	—	(18)	—	(18)
– exchange differences and other	—	—	—	—	—	—	78	78	3	81
Total comprehensive income for the period	—	—	—	1,039	27	(50)	78	1,094	10	1,104
Dividends to shareholders	—	—	—	(393)	—	—	—	(393)	(6)	(399)
Net impact of equity-settled share-based payments	—	—	—	(9)	—	—	—	(9)	—	(9)
Change in business combinations and other movements[7]	—	—	—	1,239	—	—	—	1,239	(127)	1,112
Tax on items taken directly to equity	—	—	—	38	—	—	—	38	—	38
31 Dec 2017	797	—	3,781	36,140	1,099	(38)	1,683	43,462	587	44,049

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. For further details, refer to 'Changes to accounting policy from 1 January 2018' on page 7 and 'Changes in accounting policy' on page 39.*

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.*

5 *The distribution in-specie of HSBC Bank A.S. comprises the distribution of retained profits of £643m and cash flow reserve of £(2)m, and the transfer of £533m from the foreign exchange reserve to retained earnings. The net assets distributed include an allocation of goodwill of £77m.*

6 *On 15 March 2017 the High Court confirmed the conversion of the share premium in full to distributable reserves by means of a capital reduction.*

7 *HSBC Holdings plc provided £1,081m to HSBC Bank plc in exchange for HSBC Bank plc repaying its existing $1.45bn Tier 2 subordinated loan and conversion into CET1. HSBC Bank plc received £150m from HSBC Holdings plc in exchange for HSBC Bank plc purchasing £150m non-cumulative redeemable preference shares in Midcorp Limited held previously by HSBC Holdings plc.*

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 2017* and the information about the application of IFRS 9 'Financial Instruments' set out below.

At 30 June 2018, there were no unendorsed standards effective for the half-year to 30 June 2018 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 2018

The group has adopted the requirements of IFRS 9 from 1 January 2018, with the exception of the provisions relating to the presentation of gains and losses on financial liabilities designated at fair value, which were adopted from 1 January 2017. This includes the adoption of 'Prepayment Features with Negative Compensation (Amendments to IFRS 9)' which is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted. The effect of its adoption is not considered to be significant. IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting, which HSBC has exercised. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application. As permitted by IFRS 9, HSBC has not restated comparatives. Adoption reduced net assets at 1 January 2018 by £532m as set out in Note 11.

In addition, the group has adopted the requirements of IFRS 15 'Revenue from contracts with customers' and a number of interpretations and amendments to standards which have had an insignificant effect on the financial statements.

IFRS 9 transitional requirements

The transition requirements of IFRS 9 have necessitated a review of the designation of financial instruments at fair value. IFRS 9 requires that the designation is revoked where there is no longer an accounting mismatch at 1 January 2018 and permits designations to be revoked or additional designations created at 1 January 2018 if there are accounting mismatches at that date. As a result, fair value designations for financial liabilities have been revoked where the accounting mismatch no longer exists, as required by IFRS 9. The results of these changes are included in the reconciliation set out in Note 11.

Changes in accounting policy

While not necessarily required by the adoption of IFRS 9, the following voluntary changes in accounting policy and presentation have been made as a result of reviews carried out in conjunction with its adoption. The effect of presentational changes at 1 January 2018 is included in the reconciliation in Note 11 and comparatives have not been restated.

- We have considered market practices for the presentation of certain financial liabilities which contain both deposit and derivative components. We have concluded that a change in accounting policy and presentation from 'trading customer accounts and other debt securities in issue' would be appropriate, since it would better align with the presentation of similar financial instruments by peers and therefore provide more relevant information about the effect of these financial liabilities on our financial position and performance. As a result, rather than being classified as held for trading, we will designate these financial liabilities as at fair value through profit or loss since they are managed and their performance evaluated on a fair value basis. A further consequence of this change in presentation is that the effects of changes in the liabilities' credit risk will be presented in Other comprehensive income with the remaining effect presented in profit or loss in accordance with the accounting policy adopted in 2017 (following the adoption of the requirements in IFRS 9 relating to the presentation of gains and losses on financial liabilities designated at fair value).
- Cash collateral, margin and settlement accounts have been reclassified from 'Trading assets' and 'Loans and advances to banks and customers' to 'Prepayments, accrued income and other assets' and from 'Trading liabilities' and 'Deposits by banks' and 'Customer accounts' to 'Accruals, deferred income and other liabilities'. The change in presentation for financial assets is in accordance with IFRS 9 and the change in presentation for financial liabilities is considered to provide more relevant information, given the change in presentation for the financial assets. In addition, intragroup trade receivables have been reclassified from 'Loans and advances to banks' and 'Loans and advances to customers' to 'Prepayments, accrued income and other assets', and intragroup trade payables have been reclassified from 'Deposits from banks' and 'Customer accounts' to 'Accruals, deferred income and other liabilities'. The change in presentation for financial liabilities has had no effect on measurement of these items and therefore none on retained earnings nor profit for any period.
- Prior to 2018, foreign exchange exposure on some financial instruments designated at fair value was presented in the same line in the income statement as the underlying fair value movement on these instruments. In 2018, we have grouped the presentation of the entire effect of foreign exchange exposure in profit or loss and presented it within 'Net income from financial instruments held for trading or managed on a fair value basis'. Comparative information has been re-presented.

Differences between IAS 39 and IFRS 9

Classification and measurement

Key similarities and differences between IAS 39 and IFRS 9 for the classification and measurement of financial assets are set out below. There are no differences for financial liabilities, except for the presentation of gains and losses on financial liabilities designated at fair value and the requirements to reconsider fair value designation on transition to IFRS 9.

	IAS 39	IFRS 9
Classification criteria	Financial assets are measured at amortised cost (loans & receivables and held to maturity), FVOCI Available for Sale (AFS), or fair value through profit or loss (derivatives and trading) based on the nature of the instrument and the purpose for which it is held. Embedded derivatives are separated from their host contract unless the contract as a whole is measured at fair value through profit or loss. The fair value option applies where there are non-closely related embedded derivatives that are not bifurcated, financial instruments are managed on a fair value basis or where measuring at fair value through profit or loss would reduce or eliminate an accounting mismatch. AFS is the default category.	Debt instruments are measured at amortised cost or FVOCI based on their contractual terms and the business model in which they are held as set out in the accounting policies above. The concept of embedded derivatives does not apply to financial assets. Therefore, the fair value option only applies where it would reduce or eliminate an accounting mismatch. Fair value through profit or loss is the default category. Equity securities are measured at fair value through profit or loss unless, where permitted by IFRS 9, the option has been exercised to measure at FVOCI.
Presentation	Upon disposal of AFS securities (debt instruments and equity securities) the cumulative gains or losses in other comprehensive income are recognised in profit or loss.	Upon disposal of debt instruments measured at FVOCI the cumulative gains or losses in other comprehensive income are recognised in profit or loss. Cumulative gains or losses in Other comprehensive income are not recognised in profit or loss on the disposal of equity securities measured at FVOCI.

A reconciliation of presentational and measurement differences resulting from the adoption of IFRS 9 at 1 January 2018 is set out Note 11.

In general:

- loans and advances to banks and to customers and non-trading reverse repurchase agreements that are classified as loans and receivables under IAS 39 are measured at amortised cost under IFRS 9;
- financial assets designated at Fair Value through Profit or Loss ('FVPL') remain at FVPL, because it is required under IFRS 9 or the designation will continue;
- debt securities classified as available for sale are measured at amortised cost or FVOCI, with a small minority at FVPL either because of their contractual cash flow characteristics or the business model within which they are held;
- debt securities classified as held to maturity are measured at amortised cost;
- treasury and other eligible bills classified as available for sale are measured at amortised cost or FVOCI depending upon the business model in which they are held; and
- all equity securities remain measured at fair value. A significant majority have fair value movements shown in profit or loss, while a minority have fair value movements presented in other comprehensive income. The equity securities for which fair value movements are shown in other comprehensive income are business facilitation and other similar investments where HSBC holds the investments other than to generate a capital return.

