HSBC Bank plc

Additional Information 2013

HSBC

Additional Information

Presentation of Information

This document, which should be read in conjunction with the HSBC Bank plc Annual Report and Accounts 2013, contains certain additional information, including commentary on the group's results in 2012 versus 2011 and certain statistical and other information not required to be included in the group's Annual Report and Accounts by either the UK Companies Act 2006 or by International Financial Reporting Standards.

In November 2012, the group sold HSBC Private Banking holdings (Suisse) SA to HSBC Holdings plc, with the exception of HSBC Private Bank (UK) Limited which remains as part of the group. The 2012 results include 10 months of HSBC Private Banking holdings (Suisse) SA prior to its sale.

With effect from 1 January 2013, the group's operating segments have been revised to reflect internal changes made to the management structure. The revised segments are consistent with those reported to the bank's Executive Committee, the identified Chief Operating Decision Maker under IFRS 8. The 2012 and 2011 segmental information comparatives have been adjusted to the new basis.

Contents

Prior period information

Financial Highlights of the group 2012 and 2011

	2012	2011
For the year (£m)		
Profit on ordinary activities before tax[1]	1,004	3,111
Total operating income	15,407	16,205
Net operating income before loan impairment charges and other credit risk provisions	12,488	14,023
Profit attributable to shareholders of the parent company	2,384	2,329
At year-end (£m)		
Total equity attributable to shareholders of the parent company	31,675	31,090
Risk weighted assets	193,402	227,679
Loans and advances to customers (net of impairment allowances)	282,685	288,014
Customer accounts	324,886	346,129
Capital ratios (%)		
Core Tier 1 ratio	11.4	9.1
Tier 1 ratio	12.4	10.0
Total capital ratio	17.3	14.4
Performance ratios (%)		
Return on average invested capital (on underlying basis)[2]	6.2	4.7
Return on average invested capital (on reported basis)	3.2	6.6
Return on average shareholders' funds (equity) of the parent company[3]	3.5	7.4
Post-tax return on average total assets	0.1	0.2
Pre-tax return on average risk-weighted assets	0.5	1.5
Dividend payout ratio[4]	118.4	76.9
Credit coverage ratios (%)		
Loan impairment charges as a percentage of total operating income	8.1	7.5
Loan impairment charges as a percentage of average gross customer advances	0.5	0.4
Efficiency and revenue mix ratios (%)		
Cost efficiency ratio[5]	82.0	66.2
As a percentage of total operating income:		
- net interest income	44.8	44.6
- net fee income	24.5	24.1
- net trading income	11.9	9.5
Financial ratios (%)		
Ratio of customer advances to customer accounts	87.0	83.2
Average total shareholders' equity to average total assets	3.4	3.3

1 *Excludes gain on sale of £1,265 million of HSBC Private Banking Holdings (Suisse) SA to HSBC Holdings plc.*
2 *The return on average invested capital measures the return made in the business, enabling management to benchmark the group against competitors. This ratio is defined as profit attributable to shareholders of the parent company divided by average invested capital. Average invested capital is measured as average total shareholders' equity after:*
- *deducting the average balance of the group's revaluation surplus relating to property held for own use. This reserve was generated when determining the deemed carrying cost of such properties on transition to IFRSs and will run down over time as the properties are sold;*
- *deducting average preference shares and other equity instruments issued by HSBC Bank plc (as defined in Note 37 'Called up share capital and other equity instruments'); and*
- *deducting average reserves for unrealised gains/ (losses) on effective cash flow hedges and available-for-sale securities.*

3 *The return on average total shareholders' equity is defined as profit attributable to shareholders of the parent company divided by the average total shareholders' equity.*
4 *Dividends per ordinary share expressed as a percentage of basic earnings per share. Dividends recorded in the financial statements are dividends per ordinary share declared in a year and are not dividends in respect of, or for, that year.*
5 *The cost efficiency ratio is defined as total operating expenses divided by net operating income before loan impairment charges and other credit risk provisions.*

The financial highlights are influenced by changes in the group structure since 2011.

Prior period information (continued)

Key Performance Indicators

The Board of Directors monitors the group's progress against its strategic objectives on a regular basis. Progress is assessed by comparison with the group strategy, operating plan targets and historical performance. Further information on the key performance indicators is given on page 7 of the *Annual Report and Accounts 2013*.

Financial KPIs

	2012 %	2011 %
Risk adjusted revenue growth	(9.3)	(5.5)
Cost efficiency	82.0	66.2
Pre-tax return on average risk-weighted assets	0.5	1.5
Core tier 1 capital	11.4	9.1

Financial summary

Summary consolidated income statement

	2012 £m	2011 £m
Net interest income	6,904	7,223
Net fee income	3,781	3,900
Trading income	1,834	1,536
Net income from financial instruments designated at fair value	118	433
Gains less losses from financial investments	336	292
Net earned insurance premiums	2,286	2,580
Other operating income	148	241
Total operating income	15,407	16,205
Net insurance claims incurred and movement in liabilities to policyholders	(2,919)	(2,182)
Net operating income before impairments and provisions	12,488	14,023
Loan impairment charges and other credit risk provisions	(1,245)	(1,623)
Net operating income	11,243	12,400
Total operating expenses[1]	(10,236)	(9,288)
Operating profit	1,007	3,112
Share of profit in associates and joint ventures	(3)	(1)
Profit before tax	1,004	3,111
Tax credit/(expense)	156	(734)
Profit for the year before discontinued operations	1,160	2,377
Gain on sale of discontinued operations[2]	1,265	–
Profit for the year	2,425	2,377
Profit attributable to shareholders of the parent company	2,384	2,329
Profit attributable to non-controlling interests	41	48

1 *Total operating expenses include £1,379 million of provisions relating to customer redress programmes in 2012, compared to £507 million in 2011, other provisions including £84 million for vacant space and impairment on associated assets, operational losses of £65 million resulting from closed account balances of dissolved companies, restructuring costs of £193 million in 2012 compared to £237 million in 2011 and an accounting gain in the UK of £360 million resulting from legislative change in the inflation measure used to calculate the indexation of certain pension liabilities in May 2011.*

2 *On the sale of HSBC Private Banking Holdings (Suisse) SA, the associated foreign exchange revaluation reserve of £1,258 million was recycled through the income statement, together with a gain on disposal of £7 million.*

Prior period information (continued)

Review of business performance

2012 compared with 2011

HSBC Bank plc and its subsidiary undertakings reported profit before tax of £1,004 million, 68 per cent lower than 2011. This was primarily due to adverse fair value movements on own debt attributable to credit spreads of £1,055 million, compared with favourable movements of £832 million in 2011 and provisions for UK customer redress programmes of £1,379 million, which compared with £507 million in 2011. This was partly offset by favourable Global Banking and Markets revenues, notably in the Rates and Credit businesses as spreads on eurozone bonds tightened and investor sentiment improved. Impairment charges also fell due to lower credit risk provisions in Global Banking and Markets notably in the legacy credit portfolio, and improved delinquency rates in Retail Banking and Wealth Management due to the continued improvement in the quality of these portfolios with a higher proportion of secured lending.

Excluding the fair value movement on own debt and customer redress provisions, profit before tax was 23 per cent higher than in 2011.

During the year, the group continued to make progress in reshaping the business in Europe. The disposal of non-core businesses has simplified the European portfolio, allowing the group to concentrate resources on businesses where sustainable profits and growth can be delivered and risks managed effectively. During 2012, business exits from Hungary, Georgia, Slovakia, Retail Banking and Wealth Management in Russia and Poland, and the disposals of Property Vision in the UK, insurance and reinsurance businesses in Ireland, and the retail equities brokerage in Greece were completed.

In November 2012, in line with HSBC's strategy, which includes simplifying the management of the Group, the legal ownership of HSBC Private Banking Holdings (Suisse) SA, the principal holding company for the Group's Global Private Banking entities, was transferred to HSBC Holdings plc. The ownership of HSBC Private Bank (UK) Limited and a limited number of other private banking businesses remain with HSBC Bank plc.

Progress continues to be made in aligning the businesses in country to their respective global business operating models. This is planned to reduce complexity and lower costs in a sustainable way. Total restructuring costs of £193 million were incurred as a result of organisational effectiveness and other initiatives which delivered sustainable cost savings of approximately £451 million.

