HSBC UK Bank plc

Interim Report and Accounts 2019

HSBC

Contents

Presentation of information

This document comprises the *Interim Report 2019* for HSBC UK Bank plc ('the bank') and its subsidiaries (together 'HSBC UK' or 'the group'). 'We', 'us' and 'our' refer to HSBC UK Bank plc together with its subsidiaries. References to 'HSBC Group' 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 Auditors' 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 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 two most recent six-month periods to illustrate the current performance compared with the previous period.

Due to HSBC UK commencing banking activities on 1 July 2018 all income statement comparatives for the six months to 30 June 2018 were nil or round to nil. For this reason comparatives for the six months to 30 June 2018 have not been presented.

Unless otherwise stated, commentary on the income statement compares six months to 30 June 2019 with six months to 31 December 2018. Balance sheet commentary compares 30 June 2019 to 31 December 2018.

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

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

Cautionary statement regarding forward-looking statements

The *Interim Report 2019* contains certain forward-looking statements with respect to HSBC UK's financial condition, strategy, plans, current goals, results of operations and business, including strategic priorities and financial, investment and capital targets described herein.

Statements that are not historical facts, including statements about HSBC UK's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'targets', '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 UK 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 statements.

Written and/or oral forward-looking statements may also be made in offering circulars and prospectuses, press releases and other written materials, and in oral statements made by HSBC UK's Directors, officers or employees to third parties. Forward-looking statements involve inherent risks and uncertainties because they relate to future events and circumstances. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. These include, but are not limited to:

- Changes in general economic conditions in the UK and internationally such as instability in the global financial markets, including Eurozone instability and instability as a result of the UK withdrawal from the European Union ('EU'), continuing or deepening recessions and fluctuations in employment beyond those factored into forecasts; changes in foreign exchange rates and interest rates; volatility in equity markets; lack of liquidity in wholesale funding markets; illiquidity and downward price pressure in real estate; adverse changes in central banks' policies with respect to the provision of liquidity support to financial markets; heightened market concerns over sovereign creditworthiness; adverse changes in the funding status of public or private defined benefit pensions; and consumer perception as to the continuing availability of credit and price competition in the market segments we serve and deviations from the market and economic assumptions that form the basis for our measurements.
- Changes in government policy and regulation, including the monetary, interest rate and other policies of central banks and other regulatory authorities; initiatives to change the size, scope of activities and interconnectedness of financial institutions in connection with the implementation of stricter regulation of financial institutions in key markets worldwide; revised capital and liquidity benchmarks which could serve to deleverage bank balance sheets and lower returns available from the current business model and portfolio mix; imposition of levies or taxes; the practices, pricing or responsibilities of financial institutions serving their consumer markets; expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; changes in bankruptcy legislation in the UK and EU in which HSBC UK operates and the consequences thereof; general changes in government policy that may significantly influence investor

decisions; extraordinary government actions as a result of current market turmoil; other unfavourable political or diplomatic developments producing social instability or legal uncertainty which in turn may affect demand for our products and services; the costs, effects and outcomes of product regulatory reviews; regulatory or competition scrutiny, legal, regulatory or competition investigations; actions or litigation, including any additional compliance requirements; and the effects of competition in the UK and EU where HSBC UK operates including increased competition from non bank financial services companies.

- Factors specific to HSBC UK, including our success in adequately identifying the risks we face, such as the incidence of loan losses or delinquency, and managing those risks (through account management, hedging and other techniques). Effective risk management depends on, among other things, our ability through stress testing and other techniques to prepare for events that cannot be captured by the statistical models it uses; and our success in addressing operational, legal and regulatory, and litigation challenges; and other risks and uncertainties we identify in 'Top and emerging risks' on page 10.

Key financial metrics

	Half-year to	
	30 Jun	31 Dec
Reported results	**2019**	2018
Reported revenue (£m)	**3,315**	3.357
Reported profit before tax (£m)	**616**	1,064
Reported profit after tax (£m)	**351**	763
Profit attributable to the shareholders of the parent company (£m)	**348**	763
Return on average tangible equity (annualised) ('RoTE') (%)[1]	**3.6**	8.8
Net interest margin (%)	**2.17**	2.22
Adjusted results		
Adjusted revenue (£m)	**3,315**	3,352
Adjusted profit before tax (£m)	**1,138**	1,299
Cost efficiency ratio (%)	**55.7**	52.1
Expected credit losses and other credit impairment charges ('ECL') as % of average gross loans and advances to customers (%)	**0.37**	0.35
Balance sheet		
Total assets (£m)	**248,910**	238,939
Net loans and advances to customers (£m)	**180,084**	174,807
Customer accounts (£m)	**208,062**	204,837
Average interest-earning assets (£m)	**226,165**	219,419
Loans and advances to customers as % of customer accounts (%)	**86.6**	85.3
Total shareholders equity (£m)	**22,149**	22,273
Tangible ordinary shareholders equity (£m)	**16,046**	16,243
Capital, leverage and liquidity		
Common equity tier 1 ('CET1') capital ratio (%)	**12.4**	12.7
Total capital ratio (%)	**18.1**	18.3
Risk-weighted assets ('RWAs') (£m)	**92,759**	91,839
Leverage ratio (%)	**5.2**	5.6
High-quality liquid assets (liquidity value) (£m)	**50,778**	46,540
Liquidity coverage ratio (%)	**155**	143

1 *RoTE of 3.6% (2H18: 8.8%) includes an impact of 600bps (2H18: 40bps) due to payment protection insurance ('PPI') provisions of £478m (2H18: £59m); with a further impact of 280bps (2H18: 260bps) due to a £4.3bn (2H18: £4.3bn) average pension fund surplus (net of deferred tax). RoTE is calculated on a USD basis in line with the approach used to calculate the measure throughout the HSBC Group.*

Presentation of non-GAAP measures

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. Such measures are referred to as adjusted performance. A reconciliation of reported to adjusted performance is provided on pages 5 and 6. For the basis of preparation, see page 5.

Purpose and strategy

Our purpose

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

Our strategy

Our UK strategy is built around four key strategic priorities that underpin delivery of the HSBC UK vision, enabling us to be simple, safe and sustainable.

Customer experience

- We aim to create compelling customer journeys and digital experiences whilst continuing to invest in a future channel model.

Colleague engagement

- We want to build an agile and inclusive culture, developing the 'Healthiest Human System' in the UK, whilst also improving our 'ways of working'.

Profitable growth

- Building from positions of existing strength, as well as supporting emerging customer needs, we will grow our business in a safe and sustainable way. This will include targeted growth in market share for key products, including mortgages.

Simplification

- We strive to continually enhance our platforms and architecture, simplify our products and features and transform processes to enable and empower our people to deliver outstanding customer service.

Progress in 2019

Since December 2018, HSBC UK has made encouraging progress in delivering against these strategic priorities.

HSBC UK Retail Banking and Wealth Management ('RBWM') continued to grow its mortgage book by £2.8bn in 2019 (+3.1%) and has a healthy pipeline into 2H19. This is despite the UK's departure from the EU creating market uncertainty, and is supported by our continued expansion into the Broker market (now with access to 88% of the network) and materially reduced time to offer. We have also grown our net active customers in the first three months of 2019 and made significant inroads in our Financial Inclusion and Vulnerability agenda; notably our Survivor Bank Account, which was made available to victims of human trafficking through the UK government's National Referral Mechanism, was recently showcased at the UK Houses of Parliament.

HSBC UK Commercial Banking ('CMB') continues to make improvements to its customer service, with on-boarding time for mid-market customer acquisitions reducing. Our market-share of commercial loans has grown to 10.1% as at 1Q19, vs 9.9% at 31 December 2018, as we demonstrate our increasing support for the growth ambitions of UK businesses. We also continue to grow our commercial customer base, with the number of large and mid corporates and international subsidiary customers increasing.

We have improved colleague engagement at HSBC UK, demonstrated in our internal Snapshot Results, helped by investment in our wellbeing and speak up agenda. We held our first Investor Seminar in June 2019, post implementation of the ring-fenced bank, which highlighted the growth opportunity in the UK. We also released our first HSBC UK Community Report in May 2019, which outlines our approach to building a sustainable future and the support that we give to local communities across the UK.

Distinctive advantages

Access to exceptional international connectivity

Our access to the HSBC Group's global presence enables our clients to participate in international growth opportunities, and helps us build deeper and more enduring relationships with businesses and individuals who have increasingly international needs.

Scale of HSBC

We serve our banking customers through our three core businesses: Retail Banking and Wealth Management - which includes our four brands: HSBC UK, first direct, M&S Bank and John Lewis Financial Services, Commercial Banking and Private Banking ('GPB'), serving individual savers through to large multinational corporations, as well as a restricted Global Banking and Markets business ('GB&M'). This enables us to effectively meet our clients' diverse financial needs, support a strong capital and funding base, reduce our risk profile and volatility, and generate stable returns for shareholders.

Process of UK withdrawal from the European Union

The UK is currently due to leave the EU on 31 October 2019. However, there is no certainty on the future relationship between the UK and the EU or indeed an implementation period. This creates market volatility and economic risk, particularly in the UK. While there may be some changes to the provision of products and services for our clients and employees based in the UK, we are taking mitigating actions to help minimise any potential disruption. Our priority is to ensure we continue to support our clients through this period of uncertainty, and help them minimise the impact of these potential risks. We continue to stay very close to our clients and our front-line teams are available to respond to customer queries. Through sectoral analysis, portfolio reviews and stress-testing scenarios, we have developed a range of contingency plans to ensure we can continue to support our clients and minimise potential disruption to them during any periods of volatility or instability. For further information, please refer to our top and emerging risks and 'Areas of special interest' on pages 9 and 10.

In spite of this significant external uncertainty, we remain confident in our strategy, and will continue to build on positive progress, and our strong UK foundations, to deliver our ambition of making banking simple, safe and sustainable.

Economic background and outlook

UK

Real quarterly UK GDP growth accelerated in the first quarter of 2019 to 0.5% from 0.2% in the fourth quarter of 2018, according to data from the Office of National Statistics ('ONS'), but then made a poor start to the second quarter, with the growth rate slowing to 0.3% in the three months to May. This suggests that a surge in stockpiling ahead of 29 March, when the UK had been scheduled to withdraw from the EU, may have unwound to some degree following the extension announcement in April. Against this backdrop, HSBC Global Research expects GDP to contract slightly in the second quarter, by 0.1%. Looking through the volatility, the underlying pace of UK economic growth remains subdued, relative to historic averages. Uncertainty relating to the UK's departure from the EU, alongside softer global economic growth, might be having an impact. The labour market remains firm, however. The unemployment rate stood at an average of 3.8% in the three months to May, the lowest rate since December 1974. The annual rate of inflation, according to the Consumer Price Index ('CPI'), stood at 2.0% in June 2019. The 'core' CPI rate, which strips out food and energy prices, stood at 1.8%.

Prospects for the UK economy are likely to depend on the nature of the UK's future economic relationship with the EU. Based on an assumption that that the UK withdraws from the EU with a transition arrangement, HSBC Global Research assumes real GDP growth of 1.2% in 2019 and 1.1% in 2020. In such a scenario, given global growth headwinds and limited signs of inflationary pressure, the Bank of England's policy rate, Bank Rate, is expected to remain at 0.75% until at least the end of 2020. On the other hand, the UK's departure from the EU without a withdrawal agreement, and the possible economic disruption it might entail, is a downside risk to that outlook. In that case, the Bank of England might respond by loosening monetary policy.

Financial summary

Summary consolidated income statement

	Half-year to	
	30 Jun 2019 £m	31 Dec 2018 £m
Net interest income	**2,437**	2,456
Net fee income	**618**	648
Net income from financial instruments held for trading or managed on a fair value basis	**208**	198
Gains less losses from financial investments	**29**	22
Other operating income	**23**	33
Total operating income[1]	**3,315**	3,357
Net operating income before change in expected credit losses and other credit impairment charges	**3,315**	3,357
Change in expected credit losses and other credit impairment charges	**(332)**	(305)
Net operating income	**2,983**	3,052
Total operating expenses[1]	**(2,367)**	(1,988)
Operating profit	**616**	1,064
Profit before tax	**616**	1,064
Tax expense	**(265)**	(301)
Profit for the period	**351**	763
Profit attributable to shareholders of the parent company	**348**	763
Profit attributable to non-controlling interests	**3**	–

1 *Total operating income and expenses includes significant items as detailed on pages 5 and 6.*

Reported performance

In the six months to 30 June 2019 ('1H19') Reported profit before tax was £616m, £448m lower than the six months to 31 December 2018 ('2H18').

Net interest income ('NII') decreased by £19m or 1%, due to lower mortgage margins.

Net fee income decreased by £30m or 5%, due to higher remediation in both CMB and RBWM.

Net income from financial instruments held for trading or managed on a fair value basis increased by £10m or 5% due to increased customer hedging activity.

Gains less losses from financial investments increased by £7m or 32%, principally due to higher asset disposals arising from risk management activities in 1H19.

Other operating income decreased by £10m or 30%, due to a reduction in recharges to other HSBC Group companies.

ECL increased by £27m or 9% in 1H19, driven by increases in CMB Stage 3 charges relating to a small number of exposures and an increase in default rates and impairment provisions in GPB, offset by the increases to reflect UK economic uncertainty changes in 2H18 in RBWM which have not been repeated in 1H19.

Total operating expenses increased by £379m or 19%, driven by a number of significant items including:

- UK customer redress provisions increased by £432m from £46m in 2H18 to £478m in 1H19, due to an increase in the payment protection insurance ('PPI') provision. The increase is driven from higher complaint volumes including the automatic conversion of information requests and redress claims for bankrupt and insolvent customers by the Official Receiver;
- Restructuring and other structural reform costs increased by £30m compared with 2H18; and
- Non-recurrence of Guaranteed Minimum Pension equalisation ('GMP') costs of £187m in 2H18.

Excluding these items, operating expenses increased by £104m or 6%, due to increased remediation provisions, the non-recurrence of 2018 Financial Services Compensation Scheme provision releases and increased technology costs.

For further details of significant items affecting revenue and costs, please refer to significant revenue/cost items by business segment on page 6.