Impairment

The recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge may be more volatile. The adoption has resulted in an increase in the total level of impairment allowances as set out in Note 11, since all financial assets are assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

Key similarities and differences between IAS 39 and IFRS 9

	IAS 39	IFRS 9
Scope	For amortised cost assets, impairment is recognised when there is objective evidence of impairment. Losses are measured by comparing the carrying amount with the discounted future cash flows. Losses which may arise from future events are not recognised. For available-for-sale financial assets, impairment is recognised when there is objective evidence of a shortfall in the recovery of future cash flows. Impairment is measured as the decrease in fair value below the original cost at initial recognition.	The same recognition and measurement requirements apply to both amortised cost and FVOCI financial assets. Impairment is not recognised on equity securities which are measured at FVOCI. Impairment is recognised for all financial assets in scope at either 12-month ECL or lifetime ECL. All reasonable and supportable information, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date is used in measuring ECL.
Application	Accounting policies generally make a distinction between individually significant loans and homogeneous groups of loans which are assessed collectively.	The distinction between individual and collective assessment is less relevant. In general, whether loans are managed through wholesale credit risk systems or retail credit risk systems is relevant because of differences in the types of information available and the way credit risk is managed.
Impaired/Stage 3	The criteria used to determine whether there is objective evidence of impairment are the same for individually significant loans assessed under IAS 39 and for IFRS 9. The determination of the realisable value of security is based on the most recently updated market value at the time the impairment assessment is performed and is not adjusted for expected future changes in market prices. Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of loans that are not considered individually significant using either roll rate methodologies or historical loss rate experience for loans. Under these methodologies, impairment allowances are recognised at a portfolio level. However, loans are classified as impaired for presentation purposes when they are more than 90 days past due or have been renegotiated for credit risk reasons. For retail loans, an exception is made for individual loans that are in arrears by more than 90 days but have been individually assessed to have no indications of impairment, and these are not classified as impaired.	The stage 3 population is consistent with impaired loans under IAS 39 which are considered individually significant. For wholesale loans, individual discounted cash flow calculations continue to be performed. However, the net realisable value of security is adjusted for expected future changes in market and the losses reflecting cash flows under different scenarios are probability-weighted to determine the ECL rather than using the best estimate of cash flows. For the retail population, stage 3 is determined by considering the relevant objective evidence, primarily whether contractual payments of either principal or interest are past due for more than 90 days, or a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition, or the loan is otherwise considered to be in default. The impairment allowance is determined by the same calculation used for stage 2, with the probability of default set to 1. The result may, therefore, not be the same as that determined by the IAS 39 statistical methods and the population disclosed as stage 3 will not necessarily correspond with that disclosed as impaired in accordance with IAS 39.
Stage 2	This is not an IAS 39 concept.	An assessment of whether credit risk has increased significantly since initial recognition, resulting in transfer to stage 2, is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale. However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. In addition, wholesale loans that are individually assessed, typically corporate and commercial customers, and included on a watch or worry list are included in stage 2. For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default ('PD') which encompasses a wide range of information including the obligor's customer risk rating, macroeconomic condition forecasts and credit transition probabilities. Significant increase in credit risk is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at reporting date (or that the origination PD has doubled in the case of origination CRR greater than 3.3). The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates. The quantitative measure of significance varies depending on the credit quality at origination as follows:

	IAS 39	IFRS 9

Origination CRR	Significance trigger – PD to increase by
0.1–1.2	15bps
2.1–3.3	30bps
Greater than 3.3 and not impaired	2x

For loans originated prior to the implementation of IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle ('TTC') PDs and TTC migration probabilities, consistent with the instrument's underlying modelling approach and the CRR at origination. For these loans, the quantitative comparison is supplemented with additional CRR deterioration-based thresholds as set out in the table below:

Origination CRR	Additional significance criteria – Number of CRR grade notches of deterioration required to identify as significant credit deterioration (stage2) ≥
0.1	5 notches
1.1–4.2	4 notches
4.3–5.1	3 notches
5.2–7.1	2 notches
7.2–8.2	1 notches
8.3	0 notches

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit scores which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogeneous portfolios, generally by country, product and brand. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher than that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

	IAS 39	IFRS 9
Stage 1	This is not an IAS 39 concept. However, incurred but not yet identified impairment is assessed on loans for which no evidence of impairment has been specifically identified by estimating a collective allowance determined after taking into account factors including the estimated period between impairment occurring and the loss being identified. This is assessed empirically on a periodic basis and may vary over time. Similarly, for homogeneous groups of loans and advances which are assessed under IAS 39 on a collective basis, the inherent loss is determined using risk factors including the period of time between loss identification and write-off which is regularly benchmarked against actual outcomes.	Financial assets which are not considered to have significantly increased in credit risk have loss allowances measured at an amount equal to 12-month ECL. This 12-month time horizon is likely to be equal to or longer than the period estimated under IAS 39 (typically between 6 and 12 months).
Movement between stages	This is not an IAS 39 concept.	Financial assets can be transferred between the different categories depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans will continue to be in stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period and there are no other indicators of impairment. For loans that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

	IAS 39	IFRS 9
Measurement of ECL	Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the balance sheet date.	The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. In general, HSBC calculates ECL using three main components: a probability of default; a loss given default; and the exposure at default ('EAD'). The 12-month ECL is calculated by multiplying the 12-month PD, Loss given default ('LGD') and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively. The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money. Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which HSBC is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit the Group's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the Group remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, 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. The Group will in general apply three forward-looking global economic scenarios determined with reference to external forecast distributions, the Consensus Economic Scenario approach. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. Further information about this methodology is included in 'Measurement of uncertainty and sensitivity analysis of ECL estimates' on pages 16 and 17.

(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, goodwill impairment, the valuation of financial instruments, deferred tax assets, provisions for liabilities and interests in associates. The implementation of IFRS 9 resulted in a change to the assessment of the critical accounting estimates and judgements related to impairment of financial assets.

In determining ECL, management is required to exercise judgement in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. Judgement has been applied in determining the lifetime and point of initial recognition of revolving facilities.

The PD, LGD and EAD models which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience, but given that IFRS 9 requirements have only just been applied, there has been little time available to make these comparisons. Therefore, the underlying models and their calibration, including how they react to forward-looking economic conditions, remain subject to review and refinement. This is particularly relevant for lifetime PDs, which have not been previously used in regulatory modelling and for the incorporation of 'Upside scenarios' which have not generally been subject to experience gained through stress testing.

The exercise of judgement in making estimations requires the use of assumptions which are highly subjective and very sensitive to the risk factors, in particular to changes in economic and credit conditions across a large number of geographical areas. Many of the factors have a high degree of interdependency and there is no single factor to which loan impairment allowances as a whole are sensitive. Pages 16 and 17 set out the assumptions underlying the Central scenario and information about how scenarios are developed in relation to the group's top and emerging risks and its judgements, informed by consensus forecasts of professional industry forecasters. There were no other changes in the current period to the critical accounting estimates and judgements applied in 2017, which are stated on pages 86 to 92 of the *Annual Report and Accounts 2017*.

(c) Composition of group

There were no material changes in the composition of the group in the half-year to 30 June 2018. It is noted that the bank acquired HSBC Investment Bank Holdings Limited and its subsidiaries from HSBC Holdings plc in January 2018. The net assets acquired were £254m at the completion date.

(d) Future accounting developments

In January 2016, the IASB issued IFRS 16 'Leases' with an effective date for annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease, and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as under IAS 17. The group is currently assessing the impact of IFRS 16, and it is not practicable to quantify the effect at the date of the publication of these financial statements.

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

(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. In doing so, the Directors have taken into consideration the effects of the transfer of businesses to HSBC UK as described in Note 12.

(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 86 to 92 of the *Annual Report and Accounts 2017*, as are the methods of computation.