Retail Banking and Wealth Management continued to make progress in delivering against strategy. In the UK, there was growth in mortgage balances resulting from the success of competitive offers and marketing campaigns. Changes were made to the structure of the UK wealth management business and its products were enhanced to meet new regulatory requirements. The expansion of the business continued in Turkey, notably in personal lending and cards, while in France there was strong growth in both mortgage and deposit balances.

Commercial Banking continued to invest in the UK, increasing the number of International Relationship Managers and launching an International Small and Medium Enterprise ('SME') Fund to support UK businesses that trade, or aspire to trade, internationally. Dedicated 'China Desks', which aim to provide local support to Chinese companies as they look to expand their international businesses, were established in the UK, France and Germany. Growth in Payments and Cash Management revenues reflected higher transaction volumes from new mandates and investments in new products. In line with the strategy, the Business Banking segment continued its focus of attracting and servicing international SMEs. In the UK sales of interest rate protection products to customers in the Business Banking segment were withdrawn.

Global Banking and Markets continued to develop cross-product capabilities in the growing renminbi market. In the first half of 2012, the group issued the first international renminbi bond outside of Mainland China and Hong Kong. Since then a number of significant transactions, supported by collaboration with other regional teams, has reinforced HSBC's position as the leading house for international renminbi issuance. In the Foreign Exchange business, the focus remained on enhancing product offerings in e-FX platforms to a broader client base. In Payments and Cash Management, the business won a number of mandates and implemented the Global Liquidity Solutions proposition to provide advanced liquidity management functionality for clients. Global Banking and Markets continues to actively manage down the legacy credit exposures using a clear economic framework for making disposal decisions.

In 2012, Global Private Banking repositioned its business model and target client base to focus on selected priority markets. Building on existing product strengths and leveraging Group capabilities the business will focus on meeting the needs of higher net worth international and domestic customers. This will provide clients with globally consistent products and services while improving co-ordination of marketing and servicing activity.

The following items are significant in a comparison of 2012's results to 2011:

- provisions of £1,379 million in 2012 and £507 million in 2011. In 2012, this included £938 million estimated redress for the possible mis-selling of PPI policies and £375 million in relation to the possible mis-selling of interest rate protection products, of which £168 million relates to the estimated redress payable to customers;

Prior period information (continued)

- other provisions including £84 million for vacant space and impairment on associated assets;
- operational losses of £65 million resulting from closed account balances of dissolved companies;
- operating expenses of £193 million in 2012 in relation to restructuring, compared to £237 million in 2011; and
- an accounting gain of £360 million resulting from legislative change in the inflation measure used to calculate the defined benefit obligation in the UK for deferred pensions recognised in 2011.

Net interest income decreased by £319 million or 4 per cent. Balance Sheet Management revenues declined as yield curves continued to flatten and interest rates remained low. The redeployment of liquidity from disposals of available-for-sale debt securities to relatively lower yielding central bank placements also contributed to the decline.

In Retail Banking and Wealth Management net interest income was lower primarily due to lower deposit spreads in France. This was partly offset by an increase in Turkey due to growth in average personal lending and credit card balances due to business expansion and strong growth in UK average residential mortgage balances and margins.

Net interest income increased in Commercial Banking due to improved lending balances in the UK and Turkey partially offset by lower deposit spreads in France.

Net interest income decreased in Global Private Banking reflecting the impact of the inclusion of only 10 months in 2012, following the transfer of the majority of the segment to HSBC Holdings plc, compared to a full year in 2011. The redeployment of liquidity from higher yielding debt securities which had matured to relatively lower yielding securities also contributed to the decline, as the business selectively managed exposures to eurozone sovereign debt.

Net fee income declined by £119 million or 3 per cent mainly due to a fall in brokerage fees in Global Private Banking following the transfer of the majority of the business segment to HSBC Holdings plc at the beginning of November 2012. In Commercial Banking, new mandates earned in Payments and Cash Management and higher transaction volumes in Global Trade and Receivables Finance resulted in higher levels of net fee income in the UK. Higher net fee income in Retail Banking and Wealth Management reflected lower levels of insurance fees payable and increased levels of cards fee income in Turkey. The growth in Global Banking & Markets fees reflected increased client demand for debt capital financing.

Trading income increased by £298 million or 19 per cent primarily due to significantly higher Rates and Credit revenues as spreads tightened and investor sentiment improved following stimuli by central banks. This was despite significant adverse fair value movements in Rates, including a charge from own credit spreads on structured liabilities as spreads tightened which compared with a gain reported in 2011. In addition, there was a net charge of £196 million as the result of a change in estimation methodology in respect of credit valuation adjustments on derivative assets and debit valuation adjustments on derivative liabilities. Foreign Exchange income was also stronger as a result of robust client flows.

Foreign exchange losses were reported on trading assets held as economic hedges of foreign currency debt designated at fair value, which are offset in *'Net income from financial instruments designated at fair value'*.

Net income from financial instruments designated at fair value decreased by £315 million or 73 per cent in 2012. Excluding the adverse fair value movements due to the change in credit spreads on own debt held at fair value, net income from financial instruments designated at fair value was £ 1,173 million in 2012 compared with a net expense of £399 million in 2011. This reflected favourable foreign exchange movements on foreign currency debt designated at fair value issued as part of the bank's overall funding strategy, with an offset reported in *'Trading income'*. In addition, net investment gains were recognised on the fair value of assets held to meet liabilities under insurance and investment contracts as market conditions improved, compared with net investment losses in 2011. The corresponding movement in liabilities to customers is recorded under *'Net insurance claims incurred and movement in liabilities to policyholders'* to the extent that these investment gains or losses were attributed to policyholders holding unit-linked insurance policies and insurance or investment contracts with Discretionary Participation Features ('DPFs').

Gains less losses from financial investments were £44 million or 15 per cent higher than in 2011 mainly from higher gains on the disposal of available-for-sale debt securities as part of portfolio management activities. This was partly offset by losses on the disposal of legacy assets in Global Banking and Markets in the UK.

Net earned insurance premiums decreased by £294 million or 11 per cent mainly due to lower life insurance sales in Retail Banking and Wealth Management in France as a result of the adverse economic environment and increased competition from other banking products. The disposal of the insurance and reinsurance businesses in Ireland in 2012 also contributed to the decline.

Other operating income decreased by £93 million or 39 per cent. This included losses on the sale of certain syndicated loans in Global Banking and Markets in the UK.

Prior period information (continued)

Net insurance claims incurred and movement in liabilities to policyholders increased by £737 million driven by gains on the fair value of assets held to support policyholder contracts, with a corresponding increase in *'Net income from financial assets designated at fair value'*. This was partly offset by lower reserves established for new business reflecting the decline in premiums in France, together with the run down and subsequent disposal of the insurance and reinsurance businesses in Ireland in 2012.

Loan impairment charges and other credit risk provisions decreased by £378 million or 23 per cent. Global Banking and Markets reported lower credit risk provisions on available-for-sale asset-backed securities driven by an improvement in underlying asset prices, as well as lower charges on Greek sovereign debt. In addition, there was a reduction in loan impairment charges in Retail Banking and Wealth Management in the UK as the business continued to identify and monitor customers facing financial hardship and focused personal lending growth on higher quality assets. This reduction was partly offset by higher impairment charges driven by growth in the card and personal lending portfolios in Turkey. The increase in Commercial Banking was due to a number of specific impairments in the UK and higher impairment charges in Greece, Spain and Turkey. The lower impairment charge in Group Private Banking reflected the non-recurrence of provisions against Greek debt securities in 2011.

Total operating expenses increased by £948 million or 10 per cent. This included additional provisions of £1,379 million in 2012 in respect of customer redress provisions, primarily in the UK, compared with a charge of £507 million in 2011. These provisions included £938 million for the possible mis-selling of Payment Protection Insurance ('PPI') policies and £375 million in relation to the possible mis-selling of interest rate products in previous years, of which £168 million relates to the estimated redress to be paid to customers.

Costs also rose due to the non-recurrence of a credit of £360 million following a change in the inflation measure used to calculate the defined benefit obligation in the UK for deferred pensions. Restructuring costs of £193 million were £44 million lower than in 2011, as the review initiated in 2011 to improve cost efficiency continued to be implemented and the group completed disposals and exits across Europe.

Excluding these items, costs fell during 2012. Strict cost control and the continued delivery of organisational effectiveness programmes resulted in sustainable cost savings of approximately £451 million. The number of employees (expressed in FTEs) at the end of the 2012 was 7 per cent lower than at the end of 2011. This reflected the planned net reduction of staff numbers across the group from organisational effectiveness initiatives and business disposals.