Net interest income

	Half-year to	
	30 Jun 2019	31 Dec 2018
	£m	£m
Interest income	**2,880**	2,805
Interest expense	**(443)**	(349)
Net interest income	**2,437**	2,456
Average interest-earning assets	**226,165**	219,419
	%	%
Gross interest yield[1]	**2.57**	2.53
Less: cost of funds	**(0.51)**	(0.37)
Net interest spread[2]	**2.06**	2.16
Net interest margin[3]	**2.17**	2.22

1 *Gross interest yield is the average annualised interest rate earned on average interest-earning assets ('AIEA').*
2 *Net interest spread is the difference between the average annualised interest rate earned on AIEA, net of amortised premiums and loan fees, and the average annualised interest rate payable on average interest-bearing funds.*
3 *Net interest margin is net interest income expressed as an annualised percentage of AIEA.*

Net interest margin decreased from 2.22% in 2H18 to 2.17% in 1H19. This is driven by an increase in cost of funds, mainly due to the issuance of debt securities and subordinated debt in 1H19.

Non-GAAP financial measures

Our reported results are prepared in accordance with International Financial Reporting Standards ('IFRS'), as detailed in the Condensed Financial Statements starting on page 27. 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.

We present performance on an adjusted basis, which is our segment measure for our reportable segments under IFRS 8 'Operating Segments' but constitutes a non-GAAP financial measure when otherwise presented.

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 on pages 5 and 6, 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.

Segmental reporting

Global businesses are our reportable segments under IFRS 8.

The group Chief Executive, supported by the group Executive Committee, is considered the Chief Operating Decision Maker ('CODM') for the purposes of identifying the group's reportable segments. The global business results are assessed by the CODM 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.

Our operations are closely integrated and, accordingly, the presentation of data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and global functions to the extent that they can be meaningfully attributed to operational business lines. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity. Costs which are not allocated to global businesses are included in Corporate Centre.

Where relevant, income and expense amounts presented include the results of inter-segment funding along with inter-company and inter-business line transactions. All such transactions are undertaken on arm's length terms. The intra-group elimination items are presented in the Corporate Centre.

A description of the Global businesses is provided in the Strategic Report of the *Annual Report and Accounts 2018*.

Adjusted profit for the period

	Half-year to 30 Jun 2019					
	RBWM	**CMB**	**GB&M**	**GPB**	**Corporate Centre**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Net interest income	**1,369**	**990**	**2**	**53**	**23**	**2,437**
Net fee income	**329**	**371**	**(95)**	**16**	**(3)**	**618**
Other income	**19**	**16**	**182**	**8**	**35**	**260**
Net operating income before change in expected credit losses and other credit impairment charges	**1,717**	**1,377**	**89**	**77**	**55**	**3,315**
Change in expected credit losses and other credit impairment charges	**(136)**	**(180)**	**—**	**(16)**	**—**	**(332)**
Net operating income	**1,581**	**1,197**	**89**	**61**	**55**	**2,983**
Total operating expenses	**(1,166)**	**(562)**	**(63)**	**(61)**	**7**	**(1,845)**
Operating profit	**415**	**635**	**26**	**—**	**62**	**1,138**
Adjusted profit before tax	**415**	**635**	**26**	**—**	**62**	**1,138**
	Half-year to 31 Dec 2018					
Net interest income	1,391	979	(3)	57	28	2,452
Net fee income	341	378	(98)	14	14	649
Other income	34	21	173	7	16	251
Net operating income before change in expected credit losses and other credit impairment charges	1,766	1,378	72	78	58	3,352
Change in expected credit losses and other credit impairment charges	(164)	(145)	—	4	—	(305)
Net operating income	1,602	1,233	72	82	58	3,047
Total operating expenses	(1,125)	(530)	(69)	(54)	30	(1,748)
Operating profit	477	703	3	28	88	1,299
Adjusted profit before tax	477	703	3	28	88	1,299

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

	RBWM	CMB	GB&M	GPB	Corporate Centre	Total
	£m	£m	£m	£m	£m	£m
Half-year to 30 Jun 2019						
Revenue	**1,717**	**1,377**	**89**	**77**	**55**	**3,315**
Significant revenue items	**—**	**—**	**—**	**—**	**—**	**—**
Adjusted revenue	**1,717**	**1,377**	**89**	**77**	**55**	**3,315**
Half-year to 31 Dec 2018						
Revenue	1,766	1,383	72	78	58	3,357
Significant revenue items	—	(5)	—	—	—	(5)
– customer redress programmes	—	(5)	—	—	—	(5)
Adjusted revenue	1,766	1,378	72	78	58	3,352

Significant cost items by business segment

	RBWM	CMB	GB&M	GPB	Corporate Centre	Total
	£m	£m	£m	£m	£m	£m
Half-year to 30 Jun 2019						
Operating expenses	**(1,665)**	**(571)**	**(63)**	**(61)**	**(7)**	**(2,367)**
Significant cost items	**499**	**9**	**—**	**—**	**14**	**522**
– restructuring and other related costs[1]	**21**	**9**	**—**	**—**	**14**	**44**
– customer redress programmes	**478**	**—**	**—**	**—**	**—**	**478**
Adjusted operating expenses	**(1,166)**	**(562)**	**(63)**	**(61)**	**7**	**(1,845)**
Half-year to 31 Dec 2018						
Operating expenses	(1,186)	(518)	(69)	(54)	(161)	(1,988)
Significant cost items	61	(12)	—	—	191	240
– costs of structural reform	1	2	—	—	11	14
– customer redress programmes	60	(14)	—	—	—	46
– guaranteed minimum pension benefits equalisation	—	—	—	—	187	187
– other	—	—	—	—	(7)	(7)
Adjusted operating expenses	(1,125)	(530)	(69)	(54)	30	(1,748)

1 *Restructuring costs include charges received from HSBC Global Services (UK) Limited, which do not form part of the balance sheet provision movement.*

Net impact on profit before tax by business segment

	RBWM	CMB	GB&M	GPB	Corporate Centre	Total
	£m	£m	£m	£m	£m	£m
Half-year to 30 Jun 2019						
Profit/(loss) before tax	**(84)**	**626**	**26**	**—**	**48**	**616**
Net Impact on reported profit and loss	**499**	**9**	**—**	**—**	**14**	**522**
– significant revenue items	**—**	**—**	**—**	**—**	**—**	**—**
– significant cost items	**499**	**9**	**—**	**—**	**14**	**522**
Adjusted profit before tax	**415**	**635**	**26**	**—**	**62**	**1,138**
Half-year to 31 Dec 2018						
Profit/(loss) before tax	416	720	3	28	(103)	1,064
Net Impact on reported profit and loss	61	(17)	—	—	191	235
– significant revenue items	—	(5)	—	—	—	(5)
– significant cost items	61	(12)	—	—	191	240
Adjusted profit before tax	477	703	3	28	88	1,299

Balance sheet information by global business

	RBWM	CMB	GB&M	GPB	Corporate Centre	Total
	£m	£m	£m	£m	£m	£m
30 Jun 2019						
Loans and advances to customers	**109,751**	**65,570**	**—**	**4,313**	**450**	**180,084**
Customer accounts	**131,410**	**71,161**	**—**	**5,653**	**(162)**	**208,062**
31 Dec 2018						
Loans and advances to customers	106,609	63,302	—	4,269	627	174,807
Customer accounts	128,409	71,411	—	5,338	(321)	204,837

Adjusted performance

Our adjusted profit before tax in 1H19 decreased by £161m or 12%, compared with 2H18. This reflected lower revenue, higher ECL and higher operating expenses.

Adjusted revenue decreased by £37m or 1%, with decreases in RBWM due to lower mortgage margins, increased remediation and seasonal reductions in foreign exchange income.

Adjusted operating expenses increased by £97m or 6%, due to increased remediation costs, the non-recurrence of provision releases and increased technology costs.

Retail Banking and Wealth Management

Adjusted profit before tax of £415m in 1H19 was £62m or 13%, lower than 2H18, driven by lower revenue, higher operating expenses offset by lower ECL.

Revenue decreased by £49m or 3%, primarily due to the roll–off of variable rate mortgages impacting average book margin, increased remediation and reduced debit card and travel money foreign exchange income due to seasonality offset by lower M&S Bank profit share.

ECL decreased by £28m or 17%, due to amounts recognised to reflect UK economic uncertainty in 2H18.

Operating expenses increased by £41m or 4%, due to increased remediation provisions and the non-recurrence of 2018 provision releases.

Commercial Banking

Adjusted profit before tax of £635m in 1H19 was £68m or 10%, lower than 2H18, due to lower revenue, higher ECL and higher operating expenses.

Revenue decreased by £1m, driven from higher remediation, partially offset by increased revenue from balance sheet growth in loans and advances to customers and customer accounts.

ECL have increased by £35m or 24%, due to an increase in Stage 3 provision charges relating to a small number of exposures.

Operating expenses increased by £32m or 6%, due to investment in staff, increased remediation costs and investment expenditure.

Global Banking and Markets

GB&M in HSBC UK reflects the transacting of foreign currency exchange for RBWM and CMB customers. The majority of the foreign exchange revenue is passed over to RBWM and CMB, with an element retained in GB&M.

Adjusted profit before tax of £26m in 1H19 was £23m higher than 2H18 due to higher revenue.

Revenue increased by £17m or 24%, due to improved revenue share agreements and favourable market conditions.

Global Private Banking

Adjusted profit before tax of nil in 1H19 was £28m lower than 2H18 due to higher ECL and higher operating costs.

Revenue decreased by £1m or 1%, broadly in line with 2H18.

ECL of £16m increased by £20m from a net recovery position of £4m in 2H18, driven from an increase in default rates, and the corresponding impact on the adjustment for UK economic uncertainty in 1H19.

Operating expenses increased by £7m or 13%, due to an increase in administrative expenses and technology costs.

Corporate Centre

Adjusted profit before tax of £62m in 1H19 was £26m or 30%, lower than 2H18.

Revenue decreased by £3m or 5%, due to a change in accounting treatment of Corporate Real Estate lease liabilities following the implementation of IFRS 16.

Operating expenses have increased by £23m, due to increased support costs.

Dividends

The consolidated reported profit for the period attributable to the shareholders of the bank was £348m.

Dividends of £320m in respect of ordinary share capital were declared and paid during 1H19. A further £66m of dividends were paid in respect of additional tier 1 capital instruments.

Further information regarding dividends is given in Note 3.

Summary consolidated balance sheet

	At	
	30 Jun 2019	31 Dec 2018
	£m	£m
Total assets	**248,910**	238,939
– cash and balances at central banks	**34,857**	33,193
– items in the course of collections from other banks	**865**	603
– financial assets designated and otherwise mandatory measured at fair value	**35**	35
– derivative assets	**51**	66
– loans and advances to banks	**1,278**	1,263
– loans and advances to customers	**180,084**	174,807
– reverse repurchase agreements – non-trading	**3,781**	3,422
– financial investments	**15,468**	13,203
– other assets	**8,609**	8,537
– goodwill and intangible assets	**3,882**	3,810
Total liabilities	**226,701**	216,606
– deposits by banks	**757**	1,027
– customer accounts	**208,062**	204,837
– repurchase agreements – non-trading	**488**	639
– items in the course of transmission to other banks	**823**	233
– derivative liabilities	**260**	346
– debt securities in issue	**2,240**	—
– accruals, deferred income and other liabilities	**2,539**	2,409
– current and deferred tax liabilities	**1,491**	1,548
– provisions	**893**	630
– subordinated liabilities	**9,148**	4,937
Total equity	**22,209**	22,333
– total shareholders' equity[1]	**22,149**	22,273
– non-controlling interests	**60**	60

1 *Total shareholders' equity includes share capital, share premium, additional Tier 1 instruments and reserves. Reserves include accounting reserves relating to the recognition of goodwill and the pension asset net of deferred tax which do not form part of regulatory capital.*

The commentary below compares the balance sheet at 30 June 2019 to that at 31 December 2018.

The group maintained a strong and liquid balance sheet. The ratio of customer advances to customer accounts increased to 86.6% compared to 85.3% at 31 December 2018.

Assets

Cash and balances at central banks increased by 5% due to the issuance of debt securities and growth in customer account balances partially offset by growth in lending and a move of liquid assets from cash into bonds.

Loans and advances to customers increased by 3%. The increase was due to higher levels of commercial term lending and retail mortgage lending reflecting our focus on broker-originated mortgages.

Liabilities

Customer accounts increased by 2% due to growth in commercial and retail current and savings accounts.

Subordinated liabilities increased by 85% due to new issuances to HSBC UK Holdings Limited for Minimum Requirements for own funds and Eligible Liabilities ('MREL') compliance.

Debt securities in issue increased as we issued through our Debt Issuance Programme and our Commercial Paper and Certificates of Deposits Programmes.

Equity

Total shareholders' equity reduced due to dividends paid exceeding profits for the period.

Risk

Risk overview

We continuously identify, monitor and consider risks. This process, which is informed by our risk factors and the results of our stress testing programme, gives rise to the classification of certain principal risks. Changes in the assessment of principal risks may result in adjustments to our business strategy and, potentially, our risk appetite.

Our principal risks include credit risk, operational risk, market risk, liquidity and funding risk, compliance risk and reputational risk.

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

The exposure to our risks and risk management of these are explained in more detail in the Risk section of the Report of the Directors on pages 15 to 43 of the *Annual Report and Accounts 2018.*

The below table sets out the top and emerging risks and any material change to those reported in our *Annual Report and Accounts 2018*. There have been no new top and emerging risks identified since 31 December 2018.