2 Dividends

Dividends to shareholders of the parent company

	Half-year to					
	30 Jun 2018		30 Jun 2017		31 Dec 2017	
	£ per share	**£m**	£ per share	£m	£ per share	£m
Dividends paid on ordinary shares						
Second interim dividend in respect of previous year	**0.73**	**583**	0.52	415	—	—
First interim dividend in respect of current year	**—**	**—**	—	—	0.23	186
Total	**0.73**	**583**	0.52	415	0.23	186
Dividends on preference shares classified as equity						
Dividend on HSBC Bank plc non-cumulative third dollar preference shares	—	—	—	—	1.43	50
Total	—	—	—	—	1.43	50

Other equity instruments

		Half-year to		
Total coupons on capital securities classified as equity	First call date	**30 Jun 2018 £m**	30 Jun 2017 £m	31 Dec 2017 £m
Undated subordinated additional Tier 1 instruments				
– £1,096m	Dec 2019	**31**	30	29
– £1,100m	Dec 2024	**31**	30	31
– €1,900m	Dec 2020	**—**	—	100
– €235m	Jan 2022	**12**	1	—
		74	61	160

3 Net fee income

Net fee income

	Half-year to		
	30 Jun 2018	30 Jun 2017	31 Dec 2017
	£m	£m	£m
Account services	**453**	453	449
Funds under management	**248**	258	250
Cards	**125**	185	169
Credit facilities	**239**	259	235
Broking income	**150**	158	152
Unit trusts	**10**	8	7
Underwriting	**144**	188	88
Imports/exports	**52**	67	54
Remittances	**77**	87	90
Global custody	**62**	60	62
Insurance agency commission	**46**	50	48
Other	**485**	507	461
Fee income	**2,091**	2,280	2,065
Less: fee expense	**(723)**	(668)	(688)
Net fee income	**1,368**	1,612	1,377
Global business			
Retail Banking and Wealth Management	**446**	495	468
Commercial Banking	**562**	578	560
Global Banking and Markets	**294**	476	286
Global Private Banking	**62**	59	58
Corporate Centre	**4**	4	5

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 2017*.

Financial instruments carried at fair value and bases of valuation

	At							
	30 Jun 2018				31 Dec 2017			
	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	**74,594**	**29,956**	**3,323**	**107,873**	92,032	51,409	2,284	145,725
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss[1]	**10,760**	**4,199**	**1,879**	**16,838**	8,936	276	54	9,266
Derivatives	**634**	**150,460**	**1,974**	**153,068**	234	141,337	1,764	143,335
Financial investments	**50,904**	**6,920**	**761**	**58,585**	46,967	9,598	1,435	58,000
Liabilities								
Trading liabilities	**30,243**	**19,241**	**57**	**49,541**	31,396	74,096	1,004	106,496
Financial liabilities designated at fair value	**4,217**	**33,818**	**1,177**	**39,212**	3,082	15,167	–	18,249
Derivatives	**422**	**146,217**	**1,480**	**148,119**	597	138,140	1,333	140,070

1 *The group adopted IFRS 9 on 1 January 2018 resulting in the reclassification of certain financial assets and liabilities. The comparatives for 'financial assets designated and otherwise mandatorily measured at fair value through profit or loss' refer to prior period 'financial assets designated at fair value'. Refer to Note 11 'Effects of reclassifications upon adoption of IFRS 9' on page 57 for further details.*

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[2]	Derivatives	Trading liabilities	Designated at fair value	Derivatives
	£m	£m	£m	£m	£m	£m	£m
At 30 Jun 2018							
Transfers from Level 1 to Level 2	**—**	**149**	**—**	**—**	**37**	**—**	**—**
Transfers from Level 2 to Level 1[1]	**—**	**2,325**	**—**	**(96)**	**1,941**	**—**	**(103)**
Full year to 31 Dec 2017							
Transfers from Level 1 to Level 2	714	29	—	—	11	—	—
Transfers from Level 2 to Level 1	—	84	—	—	28	—	—

1 *During the half-year ended 30 June 2018, liquid corporate bonds of £1,547m in trading assets and £1,220m in trading liabilities were transferred from Level 2 to Level 1.*
2 *The group adopted IFRS 9 on 1 January 2018 resulting in the reclassification of certain financial assets and liabilities. The comparatives for 'financial assets designated and otherwise mandatorily measured at fair value through profit or loss' refer to prior period 'financial assets designated at fair value'. Refer to Note 11 'Effects of reclassifications upon adoption of IFRS 9' on page 57 for further details.*

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[1]	Derivatives	Total	Trading liabilities	Designated at fair value[2]	Derivatives	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Private equity including strategic investments	**61**	**15**	**1,377**	**—**	**1,453**	**13**	**—**	**—**	**13**
Asset-backed securities	**695**	**830**	**2**	**—**	**1,527**	**—**	**—**	**—**	**—**
Structured notes	**—**	**2**	**—**	**—**	**2**	**44**	**1,177**	**—**	**1,221**
Derivatives	**—**	**—**	**—**	**1,974**	**1,974**	**—**	**—**	**1,480**	**1,480**
Other portfolios	**5**	**2,476**	**500**	**—**	**2,981**	**—**	**—**	**—**	**—**
30 Jun 2018	**761**	**3,323**	**1,879**	**1,974**	**7,937**	**57**	**1,177**	**1,480**	**2,714**
Private equity including strategic investments	547	15	54	—	616	14	—	—	14
Asset-backed securities	879	888	—	—	1,767	—	—	—	—
Structured notes	—	2	—	—	2	990	—	—	990
Derivatives	—	—	—	1,764	1,764	—	—	1,333	1,333
Other portfolios	9	1,379	—	—	1,388	—	—	—	—
31 Dec 2017	1,435	2,284	54	1,764	5,537	1,004	—	1,333	2,337

1 *The group adopted IFRS 9 on 1 January 2018 resulting in the reclassification of certain financial assets and liabilities. The comparatives for 'financial assets designated and otherwise mandatorily measured at fair value through profit or loss' refer to prior period 'financial assets designated at fair value'. Refer to Note 11 "Effects of reclassifications upon adoption of IFRS 9" on page 57 for further details.*
2 *Designated at fair value through profit or loss.*

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[1]	Derivatives	Trading liabilities	Designated at fair value	Derivatives
	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2018[2]	**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 or losses recognised in other comprehensive income	**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[3]	**(270)**	**(771)**	**(23)**	**(145)**	**(11)**	**(114)**	**(172)**
Transfers in[3]	**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**	**—**	**—**	**—**	**—**
At 1 Jan 2017	982	2,721	21	2,151	762	5	1,877
Total gains/(losses) recognised in profit or loss	12	(77)	(3)	(60)	36	(4)	161
– trading income/(expense) excluding net interest income	—	(77)	—	(60)	36	—	161
– net income from other financial instruments designated at fair value	—	—	(3)	—	—	(4)	—
– gains less losses from financial investments	12	—	—	—	—	—	—
Total gains/(losses) recognised in other comprehensive income ('OCI')	24	(75)	1	8	8	—	2
– available-for-sale investments: fair value gains/(losses)	36	—	—	—	—	—	—
– exchange differences	(12)	(75)	1	8	8	—	2
Purchases	17	418	8	—	—	—	—
New issuances	—	—	—	—	438	—	—
Sales	(59)	(725)	—	—	(9)	—	—
Settlements	(4)	(213)	—	(4)	(105)	—	(196)
Transfers out	(197)	(27)	—	(118)	(52)	—	(296)
Transfers in	542	142	—	81	—	—	13
At 30 Jun 2017	1,317	2,164	27	2,058	1,078	1	1,561
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2017	—	17	(1)	(100)	135	—	88
– trading income/(expense) excluding net interest income	—	17	—	(100)	135	—	88
– net income from other financial instruments designated at fair value	—	—	(1)	—	—	—	—

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 2017	1,317	2,164	27	2,058	1,078	1	1,561
Total gains/(losses) recognised in profit or loss	(36)	(94)	—	96	16	(1)	272
– trading income/(expense) excluding net interest income	—	(94)	—	96	16	—	272
– gains less losses from financial investments	(36)	—	—	—	—	(1)	—
Total gains/(losses) recognised in other comprehensive income ('OCI')	84	(46)	—	(34)	—	—	(32)
– available-for-sale investments: fair value gains/(losses)	110	—	—	—	—	—	—
– cash flow hedges: fair value gains/(losses)	—	—	—	(18)	—	—	(28)
– exchange differences	(26)	(46)	—	(16)	—	—	(4)
Purchases	95	608	28	2	4	—	—
New issuances	—	—	—	—	338	—	—
Sales	(72)	(739)	—	(6)	—	—	(12)
Settlements	(42)	(17)	—	(8)	(354)	—	(76)
Transfers out	(72)	(74)	(1)	(477)	(92)	—	(518)
Transfers in	161	482	—	133	14	—	138
At 31 Dec 2017	1,435	2,284	54	1,764	1,004	—	1,333
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2017	17	5	5	176	21	—	85
– trading income/(expense) excluding net interest income	—	5	—	176	21	—	85
– net income from other financial instruments designated at fair value	—	—	5	—	—	—	—
– loan impairment charges and other credit risk provisions	17	—	—	—	—	—	—

