HSBC Bank plc

Annual Report and Accounts 2020

HSBC

Contents

Presentation of Information

This document comprises the *Annual Report and Accounts 2020* for HSBC Bank plc ('the bank') and its subsidiaries (together 'the group'). 'We', 'us' and 'our' refer to HSBC Bank plc together with its subsidiaries. It contains the Strategic Report, the Report of the Directors, the Statement of Directors' Responsibilities and Financial Statements, together with the Independent Auditors' Report, as required by the UK Companies Act 2006. References to 'HSBC', 'HSBC Group' or 'Group' within this document mean HSBC Holdings plc together with its subsidiaries.

HSBC Bank plc is exempt from publishing information required by The Capital Requirements Country-by-Country Reporting Regulations 2013, as this information is published by its parent, HSBC Holdings plc. This information is available on HSBC's website: www.hsbc.com.

Pillar 3 disclosures for the group are also available on www.hsbc.com, under Investors.

All narrative disclosures, tables and graphs within the Strategic Report and Report of the Directors are unaudited unless otherwise stated.

Our reporting currency is £ sterling.

Unless otherwise specified, all $ symbols represent US dollars.

Cautionary Statement Regarding Forward-Looking Statements

This *Annual Report and Accounts 2020* contains certain forward-looking statements with respect to the financial condition, results of operations and business of the group.

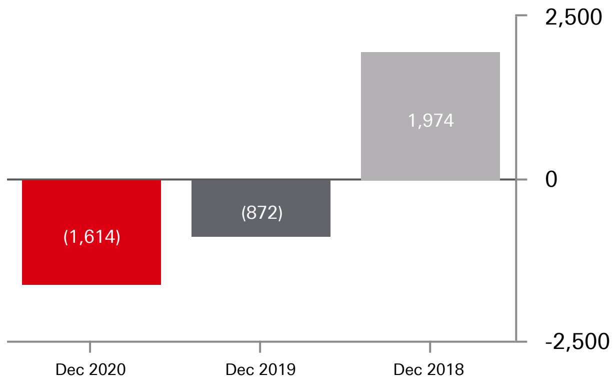
Statements that are not historical facts, including statements about the group's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', variations of these words and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

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

Highlights

For the year ended 31 December 2020

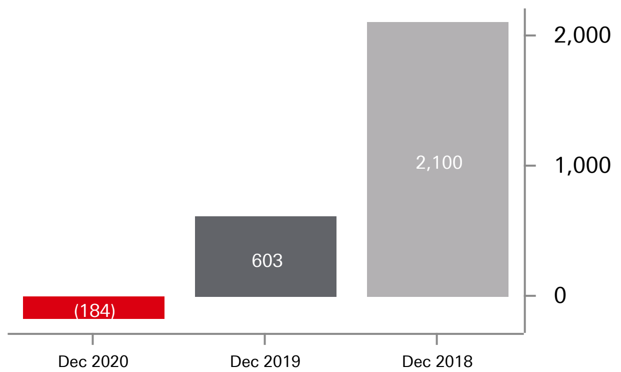
Reported (loss)/profit before tax (£m)



£(1,614)m

(2019: £(872)m)

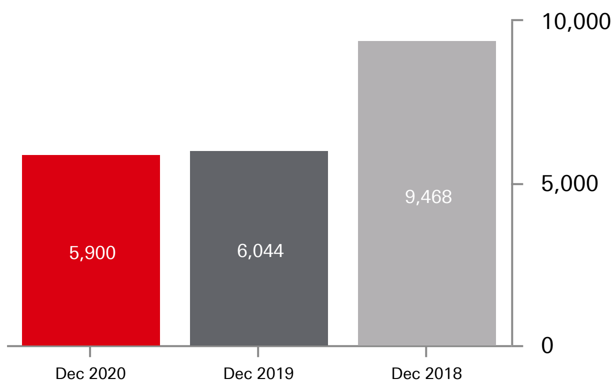
Adjusted (loss)/profit before tax (£m)



£(184)m

(2019: £603m)