Risk		Mitigants
Externally driven		
Geopolitical risk	▲	We continually assess the impact of geopolitical events on our businesses and exposures across HSBC UK and take steps to mitigate them, where required, to help ensure we remain within our risk appetite. The UK is due to leave the EU by 31 October 2019 but political discussions are ongoing. We will continue to work with regulators and our customers to manage the risks associated with the UK's exit from the EU as they arise, particularly across those sectors most impacted.
Turning of the credit cycle	▲	We continue to undertake detailed reviews of our portfolios and proactively manage credit facilities to customers and sectors likely to come under stress as a result of geopolitical or macroeconomic events. Relative to the exceptionally benign credit conditions of the recent past, credit risk has increased during the first half of 2019.
Regulatory developments	▶	We engage with regulators, wherever possible, to help ensure that new regulatory requirements are considered fully and can be implemented in an effective manner.
Information Security risk and Cyber Crime	▶	We continue to further strengthen our controls to prevent, detect and respond to increasingly sophisticated cybersecurity threats. This includes threat detection, systems and network access, controls, payment system controls, data protection, and backup and recovery.
IBOR transition	▶	The industry accord concerning the transition from Interbank Offered Rates ('IBORs'), including LIBOR (London Interbank Offered Rate) to alternative risk-free rates, continues to evolve. HSBC UK is part of the HSBC Group programme to evaluate and address the impact on products, services and processes, with the intention of minimising disruption through appropriate mitigating actions.
Internally driven		
People risk	▶	We continue to increase our focus on resource planning and employee retention and to equip line managers with the skills to both manage change, and support their employees.
IT systems infrastructure and resilience	▶	We continue to monitor and improve service resilience across our technology infrastructure, enhancing our problem identification/diagnosis/resolution and change execution capabilities to reduce service disruption to our customers.
Execution risk	▶	We continue to strengthen our prioritisation and governance processes for significant strategic, regulatory and compliance projects.
Model risk	▲	We continue to evolve our capability and practice in regard to the risk management of our portfolio of internal models in line with regulatory expectations and industry best practice.
Conduct and Customer Detriment	▶	We continue to enhance our management of conduct in a number of areas, including the treatment of potentially vulnerable customers, governance of product arrangements, and encouragement of a 'Speak Up' culture.
Financial Crime Compliance	▶	The Global Standards programme continued to integrate the final elements of our capabilities for AML and sanctions into our day-to-day operations throughout the first half of 2019. We continue to enhance our financial crime risk management capabilities and the effectiveness of our financial crime controls, and we are maintaining our investment in the next generation of tools to fight financial crime through the application of advanced analytics and artificial intelligence.
Data management	▲	We continue to improve our insights, consistency of data aggregation, reporting and decisions through ongoing enhancement of our data governance, data quality, data privacy and architecture framework.

▲ Risk has heightened during 2019

▶ Risk remains at the same level as 2018

Managing risk

We continued to maintain a conservative and consistent approach to risk during the first half of 2019.

As a provider of banking and financial services, managing risk is at the core of our day-to-day activities. While our 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 Group Values and Global Standards programme and ensures that our risk profile remains conservative and aligned to our risk appetite. Further details are set out on pages 18 and 19 of our *Annual Report and Accounts 2018*. There have been no material changes to our policies and practices regarding risk management and governance as described in our *Annual Report and Accounts 2018*.

Top and emerging risks

We aim 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 our top and emerging risks.

During the first half of 2019, we made a number of changes to our assessment of existing top and emerging risks, to reflect their current effect on HSBC UK, and changes in the scope of risk definitions, to ensure appropriate focus. Further details on our top and emerging risks and principal banking risks are set out within the Risk Overview on page 9.

Areas of special interest

During 2019, a number of areas have been identified and considered as part of our top and emerging risks because of the effect they may have on HSBC UK. We have placed particular focus on the UK's withdrawal from the EU in this section.

Process of UK withdrawal from the European Union

The UK was due to leave the EU on 29 March 2019, but after agreeing an extension with the EU it is now due to leave by 31 October 2019. Before then, a Withdrawal Agreement under Article 50 will need to be approved by the UK and European parliaments. If an agreement is not approved by this date, the default legal position is that the UK will leave the EU without a deal, unless another extension is agreed with the EU. The terms of the UK's departure will be negotiated by the new prime minister Boris Johnson, after Theresa May announced her resignation in May 2019.

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

To ensure continuity of service, independent of the outcome of negotiations, our contingency plan is based on the assumption of a scenario whereby the UK exits the EU without the existing passporting or regulatory equivalence framework that supports cross-border business.

Legal entity restructuring

Changes in legal entity structure are likely to be minor and limited to our existing branch in Ireland. We previously used our Irish branch, that relied on passporting out of the UK, for the placement of excess EUR deposits. This may no longer be possible post the UK's exit from the EU. To mitigate this, we have on-boarded appropriate counterparties for foreign exchange swaps and repos, which will enable the Balance Sheet Management ('BSM') team in HSBC UK to manage the EUR position in line with how other non-Sterling currencies are managed.

Product offering

HSBC France ('HBFR') will become the HSBC Group's continental European hub post the UK's exit from the EU. To accommodate for customer migrations and new business after the UK's departure from the EU, HBFR have expanded and enhanced their existing product offerings.

Customer migrations

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

Employees

We are providing support to our UK employees resident in EEA countries and EEA employees resident in the UK (e.g. on settlement applications).

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

Key developments and risk profile

Credit risk profile

Credit risk is the risk of financial loss if a customer or counterparty fails to meet a payment obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from off-balance sheet products such as guarantees and credit derivatives, and from the group's holdings of debt securities.

Summary of credit risk

The disclosure below presents the gross carrying/nominal amount of financial instruments to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL.

On 31 December 2018, the IFRS 9 allowance for ECL was £1.54bn This allowance has increased by £0.07bn to £1.61bn at 30 June 2019.

The IFRS 9 allowance for ECL at 30 June 2019 comprises £1.54bn in respect of assets held at amortised cost and £0.07bn in respect of loan commitments and financial guarantees. There were no allowances for ECL in respect of debt instruments measured at fair value through other comprehensive income ('FVOCI').

The following table provides an overview of the group's credit risk exposure.

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

	At 30 Jun 2019		At 31 Dec 2018	
	Gross carrying/ nominal amount	**Allowance for ECL[1]**	Gross carrying/ nominal amount	Allowance for ECL[1]
	£m	**£m**	£m	£m
Loans and advances to customers at amortised cost	**181,623**	**(1,539)**	176,266	(1,459)
– personal	**113,524**	**(610)**	110,208	(565)
of which: first lien residential mortgages	***97,748***	***(114)***	*94,703*	*(107)*
– corporate and commercial	**65,179**	**(891)**	63,491	(860)
– non-bank financial institutions	**2,920**	**(38)**	2,567	(34)
Loans and advances to banks at amortised cost	**1,278**	**—**	1,263	—
Other financial assets measured at amortised costs	**41,305**	**—**	39,142	(3)
– cash and balances at central banks	**34,857**	**—**	33,193	—
– items in the course of collection from other banks	**865**	**—**	603	—
– reverse repurchase agreements – non-trading	**3,781**	**—**	3,422	—
– prepayments, accrued income and other assets[2]	**1,802**	**—**	1,924	(3)
Total gross carrying amount on-balance sheet	**224,206**	**(1,539)**	216,671	(1,462)
Loans and other credit related commitments	**65,958**	**(62)**	64,628	(63)
– personal	**40,338**	**(7)**	39,389	(4)
– corporate and commercial	**24,469**	**(55)**	24,884	(59)
– non-bank financial institutions	**1,151**	**—**	355	—
Financial guarantees	**1,183**	**(5)**	1,284	(12)
– personal	**26**	**—**	16	—
– corporate and commercial	**681**	**(5)**	782	(12)
– non-bank financial institutions	**476**	**—**	486	—
Total nominal amount off-balance sheet[3]	**67,141**	**(67)**	65,912	(75)
	291,347	**(1,606)**	282,583	(1,537)

	Fair value	**Memorandum allowance for ECL[4]**	Fair value	Memorandum allowance for ECL[4]
	£m	**£m**	£m	£m
Debt instruments measured at fair value through other comprehensive income ('FVOCI')	**15,468**	**—**	13,203	—

1 *Total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.*
2 *Includes only those financial instruments which are subject to the impairment requirements of IFRS 9. 'Prepayments, accrued income and other assets', as presented within the consolidated balance sheet on page 29, includes both financial and non-financial assets.*
3 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
4 *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.*

The following table provides an overview of the group's credit risk by stage and industry, and the associated ECL coverage. The financial assets recorded in each stage have the following characteristics:

- Stage 1: unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised.
- Stage 2: a significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised.
- Stage 3: objective evidence of impairment, and are therefore considered to be in default or otherwise credit-impaired on which a lifetime ECL is recognised.

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

	Gross carrying/nominal amount[1]				Allowance for ECL				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%
Loans and advances to customers at amortised cost	167,713	11,012	2,898	181,623	(252)	(632)	(655)	(1,539)	0.2	5.7	22.6	0.8
– personal	108,656	3,833	1,035	113,524	(79)	(352)	(179)	(610)	0.1	9.2	17.3	0.5
– corporate and commercial	56,517	6,883	1,779	65,179	(168)	(270)	(453)	(891)	0.3	3.9	25.5	1.4
– non-bank financial institutions	2,540	296	84	2,920	(5)	(10)	(23)	(38)	0.2	3.4	27.4	1.3
Loans and advances to banks at amortised cost	1,278	—	—	1,278	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	41,268	29	8	41,305	—	—	—	—	—	—	—	—
Loan and other credit-related commitments	62,815	2,824	319	65,958	(34)	(13)	(15)	(62)	0.1	0.5	4.7	0.1
– personal	39,680	430	228	40,338	(7)	—	—	(7)	—	—	—	—
– corporate and commercial	21,998	2,380	91	24,469	(27)	(13)	(15)	(55)	0.1	0.5	16.5	0.2
– financial	1,137	14	—	1,151	—	—	—	—	—	—	—	—
Financial guarantee and similar contracts	1,010	137	36	1,183	(1)	(3)	(1)	(5)	0.1	2.2	2.8	0.4
– personal	23	3	—	26	—	—	—	—	—	—	—	—
– corporate and commercial	515	132	34	681	(1)	(3)	(1)	(5)	0.2	2.3	2.9	0.7
– financial	472	2	2	476	—	—	—	—	—	—	—	—
At 30 Jun 2019[2]	**274,084**	**14,002**	**3,261**	**291,347**	**(287)**	**(648)**	**(671)**	**(1,606)**	**0.1**	**4.6**	**20.6**	**0.6**

1 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
2 *The probability-weighted ECL allowance for Wholesale reflects the impact of all scenarios including the additional downside scenarios for the UK economic uncertainty adjustment as disclosed on page 13. The gross carrying values/nominal amounts for Wholesale lending in each non-credit impaired stage reflect a probability-weighted view of stage allocation for the consensus scenarios only. In addition, the stage allocation of gross carrying/nominal amounts for Retail lending reflect the impact of the UK economic uncertainty adjustment.*

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

	Gross carrying/nominal amount[1]				Allowance for ECL				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%
Loans and advances to customers at amortised cost	163,118	10,544	2,604	176,266	(247)	(597)	(615)	(1,459)	0.2	5.7	23.6	0.8
– personal	105,920	3,282	1,006	110,208	(71)	(327)	(167)	(565)	0.1	10.0	16.6	0.5
– corporate and commercial	55,084	6,890	1,517	63,491	(170)	(261)	(429)	(860)	0.3	3.8	28.3	1.4
– non-bank financial institutions	2,114	372	81	2,567	(6)	(9)	(19)	(34)	0.3	2.4	23.5	1.3
Loans and advances to banks at amortised cost	1,262	1	—	1,263	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	39,110	23	9	39,142	(3)	—	—	(3)	—	—	—	—
Loan and other credit-related commitments	61,946	2,358	324	64,628	(32)	(13)	(18)	(63)	0.1	0.6	5.6	0.1
– personal	38,994	172	223	39,389	(4)	—	—	(4)	—	—	—	—
– corporate and commercial	22,603	2,180	101	24,884	(28)	(13)	(18)	(59)	0.1	0.6	17.8	0.2
– financial	349	6	—	355	—	—	—	—	—	—	—	—
Financial guarantee and similar contracts	1,117	96	71	1,284	(3)	(2)	(7)	(12)	0.3	2.1	9.9	0.9
– personal	15	1	—	16	—	—	—	—	—	—	—	—
– corporate and commercial	620	93	69	782	(3)	(2)	(7)	(12)	0.5	2.2	10.1	1.5
– financial	482	2	2	486	—	—	—	—	—	—	—	—
At 31 Dec 2018[2]	266,553	13,022	3,008	282,583	(285)	(612)	(640)	(1,537)	0.1	4.7	21.3	0.5

1 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
2 *The probability-weighted ECL allowance for Wholesale reflects the impact of all scenarios including the additional downside scenarios for the UK economic uncertainty adjustment as disclosed on page 13. The gross carrying values/nominal amounts for Wholesale lending in each non-credit impaired stage reflect a probability-weighted view of stage allocation for the consensus scenarios only. In addition, the stage allocation of gross carrying/nominal amounts for Retail lending reflect the impact of the UK economic uncertainty adjustment.*

Measurement uncertainty and sensitivity analysis of ECL estimates

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

Methodology

Our methodology in relation to the adoption and generation of economic scenarios is described on page 31 of the *Annual Report and Accounts 2018*. There has been no significant changes during the period.

Description of consensus economic scenarios

The economic assumptions presented in this section have been formed internally by the HSBC Group specifically for the purpose of calculating expected credit loss.

The consensus Central scenario

The consensus Central scenario is updated each quarter; the scenario is of moderate growth over the forecast 3Q19 - 2Q24 period. Global GDP growth is expected to be 2.8% on average over the period, which is lower than the 4Q18 forecast. Global GDP growth is forecast at 2.6% in 2019, after which growth increases to reach 2.8% by 2020. We note that:

- Average forecast rates of GDP growth over the 2019–2024 period are lower than those experienced in the recent past. For the UK, this reflects expectations that the long-term impact of current economic uncertainty will be moderately adverse.
- The average unemployment rate over the projection horizon is expected to remain at or below the averages observed in the 2013–2017 period.
- Consumer price inflation is expected to be lower in 2019 compared with 2018, and remains broadly consistent with central bank inflation targets over the projection period.