The savings obtained through the organisational effectiveness programmes and business disposals enabled the group to invest in strategic initiatives including certain business expansion projects and enhance processes and technology capabilities.

Given the UK statutory tax rate of 24.5 per cent, the effective tax rate ('ETR') for HSBC Bank plc would be expected to be at or around this level. In 2012 the ETR would have been approximately 23.3 per cent except for the impact of specific non-recurring items. Adjustments in respect to prior years and non-taxable income on the sale of HSBC Private Banking Holdings (Suisse) SA reduced the 2012 ETR by 16.1 per cent and 14.1 per cent respectively. The adjustment in respect of prior years includes items on which HSBC Holdings plc has agreed to assume the bank's liability as part of a settlement with the UK tax authorities and a tax recovery in respect of European dividends following a recent favourable ruling by the European Court of Justice. The amount of foreign exchange revaluation reserve recycled through the Income Statement, following the sale of HSBC Private Banking Holdings (Suisse) SA, of £1,258 million which is not taxable also reduced ETR. As a result of these one - off items the ETR for the year was a credit of 6.9 per cent.

Prior period information (continued)

Review of business position

Summary consolidated balance sheet[1]

	2012 £m	2011 £m
Total assets	815,481	827,970
Cash and balances at central banks	51,613	56,460
Trading assets	161,516	126,598
Financial assets designated at fair value	15,387	15,332
Derivative assets	177,808	176,993
Loans and advances to banks	32,286	44,603
Loans and advances to customers	282,685	288,014
Financial investments	71,265	93,112
Other	22,921	26,858
Total liabilities	783,281	796,366
Deposits by banks	39,571	41,032
Customer accounts	324,886	346,129
Trading liabilities	122,896	119,211
Financial liabilities designated at fair value	32,918	31,992
Derivative liabilities	181,095	178,121
Debt securities in issue	40,358	42,688
Liabilities under insurance contracts issued	17,913	16,347
Other	23,644	20,846
Total equity	32,200	31,604
Total shareholders' equity	31,675	31,090
Non-controlling interests	525	514

Summary of key balances on a continuing operations basis[2]

	2012 £m	2011[2] £m
Total assets	815,481	780,598
Of which:		
Cash and balances at central banks	51,613	50,023
Loans and advances to customers	282,685	273,271
Financial investments	71,265	75,421
Total liabilities	783,281	756,081
Of which:		
Customer accounts	324,886	296,900

1 *Reported balances as at 31 December.*

2 *Excludes HSBC Private Banking Holdings (Suisse) SA balance.*

Prior period information (continued)

Movements in 2012

Total reported assets were £815 billion, 2 per cent lower than at 31 December 2011.

Excluding the effect of the transfer of HSBC Private Banking Holdings (Suisse) SA to HSBC Holdings plc, total assets increased by 4 per cent.

The following commentaries are after adjusting for the impact of the transfer of HSBC Private Banking Holdings (Suisse) SA.

The group maintained a strong and liquid balance sheet with the ratio of customer advances to customer accounts at 87.0 per cent (2011: 83.2 per cent).

The group's reported core tier 1 ratio stood at 11.4 per cent (2011: 9.1 per cent).

Assets

Cash and balances at central banks rose by 3 per cent as a greater portion of the surplus liquidity was placed with central banks, reflecting both the group's conservative risk profile and growth in customer deposits.

Trading assets increased by 28 per cent. At the end of 2011, as eurozone debt concerns dominated the global economy, the group reduced its holdings of debt and equity securities and did not replace maturities in the reverse repo book. In 2012, client activity increased from these subdued levels and resulted in a rise in reverse repo and securities borrowing balances, together with higher holdings of equity securities.

Financial assets designated at fair value were in line with 2011.

Derivative assets were broadly in line with December 2011 levels. The downward movements in yield curves of major currencies led to a rise in the fair value of interest rate contracts. This was offset by a decline in the fair value of credit derivative contracts as spreads tightened, and reduced fair values of foreign exchange derivatives.

Loans and advances to banks declined by 21 per cent, driven by a reduction in reverse repo balances in Europe.

Loans and advances to customers increased by 3 per cent. Residential mortgage balances continued to grow strongly, reflecting the success of marketing campaigns and competitive pricing in the UK. In addition, an increase in lending to corporate customers, the result of demand for credit from SMEs in the UK, and higher levels of corporate overdraft balances which did not meet netting criteria also contributed to the increase the UK. Lending to Global Banking and Markets customers declined as a result of the disposal of selected positions as exposure to certain sectors was reduced, together with a small number of large repayments. Reverse repos balances also declined.

Financial investments declined by 6 per cent as part of the group's redeployment of liquidity arising following the strategic disposal of government debt securities.

Liabilities

Deposits by banks declined by 15 per cent due to lower placements by, and repo activity with, other financial institutions.

Customer accounts rose by 9 per cent. This was driven by higher Payments and Cash Management balances and a rise in deposits in the UK reflecting the success of deposit gathering campaigns. The increase in current accounts, in the UK, was also attributable to the rise in overdrafts which did not meet netting criteria, with a corresponding rise reported in loans and advances to customers.

Trading liabilities grew by 3 per cent, largely due to a decrease in the number of repos that were eligible for netting.

Derivative liabilities increased by 2 per cent. The derivative businesses are managed within market risk limits and, as a consequence, the increase in the value of '*Derivative liabilities'* broadly matched that of *'Derivative assets'*.

Debt securities in issue fell by 12 per cent as maturing bonds and certificates of deposit were not replaced. This was compounded by paydowns of commercial paper during the period.

Liabilities under insurance contracts increased by 10 per cent. The increase was driven mainly by reserves established for new business premiums written in France, together with an increase in equity markets, which resulted in an increase in the fair value of assets held to support unit-linked and investment and insurance contracts with DPFs.

Equity

Total shareholders' equity rose by 2 per cent, mainly due to the favourable movement on the available-for-sale reserve from a negative balance of £2,020 million at 31 December 2011 to a negative balance of £266 million at 31 December 2012, reflecting an improvement in the fair value of these assets.

Prior period information (continued)

Performance and Business Review

Profit on ordinary activities before tax

	2012 £m Reported	2011 £m Reported
Retail Banking and Wealth Management	411	806
Commercial Banking	766	1,051
Global Banking and Markets	642	(94)
Global Private Banking	480	528
Other/Intersegment[1]	(1,295)	820
	1,004	3,111

Retail Banking and Wealth Management

	2012 £m	2011 £m
Net interest income	3,394	3,438
Net fee income	1,532	1,520
Trading income[1]	32	39
Other income	(52)	14
Net operating income before impairments and provisions	4,906	5,011
Loan impairment charges and other credit risk provisions	(248)	(408)
Net operating income	4,658	4,603
Total operating expenses	(4,248)	(3,796)
Operating profit	410	807
Share of profit in associates and joint ventures	1	(1)
Profit before tax	411	806

Profit before tax – by country

	2012 £m	2011 £m
United Kingdom	309	811
France	85	43
Germany	18	24
Turkey	(20)	4
Malta	26	19
Other	(6)	(95)
	411	806

In the 2012 Annual Report and Accounts, the group's segments reported under IFRS 8 Operating Segments were: UK Retail Banking, Continental Europe Retail Banking, Global Banking and Markets, Global Private Banking and Other. Following the sale of HSBC Private Banking (Suisse) SA in November 2012, which made up the majority of Global Private Banking, and a reorganisation of reporting lines, operating segments were reviewed for all reporting periods from 1 January 2013. The group has revised its operating segments, to: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, Global Private Banking and Other. The 2012 and 2011 comparatives have been adjusted accordingly.

Overview

Retail Banking and Wealth Management reported a profit before tax of £411 million, 49 per cent lower than 2011. This was primarily due to an increase in provisions recognised in respect of customer remediation programmes, partially offset by lower loan impairment charges.

For Retail Banking and Wealth Management, the following items are significant in a comparison of 2012's results against 2011:

- provisions of £982 million in 2012 and £493 million in 2011. In 2012, this included £938 million estimated redress in respect of the possible mis-selling of PPI policies; and
- restructuring costs of £47 million in 2012 and £118 million in 2011 resulting from business transformation initiatives; and
- an accounting gain of £162 million resulting from legislative change in the inflation measure used to calculate the defined benefit obligation in the UK for deferred pensions recognised in 2011.