1 *The group adopted IFRS 9 on 1 January 2018 resulting in the reclassification of certain financial assets and liabilities. The comparatives for 'financial assets designated and otherwise mandatorily measured at fair value through profit or loss' refer to prior period 'financial assets designated at fair value'. Refer to Note 11 'Effects of reclassifications upon adoption of IFRS 9' on page 57 for further details.*

2 *The group adopted IFRS 9 on 1 January 2018 resulting in the reclassification of certain financial assets and liabilities. Refer to Note 11 'Effects of reclassifications upon adoption of IFRS 9' on page 57 for further details.*

3 *Transfers between levels of the fair value hierarchy are deemed to occur at the end of each quarterly reporting period. Transfers into and out of Levels of the fair value hierarchy are primarily attributable to observability of valuation inputs and price transparency.*

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 2018				31 Dec 2017			
	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]	**164**	**(156)**	**—**	**—**	150	(141)	—	—
Financial assets and liabilities designated and otherwise mandatorily measured at fair value[2]	**151**	**(114)**	**—**	**—**	3	(3)	—	—
Financial investments	**18**	**(17)**	**11**	**(8)**	53	(77)	2	(2)
Total	**333**	**(287)**	**11**	**(8)**	206	(221)	2	(2)

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

2 *The group adopted IFRS 9 on 1 January 2018 resulting in the reclassification of certain financial assets and liabilities. The comparatives for 'financial assets designated and otherwise mandatorily measured at fair value through profit or loss' refer to prior period 'financial assets designated at fair value'. Refer to Note 11 'Effects of reclassifications upon adoption of IFRS 9' on page 57 for further details.*

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

	At							
	30 Jun 2018				31 Dec 2017			
	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	**146**	**(104)**	**—**	**—**	55	(53)	2	(2)
Asset-backed securities	**42**	**(19)**	**11**	**(8)**	34	(40)	—	—
Structured notes	**9**	**(9)**	**—**	**—**	6	(6)	—	—
Derivatives	**93**	**(95)**	**—**	**—**	82	(84)	—	—
Other portfolios	**43**	**(60)**	**—**	**—**	29	(38)	—	—
Total	**333**	**(287)**	**11**	**(8)**	206	(221)	2	(2)

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 2018								31 Dec 2017			
	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	**1,453**	**13**	**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	**1,527**	**—**										
– CLO/CDO[3]	**155**	**—**	**Market proxy**	**Bid quotes**	**—**	**101**	**72**	**101**	—	101	13	57
– other ABSs	**1,372**	**—**	**Market proxy**	**Bid quotes**	**—**	**98**	**56**	**97**	—	103	35	99
Structured notes	**2**	**1,221**										
– equity-linked notes	**—**	**822**	**Model-Option model**	**Equity volatility**	**7%**	**59%**	**12%**	**37%**	7%	57%	11%	24%
	—	**355**	**Model-Option model**	**Equity correlation**	**25%**	**91%**	**42%**	**79%**	34%	91%	41%	60%
– fund-linked notes	**—**	**20**	**Model-Option model**	**Fund volatility**	**5%**	**17%**	**5%**	**17%**	6%	15%	6%	15%
– FX-linked notes	**—**	**24**	**Model-Option model**	**FX volatility**	**6%**	**21%**	**6%**	**20%**	4%	20%	5%	17%
– other	**2**	**—**										
Derivatives	**1,974**	**1,480**										
– interest rate derivatives												
securitisation swaps	**214**	**495**	**Model-Discounted cash flow**	**Prepayment rate**	**6%**	**7%**	**6%**	**7%**	20%	90%	20%	90%
long-dated swaptions	**815**	**21**	**Model-Option model**	**IR volatility**	**12%**	**35%**	**13%**	**33%**	8%	41%	16%	34%
other	**197**	**112**										
– FX derivatives												
FX options	**283**	**290**	**Model-Option model**	**FX volatility**	**1%**	**26%**	**1%**	**25%**	1%	26%	6%	15%
– equity derivatives												
long-dated single stock options	**172**	**215**	**Model-Option model**	**Equity volatility**	**5%**	**82%**	**8%**	**38%**	8%	49%	12%	36%
other	**262**	**226**										
– credit derivatives	**31**	**121**										
Other portfolios	**2,981**	**—**										
– structured certificates	**919**	**—**	**Model-Discounted cash flow**	**Credit volatility**	**2%**	**4%**	**2%**	**4%**	2%	4%	2%	4%
– other	**2,062**	**—**										
At 30 Jun 2018	**7,937**	**2,714**										

1 *The core range of inputs is the estimated range within which 90% of the inputs fall.*
2 *See notes on pages 111 and 112 of the* Annual Report and Accounts 2017.
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 2017*.

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

	At 30 Jun 2018		At 31 Dec 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	£m	£m	£m	£m
Assets				
Loans and advances to banks	**12,298**	**12,292**	14,149	14,149
Loans and advances to customers	**278,682**	**280,064**	280,402	281,763
Reverse repurchase agreements – non-trading	**61,656**	**61,656**	45,808	45,808
Financial investments – at amortised cost	**19**	**19**	—	—
Liabilities				
Deposits by banks	**25,644**	**25,642**	29,349	29,328
Customer accounts	**385,913**	**385,907**	381,546	381,543
Repurchase agreements – non-trading	**45,360**	**45,366**	37,775	37,775
Debt securities in issue	**22,066**	**22,062**	13,286	13,296
Subordinated liabilities	**17,509**	**18,022**	16,494	16,982

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.

6 Goodwill impairment

As described on page 121 of the *Annual Report and Accounts 2017*, we test goodwill for impairment at 1 July each year and whenever there is an indication that goodwill may be impaired. At 30 June 2018, we reviewed the inputs used in our most recent impairment test in the light of current economic and market conditions, and there was no indication of goodwill impairment.

7 Provisions

	Restructuring costs	Legal proceedings and regulatory matters	Customer remediation	Other provisions	Total
	£m	£m	£m	£m	£m
Provisions (excluding contractual commitments)					
At 31 Dec 2017	**94**	**406**	**1,065**	**176**	**1,741**
Additions	**1**	**42**	**87**	**23**	**153**
Amounts utilised	**(17)**	**(66)**	**(331)**	**(16)**	**(430)**
Unused amounts reversed	**(10)**	**(85)**	**(46)**	**(30)**	**(171)**
Unwinding of discounts	**—**	**—**	**—**	**2**	**2**
Exchange and other movements	**—**	**5**	**4**	**—**	**9**
At 30 Jun 2018	**68**	**302**	**779**	**155**	**1,304**

Contractual commitments[1]	
At 31 Dec 2017	**55**
Impact on transition to IFRS 9	**104**
Net change in expected credit loss provisions	**28**
At 30 Jun 2018	**187**

Total provisions	
31 Dec 2017	**1,796**
30 Jun 2018	**1,491**

1 *The contractual commitments provision at 31 December 2017 represented IAS 37 provisions on off-balance sheet loan commitments and guarantees, for which expected credit losses are provided following transition to IFRS 9 on 1 January 2018. Further analysis of the movement in the expected credit loss provision is disclosed within the 'Reconciliation of allowances for loans and advances to banks and customers including loan commitments and financial guarantees' table on page 20.*

Customer remediation

Provisions include £779m (2017: £1.1bn) in respect of customer redress programmes. The most significant of these provisions relates to Payment Protection Insurance.

Payment Protection Insurance

As at 30 June 2018, a provision of £636m (2017: £869m) relates to the estimated liability for redress in respect of the possible mis-selling of Payment Protection Insurance ('PPI') policies in previous years. Cumulative provisions made since the Judicial Review ruling in the first half of 2011 amount to £3.9bn of which £3.3bn has been paid to 30 June 2018.

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

A total of 5.4 million PPI policies have been sold since 2000, generating estimated revenues of £2.6bn. The gross written premiums on these policies was approximately £3.4bn. At 30 June 2018, the estimated total complaints expected to be received was 2.2 million, representing 41% of total policies sold. It is estimated that contact will be made with regard to 2.6 million policies, representing 49% of total policies sold. This estimate includes inbound complaints as well as the group's proactive contact exercise on certain policies ('outbound contact').