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

Central scenario	Average 3Q19–2Q24	Average 2019–2023
	UK	UK
GDP growth rate (%)	**1.6**	1.7
Inflation (%)	**2.0**	2.1
Unemployment (%)	**4.5**	4.5
Short-term interest rate (%)	**1.0**	1.2
10-year Treasury bond yields (%)	**2.5**	2.6
House price growth (%)	**2.9**	2.9
Equity price growth (%)	**2.7**	3.2
Probability (%)	**50.0**	50.0

The consensus Upside and Downside scenarios

The Upside and Downside scenarios are generated annually and are only updated during the year if economic conditions change significantly. The Upside and Downside scenarios are described on pages 31 and 32 of the *Annual Report and Accounts 2018*. There have been no significant changes to the scenarios during the period. In the UK, a 10% weighting is applied to the Upside scenario, no weighting is applied to the Downside scenario. Instead weightings are applied to the Alternative Downside scenarios.

Alternative Downside scenarios for the UK

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

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

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

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

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

Average 3Q19–2Q24	**Alternative Downside scenario 1**	**Alternative Downside scenario 2**	**Alternative Downside scenario 3**
GDP growth rate (%)	**0.5**	**(0.1)**	**(0.7)**
Inflation (%)	**2.2**	**2.4**	**2.7**
Unemployment (%)	**6.5**	**8.0**	**7.7**
Short-term interest rate (%)	**0.4**	**2.5**	**2.5**
10-year Treasury bond yields (%)	**1.9**	**4.0**	**4.0**
House price growth (%)	**(1.7)**	**(3.4)**	**(5.0)**
Equity price growth (%)	**(1.2)**	**(2.6)**	**(7.8)**
Probability (%)	**30.0**	**5.0**	**5.0**

Average 2019–2023	Alternative Downside scenario 1	Alternative Downside scenario 2	Alternative Downside scenario 3
GDP growth rate (%)	0.5	(0.1)	(0.7)
Inflation (%)	2.2	2.4	2.7
Unemployment (%)	6.5	8.0	7.7
Short-term interest rate (%)	0.4	2.5	2.5
10-year Treasury bond yields (%)	1.8	4.0	4.0
House price growth (%)	(1.5)	(3.3)	(4.8)
Equity price growth (%)	(0.9)	(2.3)	(7.5)
Probability (%)	30.0	5.0	5.0

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

Our methodology in relation to the adoption and generation of economic scenarios is described on page 33 of the *Annual Report and Accounts 2018*. There have been no significant changes during the period.

Effect of multiple economic scenarios on ECL

The ECL recognised in the financial statements reflect the effect on expected credit losses of a range of possible outcomes, calculated on a probability-weighted basis, based on the economic scenarios described above, including management overlays where required. The probability-weighted amount is typically a higher number than would result from using only the Central (most likely) economic scenario. Expected losses typically have a non-linear relationship to the many factors that influence credit losses, such that more favourable macroeconomic factors do not reduce defaults as much as less favourable macroeconomic factors increase defaults.

Impact of UK economic uncertainty on ECL

As described above at 30 June 2019, management determined that its view of the distribution of possible economic outcomes in the UK was better reflected by using three additional Downside scenarios in place of the UK consensus Downside scenario. This resulted in the recognition of additional impairment allowances of £291m compared with those implied by the consensus scenarios, to reflect the increased level of economic uncertainty in the UK. This represents an increase of £33m in 2019.

We also considered developments after the balance sheet date and concluded that they did not necessitate any adjustment to the approach or judgements taken on 30 June 2019.

Economic scenarios sensitivity analysis of ECL estimates

Management have assessed and considered the sensitivity estimate outcomes for both the retail and wholesale businesses as at 30 June 2019 and have determined that there is no material change from 31 December 2018, as presented on pages 30 and 34 of the *Annual Report and Accounts 2018.*

For all the above sensitivity analyses, as the level of uncertainty, economic forecasts, historical economic variable correlations or credit quality changes, corresponding changes in the ECL sensitivity would occur.

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

The following disclosure provides a reconciliation of the group's allowances for loans and advances to banks and customers, including loan commitments and financial guarantees.

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

	Allowance for ECL
	£m
At 1 Jan 2019	**(1,534)**
ECL Income statement release/(charge) for the period	**(382)**
Assets written off	**310**
At 30 Jun 2019	**(1,606)**
ECL Income statement release/(charge) for the period	**(382)**
Add: Recoveries	**50**
Total ECL Income release/(charge) change in ECL for the period[1]	**(332)**

1 *This disclosure does not include Other financial assets and Non-trading Reverse repurchase agreements.*

Wholesale lending

Total wholesale lending for loans and advances to banks and customers by stage distribution at 30 June 2019

	Gross carrying amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Corporate and commercial	56,517	6,883	1,779	65,179	(168)	(270)	(453)	(891)
– agriculture, forestry and fishing	3,189	489	92	3,770	(10)	(29)	(9)	(48)
– mining and quarrying	718	264	3	985	(1)	(3)	(1)	(5)
– manufacture	7,337	833	102	8,272	(21)	(37)	(38)	(96)
– electricity, gas, steam and air-conditioning supply	323	39	80	442	(2)	(2)	(11)	(15)
– water supply, sewerage, waste management and remediation	977	17	14	1,008	(3)	(1)	(12)	(16)
– construction	2,814	861	215	3,890	(7)	(18)	(112)	(137)
– wholesale and retail trade, repair of motor vehicles and motorcycles	8,724	1,585	286	10,595	(20)	(49)	(85)	(154)
– transportation and storage	1,626	133	61	1,820	(5)	(8)	(4)	(17)
– accommodation and food	6,932	401	94	7,427	(28)	(19)	(15)	(62)
– publishing, audiovisual and broadcasting	1,897	209	25	2,131	(11)	(10)	(5)	(26)
– real estate	10,703	837	565	12,105	(16)	(27)	(83)	(126)
– professional, scientific and technical activities	3,243	297	46	3,586	(12)	(23)	(20)	(55)
– administrative and support services	4,053	559	76	4,688	(16)	(19)	(24)	(59)
– public administration and defence, compulsory social security	24	7	–	31	–	–	–	–
– education	717	55	24	796	(3)	(3)	(5)	(11)
– health and care	1,379	146	75	1,600	(6)	(11)	(21)	(38)
– arts, entertainment and recreation	994	68	13	1,075	(4)	(7)	(3)	(14)
– other services	304	83	8	395	(3)	(4)	(5)	(12)
– activities of households	–	–	–	–	–	–	–	–
– assets backed securities	563	–	–	563	–	–	–	–
Non-bank financial institutions	2,540	296	84	2,920	(5)	(10)	(23)	(38)
Loans and advances to banks	1,278	–	–	1,278	–	–	–	–
At 30 Jun 2019	**60,335**	**7,179**	**1,863**	**69,377**	**(173)**	**(280)**	**(476)**	**(929)**

Total wholesale lending for loans and advances to banks and customers by stage distribution at 31 December 2018

	Gross carrying amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Corporate and commercial	55,084	6,890	1,517	63,491	(170)	(261)	(429)	(860)
– agriculture, forestry and fishing	2,816	717	75	3,608	(8)	(26)	(6)	(40)
– mining and quarrying	681	305	70	1,056	(3)	(2)	(4)	(9)
– manufacture	6,817	1,227	110	8,154	(21)	(33)	(36)	(90)
– electricity, gas, steam and air-conditioning supply	339	101	23	463	(1)	(7)	(7)	(15)
– water supply, sewerage, waste management and remediation	1,023	13	16	1,052	(2)	(1)	(11)	(14)
– construction	3,586	192	284	4,062	(7)	(10)	(113)	(130)
– wholesale and retail trade, repair of motor vehicles and motorcycles	7,956	1,750	211	9,917	(16)	(48)	(53)	(117)
– transportation and storage	1,454	159	18	1,631	(5)	(6)	(4)	(15)
– accommodation and food	6,232	481	87	6,800	(25)	(26)	(18)	(69)
– publishing, audiovisual and broadcasting	1,691	186	66	1,943	(11)	(5)	(39)	(55)
– real estate	10,787	619	254	11,660	(18)	(26)	(65)	(109)
– professional, scientific and technical activities	3,392	289	44	3,725	(14)	(21)	(20)	(55)
– administrative and support services	3,840	496	111	4,447	(17)	(20)	(23)	(60)
– public administration and defence, compulsory social security	17	—	—	17	—	—	—	—
– education	819	51	8	878	(6)	(5)	(3)	(14)
– health and care	1,260	175	99	1,534	(5)	(9)	(18)	(32)
– arts, entertainment and recreation	982	68	18	1,068	(4)	(6)	(3)	(13)
– other services	756	61	23	840	(7)	(10)	(6)	(23)
– activities of households	1	—	—	1	—	—	—	—
– assets backed securities	635	—	—	635	—	—	—	—
Non-bank financial institutions	2,114	372	81	2,567	(6)	(9)	(19)	(34)
Loans and advances to banks	1,262	1	—	1,263	—	—	—	—
At 31 Dec 2018	58,460	7,263	1,598	67,321	(176)	(270)	(448)	(894)

Total wholesale lending for loans and other credit-related commitments and financial guarantee and similar contracts by stage distribution at 30 June 2019

	Nominal amount				**Allowance for ECL**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Corporate and commercial	**22,513**	**2,512**	**125**	**25,150**	**(28)**	**(16)**	**(16)**	**(60)**
Financial	**1,609**	**16**	**2**	**1,627**	**—**	**—**	**—**	**—**
At 30 Jun 2019	**24,122**	**2,528**	**127**	**26,777**	**(28)**	**(16)**	**(16)**	**(60)**

Total wholesale lending for loans and other credit-related commitments and financial guarantee and similar contracts by stage distribution at 31 December 2018

	Nominal amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Corporate and commercial	23,223	2,273	170	25,666	(31)	(15)	(25)	(71)
Financial	831	8	2	841	—	—	—	—
At 31 Dec 2018	24,054	2,281	172	26,507	(31)	(15)	(25)	(71)

Management of liquidity and funding risk in 2019

Liquidity coverage ratio

The Liquidity Coverage Ratio ('LCR') aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30-calendar-day liquidity stress scenario. HQLA consist of cash or assets that can be converted into cash at little or no loss of value in markets.

At 30 June 2019, HSBC UK Liquidity Group was within the LCR risk tolerance level established by the Board and applicable under the Liquidity and Funding Risk management Framework ('LFRF'). The following table displays the individual LCR levels for HSBC UK Liquidity Group on an European Commission ('EC') LCR Delegated Regulation basis.

HSBC UK Liquidity Group LCR

	At	
	30 Jun 2019	31 Dec 2018
	%	%
HSBC UK Liquidity Group[1]	**155**	143

1 *HSBC UK Liquidity Group comprises: HSBC UK Bank plc (including Dublin branch), Marks and Spencer Financial Services plc, HSBC Trust Company (UK) Limited and HSBC Private Bank (UK) Limited. It is managed as a single operating entity, in line with the application of UK liquidity regulation as agreed with the Prudential Regulatory Authority ('PRA').*

Net stable funding ratio

The Net Stable Funding Ratio ('NSFR') requires institutions to maintain sufficient stable funding relative to required stable funding, and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR.

At 30 June 2019, HSBC UK Liquidity Group was within the NSFR risk tolerance level established by the Board and applicable under the LFRF.

The table below displays the NSFR levels for the principal operating entities on a BCBS 295 basis.

HSBC UK Liquidity Group NSFR

	At	
	30 Jun 2019	31 Dec 2018
	%	%
HSBC UK Liquidity Group	**147**	144

Depositor concentration and term funding maturity concentration

The LCR and NSFR metrics assume a stressed outflow based on a portfolio of depositors within each deposit segment. The validity of these assumptions is undermined if the underlying depositors do not represent a large enough portfolio so that a depositor concentration exists.

In addition to this, HSBC UK Liquidity Group is exposed to term re-financing concentration risk if the current maturity profile results in future maturities being overly concentrated in any defined period.

At 30 June 2019, HSBC UK Liquidity Group was within the risk tolerance levels set for depositor concentration and term funding maturity concentration which were established by the Board and are applicable under the LFRF.

Liquid assets of HSBC UK Liquidity Group

The table below shows the unweighted liquidity value of assets categorised as liquid, which is used for the purposes of calculating the LCR metric. This reflects the stock of unencumbered liquid assets at the reporting date, using the regulatory definition of liquid assets.

HSBC UK Liquidity Group liquid assets

	Estimated liquidity value	
	At 30 Jun 2019	At 31 Dec 2018
	£m	£m
HSBC UK Liquidity Group		
Level 1	**49,653**	45,318
Level 2a	**1,125**	1,222
Level 2b	**—**	—

Sources of funding

Our primary sources of funding are customer current accounts and customer savings deposits payable on demand or at short notice.

On 27 June 2019, we issued a senior unsecured debt security through our Debt Issuance Programme and listed it on the main regulated market of the London Stock Exchange. We have established our Debt Issuance Programme to diversify our funding sources and ensure we have appropriate access to markets.

Our Commercial Paper and Certificates of Deposit Programme was established prior to 31 December 2018 and we commenced issuing under the programme during the first six months of 2019.

The following 'Funding sources and uses' table provides a consolidated view of how our balance sheet is funded, and should be read in light of the LFRF, which requires HSBC UK Liquidity Group to manage liquidity and funding risk on a stand-alone basis.

The table analyses our consolidated balance sheet according to the assets that primarily arise from operating activities and the sources of funding primarily supporting these activities. Assets and liabilities that do not arise from operating activities are presented as a net balancing source or deployment of funds. In the first six months of 2019 the level of customer accounts exceeded the level of loans and advances to customers. The positive funding gap was predominantly deployed in liquid assets, cash and balances with central banks and financial investments, as required by the LFRF.

Funding sources and uses

	At	
	30 Jun 2019	31 Dec 2018
	£m	£m
Sources		
Customer accounts	**208,062**	204,837
Deposits by banks	**757**	1,027
Repurchase agreements – non-trading	**488**	639
Accruals, deferred income and other liabilities	**319**	35
– cash collateral, margin and settlement accounts	**319**	35
Subordinated liabilities	**9,148**	4,937
Debt securities in issue	**2,240**	—
Total equity	**22,209**	22,333
	243,223	233,808

	At	
	30 Jun 2019	31 Dec 2018
	£m	£m
Uses		
Loans and advances to customers	**180,084**	174,807
Loans and advances to banks	**1,278**	1,263
Reverse repurchase agreements – non-trading	**3,781**	3,422
Prepayments, accrued income and other assets	**476**	338
– cash collateral, margin and settlement accounts	**476**	338
Financial investments	**15,468**	13,203
Cash and balances with Central banks	**34,857**	33,193
Net deployment in other balance sheet assets and liabilities	**7,279**	7,582
	243,223	233,808

Capital

Capital management

Approach and policy

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 related requirements.