Excluding the above items, Retail Banking and Wealth Management profit before tax was £1,440 million, 15 per cent higher than 2011.

In Retail Banking and Wealth Management, progress continued on delivering the strategy of building long-term sustainable relationships with target customers with particular focus on mortgage lending and wealth management. The share of new UK mortgage lending in

Prior period information (continued)

2012 was 12 per cent, which was higher than the 10 per cent share of new lending in the prior year, while maintaining a loan-to-value ratio of 52 per cent. New mortgage lending of £19.5 billion was approved during 2012, compared to the group's original lending commitment of £15 billion, with £5 billion approved for first time buyers.

During the year, the group's Wealth Management products and services were re-designed in accordance with the changes in regulation arising from the Financial Services Authority's Retail Distribution Review, which will be introduced on 1 January 2013. The business continues to offer a competitive fee-based financial advice service to Premier customers.

Retail Banking and Wealth Management benefited from the non-recurrence of the restructuring costs in France in 2011 and the previously announced closures of businesses in Poland, Russia, Georgia, Slovakia and Hungary. This was partially offset by the cost of business expansion in Turkey and the impact from the disposal of the insurance and reinsurance businesses in Ireland. The focus continues to be on simplifying the existing business and continued development in Wealth Management targeting the mass affluent market.

Financial performance

Net interest income decreased by £44 million or 1 per cent primarily due to lower deposit spreads in France reflecting the adverse market conditions, partly offset by higher personal lending and mortgage balances in Turkey due to business expansion.

Net fee income was £12 million or 1 per cent higher compared to 2011, primarily due to a lower level of commissions paid following the winding down and disposal of the insurance business and reinsurance businesses in Ireland, along with growth in card volumes in Turkey. This was partly offset by lower fees from assets under management in France due to a fall in average client assets from net money flow and lower general insurance revenues in the UK.

Trading income decreased by £7 million or 18 per cent due to adverse fair value adjustments on non-qualifying hedges on the French mortgage portfolio along with adverse market movements on derivatives used as economic hedges in the insurance business in France. This was partly offset by an increase in the UK as a result of bringing the provision of travel money services in-house during 2011.

Other income decreased by £66 million due to the impact of the one-off gain arising from the change in methodology used in the recognition of wealth insurance products sold in 2012, along with lower Wealth revenues which were impacted by structural changes made to the business in anticipation of the changes in regulation arising from the Retail Distribution Review in the UK. In addition, other income in Ireland was lower due to the winding down and disposal of the insurance and reinsurance businesses. These were partly offset by higher insurance manufacturing revenues in France.

Loan impairment charges and other credit risk provisions decreased by £160 million or 39 per cent lower due to lower levels of delinquency across the secured and unsecured portfolios resulting from the continued focus on improving collections and the high quality of new business booked over the last four years in the UK. This was partly offset by an increase in loan impairment charges in Turkey as the balance sheet grew due to business expansion.

Total operating expenses rose by £452 million or 12 per cent. Excluding the customer redress provisions of £982 million in 2012 compared with £493 million in 2011, restructuring costs and the £162 million accounting gain arising from changes in indexation of certain pension liabilities recognised in 2011, operating expenses were £128 million or 4 per cent lower than prior year. Cost reductions were delivered through sustainable cost savings and the re-engineering of business processes that commenced in 2011 along with the completion of business exits and disposals.

Prior period information (continued)

Commercial Banking

	2012 £m	2011 £m
Net interest income	2,037	1,939
Net fee income	1,047	1,022
Trading income	26	13
Other income	70	90
Net operating income before impairments and provisions	3,180	3,064
Loan impairment charges and other credit risk provisions	(699)	(600)
Net operating income	2,481	2,464
Total operating expenses	(1,715)	(1,413)
Operating profit	766	1,051
Share of profit in associates and joint ventures	-	–
Profit before tax	766	1,051

Profit before tax – by country

	2012 £m	2011 £m
United Kingdom	529	765
France	128	120
Germany	41	44
Turkey	45	39
Malta	33	45
Other	(10)	38
	766	1,051

Overview

Commercial Banking reported a profit before tax of £766 million, 27 per cent lower than 2011. This was primarily due to an increase in provisions recognised in respect of customer remediation programmes and higher loan impairment charges, partly offset by growth in net interest income.

For Commercial Banking, the following items are significant in a comparison of 2012's results against 2011:

- provisions of £162 million in 2012 and £14 million in 2011. In 2012, this included £168 million in relation to the possible mis-selling of interest rate protection products, of which £74 million relates to the estimated redress payable to customers;
- operational losses of £65 million resulting from the closed account balances of dissolved companies;
- restructuring costs of £22 million in 2012 and £45 million in 2011 resulting from business transformation initiatives; and
- an accounting gain of £130 million from legislative change in the inflation measure used to calculate the defined benefit obligation in the UK for deferred pensions recognised in 2011.

Excluding the items above, Commercial Banking profit before tax was £1,015 million, 4 per cent higher than 2011.

Commercial Banking continued to implement the strategy to become the leading international trade and business bank. In 2012, the business launched an International Small and Medium Enterprise ('SME') Fund to support UK businesses that trade, or aspire to trade, internationally. By the end of 2012, lending through the fund totalled £5.1 billion, exceeding the original target of £4 billion. Total gross new lending to SMEs in the UK rose by 3 per cent to £12.3 billion and over 80 per cent of small business lending applications received during the year were approved.

Revenue from international customers increased and the focus on this client base, together with targeted initiatives such as deposit acquisition, regional pricing strategies and streamlining of systems and processes, led to a rise in the Payments and Cash Management and Global Trade and Receivable Finance income.

Commercial Banking continued to focus on its business portfolio in core markets and segments with controlled exits from certain portfolios, along with the exit of Georgia, Slovakia and Hungary. Payments and Cash Management continued to build a consistent product offering across Europe and has won mandates from both new and existing clients.

Financial Performance

Net interest income increased by £98 million or 5 per cent primarily due to growth in average customer account and average lending balances in the UK and improved lending margins in Turkey, partly offset by lower deposit spreads in France reflecting the adverse market conditions.

Net fee income increased by £25 million or 2 per cent primarily due to a change in pricing in Payments and Cash Management in the UK and number of new client mandates in both Payments and Cash Management and Global Trade and Receivable Finance across Europe.

Trading income increased by £13 million from an increase in fair value of derivatives contracts held within insurance unit-linked funds in the UK. There is a corresponding offset reported in *"Other income"*.

Prior period information (continued)

Other income decreased by £20 million or 22 per cent due to the impact of the one-off gain arising from the changes in methodology used in recognition of insurance revenues in 2011. This was also impacted by the offset on the gains on derivatives reported within *'Net trading income'*.

Loan impairment charges increased by £99 million or 17 per cent due to customer specific impairments spread across a number of industry sectors in the UK along with higher provisions in Greece, Spain and Turkey due to adverse market conditions. Given the weakened financial state of some commercial customers, a continuation in the positive impairment trend remains sensitive to general economic activity.

Total Operating Expenses increased by £302 million or 21 per cent. Excluding the customer redress provisions of £162 million in 2012 compared with £14 million in 2011, operational losses of £65 million resulting from closed account balances of dissolved companies, restructuring costs and the £130 million accounting gain arising from changes in indexation of certain pension liabilities recognised in 2011, operating expenses were £18 million or 1 per cent lower than the prior year. Cost reductions were delivered through sustainable cost savings and the re-engineering of business processes that commenced in 2011.

Global Banking and Markets

	2012 £m	2011 £m
Net interest income	876	1,323
Net fee income	616	598
Trading income	1,554	1,083
Other income	973	267
Net operating income before impairments and provisions	4,019	3,271
Loan impairment charges and other credit risk provisions	(280)	(543)
Net operating income	3,739	2,728
Total operating expenses	(3,093)	(2,822)
Operating profit	646)	(94)
Share of profit in associates and joint ventures	(4)	–
Profit before tax	642	(94)

Profit before tax – by country

	2012 £m	2011 £m
United Kingdom	(55)	(294)
France	326	(124)
Germany	178	131
Turkey	66	54
Malta	20	13
Other	107	126
	642	(94)

1 *The bank's Balance Sheet Management business, reported within Global Banking and Markets, provides funding to the trading businesses. To report Global Banking and Markets Trading income on a fully funded basis, Net interest income and Trading income are grossed up to reflect internal funding transactions prior to their elimination in the Inter Segment column (refer to Note 13).*

Overview

Global Banking and Markets reported a profit before tax of £642 million in the period compared with a loss before tax of £94 million in 2011.