The following table details the cumulative number of complaints received to 30 June 2018 and the number of claims expected in the future:

Cumulative PPI complaints received to 30 June 2018 and future claims expected

	Cumulative actual to 30 Jun 2018	Future expected
Inbound complaints ('000s of policies)[1]	**1,647**	**292**
Outbound contact ('000s of policies)	**685**	**–**
Response rate to outbound contact	**44%**	**N/A**
Average uphold rate per claim[2]	**77%**	**83%**
Average redress per claim (£)	**2,032**	**2,340**
Complaints to Financial Ombudsman Service ('FOS') ('000s of policies)	**159**	**15**
Average uphold rate per FOS claim	**39%**	**33%**

1 *Excludes invalid claims for which no PPI policy exists and FOS complaints.*
2 *Claims include inbound and responses to outbound contact, but exclude FOS complaints.*

A 100,000 increase/decrease in the total inbound complaints would increase/decrease the redress provision by approximately £195m.

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 2018	31 Dec 2017
	£m	£m
Guarantees and contingent liabilities:		
– financial guarantee and other similar contracts	**22,610**	22,566
– other contingent liabilities	**447**	353
At the end of the period	**23,057**	22,919
Commitments:		
– documentary credits and short-term trade-related transactions	**2,016**	2,877
– forward asset purchases and forward deposits placed	**365**	241
– standby facilities, credit lines and other commitments to lend	**155,007**	139,160
At the end of the period	**157,388**	142,278

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 initially issued notices of assessment totalling £147m, later revised to £265m with interest payable estimated at £17m. HSBC has requested HMRC to reconsider their assessment and a final decision is expected in November 2018. At this time, no provision has been recognised in respect of this matter. Contingent liabilities arising from legal proceedings, regulatory and other matters against group companies are disclosed in Note 9.

The expected credit loss provision 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 2017*. 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 2018 (see Note 7). Where an individual provision is material, the fact that a provision has been made is stated and quantified, except to the extent doing so would be seriously prejudicial. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

Bernard L. Madoff Investment Securities LLC

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

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

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

US/UK litigation: The Trustee has brought lawsuits against various HSBC companies in the US Bankruptcy Court and in the High Court of England and Wales, seeking recovery of transfers from Madoff Securities to HSBC in an amount not yet pleaded or determined. HSBC and other parties to the action have moved to dismiss the Trustee's US actions. The US Bankruptcy Court granted HSBC's motion to dismiss with respect to certain of the Trustee's claims in November 2016. In September 2017, the US Court of Appeals for the Second Circuit (the 'Second Circuit Court of Appeals') agreed to hear the Trustee's appeal of the US Bankruptcy Court's decision. Briefing on the appeal was completed in May 2018, and this matter is currently pending.

The deadline by which the Trustee must serve HSBC with his English action has been extended to September 2018 for UK-based defendants and November 2018 for all other defendants.

Fairfield Sentry Limited, Fairfield Sigma Limited and Fairfield Lambda Limited (together, 'Fairfield') (in liquidation since July 2009) have brought lawsuits in the US and the British Virgin Islands against fund shareholders, including HSBC companies that acted as nominees for clients, seeking restitution of redemption payments. In October 2016, the liquidators for Fairfield (the 'Fairfield Liquidators') filed a motion seeking leave to amend their complaints in the US Bankruptcy Court. In January 2017, the defendants moved to dismiss and oppose the Fairfield Liquidators' motion. These motions are pending.

In December 2014, SPV Optimal SUS Ltd ('SPV OSUS'), the purported assignee of the Madoff-invested company, Optimal Strategic US Equity Ltd, filed a lawsuit in New York state court against various HSBC companies and others, seeking damages on various alleged grounds, including breach of fiduciary duty and breach of trust. In April 2018, SPV OSUS filed an amended complaint and HSBC transferred the case to the US District Court for the Southern District of New York (the 'New York District Court'), where the matter is currently pending. In July 2018, the defendants filed a motion to dismiss the amended complaint.

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, 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, where the matter is pending.

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

In October 2009, Alpha Prime Fund Limited and, in December 2014, Senator Fund SPC ('Senator'), each brought an action against HSSL before the Luxembourg District Court, seeking the restitution of securities, or the cash equivalent, or money damages. Both actions have been temporarily suspended at the plaintiffs' request. In April 2015, Senator commenced a separate action against the Luxembourg branch of HSBC Bank plc asserting identical claims before the Luxembourg District Court. HSSL has also been named as a defendant in various actions by shareholders in Primeo Select Fund, Herald, Herald (Lux) SICAV and Hermes International Fund Limited. Most of these actions have been dismissed, suspended or postponed.

Ireland litigation: In November 2013, Defender Limited brought an action against HSBC Institutional Trust Services (Ireland) Limited ('HTIE') and others, alleging breach of contract and claiming damages and indemnification for fund losses. The trial is scheduled to begin in October 2018.

SPV OSUS's action against HTIE and HSBC Securities Services (Ireland) Limited alleging breach of contract and claiming damages and indemnification for fund losses was dismissed by the Irish High Court in October 2015, on the basis of a preliminary issue. In March 2017, the Irish Court of Appeal affirmed the dismissal, on the same basis. In July 2018, following a further appeal by SPV OSUS, the Irish Supreme Court affirmed the dismissal, on a final basis.

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 2010, HSBC Bank USA N.A. ('HSBC Bank USA') entered into a consent cease-and-desist order with the Office of the Comptroller of the Currency ('OCC'), and HSBC North America Holdings Inc. ('HNAH') entered into a consent cease-and-desist order with the Federal Reserve Board ('FRB'). In 2012, HSBC Bank USA further entered into an enterprise-wide compliance consent order with the OCC (each an 'Order' and together, the 'Orders'). These Orders required improvements to establish an effective compliance risk management programme across HSBC's US businesses, including risk management related to the Bank Secrecy Act ('BSA') and anti-money laundering ('AML') compliance. In 2012, an additional consent order was entered into with the OCC that required HSBC Bank USA to correct the circumstances noted in the OCC's report and imposed restrictions on HSBC Bank USA acquiring control of, or holding an interest in, any new financial subsidiary, or commencing a new activity in its existing financial subsidiary, without the OCC's approval.

In June 2018, the OCC terminated the 2010 consent cease-and-desist order and the 2012 enterprise-wide compliance consent order after determining that HSBC Bank USA had satisfied the requirements of those respective orders. The 2010 consent cease-and-desist order entered into with the FRB and the 2012 additional consent order entered into with the OCC remain open.

In December 2012, HSBC Holdings plc ('HSBC Holdings'), HNAH and HSBC Bank USA entered into agreements with US and UK government and regulatory agencies regarding past inadequate compliance with the BSA, AML and sanctions laws. Among those agreements, HSBC Holdings and HSBC Bank USA entered into a five-year deferred prosecution agreement with, among others, the US Department of Justice ('DoJ') (the 'AML DPA'); and HSBC Holdings consented to a cease-and-desist order, and HSBC Holdings and HNAH consented to a civil money penalty order with the FRB. HSBC Holdings also entered into an agreement with the Office of Foreign Assets Control ('OFAC') regarding historical transactions involving parties subject to OFAC sanctions, as well as an undertaking with the UK Financial Conduct Authority (the 'FCA') to comply with certain forward-looking AML and sanctions-related obligations. In addition, HSBC Bank USA entered into civil money penalty orders with the Financial Crimes Enforcement Network of the US Treasury Department ('FinCEN') and the OCC.

Under these agreements, HSBC Holdings and HSBC Bank USA made payments totalling $1.9bn to US authorities and undertook various further obligations, including, among others, to retain an independent compliance monitor (who is, for FCA purposes, a 'skilled person' under section 166 of the Financial Services and Markets Act) to produce annual assessments of the Group's AML and sanctions compliance programme (the 'Monitor'). Under the 2012 cease-and-desist order issued by the FRB, the Monitor also serves as an independent consultant to conduct annual assessments. In February 2018, the Monitor delivered his fourth annual follow-up review report.

Through his country-level reviews, the Monitor identified potential AML and sanctions compliance issues that HSBC is reviewing further with the DoJ, FRB and/or FCA. In particular, the DoJ is investigating HSBC's handling of a corporate customer's accounts. In addition, FinCEN 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.

In December 2017, the AML DPA expired and the charges deferred by the AML DPA were dismissed. The Monitor will continue working in his capacity as a skilled person and independent consultant for a period of time at the FCA's and FRB's discretion. The role of the Monitor and his fourth annual follow-up review report, as well as the AML DPA and related agreements and consent orders are discussed on page 34 of the *Annual Report and Accounts 2017*.