We manage group capital to ensure that we exceed current and expected future requirements. In the first half of 2019, we complied with the PRA 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 44 of the *Annual Report and Accounts 2018*.

Main features of capital

A summary of the main features of our capital instruments is provided on page 7 of the 2018 Pillar 3 disclosures. 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 the HSBC Group website, www.hsbc.com, with reference to our balance sheet at 30 June 2019.

Regulatory developments

Basel Committee ('Basel')

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

- widespread changes to the risk weights under the standardised approach to credit risk;
- a change in the scope of application of the internal ratings based ('IRB') approach to credit risk, together with changes to the IRB methodology;
- the replacement of the operational risk approaches with a single methodology;
- an 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.

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

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

The Capital Requirements Regulation amendments

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

The CRR2 rules will follow a phased implementation with significant elements entering into force in 2021, largely in advance of Basel's timeline. It remains uncertain how the elements of the CRR2 that come into force after the UK's withdrawal from the EU will be transposed into UK law.

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

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

The EU's implementation of the Basel III Reforms

In July 2019, the European Banking Authority ('EBA') issued its report on the implementation of a second tranche of changes to the EU legislation to reflect the remaining Basel III Reforms ('CRR3'). This included recommendations in relation to credit risk, operational risk and the output floor.

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

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

The UK's withdrawal from the EU

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

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

Other developments

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

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

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

Capital overview

Key capital numbers

		At	
	Footnotes	**30 Jun 2019**	31 Dec 2018
Available capital (£m)	*1*		
Common equity tier 1 ('CET1') capital	^	**11,465**	11,700
CET1 capital as if IFRS 9 transitional arrangements had not been applied		**11,457**	11,687
Tier 1 capital	^	**13,716**	13,896
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied		**13,708**	13,883
Total regulatory capital	^	**16,749**	16,826
Total capital as if IFRS 9 transitional arrangements had not been applied		**16,741**	16,813
Risk-weighted assets (£m)			
Credit risk		**82,051**	81,135
Counterparty credit risk		**62**	66
Market risk		**46**	38
Operational risk		**10,600**	10,600
Total risk-weighted assets	^	**92,759**	91,839
Total RWAs as if IFRS 9 transitional arrangements had not been applied		**92,752**	91,832
Capital ratios (%)			
CET1	^	**12.4**	12.7
CET1 as if IFRS 9 transitional arrangements had not been applied		**12.4**	12.7
Total tier 1	^	**14.8**	15.1
Tier 1 as if IFRS 9 transitional arrangements had not been applied		**14.8**	15.1
Total capital	^	**18.1**	18.3
Total capital as if IFRS 9 transitional arrangements had not been applied		**18.1**	18.3
Total Capital Requirement (%)			
Total Capital Requirement	*2*	**12.7**	N/A
Leverage ratio			
Tier 1 capital (£m)		**13,716**	13,896
Total leverage ratio exposure measure (£m)	3^	**261,467**	246,659
Leverage ratio (%)	3^	**5.2**	5.6
Leverage ratio as if IFRS 9 transitional arrangements had not been applied (%)		**5.2**	5.6

1 *Capital figures reported at 30 June 2019 are on a CRR2 transitional basis. Prior period capital figures are reported on a CRD IV transitional basis.*
2 *Total capital requirement is defined as the sum of Pillar 1 and Pillar 2A capital requirements set by the PRA.*
3 *Leverage ratio at 30 June 2019 is calculated on a CRR2 end point basis for capital. Prior period leverage ratios are calculated using the CRD IV end point basis for capital.*

HSBC UK has adopted the EU regulatory transitional arrangements for IFRS 9 'Financial Instruments'.

Figures indicated with ^ included within certain tables in this section have been prepared on an IFRS 9 transitional basis.

All other tables in this section report numbers on the basis of full adoption of IFRS 9.

Participating interests in banking associates / joint ventures are proportionally consolidated for regulatory purposes by including our share of assets, liabilities, profit and loss, and RWAs in accordance with the PRA's application of EU legislation. As a result of this, total assets in the regulatory balance sheet are £93m higher than in the accounting balance sheet.

Capital

Own funds disclosure

Ref*		Footnotes	At 30 Jun 2019 £m	At 31 Dec 2018 £m
	Common equity tier 1 ('CET1') capital: instruments and reserves			
1	Capital instruments and the related share premium accounts		**9,015**	9,015
	– ordinary shares		**9,015**	9,015
2	Retained earnings		**10,981**	10,713
3	Accumulated other comprehensive income (and other reserves)		**(117)**	(399)
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend		**(105)**	562
6	**Common equity tier 1 capital before regulatory adjustments**		**19,774**	19,891
	Common equity tier 1 capital: regulatory adjustments			
7	Additional value adjustments		**(10)**	(8)
8	Intangible assets (net of related deferred tax liability)		**(3,882)**	(3,808)
11	Fair value reserves related to gains or losses on cash flow hedges		**18**	31
12	Negative amounts resulting from the calculation of expected loss amounts		**(109)**	(25)
15	Defined-benefit pension fund assets		**(4,326)**	(4,381)
28	**Total regulatory adjustments to common equity tier 1**		**(8,309)**	(8,191)
29	**Common equity tier 1 capital**		**11,465**	11,700
	Additional tier 1 ('AT1') capital: instruments			
30	Capital instruments and the related share premium accounts		**2,251**	2,196
31	– classified as equity under IFRSs		**2,251**	2,196
36	**Additional tier 1 capital before regulatory adjustments**		**2,251**	2,196
44	**Additional tier 1 capital**		**2,251**	2,196
45	**Tier 1 capital (T1 = CET1 + AT1)**		**13,716**	13,896
	Tier 2 capital: instruments and provisions			
46	Capital instruments and the related share premium accounts		**2,960**	2,857
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	1	**73**	73
51	**Tier 2 capital before regulatory adjustments**		**3,033**	2,930
58	**Tier 2 capital**		**3,033**	2,930
59	**Total capital (TC = T1 + T2)**		**16,749**	16,826
60	**Total risk-weighted assets**		**92,759**	91,839
	Capital ratios and buffers			
61	Common equity tier 1		**12.4%**	12.7%
62	Tier 1		**14.8%**	15.1%
63	Total capital		**18.1%**	18.3%
64	Institution specific buffer requirement		**3.5%**	2.8%
65	– capital conservation buffer requirement		**2.5%**	1.9%
66	– countercyclical buffer requirement		**1.0%**	1.0%
68	Common equity tier 1 available to meet buffers		**7.9%**	8.2%
	Amounts below the threshold for deduction (before risk weighting)			
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)		**247**	255
	Applicable caps on the inclusion of provisions in tier 2			
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		**26**	26
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		**472**	465

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

1 *Eligible instruments issued by subsidiaries previously reported in row 46 'Capital instruments and the related share premium accounts' are now reported here. For comparative purposes, 2018 data has been re-presented to reflect this change.*

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. 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 risk of excess leverage in the group is managed as part of the global risk appetite framework and monitored using a leverage ratio metric within the Risk Appetite Statement ('RAS'). The RAS articulates the aggregate level and types of risk that HSBC UK 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').

The leverage exposure measure is also calculated and presented to the Asset and Liability Committee ('ALCO') every month.

HSBC UK became subject to the UK Leverage requirements under the UK Ring-fencing legislation with effect from 1 January 2019.

HSBC UK's UK leverage ratio at 30 June 2019 and 31 March 2019 was 6.3% and 6.5%, respectively. This measure excludes qualifying central bank balances from the calculation of exposure.

At 30 June 2019 and 31 March 2019, our UK minimum leverage ratio requirement of 3.25% was supplemented by a countercyclical leverage ratio buffer of 0.35%. This additional buffer translated into capital values of £771m and £763m at 30 June 2019 and 31 March 2019, respectively. We exceeded these leverage requirements.

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

		At	
		30 Jun 2019	31 Dec 2018
Ref*		**£m**	£m
1	Total assets as per published financial statements	**248,910**	238,939
	Adjustments for:		
2	– consolidation of banking associates/joint ventures	**93**	86
4	– derivative financial instruments	**316**	222
5	– securities financing transactions (‘SFT’)	**334**	4
6	– off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**18,912**	13,589
7	– other	**(7,098)**	(6,181)
8	**Total leverage ratio exposure**	**261,467**	246,659

* *The references identify the lines prescribed in the EBA template. Lines represented in this table are those lines which are applicable and where there is a value.*

Leverage ratio common disclosure (LRCom)

		At	
		30 Jun 2019	31 Dec 2018
Ref*		**£m**	£m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**246,390**	237,571
2	(Asset amounts deducted in determining Tier 1 capital)	**(8,317)**	(8,214)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**238,073**	229,357
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**16**	13
5	Add-on amounts for potential future exposure (‘PFE’) associated with all derivatives transactions (mark-to-market method)	**142**	133
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to IFRSs	**209**	141
11	**Total derivative exposures**	**367**	287
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**3,781**	3,422
14	Counterparty credit risk exposure for SFT assets	**334**	4
16	**Total securities financing transaction exposures**	**4,115**	3,426
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	**73,741**	73,311
18	(Adjustments for conversion to credit equivalent amounts)	**(54,829)**	(59,722)
19	**Total off-balance sheet exposures**	**18,912**	13,589
	Capital and total exposures		
20	**Tier 1 capital**	**13,716**	13,896
21	**Total leverage ratio exposure**	**261,467**	246,659
22	**Leverage ratio (%)**	**5.2**	5.6
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. Lines represented in this table are those lines which are applicable and where there is a value.*

UK Leverage Ratio

	For the period ending	
	30 Jun 2019	31 Mar 2019
	£m	£m
UK leverage ratio exposure – quarterly average	**220,356**	217,895
	%	%
UK leverage ratio – quarterly average	**6.3**	6.5
UK leverage ratio – quarter end	**6.0**	6.3

Leverage ratio – Split of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures) (LRSpl)

		At
		30 Jun 2019
		£m
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	**246,390**
EU-3	– banking book exposures	**246,390**
	‘banking book exposures’ comprises:	
EU-5	exposures treated as sovereigns	**49,490**
EU-7	institutions	**1,813**
EU-8	secured by mortgage of immovable property	**98,518**
EU-9	retail exposures	**16,661**
EU-10	corporates	**63,623**
EU-11	exposures in default	**2,110**
EU-12	other exposures (e.g. equity, securitisations and other non-credit obligation assets)	**14,175**

Credit Risk

Overview

Credit risk is the risk of financial loss if a customer or counterparty fails to meet a payment obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from off-balance sheet products, such as guarantees and credit derivatives, and from the group's holding of debt and other securities.

The tables below set out details of the group's credit risk exposures by exposure class and approach.

Credit risk exposure – summary (CRB-B)

	Footnotes	Net carrying value £m	Average net carrying values[2] £m	RWAs^ £m	Capital required^ £m
IRB advanced approach		**250,292**	**247,198**	**73,614**	**5,889**
– central governments and central banks		**7,648**	**6,814**	**800**	**64**
– institutions		**1,140**	**907**	**231**	**19**
– corporates	1	**84,404**	**83,828**	**53,079**	**4,246**
– total retail		**157,100**	**155,649**	**19,504**	**1,560**
– *of which:* *secured by mortgages on immovable property – small-and medium-sized enterprises ('SME')*		***1,710***	***1,742***	***960***	***77***
secured by mortgages on immovable property non-SME		***104,874***	***103,312***	***5,089***	***407***
qualifying revolving retail		***39,421***	***39,775***	***5,327***	***426***
other SME		***4,168***	***4,126***	***3,042***	***243***
other non-SME		***6,927***	***6,694***	***5,086***	***407***
IRB securitisation positions		**958**	**1,012**	**82**	**7**
IRB non-credit obligation assets		**2,137**	**2,102**	**1,294**	**104**
IRB foundation approach		**9,871**	**9,704**	**5,044**	**403**
– corporates		**9,871**	**9,704**	**5,044**	**403**
Standardised approach		**45,524**	**43,985**	**2,017**	**162**
– central governments and central banks		**40,467**	**39,235**	**618**	**49**
– regional government or local authorities		**195**	**188**	**—**	**—**
– public sector entities		**1,182**	**1,064**	**—**	**—**
– institutions		**878**	**818**	**182**	**15**
– corporates		**652**	**620**	**471**	**38**
– retail		**854**	**847**	**310**	**25**
– secured by mortgages on immovable property		**337**	**314**	**136**	**11**
– exposures in default		**64**	**65**	**93**	**7**
– items associated with particularly high risk		**8**	**8**	**12**	**1**
– other items		**887**	**826**	**195**	**16**
At 30 Jun 2019		**308,782**	**304,001**	**82,051**	**6,565**
IRB advanced approach		244,482	239,490	72,618	5,809
– central governments and central banks		6,161	4,763	640	51
– institutions		683	756	167	13
– corporates	1	83,005	82,106	52,636	4,211
– total retail		154,633	151,865	19,175	1,534
– *of which:* *secured by mortgages on immovable property – small-and medium-sized enterprises ('SME')*		*1,755*	*1,700*	*1,029*	*82*
secured by mortgages on immovable property non-SME		*102,104*	*100,266*	*4,886*	*391*
qualifying revolving retail		*40,169*	*39,182*	*5,577*	*446*
other SME		*4,140*	*4,338*	*3,004*	*240*
other non-SME		*6,465*	*6,379*	*4,679*	*375*
IRB securitisation positions		1,053	1,108	153	12
IRB non-credit obligation assets		2,147	2,324	1,386	111
IRB foundation approach		9,533	9,259	4,931	394
– corporates		9,533	9,259	4,931	394
Standardised approach		43,052	44,401	2,047	165
– central governments and central banks		38,605	40,772	637	51
– regional government or local authorities		182	120	—	—
– public sector entities		832	598	—	—
– institutions		989	522	233	19
– corporates		614	379	494	40
– retail		848	863	320	26
– secured by mortgages on immovable property		294	258	123	10
– exposures in default		63	64	94	7
– items associated with particularly high risk		8	8	12	1
– other items		617	817	134	11
At 31 Dec 2018		300,267	296,582	81,135	6,491

1 Corporates includes specialised lending exposures which are reported in more detail below.
2 Average net carrying values are calculated by aggregating the net carrying value of the last three quarters and dividing by three.