Overall, revenues rose by 23 per cent, primarily due to higher trading revenues in Rates and Credit as spreads tightened and investor sentiment improved following stimulus by central banks. Foreign Exchange performance was stronger as a result of robust client flows, in part due to enhanced collaboration with Commercial Banking. These movements were partly offset by lower revenues in Financing and Equity Capital Markets within Global Banking, and Balance Sheet Management.

For Global Banking and Markets, the following items are significant in making a comparison of 2012's results against 2011:

- a provision of £207 million in 2012, in respect of the possible mis-selling of interest rate protection products, of which £94 million relates to the estimated redress to be paid to customers;
- restructuring costs of £36 million in 2012 and £60 million in 2011 resulting from business transformation initiatives; and
- an accounting gain of £68 million resulting from legislative change in the inflation measure used to calculate the defined benefit obligation in the UK for deferred pensions recognised in 2011.

Financial performance

Net interest income decreased by £447 million or 34 per cent compared to 2011, mainly due to the decline in Balance Sheet Management revenues as yield curves continued to flatten and interest rates remained low, together with a reduction in the available-for-sale debt

Prior period information (continued)

security portfolio as a result of disposals. Revenues were also lower in Credit and Lending, reported in Global Banking, as clients sought long-term funding from debt capital markets. In the legacy credit portfolio, reported in Global Markets, a reduction in portfolio size resulted in lower effective yields. This was partly offset by higher Payments and Cash Management revenues which increased due to growth in average liability balances and transaction volumes. This reflected new mandates and an increased focus on cross-selling payments and cash management solutions to international customers.

Net fee income increased by £18 million or 3 per cent compared with 2011. Revenues from primary market issuance, mainly within Credit increased as the business enhanced regional coverage and actively captured growth in client demand for debt capital financing. This was partly offset by lower revenues in Financing and Equity Capital Markets in Global Banking, as advisory and underwriting fees declined reflecting the challenging economic environment.

Trading income was £471 million or 43 per cent higher than 2011. Rates trading revenues increased, despite significant adverse fair value movements from own credit spreads on structured liabilities as spreads tightened, compared with a gain reported in 2011, together with a charge of £387 million reported in the fourth quarter as a result of a change in estimation methodology in respect of credit valuation adjustments on derivative assets to reflect evolving market practices. Excluding legacy credit, Credit trading revenues increased as credit spreads tightened resulting in gains on corporate bonds. Foreign Exchange performance increased from robust client flows in part due to enhanced collaboration with Commercial Banking, along with increased volumes as the business improved its electronic pricing and distribution capabilities. This was partly offset, however, by lower revenues from less volatile markets in 2012.

Foreign exchange losses were reported on trading assets held as economic hedges of foreign currency debt designated at fair value, with the offset reported in *'Other income'*. In addition, trading income benefited by £191 million from the change in estimation methodology for debit valuation adjustments on derivative liabilities.

Other income grew by £706 million mainly due to foreign exchange gains on debt designated at fair value, with the offset reported in *'Trading income'*, as noted above. Balance Sheet Management reported higher gains on the disposal of available-for-sale debt securities as part of portfolio management activities. This was partly offset by losses on the disposal of legacy assets in Global Banking and Markets in the UK.

Loan impairment charges and other credit risk provisions declined by £263 million or 48 per cent, primarily due to lower impairments on available-for-sale asset-backed securities driven by an improvement in underlying asset prices, along with lower charges on Greek sovereign debt.

Total operating expenses increased by £271 million or 10 per cent. This included a customer redress provision of £207 million relating to interest rate protection products, of which £94 million relates to the estimated redress to be paid to customers. In addition, restructuring costs of £36 million were incurred in 2012 compared with £60 million in 2011, and an accounting gain of £68 million resulting from a change in the inflation measure used to calculate the defined benefit obligation for deferred pensions in the UK was recognised in 2011. Excluding these, expenses increased by £20 million or 1 per cent predominantly driven by higher performance costs which increased relative to revenue growth.

Prior period information (continued)

Global Private Banking

	2012[1] £m	2011 £m
Net interest income	597	750
Net fee income	583	700
Trading income	254	250
Other income	8	22
Net operating income before impairments and provisions	1,442	1,722
Loan impairment charges and other credit risk provisions	(18)	(72)
Net operating income	1,424	1,650
Total operating expenses	(943)	(1,122)
Operating profit	481	528
Share of profit in associates and joint ventures	(1)	–
Profit before tax	480	528

Profit before tax – by country

	2012 £m	2011 £m
United Kingdom	134	53
France	(7)	10
Germany	25	19
Turkey	–	1
Malta	–	–
Other	328	377
	480	528

1 *The results for 2012 include only 10 months of HSBC Private Banking Holdings (Suisse) SA, prior to its sale.*

Overview

Global Private Banking reported profit before tax of £480 million in 2012 compared with £528 million in 2011, a decrease of 9 per cent. The significant item in making a comparison of 2012's results against 2011 is the sale of HSBC Private Banking Holdings (Suisse) SA to HSBC Holdings plc in November 2012.

The results exclude the November and December 2012 results for HSBC Private Banking Holdings (Suisse) SA.

Financial performance

Net interest income decreased by £153 million or 20 per cent against 2011, reflecting the sale of the majority of the business segment. Excluding this impact, net interest income was 10 per cent lower as higher yielding positions matured, opportunities for reinvestment were limited by lower prevailing yields and the business managed selectively the exposures to eurozone sovereign debt. This was partly offset by a corresponding increase in *'net trading income'* through arbitrage opportunities on funding swaps.

Net fee income was lower by £117 million or 17 per cent. The fall reflected the inclusion of fee income for only 10 months. Net fee income was also impacted by a decline in fees from assets under management and account services due to a reduction in average client assets, and in client numbers following a programme to refocus the target client base.

Net trading income increased by £4 million, or 2 per cent. The impact of the sale of HSBC Private Banking Holdings (Suisse) SA was offset by higher volumes of funding swap positions.

Other income decreased by £14 million primarily due to the loss on the sale of Property Vision in 2012 and the non-recurrence of gains realised on HSBC vested shares in 2011.

Loan impairment charges and other credit risk provisions declined by £54 million mainly due to the non-recurrence of the impairment charge in 2011 recorded against Greek available-for-sale debt securities.

Total operating expenses decreased by £179 million or 16 per cent compared to 2011. Excluding the sale, operating expenses were broadly flat, as the reduction resulting from organisational effectiveness initiatives was partially offset by customer redress provisions of £28 million and restructuring costs of £31 million in 2012.

Prior period information (continued)

Other

	2012 £m	2011 £m
Net interest income	(43)	(93)
Net fee income	3	60
Trading income	(9)	(7)
Other income	(937)	1,064
Net operating income before impairments and provisions	(986)	1,024
Loan impairment charges and other credit risk provisions	–	–
Net operating income	(986)	1,024
Total operating expenses	(310)	(204)
Operating profit	(1,296)	820
Share of profit in associates and joint ventures	1	–
Profit before tax	(1,295)	820

The reported loss before tax in 'Other' was £1,295 million, compared to a profit before tax of £820 million in 2011

Other includes:

- the change in own credit spread on long-term debt which resulted in a loss of £1,055 million in 2012 compared with gains of £832 million in 2011;
- other provisions including £84 million for vacant space and impairment on associated assets; and
- restructuring costs of £57 million in 2012 and £14 million in 2011.

Other information

Average balance sheet and net interest income

Average balances are based on daily averages of the group's banking activities with monthly or less frequent averages used elsewhere. Net interest margin numbers are calculated by dividing net interest income as reported in the income statement by the average interest-earning assets from which interest income is reported within the *'Net interest income'* line of the income statement. Interest income and interest expense arising from trading assets and liabilities and the funding thereof is included within *'Net trading income'* in the income statement.