These settlements with US and UK authorities have led to private litigation and do not preclude further private litigation related to HSBC's compliance with applicable BSA, AML and sanctions laws or other regulatory or law enforcement actions for BSA, AML, sanctions or other matters not covered by the various agreements.

Since November 2014, a number of lawsuits have been filed in federal courts in the United States 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. Two actions against HSBC Bank plc are pending in federal court in New York and one action is pending in federal court in Florida. 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 remains pending in the other case in the New York District Court. The federal court in Florida also dismissed the case before it in July 2018, but granted the plaintiff leave to file an amended complaint.

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.

Mossack Fonseca & Co.

HSBC has received requests for information from various regulatory and law enforcement authorities around the world concerning persons and entities believed to be linked to Mossack Fonseca & Co., a service provider of personal investment companies. HSBC is cooperating with the relevant authorities.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of 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

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

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

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

The New York District Court has issued a number of decisions dismissing certain of the claims in response to motions filed by the defendants. The original decisions resulted in the dismissal of the plaintiffs' federal and state antitrust claims, racketeering claims and certain unjust enrichment claims. The dismissal of the antitrust claims was appealed to the Second Circuit Court of Appeals, which reversed the decisions in May 2016. In July 2016, the defendants filed a joint motion to dismiss the antitrust claims on additional grounds not previously addressed by the court and, in December 2016, the New York District Court granted in part and denied in part the motion,

leaving only certain antitrust claims to be litigated. Certain plaintiffs appealed the December 2016 order to the Second Circuit Court of Appeals, and that appeal is pending.

Separately in October 2016, the New York District Court granted a motion to dismiss claims brought by certain individual plaintiffs for lack of personal jurisdiction. Certain plaintiffs appealed that dismissal to the Second Circuit Court of Appeals, which reversed the dismissal in February 2018 and remanded the case to the New York District Court for further consideration of the personal jurisdiction issues, where this matter is pending.

In the New York District Court, the cases with remaining claims that have survived the defendants' motions to dismiss were stayed while the court considered motions to certify classes in several putative class actions that are pending against HSBC's co-defendants. In February 2018, the New York District Court granted in part the class certification motion in one of the cases and denied the class certification motions in two of the cases. As a result of these rulings, certain limited discovery can proceed in the pending cases that have survived the defendants' motions to dismiss.

In 2017, HSBC reached agreements with plaintiffs to resolve three putative class actions brought on behalf of persons who purchased US dollar Libor-indexed bonds, persons who purchased US Libor-indexed-exchange-traded instruments and US-based lending institutions that made or purchased US dollar Libor-indexed loans. In February 2018, HSBC reached an agreement with plaintiffs to resolve a putative class action brought on behalf of persons who purchased US dollar Libor-indexed interest rate swaps and other instruments directly from the defendant banks and their affiliates. In May 2018, HSBC reached an agreement with plaintiffs to resolve a putative class action brought on behalf of 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. These settlements are all subject to final court approval.

Euribor: In November 2013, HSBC and other panel banks were named as defendants in a putative class action filed in the New York District Court on behalf of persons who transacted in euro futures contracts and other financial instruments allegedly related to Euribor. The complaint alleges, among other things, misconduct related to Euribor in violation of US antitrust laws, the US CEA and state law. In December 2016, HSBC reached an agreement with plaintiffs to resolve this action, subject to court approval, and in May 2018 the court granted final approval of the settlement.

Canadian Dealer Offered Rate: In January 2018, various HSBC companies, among other banks, were named as defendants in a putative class action filed in the New York District Court in relation to the Canadian Dealer Offered Rate. The claim, which is at an early stage, asserts various breaches of US laws, including US antitrust and racketeering laws, the US CEA, and common law. The defendants filed a motion to dismiss in July 2018, and this motion remains pending.

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

Supranational, sovereign and agency bonds

In April 2017, various HSBC companies, among other banks, were added as defendants in a putative class action alleging a conspiracy to manipulate the market for US dollar-denominated supranational, sovereign and agency bonds between 2005 and 2015 in violation of US antitrust laws. In November 2017, the plaintiffs filed an amended consolidated complaint which omitted certain HSBC defendants. The remaining HSBC defendants moved to dismiss the amended consolidated complaint, and this motion remains pending.

Beginning in November 2017, various HSBC companies and other financial institutions were named as defendants in putative class actions issued in the Superior Court and Federal Court in Canada making similar allegations under Canadian law. The Superior Court action has now lapsed; accordingly, the Federal Court action will proceed.

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.

Foreign exchange rate investigations and litigation

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

In 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 continuing to cooperate with authorities and 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, HSBC Bank plc entered into a settlement with Brazil's Administrative Council of Economic Defense ('CADE') in connection with its investigation into 15 banks, including HSBC Bank plc, as well as 30 individuals, relating to practices in the offshore foreign exchange market. Under the terms of the settlement, HSBC Bank plc agreed to pay a financial penalty to CADE. CADE has also publicly announced that it is initiating a separate investigation into the onshore foreign exchange market and has identified a number of banks, including HSBC, as subjects of its investigation.

In February 2017, the Competition Commission of South Africa referred a complaint for proceedings before the South African Competition Tribunal against 18 financial institutions, including HSBC Bank plc, for alleged misconduct related to the foreign exchange market in violation of South African antitrust laws. In April 2017, HSBC filed an exception to the complaint based on a lack of jurisdiction and statute of limitations. These proceedings are at an early stage.

In late 2013 and early 2014, HSBC and other banks were named as defendants in various putative class actions consolidated in the New York District Court. The consolidated complaint alleged, among other things, that the defendants conspired to manipulate the WM/Reuters foreign exchange benchmark rates. In September 2015, HSBC reached an agreement with plaintiffs to resolve the consolidated action, subject to court approval. In December 2015, the court granted preliminary approval of the settlement, and HSBC made payment of the agreed settlement amount into an escrow account. The settlement remains subject to final approval by the court.

In June 2015, a putative class action was filed in the New York District Court making similar allegations on behalf of Employee Retirement Income Security Act of 1974 ('ERISA') plan participants. The court dismissed the claims in the ERISA action; and in July 2018,

the Second Circuit Court of Appeals affirmed the dismissal. In May 2015, another complaint was filed in the US District Court for the Northern District of California making similar allegations on behalf of retail customers. HSBC filed a motion to transfer that action from California to New York, which was granted in November 2015. In August 2017, the retail customer plaintiffs filed an amended complaint, and the defendants moved to dismiss. The motion was denied in most respects, and discovery is underway. In April and June 2017, putative class actions making similar allegations on behalf of purported 'indirect' purchasers of foreign exchange products were filed in New York. Those plaintiffs subsequently filed a consolidated amended complaint. HSBC moved to dismiss the complaint in August 2017, and that motion was granted in March 2018. The plaintiffs have moved for leave to file an amended complaint, and that motion remains pending. It is possible that additional actions will be initiated against HSBC in relation to its historical foreign exchange activities.

As at 30 June 2018, the bank has recognised a provision for these and similar matters in the amount of £174m. There are many factors that may affect the range of outcomes, and the resulting financial impact, of these matters. Due to uncertainties and limitations of these estimates, the ultimate penalties could differ significantly from the amount provided.

Precious metals fix-related investigations and litigation

Various regulators and competition and law enforcement authorities, including in the US and the EU, are conducting investigations and reviews relating to HSBC's precious metals operations and trading. HSBC is cooperating with these investigations and reviews. In November 2014, the Antitrust Division and Criminal Fraud Section of the DoJ issued a document request to HSBC Holdings, seeking the voluntary production of certain documents in connection with a criminal investigation that the DoJ is conducting of alleged anti-competitive and manipulative conduct in precious metals trading. In January 2016, the Antitrust Division of the DoJ informed HSBC that it was closing its investigation.

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, which names a new defendant. The court has denied the pre-existing defendants' request for leave to file a joint motion to dismiss, and discovery has been stayed.

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 Ltd 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 has been stayed.

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.

Credit default swap litigation

In June 2017, various HSBC companies, among others, were named as defendants in an individual action filed in the New York District Court, alleging violations of federal and state antitrust laws and breaches of common law in relation to the credit default swap market. 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 this matter, including the timing or any possible impact on HSBC, which could be significant.

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

HSBC has received enquiries from the DoJ regarding its banking relationships with certain individuals and entities that are or may be associated with FIFA. The DoJ is investigating whether multiple financial institutions, including HSBC, permitted the processing of suspicious or otherwise improper transactions or failed to observe applicable AML laws and regulations. HSBC is cooperating with the DoJ's investigation. Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of this matter, including the timing or any possible impact on HSBC, which could be significant.