Specialised lending on slotting approach (CR10)

Regulatory categories	Remaining maturity	On-balance sheet amount £m	Off-balance sheet amount £m	Risk weight %	Exposure amount £m	RWAs £m	Expected loss £m
Category 1 – Strong	Less than 2.5 years	**4,346**	**888**	**50**	**4,730**	**2,359**	**—**
	Equal to or more than 2.5 years	**3,891**	**551**	**70**	**4,108**	**2,861**	**16**
Category 2 – Good	Less than 2.5 years	**684**	**53**	**70**	**707**	**492**	**3**
	Equal to or more than 2.5 years	**376**	**36**	**90**	**380**	**339**	**3**
Category 3 – Satisfactory	Less than 2.5 years	**103**	**2**	**115**	**104**	**111**	**3**
	Equal to or more than 2.5 years	**76**	**6**	**115**	**80**	**82**	**2**
Category 4 – Weak	Less than 2.5 years	**55**	**2**	**250**	**58**	**135**	**5**
	Equal to or more than 2.5 years	**4**	**—**	**250**	**5**	**10**	**—**
Category 5 – Default	Less than 2.5 years	**277**	**3**	**0**	**408**	**—**	**204**
	Equal to or more than 2.5 years	**109**	**12**	**0**	**133**	**—**	**67**
At 30 Jun 2019	Less than 2.5 years	**5,465**	**948**		**6,007**	**3,097**	**215**
	Equal to or more than 2.5 years	**4,456**	**605**		**4,706**	**3,292**	**88**
Category 1 – Strong	Less than 2.5 years	4,130	912	50	4,539	2,261	—
	Equal to or more than 2.5 years	4,001	750	70	4,236	2,950	16
Category 2 – Good	Less than 2.5 years	648	78	70	669	467	3
	Equal to or more than 2.5 years	351	31	90	359	318	3
Category 3 – Satisfactory	Less than 2.5 years	121	17	115	128	140	3
	Equal to or more than 2.5 years	206	4	115	208	227	6
Category 4 – Weak	Less than 2.5 years	43	1	250	45	103	4
	Equal to or more than 2.5 years	17	1	250	19	43	2
Category 5 – Default	Less than 2.5 years	175	8	0	313	—	156
	Equal to or more than 2.5 years	41	—	0	50	—	25
At 31 Dec 2018	Less than 2.5 years	5,117	1,016		5,694	2,971	166
	Equal to or more than 2.5 years	4,616	786		4,872	3,538	52

Wholesale IRB exposure – by obligor grade

	Central governments and central banks				Institutions				Corporates[2]			
PD range %	Average net carrying values[1] £m	Undrawn commit-ments £m	Exposure value £m	RWA Density %	Average net carrying values[1] £m	Undrawn commit-ments £m	Exposure value £m	RWA Density %	Average net carrying values[1] £m	Undrawn commit-ments £m	Exposure value £m	RWA Density %
0.000 to 0.010	**6,000**	**—**	**7,003**	**11**	**113**	**—**	**86**	**18**	**—**	**—**	**—**	
0.011 to 0.028	**814**	**—**	**644**	**7**	**135**	**—**	**253**	**18**	**1**	**1**	**1**	**—**
0.029 to 0.053	**—**	**—**	**—**	**—**	**62**	**9**	**48**	**5**	**1,012**	**280**	**727**	**15**
0.054 to 0.095	**—**	**—**	**—**	**—**	**95**	**3**	**150**	**17**	**2,705**	**1,795**	**2,134**	**23**
0.096 to 0.169	**—**	**—**	**—**	**—**	**478**	**67**	**534**	**23**	**8,505**	**4,391**	**6,241**	**39**
0.170 to 0.285	**—**	**—**	**—**	**—**	**15**	**—**	**22**	**68**	**12,905**	**5,545**	**10,544**	**49**
0.286 to 0.483	**—**	**—**	**—**	**—**	**4**	**1**	**1**	**72**	**12,115**	**3,943**	**10,374**	**55**
0.484 to 0.740	**—**	**—**	**—**	**—**	**1**	**—**	**—**	**—**	**8,906**	**3,020**	**7,027**	**67**
0.741 to 1.022	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**8,249**	**2,050**	**6,806**	**78**
1.023 to 1.407	**—**	**—**	**—**	**—**	**2**	**1**	**1**	**112**	**7,157**	**2,037**	**6,363**	**87**
1.408 to 1.927	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**5,834**	**1,380**	**4,084**	**105**
1.928 to 2.620	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**4,439**	**1,354**	**3,861**	**114**
2.621 to 3.579	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**3,653**	**1,094**	**3,253**	**105**
3.580 to 4.914	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**2,799**	**869**	**2,191**	**125**
4.915 to 6.718	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,160**	**178**	**1,235**	**136**
6.719 to 8.860	**—**	**—**	**—**	**—**	**3**	**1**	**—**	**—**	**629**	**198**	**1,135**	**64**
8.861 to 11.402	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**472**	**70**	**425**	**166**
11.403 to 15.000	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**214**	**18**	**116**	**183**
15.001 to 22.000	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**191**	**38**	**188**	**224**
22.001 to 50.000	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**36**	**12**	**60**	**232**
50.001 to 99.999	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**48**	**14**	**49**	**116**
100.000	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,014**	**129**	**1,155**	**298**
At 30 Jun 2019	**6,814**	**—**	**7,647**		**908**	**82**	**1,095**		**82,044**	**28,416**	**67,969**	

1 *Average net carrying value are calculated by aggregating the net carrying values of the last three quarters and dividing by three.*
2 *Corporates excludes specialised lending exposures subject to supervisory slotting approach.*

Retail IRB exposure – by internal PD band

	PD range	Average net carrying values[1]	Undrawn commitments	Exposure value	RWA Density
		At 30 Jun 2019			
	%	£m	£m	£m	%
Retail SME exposure secured by mortgages on immovable property					
Band 1	0.000 to 0.483	378	90	315	19
Band 2	0.484 to 1.022	445	92	387	34
Band 3	1.023 to 4.914	757	100	679	72
Band 4	4.915 to 8.860	83	13	78	123
Band 5	8.861 to 15.000	34	4	34	158
Band 6	15.001 to 50.000	7	–	4	188
Band 7	50.001 to 100.000	38	3	38	328
Retail non-SME exposure secured by mortgages on immovable property					
Band 1	0.000 to 0.483	97,365	6,878	102,634	3
Band 2	0.484 to 1.022	2,540	239	2,332	12
Band 3	1.023 to 4.914	1,902	211	1,915	18
Band 4	4.915 to 8.860	295	30	296	32
Band 5	8.861 to 15.000	154	4	159	69
Band 6	15.001 to 50.000	317	8	318	48
Band 7	50.001 to 100.000	739	24	797	114
Qualifying revolving retail exposure					
Band 1	0.000 to 0.483	31,793	28,590	19,509	6
Band 2	0.484 to 1.022	3,678	2,158	2,665	28
Band 3	1.023 to 4.914	3,570	913	3,190	63
Band 4	4.915 to 8.860	364	117	393	124
Band 5	8.861 to 15.000	131	33	156	175
Band 6	15.001 to 50.000	111	31	126	245
Band 7	50.001 to 100.000	128	30	176	163
Other retail SME exposure					
Band 1	0.000 to 0.483	815	716	451	33
Band 2	0.484 to 1.022	635	463	392	62
Band 3	1.023 to 4.914	1,971	815	1,562	95
Band 4	4.915 to 8.860	339	87	320	115
Band 5	8.861 to 15.000	160	38	150	131
Band 6	15.001 to 50.000	155	71	155	174
Band 7	50.001 to 100.000	51	24	105	310
Other retail non-SME exposure					
Band 1	0.000 to 0.483	3,538	107	3,717	40
Band 2	0.484 to 1.022	1,107	10	1,175	79
Band 3	1.023 to 4.914	1,721	11	1,766	133
Band 4	4.915 to 8.860	190	–	222	139
Band 5	8.861 to 15.000	54	–	71	160
Band 6	15.001 to 50.000	22	–	38	206
Band 7	50.001 to 100.000	62	1	103	172
Total retail exposure					
Band 1	0.000 to 0.483	133,889	36,381	126,626	5
Band 2	0.484 to 1.022	8,405	2,962	6,951	34
Band 3	1.023 to 4.914	9,921	2,050	9,112	69
Band 4	4.915 to 8.860	1,271	247	1,309	104
Band 5	8.861 to 15.000	533	79	570	131
Band 6	15.001 to 50.000	612	110	641	128
Band 7	50.001 to 100.000	1,018	82	1,219	149

1 *Average net carrying values are calculated by aggregating the net carrying values of the last three quarters and dividing by three.*

Counterparty credit risk

Overview

Counterparty credit risk is the risk that the counterparty to a transaction may default before completing the satisfactory settlement of the transaction. It arises on derivatives, securities financing transactions and exposures to central counterparties in both the trading and non-trading books.

The table below set out details of the group's counterparty credit risk exposures by exposure class and approach.

Counterparty credit risk – RWAs by exposure class and product

	At 30 Jun 2019		At 31 Dec 2018	
	RWAs	**Capital required**	RWAs	Capital required
	£m	**£m**	£m	£m
By exposure class				
IRB advanced approach	**27**	**2**	31	2
– institutions	**7**	**–**	14	1
– corporates	**20**	**2**	17	1
Standardised approach	**4**	**–**	7	1
– institutions	**4**	**–**	7	1
Credit valuation adjustment	**12**	**1**	23	2
CCP standardised	**19**	**2**	5	–
	62	**5**	66	5
By product				
– derivatives	**38**	**3**	40	3
– SFTs	**12**	**1**	3	–
– Credit valuation adjustment	**12**	**1**	23	2
Total	**62**	**5**	66	5

Market risk

Overview

Market risk is the risk movements in market risk factors, including foreign exchange rates, commodity prices, interest rates, credit spreads and equity prices, will reduce the group's income or the value of its portfolios. Market risk is measured using the standardised approach for position risk under CRD IV.

The table below set out details of the group's market risk exposures by exposure class and approach.

Market risk under standardised approach (MR1)

	At 30 Jun 2019		At 31 Dec 2018	
	RWAs	**Capital required**	RWAs	Capital required
	£m	**£m**	£m	£m
Outright products				
Interest rate risk (general and specific)	**–**	**–**	1	–
Foreign exchange risk	**46**	**4**	37	3
Total	**46**	**4**	38	3

Operational Risk

Operational risk is the risk to achieving our strategy or objectives as a result of inadequate or failed internal processes, people and systems, or from external events.

Operational risk is relevant to every aspect of our business. It covers a wide spectrum of issues, such as compliance, operational resilience, legal, security and fraud. Losses arising from breaches of regulation and law, unauthorised activities, error, omission, inefficiency, fraud, systems failure or external events all fall within the definition of operational risk.

The HSBC UK lines of business have historically experienced operational risk losses in the following major categories:

- mis-selling of payment protection insurance;
- external criminal activities, including fraud;
- breakdowns in processes/procedures due to human error, misjudgement or malice;
- system failure or non-availability;
- breach of regulatory and/or legislative requirements; and
- information and cyber security;

Further explanation of the group's approach to managing operational risk can be found on page 25 of the HSBC UK Bank plc Annual Report and Accounts 2018.

HSBC UK calculates its Operational Risk capital requirement to take into account the effects of ring-fencing, in accordance with Article 317(4) of the CRR.

Operational risk RWAs and capital required

	At 30 Jun 2019		At 31 Dec 2018	
	RWAs	**Capital required**	RWAs	Capital required
	£m	**£m**	£m	£m
Own funds requirement for operational risk – assessed on the standardised approach	**10,600**	**848**	10,600	848

Statement of Directors' responsibilities

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

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

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

Dame Clara Furse+ (Chairman), John David Stuart (Chief Executive Officer), Jonathan James Calladine (Chief Risk Officer), James Coyle+, Mridul Hegde+, Dame Denise Holt+, Alan Keir*, Rosemary Leith+, David Lister+, Philippe Leslie Van de Walle+, David Watts (Chief Financial Officer)

On behalf of the Board

Dame Clara Furse

Chairman

5 August 2019

HSBC UK Bank plc

Registered number 9928412

+ Independent non-executive Director

* Non-executive Director

Independent review report to HSBC UK Bank plc

Report on the condensed consolidated interim financial statements

Our conclusion

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

What we have reviewed

The interim financial statements comprise:

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

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

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

Responsibilities for the Interim financial statements and the review

Our Responsibilities and those of the directors

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

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

What a review of interim financial statements involves

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

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

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

PricewaterhouseCoopers LLP

Chartered Accountants

Birmingham

5 August 2019

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

Condensed financial statements

Consolidated income statement

	Notes	Half-year to 30 Jun 2019 £m	31 Dec 2018 £m
Net interest income		**2,437**	2,456
– interest income		**2,880**	2,805
– interest expense		**(443)**	(349)
Net fee income	2	**618**	648
– fee income		**730**	831
– fee expense		**(112)**	(183)
Net income from financial instruments held for trading or managed on a fair value basis		**208**	198
Gains less losses from financial investments		**29**	22
Other operating income		**23**	33
Total operating income		**3,315**	3,357
Net operating income before change in expected credit losses and other credit impairment charges		**3,315**	3,357
Change in expected credit losses and other credit impairment charges		**(332)**	(305)
Net operating income		**2,983**	3,052
Employee compensation and benefits		**(471)**	(611)
General and administrative expenses		**(1,739)**	(1,267)
Depreciation and impairment of property, plant and equipment		**(83)**	(46)
Amortisation and impairment of intangible assets		**(74)**	(64)
Total operating expenses		**(2,367)**	(1,988)
Operating profit		**616**	1,064
Profit before tax		**616**	1,064
Tax expense		**(265)**	(301)
Profit for the period		**351**	763
Attributable to:			
– shareholders of the parent company		**348**	763
– non-controlling interests		**3**	—
Profit for the period		**351**	763

Due to HSBC UK commencing banking activities on 1 July 2018 all income statement comparatives for the six months to 30 June 2018 were nil or round to nil. For this reason comparatives for the six months to 30 June 2018 have not been presented.