Assets

Summary	2013 Average balance £m	2013 Interest income £m	2013 Yield %	2012 Average balance £m	2012 Interest income £m	2012 Yield %	2011 Average balance £m	2011 Interest income £m	2011 Yield %
Interest-earning assets measured at amortised cost (itemised below)...	**405,671**	**10,000**	**2.47**	465,594	10,674	2.29	459,830	11,351	2.47
Trading assets and financial assets designated at fair value	**133,406**	**2,122**	**1.59**	134,841	2,463	1.83	163,859	3,264	1.99
Impairment provisions	**(3,499)**			(3,488)			(3,402)		
Non-interest-earning assets	**283,677**			341,851			341,685		
Total assets and interest income.......	**819,255**	**12,122**	**1.48**	938,798	13,137	1.40	961,972	14,615	1.52
Short-term funds and loans and advances to banks									
HSBC Bank	**64,734**	**559**	**0.86**	66,474	615	0.93	40,319	733	1.82
HSBC France..............................	**22,450**	**82**	**0.37**	20,540	112	0.55	23,267	298	1.28
HSBC Private Bank Holdings (Suisse)	–	–	–	3,925	26	0.66	4,027	23	0.57
Other...	**3,662**	**59**		16,141	123		18,717	48	0.26
	90,846	**700**	**0.77**	107,080	876	0.82	86,330	1,102	1.28
Loans and advances to customers									
HSBC Bank	**164,782**	**5,306**	**3.22**	157,871	5,262	3.33	167,229	5,161	3.09
HSBC France..............................	**40,570**	**1,068**	**2.63**	42,703	1,082	2.53	48,755	1,303	2.67
HSBC Private Bank Holdings (Suisse)	–	–	–	18,299	374	2.04	22,114	459	2.08
Other...	**37,998**	**1,652**	**4.35**	54,649	1,519	2.78	34,281	1,339	3.91
	243,350	**8,026**	**3.30**	273,522	8,237	3.01	272,379	8,262	3.03
Financial investments									
HSBC Bank	**33,443**	**415**	**1.24**	33,990	498	1.47	39,343	617	1.57
HSBC France..............................	**7,623**	**32**	**0.42**	6,934	82	1.18	3,011	83	2.76
HSBC Private Bank Holdings (Suisse)	–	–	–	14,098	204	1.45	22,862	361	1.58
HSBC Assurance Vie	**10,737**	**402**	**3.74**	9,967	387	3.88	10,019	436	4.35
Other...	**19,261**	**405**	**2.10**	19,432	386	1.99	25,308	482	1.90
	71,064	**1,254**	**1.76**	84,421	1,557	1.84	100,543	1,979	1.97
Other interest-earning assets									
HSBC Bank	**23**	**2**	**8.70**	12	–	–	11	1	9.09
HSBC France..............................	**240**	**13**	**5.42**	–	–	–	–	–	–
HSBC Private Bank Holdings (Suisse)	–	–		5	–	–	–	–	–
Other...	**148**	**5**		554	4		567	7	
	411	**20**	**4.87**	571	4	0.70	578	8	1.38
Total interest-earning assets									
HSBC Bank	**262,982**	**6,282**	**2.39**	258,347	6,375	2.47	246,902	6,512	2.64
HSBC France..............................	**70,883**	**1,195**	**1.69**	70,177	1,276	1.82	75,033	1,684	2.24
HSBC Private Bank Holdings (Suisse)	–	–	–	36,327	604	1.66	49,003	843	1.72
Other...	**71,806**	**2,523**		100,743	2,419		88,892	2,312	
	405,671	**10,000**	**2.47**	465,594	10,674	2.29	459,830	11,351	2.47

In November 2012, the group sold HSBC Private Banking Holdings (Suisse) SA to HSBC Holdings plc, with the exception of HSBC Private Bank (UK) Limited which remains part of the group.

Other information (continued)

Total equity and liabilities

Summary	2013 Average balance £m	2013 Interest expense £m	2013 Cost %	2012 Average balance £m	2012 Interest expense £m	2012 Cost %	2011 Average balance £m	2011 Interest expense £m	2011 Cost %
Interest-bearing liabilities measured at amortised cost (itemised below)	**382,582**	**3,039**	**0.79**	418,280	3,770	0.90	418,176	4,128	0.99
Trading liabilities and financial liabilities designated at fair value (excluding own debt)	**128,368**	**1,366**	**1.06**	105,563	1,512	1.43	117,211	2,268	1.93
Non–interest bearing current accounts	**31,243**			40,045			39,402		
Total equity and other non–interest bearing liabilities	**277,062**			374,910			387,183		
Total equity and liabilities	**819,255**	**4,405**	**0.54**	938,798	5,282	0.56	961,972	6,396	0.66
Deposits by banks									
HSBC Bank	**22,131**	**180**	**0.81**	26,855	331	1.23	27,071	370	1.37
HSBC France	**13,171**	**55**	**0.42**	16,102	109	0.68	18,943	247	1.30
HSBC Private Bank Holdings (Suisse)	**–**	**–**	**–**	1,056	2	0.19	873	2	0.23
Other	**823**	**52**	**6.32**	15,521	50	0.32	10,657	110	1.03
	36,125	**287**	**0.79**	59,534	492	0.83	57,544	729	1.27
Financial liabilities designated at fair value – own debt issued									
HSBC Bank	**18,229**	**271**	**1.49**	17,399	329	1.89	16,292	269	1.65
HSBC France	**5,549**	**43**	**0.77**	4,422	74	1.67	4,461	108	2.42
HSBC Private Bank Holdings (Suisse)	**–**	**–**	**–**	–	–	–	–	–	–
Other	**290**	**13**	**4.48**	256	22	8.59	246	19	7.72
	24,068	**327**	**1.36**	22,077	425	1.93	20,999	396	1.89
Customer accounts									
HSBC Bank	**201,863**	**1,100**	**0.54**	181,721	1,143	0.63	177,857	1,241	0.70
HSBC France	**30,095**	**164**	**0.54**	29,681	255	0.86	31,866	407	1.28
HSBC Private Bank Holdings (Suisse)	**–**	**–**	–	30,483	154	0.51	38,538	233	0.60
Other	**40,879**	**523**	**1.28**	43,591	623	1.43	41,137	399	0.97
	272,837	**1,787**	**0.65**	285,476	2,175	0.76	289,398	2,280	0.79
Debt securities in issue									
HSBC Bank	**30,889**	**265**	**0.86**	31,159	405	1.30	29,461	387	1.31
HSBC France	**8,085**	**35**	**0.43**	9,157	75	0.82	11,654	162	1.39
Regency Assets Limited	**6,678**	**27**	**0.40**	4,564	20	0.44	3,728	36	0.97
Other (includes intercompany elimination)	**2,234**	**237**		5,087	138		4,105	87	
	47,886	**564**	**1.18**	49,967	638	1.28	48,948	672	1.37
Other interest–bearing liabilities									
HSBC Bank	**76**	**5**	**6.58**	–	–	–	–	–	–
HSBC France	**502**	**26**	**5.18**	–	–	–	–	–	–
HSBC Private Bank Holdings (Suisse)	**–**	–	–	10	–	–	14	1	7.14
Other	**1,088**	**43**		1,216	40		1,273	50	
	1,666	**74**	**4.44**	1,226	40	3.26	1,287	51	3.96
Total interest–bearing liabilities									
HSBC Bank	**273,188**	**1,821**	**0.67**	257,134	2,208	0.86	250,681	2,272	0.91
HSBC France	**57,402**	**323**	**0.56**	59,362	513	0.86	66,924	925	1.38
HSBC Private Bank Holdings (Suisse)	**–**	–	**–**	31,549	156	0.49	39,425	236	0.60
Other	**51,992**	**895**		70,235	893		61,146	695	
	382,582	**3,039**	**0.79**	418,280	3,770	0.90	418,176	4,128	0.99

Net interest margin

	2013 %	2012 %	2011 %
Net interest margin	**1.72**	1.48	1.57
HSBC Bank	**1.70**	1.61	1.72
HSBC France	**1.23**	1.09	1.01
HSBC Private Bank Holdings (Suisse)	**–**	1.23	1.24
Other	**2.27**	1.51	1.82

Other information (continued)

Distribution of average total assets

	2013	2012	2011
	%	%	%
HSBC Bank	**72.4**	65.2	66.3
HSBC France	**20.8**	19.0	17.9
HSBC Private Bank Holdings (Suisse)	**–**	4.8	5.7
Other	**6.8**	11.0	10.1
	100.0	100.0	100.0

Analysis of changes in net interest income

The following table allocates changes in net interest income between volume and rate for 2013 compared to 2012, and for 2012 compared to 2011.