Film finance litigation

In July and November 2015, respectively, two actions were brought against HSBC Private Bank (UK) Limited in the High Court of England and Wales seeking damages on various alleged grounds, including breach of duty by HSBC Private Bank (UK) Limited in the provision of certain historical services relating to the participation by the claimants in certain film finance transactions. These actions are ongoing.

It is possible that additional actions or investigations will be initiated against HSBC Private Bank (UK) Limited as a result of its historical involvement in the provision of certain film finance related services.

Based on the facts currently known, it is not practicable to predict the resolution of these matters, including the timing or possible aggregate impact, which could be significant.

Stanford litigation

In January 2018, HSBC Bank plc received a letter of claim from the Antiguan Joint Liquidators of Stanford International Bank Ltd ('SIB') asserting various claims in connection with HSBC Bank plc's role as a correspondent bank to SIB from 2003 to 2009. HSBC Bank plc denies the allegations and is preparing its response.

HSBC Bank plc continues to defend putative class action lawsuits in the US District Court for the Northern District of Texas against HSBC Bank plc, among others. The complaints, filed by the Official Stanford Investors Committee and a putative class of persons who held monies on deposit and/or certificates of deposit issued by SIB, allege various fraudulent transfer, statutory and tort claims. In November 2017, the court denied the class plaintiffs' motion for class certification, and permission to appeal that decision was denied in April 2018.

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.

Mexican government bond litigation

In March 2018, various HSBC companies, among others, were named as defendants in several putative class actions brought in the New York District Court relating to the Mexican government bond ('MGB') market. These actions allege generally that defendants conspired to fix MGB prices between January 2006 and April 2017 in violation of federal antitrust laws. In July 2018, these actions were consolidated in the New York District Court. This consolidated action is at a very early stage. Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of this matter, including the timing or any possible impact on HSBC, which could be significant.

10 Transactions with related parties

There were no material changes in the composition of the group in the half-year to 30 June 2018. There were no changes to the related party transactions described in Note 31 of the *Annual Report and Accounts 2017* that have had a material effect on the financial position or performance of the group in the half-year to 30 June 2018.

All related party transactions that took place in the half-year to 30 June 2018 were similar in nature to those disclosed in the *Annual Report and Accounts 2017*.

11 Effects of reclassifications upon adoption of IFRS 9

Reconciliation of consolidated balance sheet at 31 December 2017 and 1 January 2018

					IFRS 9 reclassification to				
			IAS 39 carrying amount at 31 Dec 2017	Other changes in classification	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost	Carrying amount post reclassification	IFRS 9 re-measurement including expected credit losses	IFRS 9 carrying amount at 1 Jan 2018
	Footnotes	IFRS 9 measurement category	£m	£m	£m	£m	£m	£m	£m	£m
Assets										
Cash and balances at central banks		**Amortised cost**	**97,601**	**–**	**–**	**–**	**–**	**97,601**	**(1)**	**97,600**
Items in the course of collection from other banks		**Amortised cost**	**2,023**	**–**	**–**	**–**	**–**	**2,023**	**–**	**2,023**
Trading assets	*1, 2*	**FVPL**	**145,725**	**(156)**	**–**	**–**	**(26,447)**	**119,122**	**–**	**119,122**
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	*2, 3*	**FVPL**	**9,266**	**156**	**5,567**	**–**	**–**	**14,989**	**6**	**14,995**
Derivatives		**FVPL**	**143,335**	**–**	**–**	**–**	**–**	**143,335**	**–**	**143,335**
Loans and advances to banks	*1, 3*	**Amortised cost**	**14,149**	**(731)**	**(193)**	**–**	**–**	**13,225**	**(6)**	**13,219**
Loans and advances to customers	*1, 3, 4*	**Amortised cost**	**280,402**	**(3,277)**	**(2,514)**	**–**	**–**	**274,611**	**(652)**	**273,959**
Reverse repurchase agreements – non-trading		**Amortised cost**	**45,808**	**–**	**–**	**–**	**–**	**45,808**	**–**	**45,808**
Financial investments	*5*	**FVOCI debt**	**57,338**	**–**	**(2,287)**	**–**	**(6)**	**55,045**	**–**	**55,045**
	6	**FVOCI equity**	**662**	**–**	**(573)**	**–**	**–**	**89**	**–**	**89**
	5	**Amortised cost**	**–**	**–**	**–**	**–**	**6**	**6**	**–**	**6**
Prepayments, accrued income and other assets	*1*	**Amortised cost**	**16,026**	**4,008**	**–**	**–**	**26,447**	**46,481**	**(1)**	**46,480**
Current tax assets		**N/A**	**140**	**–**	**–**	**–**	**–**	**140**	**–**	**140**
Interests in associates and joint ventures		**N/A**	**327**	**–**	**–**	**–**	**–**	**327**	**–**	**327**
Goodwill and intangible assets		**N/A**	**5,936**	**–**	**–**	**–**	**–**	**5,936**	**–**	**5,936**
Deferred tax assets		**N/A**	**130**	**–**	**–**	**–**	**–**	**130**	**34**	**164**
Total assets			**818,868**	**–**	**–**	**–**	**–**	**818,868**	**(620)**	**818,248**

For footnotes, see page 59.

Reconciliation of consolidated balance sheet at 31 December 2017 and 1 January 2018 (continued)

	Footnotes	IFRS 9 measurement category	IAS 39 carrying amount at 31 Dec 2017	Other changes in classification	IFRS 9 reclassification to: Fair value through profit or loss	IFRS 9 reclassification to: Fair value through other comprehensive income	IFRS 9 reclassification to: Amortised cost	Carrying amount post reclassification	IFRS 9 re-measurement including expected credit losses	IFRS 9 carrying amount at 1 Jan 2018
			£m	£m	£m	£m	£m	£m	£m	£m
Liabilities										
Deposits by banks	1	Amortised cost	29,349	(178)	–	–	–	29,171	–	29,171
Customer accounts	1	Amortised cost	381,546	(3,240)	–	–	–	378,306	–	378,306
Repurchase agreements – non-trading		Amortised cost	37,775	–	–	–	–	37,775	–	37,775
Items in the course of transmission to other banks		Amortised cost	1,089	–	–	–	–	1,089	–	1,089
Trading liabilities	1, 8	FVPL	106,496	(48,713)	–	–	–	57,783	–	57,783
Financial liabilities designated at fair value	7, 8	FVPL	18,249	17,958	–	–	(274)	35,933	–	35,933
Derivatives		FVPL	140,070	–	–	–	–	140,070	–	140,070
Debt securities in issue		Amortised cost	13,286	–	–	–	–	13,286	–	13,286
Accruals, deferred income and other liabilities	1	Amortised cost	6,615	34,173	–	–	–	40,788	–	40,788
Current tax liabilities		N/A	88	–	–	–	–	88	–	88
Liabilities under insurance contracts		N/A	21,033	–	–	–	–	21,033	–	21,033
Provisions	4	N/A	1,796	–	–	–	–	1,796	104	1,900
Deferred tax liabilities		N/A	933	–	–	–	–	933	(140)	793
Subordinated liabilities	7	Amortised cost	16,494	–	–	–	274	16,768	(52)	16,716
Total liabilities			774,819	–	–	–	–	774,819	(88)	774,731

For footnotes, see page 59.

Reconciliation of consolidated balance sheet at 31 December 2017 and 1 January 2018 (continued)

	Footnote	IAS 39 carrying amount at 31 Dec 2017	IFRS 9 reclassification	Carrying amount post reclassification	IFRS 9 remeasurement including expected credit losses	Carrying amount at 1 Jan 2018
		£m	£m	£m	£m	£m
Equity						
Called up share capital		797	–	797	–	797
Other equity instruments		3,781	–	3,781	–	3,781
Other reserves	9	2,744	(192)	2,552	(57)	2,495
Retained earnings	9	36,140	192	36,332	(475)	35,857
Total shareholders' equity		43,462	–	43,462	(532)	42,930
Non-controlling interests		587	–	587	–	587
Total equity		44,049	–	44,049	(532)	43,517

For footnotes, see page 59.