The accompanying notes on pages 32 to 38, the adjusted performance tables in the 'Financial summary' section on pages 4 to 8 and the 'Risk report' on pages 9 to 16 form an integral part of these financial statements.

Consolidated statement of comprehensive income

	Half-year to	
	30 Jun 2019	31 Dec 2018
	£m	£m
Profit for the period	**351**	763
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Debt instruments at fair value through other comprehensive income	**(5)**	10
– fair value gains	**21**	34
– fair value gains transferred to the income statement on disposal	**(29)**	(21)
– expected credit losses recognised in the income statement	**1**	—
– income taxes	**2**	(3)
Cash flow hedges	**29**	(17)
– fair value gains/(losses)	**28**	(107)
– fair value losses reclassified to the income statement	**11**	84
– income taxes	**(10)**	6
Exchange differences	**—**	(2)
– other exchange differences	**—**	(2)
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit asset/liability	**(106)**	(364)
– before income taxes	**(147)**	(485)
– income taxes	**41**	121
Other comprehensive expense for the year, net of tax	**(82)**	(373)
Total comprehensive income for the period	**269**	390
Attributable to:		
– shareholders of the parent company	**266**	390
– non-controlling interests	**3**	—
Total comprehensive income for the period	**269**	390

Due to HSBC UK commencing banking activities on 1 July 2018 statement of comprehensive income comparatives for the six months to 30 June 2018 were nil or round to nil. For this reason comparatives for the six months to 30 June 2018 have not been presented.

Consolidated balance sheet

		At	
		30 Jun 2019	31 Dec 2018
	Notes	**£m**	£m
Assets			
Cash and balances at central banks		**34,857**	33,193
Items in the course of collection from other banks		**865**	603
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss		**35**	35
Derivatives		**51**	66
Loans and advances to banks		**1,278**	1,263
Loans and advances to customers		**180,084**	174,807
Reverse repurchase agreements – non-trading		**3,781**	3,422
Financial investments		**15,468**	13,203
Prepayments, accrued income and other assets		**8,601**	8,528
Interests in joint ventures		**8**	9
Goodwill and intangible assets	6	**3,882**	3,810
Total assets		**248,910**	238,939
Liabilities and equity			
Liabilities			
Deposits by banks		**757**	1,027
Customer accounts		**208,062**	204,837
Repurchase agreements – non-trading		**488**	639
Items in the course of transmission to other banks		**823**	233
Derivatives		**260**	346
Debt securities in issue	12	**2,240**	—
Accruals, deferred income and other liabilities		**2,539**	2,409
Current tax liabilities		**302**	359
Provisions	7	**893**	630
Deferred tax liabilities		**1,189**	1,189
Subordinated liabilities	13	**9,148**	4,937
Total liabilities		**226,701**	216,606
Equity			
Called up share capital		**—**	—
Share premium account		**9,015**	9,015
Other equity instruments		**2,196**	2,196
Other reserves		**7,681**	7,657
Retained earnings		**3,257**	3,405
Total shareholders' equity		**22,149**	22,273
Non-controlling interests		**60**	60
Total equity		**22,209**	22,333
Total liabilities and equity		**248,910**	238,939

Consolidated statement of cash flows

	Half-year to	
	30 Jun	31 Dec
	2019	2018
	£m	£m
Profit before tax	**616**	1,064
Adjustments for non-cash items:		
Depreciation and amortisation	**157**	110
Net (gain) from investing activities	**(30)**	—
Change in expected credit losses gross of recoveries and other credit impairment charges	**383**	364
Provisions including pensions	**526**	184
Share-based payment expense	**3**	—
Elimination of exchange differences[1]	**(57)**	(190)
Changes in operating assets	**(6,472)**	(8,887)
Changes in operating liabilities	**4,503**	165
Contributions paid to defined benefit plans	**(32)**	(80)
Tax paid	**(286)**	(74)
Net cash from operating activities	**(689)**	(7,344)
Purchase of financial investments	**(7,503)**	(5,369)
Proceeds from the sale and maturity of financial investments	**5,765**	3,292
Net cash flows from the purchase and sale of property, plant and equipment	**(41)**	(57)
Net investment in intangible assets	**(146)**	(164)
Net cash flow on acquisition of subsidiaries, businesses and joint venture[2]	**—**	29,410
Net cash from investing activities	**(1,925)**	27,112
Issue of ordinary share capital and other equity instruments	**—**	9,000
Subordinated loan capital issued	**4,208**	2,020
Funds received from the shareholder of the parent company	**—**	3,000
Dividends paid to shareholders of the parent company and non-controlling interests	**(389)**	(1)
Net cash from financing activities	**3,819**	14,019
Net increase in cash and cash equivalents	**1,205**	33,787
Cash and cash equivalents at the beginning of the period	**33,817**	2
Exchange differences in respect of cash and cash equivalents	**2**	28
Cash and cash equivalents at the end of the period	**35,024**	33,817

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 *No cash or cash equivalent was paid in consideration of the investment in subsidiaries and joint venture as it formed part of the Part VII transfer of asset and liabilities on 1 July 2018. The aggregate amount of cash and cash equivalent in the subsidiaries and other businesses over which control was obtained was £29,410m.*

Due to HSBC UK commencing banking activities on 1 July 2018 statement of cash flows comparatives for the six months to 30 June 2018 were nil or round to nil. For this reason comparatives for the six months to 30 June 2018 have not been presented.

Consolidated statement of changes in equity

				Other reserves						
	Called up share capital and share premium[1]	Other equity instru-ments	Retained earnings	Financial assets at FVOCI reserve	Cash flow hedging reserve	Foreign exchange reserve	Group re-organisation reserve[2]	Total share-holders' equity	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2019	**9,015**	**2,196**	**3,405**	**14**	**(46)**	**(2)**	**7,691**	**22,273**	**60**	**22,333**
Profit for the period	—	—	348	—	—	—	—	348	3	351
Other comprehensive income (net of tax)	—	—	(106)	(7)	29	2	—	(82)	—	(82)
– debt instruments at fair value through other comprehensive income	—	—	—	(5)	—	—	—	(5)	—	(5)
– cash flow hedges	—	—	—	—	29	—	—	29	—	29
– remeasurement of defined benefit asset/liability	—	—	(106)	—	—	—	—	(106)	—	(106)
– exchange differences	—	—	—	(2)	—	2	—	—	—	—
Total comprehensive income for the year	—	—	242	(7)	29	2	—	266	3	269
Capital securities issued	—	—	—	—	—	—	—	—	—	—
Dividends to shareholders	—	—	(386)	—	—	—	—	(386)	(3)	(389)
Capital contribution	—	—	—	—	—	—	—	—	—	—
Transfer	—	—	—	—	—	—	—	—	—	—
Group Reorganisation Reserve	—	—	—	—	—	—	—	—	—	—
Other movements	—	—	(4)	—	—	—	—	(4)	—	(4)
At 30 Jun 2019	**9,015**	**2,196**	**3,257**	**7**	**(17)**	**—**	**7,691**	**22,149**	**60**	**22,209**
At 1 Jul 2018	15	—	—	—	—	—	—	15	—	15
Profit for the year	—	—	763	—	—	—	—	763	—	763
Other comprehensive income (net of tax)	—	—	(364)	10	(17)	(2)	—	(373)	—	(373)
– debt instruments at fair value through other comprehensive income	—	—	—	10	—	—	—	10	—	10
– cash flow hedges	—	—	—	—	(17)	—	—	(17)	—	(17)
– remeasurement of defined benefit asset/liability	—	—	(364)	—	—	—	—	(364)	—	(364)
– exchange differences	—	—	—	—	—	(2)	—	(2)	—	(2)
Total comprehensive income for the year	—	—	399	10	(17)	(2)	—	390	—	390
Capital securities issued	9,000	—	—	—	—	—	—	9,000	—	9,000
Dividends to shareholders	—	—	—	—	—	—	—	—	(1)	(1)
Capital contribution[3]	—	—	3,000	—	—	—	—	3,000	—	3,000
Transfer[4,5]	—	2,196	—	—	—	—	—	2,196	60	2,256
Group Reorganisation Reserve	—	—	—	4	(29)	—	7,691	7,666	—	7,666
Other movements	—	—	6	—	—	—	—	6	1	7
At 31 Dec 2018	9,015	2,196	3,405	14	(46)	(2)	7,691	22,273	60	22,333

1 *All new capital subscribed during 2018 was issued to HSBC UK Holdings Limited. For further details refer to note 23 of the* Annual Report and Accounts 2018.
2 *Relates primarily to the recognition of goodwill £3,142m and the pension asset net of deferred tax £4,776m. Details of our accounting policies in respect of the transfer of the ring-fenced businesses to HSBC UK Bank plc are set out in Note 1 of the* Annual Report and Accounts 2018.
3 *HSBC UK Holdings Limited injected £3,000m of CET1 capital on 1 July 2018.*
4 *Other equity instruments amounting to £2,196m (31 Dec 2018: £2,196m) consists of additional Tier 1 capital.*
5 *Non-controlling interests ('NCI') of £60m transferred to HSBC UK relates to Marks and Spencer Financial Services plc.*

Due to HSBC UK commencing banking activities on 1 July 2018 statement of changes in equity comparatives for the six months to 30 June 2018 were nil or round to nil. For this reason comparatives for the six months to 30 June 2018 have not been presented.

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

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

Standards applied during the half-year to 30 June 2019

IFRS 16 'Leases'

On 1 January 2019, we adopted the requirements of IFRS 16 retrospectively. The cumulative effect of initially applying the standard was recognised as an adjustment to the opening balance of retained earnings at that date. Comparatives were not restated. The adoption of the standard increased assets by £0.4bn and increased financial liabilities by the same amount with no effect on net assets or retained earnings.

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

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

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

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

(b) Use of estimates and judgements

Management believes that the group's critical accounting estimates and judgements are those that relate to effective interest rate applied to interest income recognised on credit card lending, the effect on hedge accounting of the fundamental review and reform of the major interest rate benchmarks, impairment of amortised cost and FVOCI financial assets and provisions for liabilities. There were no changes in the current period to the critical accounting estimates and judgements applied in 2018, which are stated on pages 71 to 78 of the *Annual Report and Accounts 2018*.

(c) Composition of group

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

(d) Future accounting developments

There were no unendorsed accounting standards as at 30 June 2019 which would have an impact on the group accounts.

(e) Going concern

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

(f) Accounting policies

Except as described above, the accounting policies applied by the group for these interim condensed consolidated financial statements are consistent with those described on pages 71 to 78 of the *Annual Report and Accounts 2018*, as are the methods of computation.

2 Net fee income

	Half-year to	
	30 Jun 2019	31 Dec 2018
Net fee income by product	**£m**	£m
Account services	**304**	362
Funds under management	**45**	46
Cards	**95**	99
Credit facilities	**44**	72
Broking income	**5**	5
Unit trusts	**5**	7
Imports/exports	**25**	21
Remittances	**19**	1
Insurance agency commission	**21**	27
Other	**167**	191
Fee income	**730**	831
Less: fee expense	**(112)**	(183)
Net fee income	**618**	648
Net fee income by global business		
Retail Banking and Wealth Management	**329**	341
Commercial Banking	**371**	378
Global Banking and Markets	**(95)**	(98)
Global Private Banking	**16**	12
Corporate Centre	**(3)**	15

3 Dividends

On 24 July 2019, the Directors declared a second interim dividend to ordinary shareholders of £267m in respect of the financial year ending 31 December 2019. No liability is recognised in the financial statements in respect of this dividend.

Dividends to shareholders of the parent company

	Half-year to			
	30 Jun 2019		31 Dec 2018	
	£ per share	**£m**	£ per share	£m
Dividends paid on ordinary shares				
First interim dividend in respect of the previous year	**4,000**	**200**	–	–
First interim dividend in respect of the current year	**2,400**	**120**	–	–
Total	**6,400**	**320**	–	–

Total coupons on capital securities classified as equity

		2019	2018
	First call date	**£m**	£m
Undated Subordinated Additional Tier 1 instruments			
– £1,096m	Dec 2019	**33**	–
– £1,100m	Dec 2024	**33**	–
Total		**66**	–

4 Fair values of financial instruments carried at fair value

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

Financial instruments carried at fair value and bases of valuation

	30 Jun 2019				31 Dec 2018			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Recurring fair value measurements								
Assets								
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**34**	**1**	**–**	**35**	34	1	–	35
Derivatives	**–**	**51**	**–**	**51**	2	64	–	66
Financial investments	**14,981**	**487**	**–**	**15,468**	12,613	590	–	13,203
Liabilities								
Derivatives	**1**	**259**	**–**	**260**	1	345	–	346

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. There were no transfers between Level 1 and Level 2 during 2019 and 2018.