		Increase/(decrease) in 2013 compared with 2012			Increase/(decrease) in 2012 compared with 2011		
	2013	**Volume**	**Rate**	2012	Volume	Rate	2011
	£m	**£m**	**£m**	£m	£m	£m	£m
Interest income							
Short-term funds and loans and advances to banks							
HSBC Bank	**559**	**(16)**	**(40)**	615	475	(593)	733
HSBC France	**82**	**10**	**(40)**	112	(35)	(151)	298
HSBC Private Bank Holdings (Suisse)	–	**(26)**	–	26	(1)	4	23
Other	**59**	**(95)**	**31**	123	(7)	82	48
	700	**(133)**	**(43)**	876	286	(512)	1,102
Loans and advances to customers							
HSBC Bank	**5,306**	**230**	**(186)**	5,262	(289)	390	5,161
HSBC France	**1,068**	**(54)**	**40**	1,082	(162)	(59)	1,303
HSBC Private Bank Holdings (Suisse)	–	**(374)**	–	374	(79)	(6)	459
Other	**1,652**	**(463)**	**596**	1,519	796	(616)	1,339
	8,026	**(909)**	**698**	8,237	35	(60)	8,262
Financial investments							
HSBC Bank	**415**	**(8)**	**(75)**	498	(84)	(35)	617
HSBC France	**32**	**8**	**(58)**	82	108	(109)	83
HSBC Private Bank Holdings (Suisse)	–	**(204)**	–	204	(138)	(19)	361
HSBC Assurance Vie	**402**	**30**	**(15)**	387	(2)	(47)	436
Other	**405**	**(3)**	**22**	386	(112)	16	482
	1,254	**(246)**	**(57)**	1,557	(318)	(104)	1,979
Interest expense							
Deposits by banks							
HSBC Bank	**180**	**(58)**	**(93)**	331	(3)	(36)	370
HSBC France	**55**	**(20)**	**(34)**	109	(37)	(101)	247
HSBC Private Bank Holdings (Suisse)	**–**	**(2)**	**–**	2	–	–	2
Other	**52**	**(47)**	**49**	50	50	(110)	110
	287	**(193)**	**(12)**	492	137	(374)	729
Customer accounts							
HSBC Bank	**1,100**	**127**	**(170)**	1,143	27	(125)	1,241
HSBC France	**164**	**4**	**(95)**	255	(28)	(124)	407
HSBC Private Bank Holdings (Suisse)	**–**	**(154)**	**–**	154	(49)	(30)	233
Other	**523**	**(39)**	**(61)**	623	24	200	399
	1,787	**(96)**	**(292)**	2,175	(31)	(74)	2,280
Financial liabilities designated at fair value–own debt issued							
HSBC Bank	**271**	**16**	**(74)**	329	18	42	269
HSBC France	**43**	**19**	**(50)**	74	–	(34)	108
HSBC Private Bank Holdings (Suisse)	–	–	–	–	–	–	–
Other	**13**	**3**	**(12)**	22	1	2	19
	327	**38**	**(136)**	425	20	9	396
Debt securities in issue							
HSBC Bank	**265**	**(4)**	**(136)**	405	22	(4)	387
HSBC France	**35**	**(9)**	**(31)**	75	(35)	(52)	162
Regency Assets Limited	**27**	**9**	**(2)**	20	8	(24)	36
Other	**237**	**(77)**	**176**	138	21	30	87
	564	**(27)**	**(47)**	638	(85)	51	672

Other information (continued)

In-country foreign currency and cross-border amounts outstanding

The following table summarises the aggregate of the in-country foreign currency and cross-border outstandings by type of borrower to countries which individually represent in excess of 0.75% of total assets. The classification is based on the country of residence of the borrower but also recognises the transfer of country risk in respect of third-party guarantees, eligible collateral held and residence of the head office when the borrower is a branch. In accordance with the Bank of England Country Exposure Report ('Form CE') guidelines, outstandings comprise loans and advances (excluding settlement accounts), amounts receivable under finance leases, acceptances, commercial bills, certificates of deposit ('CD's) and debt and equity securities (net of short positions), and exclude accrued interest and intra-group exposures.

	Banks £m	Government and official institutions £m	Other £m	Total £m
At 31 December 2013				
US	**7,117**	**10,989**	**16,960**	**35,066**
UK	**6,949**	**600**	**28,031**	**35,580**
France	**2,964**	**3,179**	**3,925**	**10,068**
Germany	**7,198**	**8,942**	**4,000**	**20,140**
Turkey	**1,889**	**1,797**	**3,911**	**7,597**
Cayman Islands	**10**	**–**	**12,308**	**12,318**
Ireland	**406**	**50**	**4,379**	**4,835**
At 31 December 2012				
US	5,499	12,962	12,961	31,422
UK	10,672	1,244	24,276	36,192
France	6,045	4,250	6,340	16,635
Germany	6,144	6,045	6,216	18,405
Turkey	2,341	3,975	4,029	10,345
Cayman Islands	1	–	14,050	14,051
Ireland	1,049	71	7,302	8,422
At 31 December 2011				
US	5,577	12,025	16,733	34,355
UK	6,427	1,412	37,260	45,099
France	5,634	4,891	5,305	15,830
Germany	6,365	2,285	3,338	11,988
Turkey	1,347	1,655	4,705	7,707
Cayman Islands	272	–	16,355	16,627
Ireland	1,097	79	11,347	12,523

Contractual obligations

The table below provides details of selected known contractual obligations of the group.

	At 31 December 2013 Payments due by period			
	Total £m	Less than 1 year £m	1 to 5 years £m	More than 5 years £m
Long-term debt obligations	**67,001**	**24,134**	**23,577**	**19,290**
Term deposits and certificates of deposit	**76,436**	**73,837**	**2,243**	**356**
Capital (finance) lease obligations	**144**	**8**	**39**	**97**
Operating lease obligations	**1,644**	**164**	**588**	**892**
Purchase obligations	**14**	**14**	**–**	**–**
Short positions in debt securities and equity shares	**31,935**	**21,426**	**4,732**	**5,777**
Current tax liability	**89**	**89**	**–**	**–**
Pension/health care obligation	**3,450**	**285**	**950**	**2,215**
	180,713	**119,957**	**32,129**	**28,627**

Other information (continued)

Loan maturity and interest rate sensitivity analysis

At 31 December 2013 the analysis of loan maturity and interest rate sensitivity by loan type on a contractual repayment basis was as follows:

	At 31 December 2013 £m
Maturity of 1 year or less	
Loans and advances to banks	**49,053**
Commercial loans to customers	
Manufacturing and international trade and services	**56,378**
Real estate and other property related	**7,983**
Non-bank financial institutions	**45,620**
Governments	**1,333**
Other commercial	**26,027**
	137,341
Maturity after 1 year but within 5 years	
Loans and advances to banks	**3,825**
Commercial loans to customers	
Manufacturing and international trade and services	**17,609**
Real estate and other property related	**11,582**
Non-bank financial institutions	**5,615**
Governments	**208**
Other commercial	**9,408**
	44,422
Interest rate sensitivity of loans and advances to banks and commercial loans to customers	
Fixed interest rate	**9,461**
Variable interest rate	**38,786**
	48,247
Maturity after 5 years	
Loans and advances to banks	**371**
Commercial loans to customers	
Manufacturing and international trade and services	**5,839**
Real estate and other property related	**3,611**
Non-bank financial institutions	**1,427**
Governments	**479**
Other commercial	**6,110**
	17,466
Interest rate sensitivity of loans and advances to banks and commercial loans to customers	
Fixed interest rate	**4,337**
Variable interest rate	**13,500**
	17,837

Other information (continued)

Deposits

The following table summarises the average amount of bank deposits, customer deposits and certificates of deposit ('CDs') and other money market instruments (which are included within *Debt securities in issue* in the balance sheet), together with the average interest rates paid thereon for each of the past three years. The Other category includes securities sold under agreements to repurchase.