Reconciliation of impairment allowances under IAS 39 and provisions under IAS 37 to expected credit losses under IFRS 9

		Reclassification to			Remeasurement		
		Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost	Stage 3	Stage 1 & Stage 2	Total
	IAS 39 measurement category	£m	£m	£m	£m	£m	£m
Financial assets at amortised cost							
IAS 39 impairment allowances at 31 Dec 2017							**2,243**
Cash and balances at central banks	**Amortised cost (Loans and receivables)**	**–**	**–**	**–**	**–**	**1**	**1**
Items in the course of collection from other banks	**Amortised cost (Loans and receivables)**	**–**	**–**	**–**	**–**	**–**	**–**
Loans and advances to banks	**Amortised cost (Loans and receivables)**	**–**	**–**	**–**	**–**	**6**	**6**
Loans and advances to customers	**Amortised cost (Loans and receivables)**	**–**	**–**	**–**	**187**	**465**	**652**
Reverse repurchase agreements – non-trading	**Amortised cost (Loans and receivables)**	**–**	**–**	**–**	**–**	**–**	**–**
Prepayments, accrued income and other assets	**Amortised cost (Loans and receivables)**	**–**	**–**	**–**	**–**	**1**	**1**
Expected credit loss allowances at 1 Jan 2018							**2,903**
Loan commitments and financial guarantee contracts							
IAS 37 provisions at 31 Dec 2017							**55**
Provisions (loan commitments and financial guarantees)	**N/A**	**N/A**	**N/A**	**N/A**	**30**	**74**	**104**
Expected credit loss provisions at 1 Jan 2018							**159**

The pre-tax net asset impact of additional impairment allowances on adoption of IFRS 9 is £764m; £660m in respect of financial assets at amortised cost and £104m related to loan commitments and financial guarantee contracts. The total expected credit loss allowance at 1 January 2018 is £2,903m in respect of financial assets at amortised cost and £159m related to loan commitments and financial guarantee contracts.

Footnotes to Effects of reclassifications upon adoption of IFRS 9

1 *Cash collateral, margin and settlement accounts of £26,447m have been reclassified from 'Trading assets' to 'Prepayments, accrued income and other assets' as a result of the assessment of business models in accordance with IFRS 9. Cash collateral, margin and settlement accounts previously presented as 'Loans and advances to banks' of £573m and 'Loans and advances to customers' of £394m have been represented in 'Prepayments, accrued income and other assets' to ensure consistent presentation of all such balances. Cash collateral, margin and settlement accounts previously presented as 'Trading liabilities' of £30,755m, 'Deposits by banks' of £570m, and 'Customer accounts' of £548m have been represented in 'Accruals, deferred income and other liabilities'. This change in presentation for financial liabilities is considered to provide more relevant information, given the change in presentation for the financial assets. In addition, intragroup trade receivables have been reclassified from 'Loans and advances to banks' and 'Loans and advances to customers' to 'Prepayments, accrued income and other assets' and intragroup trade payables have been reclassified from 'Deposits from banks' and 'Customer accounts' to 'Accruals, deferred income and other liabilities'.*

2 *Default fund contributions of £156m have been reclassified from 'Trading assets' to 'Financial assets designated and otherwise mandatorily measured at fair value through profit or loss', as contrary to the assets mentioned in footnote 1 above, they did not meet the 'solely payments of principal and interest' ('SPPI') requirement for amortised cost classification under IFRS 9.*

3 *'Loans and advances to customers' of £2,514m and 'Loans and advances to banks' of £193m did not meet the SPPI requirement for amortised cost classification under IFRS 9. As a result, these financial assets were reclassified to 'Financial assets designated and otherwise mandatorily measured at fair value through profit or loss'. This resulted in a £6m upward remeasurement of the financial assets now measured at fair value.*

4 *IFRS 9 expected credit losses have decreased net assets by £764m, principally comprising of a £652m reduction in the carrying value of assets classified as 'Loans and advances to customers' and a £104m increase in 'Provisions' relating to expected credit losses on loan commitments and financial guarantee contracts.*

5 *Debt instruments of £2,287m, previously classified as available for sale under IAS 39, did not meet the SPPI requirement for FVOCI classification. As a result, these financial assets were classified as 'Financial assets designated and otherwise mandatorily measured at fair value through profit or loss' upon adoption of IFRS 9. Debt instruments of £6m, previously classified as available for sale under IAS 39, have been reclassified to amortised cost as a result of a 'hold to collect' business model classification under IFRS 9.*

6 *£573m of available-for-sale non-traded equity instruments have been reclassified as 'Financial assets designated and otherwise mandatorily measured at fair value through profit or loss' in accordance with IFRS 9. The group has elected to apply the FVOCI option under IFRS 9 for the remaining £89m.*

7 *As required by IFRS 9, the fair value designation of subordinated liabilities of £274m has been revoked since an accounting mismatch no longer exists. This resulted in these liabilities now being measured at amortised cost, decreasing 'Subordinated liabilities' by £52m.*

8 *We have considered market practices for the presentation of £17,958m of financial liabilities which contain both deposit and derivative components. We have concluded that a change in accounting policy and presentation from 'Trading liabilities' would be appropriate, since it would better align with the presentation of similar financial instruments by peers and therefore provide more relevant information about the effect of these financial liabilities on our financial position and performance. As a result, rather than being classified as held for trading, these liabilities are classified as 'Financial liabilities designated at fair value' from 1 January 2018.*

9 *While IFRS 9 expected credit losses have no effect on the carrying value of FVOCI debt instruments, which remain measured at fair value, the adoption of IFRS 9 resulted in a transfer of £57m between the FVOCI reserve (formerly AFS reserve) and 'Retained earnings' to reflect the difference between the cumulative impairment recognised in profit or loss in accordance with IFRS 9 and the cumulative impairment losses previously recognised in profit or loss under IAS 39. The resulting cumulative expected credit losses recognised in 'Retained earnings' on financial assets measured at FVOCI on adoption of IFRS 9 is £166m. In addition, the cumulative AFS reserve relating to financial investments reclassified to 'Financial assets designated and otherwise mandatorily measured at fair value through profit or loss' in accordance with IFRS 9 has been transferred to 'Retained earnings'.*

12 Events after the balance sheet date

On 22 June, the Directors declared a first interim dividend for 2018 of £12bn to the shareholder of the parent company with respect to ring-fencing. The dividend was distributed on 1 July 2018, on completion of ring-fencing. This dividend does not form part of the regular dividend policy. A second interim dividend for 2018 of £234m to the shareholder of the parent company was declared on 6 August 2018 by the Directors.

The bank transferred to its subsidiary, HSBC France, two wholly owned subsidiaries, HSBC Polska Bank SA and HSBC Institutional Trust Services (Ireland) DAC on 1 August 2018.

Ring-fencing implementation

The UK Financial Services (Banking Reform) Act 2013 and associated secondary legislation and regulatory rules require the separation of the UK retail banking activities from the wholesale and investment banking activities by 1 January 2019. HSBC's ring-fenced bank, HSBC UK Bank plc, was set up to hold the qualifying components of the group's UK RBWM, CMB and GPB businesses. The transfer of customer and non-customer assets, liabilities and contractual arrangements was made on 1 July 2018.

The group transferred £221.9bn of total assets and £212.0bn of total liabilities, resulting in a £9.9bn reduction in the group's equity. The bank transferred £212.0bn of total assets and £204.6bn of total liabilities, resulting in a £7.4bn reduction in the bank's equity.

As a consequence of the change in the group structure, the effect of these transfers on the total assets and total liabilities of the group and the bank will be impacted further by the intergroup assets and liabilities created.

The reduction in equity had no significant impact on the common equity tier 1 ratio of the group nor the bank, due to capital injections from HSBC during the first half of the year.

13 Interim Report 2018 and statutory accounts

The information in this *Interim Report 2018* is unaudited and does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The *Interim Report 2018* was approved by the Board of Directors on 6 August 2018. The statutory accounts for the year ended 31 December 2017 have been delivered to the Registrar of Companies in England and Wales in accordance with section 447 of the Companies Act 2006. The group's auditor, PricewaterhouseCoopers LLP ('PwC'), has reported on those accounts. Its report was unqualified, did not include a reference to any matters to which PwC drew attention by way of emphasis without qualifying their report, and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

HSBC Bank plc

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

REGISTERED OFFICE
8 Canada Square, London E14 5HQ, United Kingdom
Web: www.hsbc.co.uk

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HSBC Bank plc

8 Canada Square
London E14 5HQ
United Kingdom
Telephone: 44 020 7991 8888
www.hsbc.co.uk