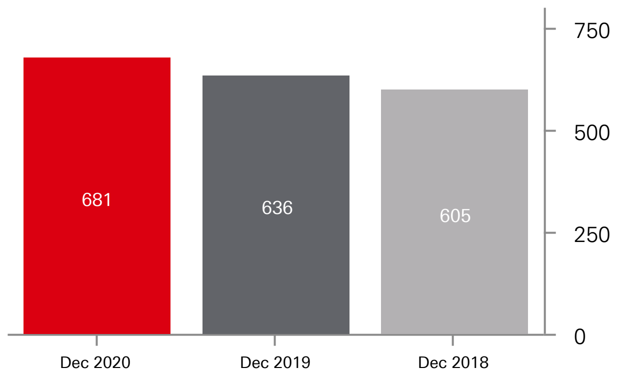
Reported revenue (£m)



£5,900m

(2019: £6,044m)

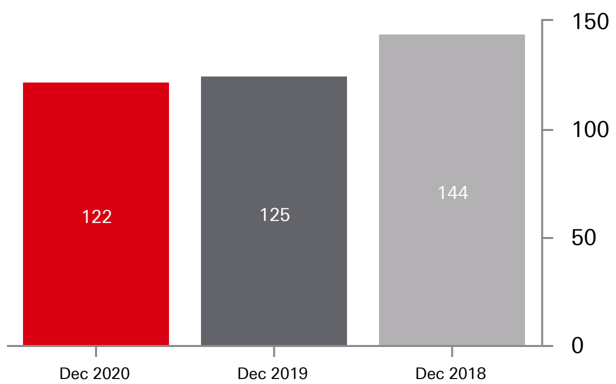
Total assets at period end (£bn)



£681bn

(2019: £636bn)

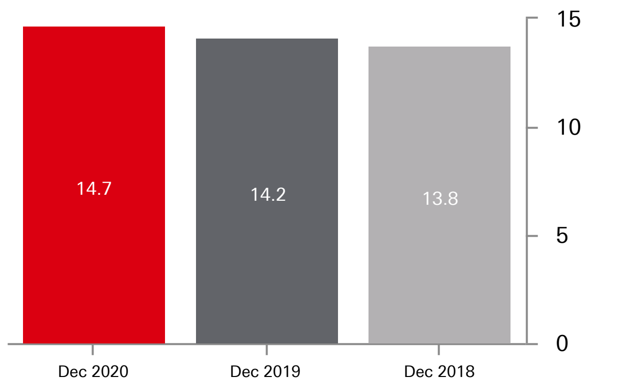
Reported risk-weighted assets at period end (£bn)



£122bn

(2019: £125bn)

Common equity tier 1 ratio at period end (%)



14.7%

(2019: 14.2%)

Responding to the new environment

In February 2020, the Group announced a business update, to increase returns by re-allocating capital out of low-return franchises into higher performing ones, reducing our cost base and simplifying our organisation. For Europe, our strategy was adjusted in line with the business update to focus on international wholesale banking clients linked to our global network and a targeted wealth franchise. We are simplifying HSBC Bank plc's operating model to become one integrated business with hubs in London and Paris, supported by shared services.

We are continuing with the strategic review of our retail banking operations in France and are in negotiations in relation to a potential sale although no decision has yet been taken. If any sale is implemented, given the underlying performance of the French retail business, a loss on sale is expected.

In 2020, the economic outlook deteriorated due to the outbreak of Covid-19, a continued low interest rate environment and increased geopolitical risk. Covid-19 changed the external environment and how we operate – our effective transition to remote working highlights our resilience through this period. Covid-19 significantly impacted customers and our priority was to support them through a range of initiatives such as, local government lending schemes and payment holidays.

We remain committed to the strategy and business model outlined in February 2020; changes to the external landscape have reinforced the need for HSBC Bank plc to become simpler and more efficient to operate successfully in the European market.