	2013		2012		2011	
	Average balance £m	**Average rate %**	Average balance £m	Average rate %	Average balance £m	Average rate %
Deposits by banks	**46,729**		64,896		66,759	
Demand and other–non-interest bearing	**10,604**	–	4,427	–	4,791	–
Demand–interest bearing	**3,259**	**0.5**	5,637	0.4	10,396	0.7
Time	**10,725**	**1.2**	15,381	1.5	12,542	2.2
Other	**22,141**	**1.6**	39,451	1.1	39,030	1.3
Customer accounts	**308,711**		330,182		334,471	
Demand and other–non-interest bearing	**35,874**	–	45,641	–	49,497	–
Demand–interest bearing	**170,962**	**0.4**	160,147	0.4	146,641	0.4
Savings	**37,502**	**1.5**	38,807	1.8	35,784	1.7
Time	**27,466**	**1.2**	44,376	1.3	52,069	1.3
Other	**36,907**	**1.1**	41,211	1.0	50,480	0.8
CDs and other money market instruments	**18,155**	**0.5**	20,972	0.5	29,633	0.6

Certificates of deposit and other time deposits

At 31 December 2013, the maturity analysis of CDs and other wholesale time deposits, by remaining maturity, was as follows:

	At 31 December 2013				
	3 months or less £m	**After 3 months but within 6 months £m**	**After 6 months but within 12 months £m**	**After 12 months £m**	**Total £m**
Certificates of deposit	**5,390**	**3,066**	**1,076**	**–**	**9,532**
Time deposits					
-banks	**21,924**	**364**	**313**	**649**	**23,250**
-customers	**32,462**	**6,173**	**3,069**	**1,950**	**43,654**

Short-term borrowings

Short-term borrowings are included within customer accounts, deposits by banks and debt securities in issue and are not shown separately on the balance sheet. Short-term borrowings are defined by the US Securities and Exchange Commission as Federal funds purchased and securities sold under agreements to repurchase, commercial paper and other short-term borrowings.

The only significant short-term borrowings are securities sold under agreements to repurchase and certain debt securities in issue. For securities sold under agreements to repurchase, the group runs matched repo and reverse repo trading books. The group generally observes lower year-end demand in the reverse repo lending business which results in lower repo balances at the balance sheet date. Additional information on these is provided in the table below.

Other information (continued)

Repos and short-term bonds

	2013 £m	2012 £m	2011 £m
Securities sold under agreements to repurchase			
Outstanding at 31 December	**75,019**	66,156	60,188
Average amount outstanding during the year	**86,502**	81,812	80,956
Maximum quarter-end balance outstanding during the year	**90,361**	74,673	84,652
Weighted average interest rate during the year	**0.2%**	0.3%	0.7%
Weighted average interest rate at the year-end	**0.6%**	0.4%	1.1%
Short-term bonds			
Outstanding at 31 December	**17,775**	18,876	12,934
Average amount outstanding during the year	**19,184**	16,462	13,103
Maximum quarter-end balance outstanding during the year	**22,342**	18,876	13,563
Weighted average interest rate during the year	**0.1%**	0.1%	0.1%
Weighted average interest rate at the year-end	**0.3%**	0.2%	1.1%

Financial investments

Carrying amounts of financial investments

	2013 £m	2012 £m	2011 £m
Financial investments:			
– which may be repledged or resold by counterparties	**11,435**	7,979	12,555
– not subject to repledge or resale by counterparties	**63,595**	63,286	80,557
	75,030	71,265	93,112
Fair value of financial investments			
Treasury and other eligible bills - available-for-sale	**2,196**	5,203	6,737
Debt securities	**71,828**	65,034	85,151
– available-for-sale	**71,828**	65,034	81,000
– held-to-maturity	**–**	–	4,151
Equity securities - available-for-sale	**1,006**	1,028	1,224
Total financial investments	**75,030**	71,265	93,112

£2,936 million (2012: £1,953 million, 2011: £6,193 million) of the debt securities issued by banks and other financial institutions are guaranteed by various governments. The fair value of the held to maturity financial investments reported in 2011 was £4,204 million.

Financial investments at fair value

	2013 £m	2012 £m	2011 £m
At 31 December 2012			
US Treasury	**5,551**	7,881	7,566
US Government agencies	**–**	–	1,048
US Government sponsored entities	**–**	–	1
UK Government	**13,729**	10,392	19,368
Hong Kong Government	**–**	–	338
Other government	**23,615**	21,487	19,870
Asset-back securities	**14,069**	15,392	17,129
Corporate debt and other securities	**17,060**	15,085	26,621
Equities	**1,006**	1,028	1,224
	75,030	71,265	93,165

Other information (continued)

Contractual maturities and weighted average yields of investment debt securities at 31 December 2013

	Within one year		After one year but within five years		After five years but within ten years		After ten years	
	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %	Amount £m	Yield %
Available for sale								
US Treasury	**2,849**	**0.3**	**1,213**	**1.0**	**1,551**	**1.9**	**7**	**–**
UK Government	**–**	**–**	**7,181**	**3.6**	**6,149**	**7.2**	**390**	**5.1**
Other government	**3,409**	**4.2**	**12,454**	**3.4**	**3,596**	**6.1**	**1,051**	**0.2**
Asset-back securities	**29**	**0.5**	**919**	**1.0**	**4,002**	**0.6**	**10,204**	**0.7**
Corporate debt and other securities	**1,754**	**1.0**	**9,826**	**1.0**	**3,958**	**0.9**	**997**	**0.9**
Total amortised cost	**8,041**		**31,593**		**19,256**		**12,649**	
Total fair value	**8,028**		**32,464**		**19,528**		**11,808**	

The maturity distributions of asset-backed securities are presented in the above table on the basis of contractual maturity dates. The weighted average yield for each range of maturities is calculated by dividing the annualised interest income for the year ended 31 December 2013 by the carrying amount of available-for-sale debt securities at that date. The yields do not include the effect of related derivatives.

Gross loans and advances by industry sector

	2013 Amount £m	%	2012 Amount £m	%	2011 Amount £m	%	2010 Amount £m	%	2009 Amount £m	%
Personal										
Residential mortgages	**83,882**	**23.2%**	82,544	25.9	77,871	23.2	72,327	20.9	68,028	20.9
Other personal[1]	**25,257**	**7.0%**	23,222	7.3	33,571	10.0	35,008	10.1	33,588	10.3
	109,139	**30.2%**	105,766	33.2	111,442	33.2	107,335	31.0	101,616	31.2
Commercial										
Commercial, industrial and international trade	**79,826**	**22.1%**	78,176	24.6	71,098	21.1	72,006	20.8	69,211	21.3
Commercial real estate	**18,755**	**5.2%**	20,504	6.4	21,034	6.2	19,970	5.8	20,987	6.4
Other property-related	**4,421**	**1.2%**	4,580	1.4	4,908	1.5	4,125	1.2	3,840	1.2
Government	**2,020**	**0.6%**	1,481	0.5	1,977	0.6	1,452	0.4	1,357	0.4
Other commercial[2]	**39,051**	**10.8%**	32,283	10.2	33,498	10.0	33,771	9.8	29,858	9.2
	144,073	**39.9%**	137,024	43.1	132,515	39.4	131,324	38.0	125,253	38.5
Financial										
Non-bank financial institutions	**52,662**	**14.5%**	40,539	12.7	43,881	13.1	46,087	13.3	47,008	14.4
Settlement accounts	**935**	**0.3%**	316	0.1	440	0.1	612	0.2	502	0.2
	53,597	**14.8%**	40,855	12.8	44,321	13.2	46,699	13.5	47,510	14.6
Asset-backed securities reclassified	**1,559**	**0.4%**	2,286	0.7	3,085	0.9	3,390	1.0	3,872	1.2
Total gross loans and advances to customers	**308,368**	**85.3%**	285,931	89.8	291,363	86.7	288,748	83.5	278,251	85.5
Gross loans and advances to banks	**53,249**	**14.7%**	32,310	10.2	44,635	13.3	57,077	16.5	47,051	14.5
Total gross loans and advances	**361,617**	**100.0%**	318,241	100.0	335,998	100.0	345,825	100.0	325,302	100.0

1 *'Other personal loans and advances' include second lien mortgages and other property- related lending.*
2 *'Other commercial loans and advances' include advances in respect of agriculture, transport, energy and utilities.*

Risk elements

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Impaired loans	**7,894**	6,818	7,514	6,783	6,619
Unimpaired loans contractually past 90 days or more as to principal or interest	**14**	23	27	41	35
Troubled debt restructuring (not included in the classification above)	**863**	789	458	165	177

The interest that would have been recognised under the original terms of impaired and restructured loans amounted to approximately £137 million in 2013 (2012 £115 million). Interest income from such loans of approximately £66 million was recorded in 2013 (2012 £26 million).

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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