5 Fair values of financial instruments not carried at fair value

The bases for measuring the fair values of loans and advances to banks and customers, financial investments, deposits by banks, customer accounts, debt securities in issue, subordinated liabilities and non-trading repurchase and reverse repurchase agreements are explained on pages 88 and 89 of the *Annual Report and Accounts 2018.*

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

	At 30 June 2019		At 31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	£m	£m	£m	£m
Assets				
Loans and advances to banks	1,278	1,278	1,263	1,263
Loans and advances to customers	180,084	181,078	174,807	176,860
Reverse repurchase agreements – non-trading	3,781	3,781	3,422	3,422
Liabilities				
Deposits by banks	757	757	1,027	1,027
Customer accounts	208,062	208,063	204,837	204,818
Repurchase agreements – non-trading	488	488	639	639
Debt securities in issue	2,240	2,240	—	—
Subordinated liabilities	9,148	9,575	4,937	5,040

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 and intangible assets

Impairment testing

As described on pages 93 to 94 of the *Annual Report and Accounts 2018*, we test goodwill for impairment at 1 July each year and whenever there is an indication that goodwill may be impaired. At 30 June 2019, 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[1]	Legal proceedings and regulatory matters	Customer remediation	Other provisions	Total
	£m	£m	£m	£m	£m
Provisions (excluding contractual commitments)					
At 1 Jan 2019	—	—	540	5	545
Additions	27	—	530	1	558
Amounts utilised	—	—	(294)	—	(294)
Unused amounts reversed	—	—	(1)	—	(1)
Unwinding of discounts	—	—	—	—	—
Other movements	1	7	1	—	9
At 30 Jun 2019	28	7	776	6	817
Contractual commitments					
At 1 Jan 2019					85
Net change in expected credit loss provision					(9)
At 30 Jun 2019					76
Total Provisions					
At 1 Jan 2019					630
At 30 Jun 2019					893

1 *Restructuring costs include charges received from HSBC Global Services (UK) Limited, which do not form part of the balance sheet provision movement.*

Payment protection insurance

At 30 June 2019, £660m (Dec 2018: £435m) of the customer remediation provision relates to the estimated liability for redress in respect of the possible mis-selling of PPI policies in previous years. The balance at 31 December 2018 was £435m of which £253m had been utilised in the six months to 30 June 2019.

An increase in provisions of £478m was recognised during the six months to 30 June 2019, primarily reflecting:

- an adjustment to expected future complaint volumes to reflect the automatic conversion of information requests between 29 June 2019 and 29 August 2019. The provision has been updated to reflect the incremental increase in complaints which this is expected to generate;

- an industry wide exercise by the Official Receiver to pursue redress amounts in respect of bankrupt and insolvent customers. This reflects the obligation of the Official Receiver to identify and attain their assets and to then disperse them to those who are owed funds; and
- an increased level of information requests and complaint experience together with increased levels of forecast information requests and therefore complaints for the remaining period to 29 August 2019.

The provision was also increased for the operational expenses related to these populations of potential claims.

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 at 2019. The gross written premiums on these policies was approximately £3.4bn. At 30 June 2019, it is estimated that contact will be made with regard to 2.9 million policies, representing 54% of total policies sold. This estimate includes inbound complaints as well as the group's proactive contact exercise on certain policies ('outbound contact').

The following table details the cumulative number of complaints received at 30 June 2019 and the number of claims expected in the future:

Cumulative PPI complaints received to 30 June 2019 and future claims expected

	Cumulative actual to 30 Jun 2019	Future expected
Inbound complaints ('000s of policies)[1]	**1,891**	**359**
Outbound contact ('000s of policies)	**685**	**—**
Response rate to outbound contact	**44%**	**n/a**
Average uphold rate per claim[2]	**78%**	**83%**
Average redress per claim (£)	**2,163**	**1,967**
Information Requests ('000s of policies)	**—**	**964**
Complaints to Financial Ombudsman Service ('FOS') ('000s of policies)	**171**	**3**
Average uphold rate per FOS claim	**38%**	**28%**

1 *Excludes invalid claims where complainant has not held a PPI policy and FOS complaints.*
2 *Claims include inbound and responses to outbound contact, but exclude FOS complaints.*

The PPI provision is based upon assumptions and estimates; consequently, actual complaint volumes may vary from the future expected volumes set out above. In particular, in the lead up to 29 August 2019 the volume and quality of information requests could differ significantly from that included in arriving at the provision. HSBC UK continued to monitor complaint and information request volumes and other available information up until the date of the approval of the Interim Report to ensure the provision estimate was appropriate.

A 100,000 increase/decrease in the total inbound complaints would increase/decrease the redress provision by approximately £163m. A 50,000 increase/decrease in the total information requests would increase/decrease the redress provision by approximately £14m.

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

	30 Jun 2019 £m	31 Dec 2018 £m
Guarantees and other contingent liabilities:		
– Financial guarantees contracts	**1,183**	1,284
– Performance and other guarantees	**2,421**	2,220
At the period end	**3,604**	3,504
Commitments:		
– Documentary credits and short-term trade-related transactions	**102**	83
– Forward asset purchases and forward deposits placed	**700**	248
– Standby facilities, credit lines and other commitments to lend	**68,521**	69,475
At the period end	**69,323**	69,806

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

Contingent liabilities arising from legal proceedings, regulatory and other matters against group companies are disclosed in Note 9.

9 Legal proceedings and regulatory matters

The group is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, the group considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 1 of the *Annual Report and Accounts 2018*. While the outcome of legal proceedings and regulatory matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters at 30 June 2019 (see Note 7). Where an individual provision is material, the fact that a provision has been made is stated and quantified, except to the extent 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.

Anti-money laundering and sanctions-related matters

In December 2012, among other agreements, HSBC Holdings plc (‘HSBC Holdings’) agreed to an undertaking with the UK Financial Conduct Authority (‘FCA’) and consented to a cease-and-desist order with the US Federal Reserve Board ('FRB'), both of which contained certain forward-looking anti-money laundering ('AML') and sanctions-related obligations. HSBC also agreed to retain an independent compliance monitor (who is, for FCA purposes, a ‘Skilled Person’ under section 166 of the Financial Services and Markets Act and, for FRB purposes, an ‘Independent Consultant’) to produce periodic assessments of the Group’s AML and sanctions compliance programme (the ‘Skilled Person/Independent Consultant’). In December 2012, HSBC Holdings also entered into an agreement with the Office of Foreign Assets Control (‘OFAC’) regarding historical transactions involving parties subject to OFAC sanctions. The Skilled Person/ Independent Consultant will continue to conduct country reviews and provide periodic reports for a period of time at the FCA’s and FRB’s discretion. The role of the Skilled Person/Independent Consultant is discussed on page 26 of the *Annual Report and Accounts 2018*.

Through the Skilled Person/Independent Consultant's country-level reviews, as well as internal reviews conducted by HSBC Group, certain potential AML and sanctions compliance issues have been identified that HSBC Group is reviewing further with the FRB, FCA and/ or OFAC. 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 UK is also cooperating with this investigation.

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

Foreign exchange-related investigation and litigation

In January 2018, HSBC Holdings entered into a three-year deferred prosecution agreement with the Criminal Division of the United States Department of Justice (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, the HSBC Group has a number of ongoing obligations, including implementing enhancements to its internal controls and procedures in its Global Markets business, which will be the subject of annual reports to the DoJ.

In February 2019, various HSBC Group companies were named as defendants in a claim issued in the High Court of England and Wales that alleges foreign exchange-related misconduct. This matter is at an early stage.

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

Film finance litigation

In July and November 2015, two actions were brought by individuals against HSBC Private Bank (UK) Limited ('PBGB') in the High Court of England and Wales seeking damages on various alleged grounds, including breach of duty to the claimants, in connection with their participation in certain Ingenious film finance schemes. These actions are ongoing.

In December 2018, a separate action was brought against PBGB in the High Court of England and Wales by multiple claimants seeking damages for alleged unlawful means conspiracy and dishonest assistance in connection with lending provided by PBGB to third parties in respect of certain Ingenious film finance schemes in which the claimants participated. In June 2019, a similar claim was issued against PBGB in the High Court of England and Wales by additional claimants. These matters are at early stages.

In February 2019, PBGB received a letter before claim by investors in Eclipse film finance schemes asserting various claims against PBGB and others in connection with their roles in facilitating the design, promotion and operation of such schemes. This matter is at an early stage.

It is possible that additional actions or investigations will be initiated against PBGB 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 at this time for HSBC UK to predict the resolution of these matters, including the timing or any possible aggregate impact on HSBC UK, which could be significant.

10 Related party transactions

There were no changes to the related party transactions described in Note 28 of the *Annual Report and Accounts 2018* that have had a material effect on the financial position or performance of the group in the half-year to 30 June 2019. All related party transactions that took place in the half-year to 30 June 2019 were similar in nature to those disclosed in the *Annual Report and Accounts 2018*.

11 Events after the balance sheet date

On 24 July 2019, the Directors declared a second interim dividend to ordinary shareholders of £267m in respect of the financial year ending 31 December 2019. No liability is recognised in the financial statements in respect of this dividend.

HSBC UK considered the events related to the process of UK withdrawal from the European Union that occurred between the 30 June 2019 and the date when the financial statements were authorised for issue, and concluded that no adjustments to the financial statements were required.

12 Debt securities in issue

On 27 June 2019, we issued a senior unsecured debt security through our Debt Issuance Programme and listed it on the main regulated market of the London Stock Exchange. We have established our Debt Issuance Programme to diversify our funding sources and ensure we have appropriate access to markets.

Our Commercial Paper and Certificates of Deposit Programme was established prior to 31 December 2018 and we commenced issuing under the programme during the first six months of 2019.

Debt securities in issue

	Half-year to	
	30 Jun 2019	31 Dec 2018
	£m	£m
Bonds and medium-term notes	**250**	—
Other debt securities in issue[1]	**1,990**	—
Total debt securities in issue	**2,240**	—

1 *Other debt securities in issue consists of commercial paper and certificates of deposits issued during the half-year to 30 June 2019.*

13 Subordinated liabilities

	Half-year to	
	30 Jun 2019	31 Dec 2018
	£m	£m
At amortised cost	**9,148**	4,937
– subordinated liabilities[1]	**9,148**	4,937
Total	**9,148**	4,937

1 *Includes £6.1bn of eligible debt issued to meet our MREL applicable from 1 January 2019.*

Subordinated liabilities rank behind senior obligations and generally count towards the capital base of the group. Capital securities may be called and redeemed by the group subject to consent/prior permission from the PRA.

The balance sheet amounts disclosed below are presented on an IFRS basis and do not reflect the amount that the instruments contribute to regulatory capital principally due to regulatory amortisation and regulatory eligibility limits.

Subordinated liabilities of the group

				Carrying amount	
				30 Jun 2019	31 Dec 2018
		First call date	Maturity date	**£m**	£m
Capital instruments					
Tier 2 instruments					
£550m	HSBC UK Bank plc Subordinated Floating Loan 2028	Jul 2023	Jul 2028	**550**	550
£1,000m	HSBC UK Bank plc Subordinated Floating Loan 2030	Jul 2025	Jul 2030	**1,000**	1,000
£650m	HSBC UK Bank plc Subordinated Floating Loan 2033	Sep 2028	Sep 2033	**650**	650
£100m	HSBC UK Bank plc 2.8594% Subordinated Loan 2029[1]	Mar 2024	Mar 2029	**100**	—
Other Tier 2 instruments each less that £100m				**79**	79
$840m	HSBC UK Bank plc Subordinated Floating Loan 2028	Jul 2023	Jul 2028	**660**	658
Other instruments					
Subordinated loan instruments not eligible for inclusion in regulatory capital					
£1,000m	HSBC UK Bank plc 3.2485% MREL eligible Subordinated Loan 2026	Nov 2025	Nov 2026	**1,000**	1,000
£1,000m	HSBC UK Bank plc 3.4602% MREL eligible Subordinated Loan 2029	Aug 2028	Aug 2029	**1,000**	1,000
£1,000m	HSBC UK Bank plc 3.0% MREL eligible Subordinated Loan 2028[1]	Jul 2027	Jul 2028	**1,000**	—
$3,000m	HSBC UK Bank plc 3.973% MREL eligible Subordinated Loan 2030[2]	May 2029	May 2030	**2,359**	—
£750m	HSBC UK Bank plc 3.0% MREL eligible Subordinated Loan 2030[2]	May 2029	May 2030	**750**	—
Total				**9,148**	4,937

1 *In March 2019 the bank received the £100m 2.8594% Subordinated Loan 2029 and the £1,000m 3.0% MREL eligible Subordinated Loan 2028 from HSBC UK Holdings Limited.*
2 *In May 2019 the bank received the $3,000m 3.973% MREL eligible Subordinated Loan 2030 and the £750m 3.0% MREL eligible Subordinated Loan 2030 from HSBC UK Holdings Limited.*

14 Interim Report 2019 and statutory accounts

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

15 Tax

Tax charge

The effective tax rate is 43.0% (2H18: 28.2%). Costs associated with PPI and certain other customer redress are not deductible for tax in the UK and, additionally, give rise to an increase in taxable profit equal to 10% of the costs incurred. This has a 19.3% (2H18: 1.4%) impact, increasing the effective tax rate. From 1 January 2019, IAS 12 'Income Taxes' requires income tax deductions for payments of Additional Tier 1 equity to be recognised in the income statement. This has a 3.1% impact, decreasing the effective tax rate.

Reconciliation of Non-GAAP Financial Measures

Return on equity and return on tangible equity

Return on tangible equity ('RoTE') is computed by adjusting the reported equity for goodwill and intangibles. The adjustment to reported results and reported equity excludes amounts attributable to non-controlling interests. We provide RoTE in addition to return on equity ('RoE') as a way of assessing our performance, which is closely aligned to our capital position. The measures are calculated in USD in line with the standard HSBC Group wide calculation methodology.

The following table details the adjustments made to the reported results and equity:

Return on Equity and Return on Tangible Equity

	Half-year to	
	30 Jun 2019	31 Dec 2018
	$m	$m
Profit		
Profit attributable to the ordinary shareholders of the parent company	**369**	923
Equity		
Average shareholders' equity	**28,501**	28,742
Additional Tier 1	**(2,819)**	(2,842)
Average ordinary shareholders' equity	**25,682**	25,900
Effect of goodwill and other intangibles (net of deferred tax)	**(4,970)**	(4,899)
Other	**–**	(23)
Average tangible ordinary shareholders' equity	**20,712**	20,978
Ratio	**%**	%
Return on equity (annualised)	**2.9**	6.4
Return on average tangible equity (annualised)[1]	**3.6**	8.8

1 *RoTE of 3.6% (2H18: 8.8%) includes an impact of 600bps (2H18: 40bps) due to payment protection insurance ('PPI') provisions of £478m (2H18: £59m); with a further impact of 280bps (2H18: 260bps) due to a £4.3bn (2H18: £4.3bn) average pension fund surplus (net of deferred tax).*

HSBC UK Bank plc

1 Centenary Square
Birmingham B1 1HQ
United Kingdom
Telephone: 03456 040 626
www.hsbc.co.uk