Key financial metrics

	Footnotes	**2020**	2019
For the year (£m)			
Loss before tax (reported basis)		**(1,614)**	(872)
(Loss) / profit before tax (adjusted basis)	*1*	**(184)**	603
Net operating income before change in expected credit losses and other credit impairment charges (reported basis)	*2*	**5,900**	6,044
Loss attributable to shareholders of the parent company		**(1,488)**	(1,013)
At year-end (£m)			
Total equity attributable to shareholders of the parent company		**23,666**	23,503
Total assets		**681,150**	636,491
Risk-weighted assets		**122,392**	125,413
Loans and advances to customers (net of impairment allowances)		**101,491**	108,391
Customer accounts		**195,184**	177,236
Capital ratios (%)	*3*		
Common equity tier 1		**14.7**	14.2
Tier 1		**18.1**	17.6
Total capital		**27.3**	27.9
Performance, efficiency and other ratios (annualised %)			
Return on average ordinary shareholders' equity	*4*	**(7.9)**	(4.6)
Return on tangible equity (%)	*5*	**(2.7)**	0.6
Cost efficiency ratio (reported basis)	*6*	**113.6**	112.2
Cost efficiency ratio (adjusted basis)	*6*	**89.6**	87.9
Ratio of customer advances to customer accounts		**52.0**	61.2

1 *Adjusted performance is computed by adjusting reported results for the effect of significant items as detailed on pages 16 to17.*
2 *Net operating income before change in expected credit losses and other credit impairment charges is also referred to as revenue.*
3 *Capital ratios are detailed in the Capital section on pages 72 to 74.*
4 *The return on average ordinary shareholders' equity is defined as profit attributable to shareholders of the parent company divided by the average total shareholders' equity. Dividends paid on AT1 should be net of tax in the calculation.*
5 *The RoTE is calculated as reported profit attributable to ordinary shareholders less changes in goodwill and intangible assets and present value of in-force long-term insurance business divided by average tangible shareholders' equity.*
6 *Reported cost efficiency ratio is defined as total operating expenses (reported) divided by net operating income before change in expected credit losses and other credit impairment charges (reported), while adjusted cost efficiency ratio is defined as total operating expenses (adjusted) divided by net operating income before change in expected credit losses and other credit impairment charges (adjusted).*

About HSBC Group

With assets of $3.0tn and operations in 64 countries and territories at 31 December 2020, HSBC is one of the largest banking and financial services organisations in the world. More than 40 million customers bank with us and we employ around 226,000 full-time equivalent staff. We have around 194,000 shareholders in 130 countries and territories.

Purpose and strategy

Our purpose and ambition

Our new purpose is 'Opening up a world of opportunity' and our ambition is to be the preferred international finance partner for our clients.

HSBC values

HSBC values help define who we are as an organisation, and are key to our long-term success.

We value difference

Seeking out different perspectives.

We succeed together

Collaborating across boundaries.

We take responsibility

Holding ourselves accountable and taking the long view.

We get it done

Moving at pace and making things happen.

HSBC Group strategy

The Group have embedded our purpose and ambition into our strategy.

The Group's strategy focuses on four key areas: focus on our areas of strength, digitise at scale to adapt our operating model for the future; energise our organisation for growth; and lead the transition to net zero.

Focus on our strengths: in each of our global businesses, we will focus on areas where we are strongest and have significant opportunities for growth.

Digitise at scale: we will focus our investments in areas such as technology, to improve our customers' experience while ensuring security and resilience. These investments in technology will also help drive down costs, including through automating our middle and back offices and building solutions to free up office footprint.

Energise for growth: we are moving to a leaner and simpler organisation that is energised and fit for the future. We aim to inspire a dynamic culture and champion inclusion across our organisation, as well as help our employees develop future skills.

Transition to net zero: our ambition is to support the transition to a net zero global economy. We have set out an ambitious plan to become a net zero bank, to support our customers in their transition, and to unlock new climate solutions.

HSBC in Europe

Europe is an important part of the global economy, accounting for over a third of global trade and a quarter of global Gross Domestic Product (IHS Markit, 2020). In addition, Europe is the world's largest exporter of manufactured goods and services (European Commission, 2020). HSBC Bank plc facilitates trade within Europe and between Europe and other countries where the HSBC Group has a presence.

With assets of £681bn at 31 December 2020, HSBC Bank plc is one of Europe's largest banking and financial services organisations. We employ around 16,300 people across our locations. HSBC Bank plc is responsible for HSBC's European business, aside from UK retail and most UK commercial banking activity which, post ring-fencing, are managed by HSBC UK Bank plc.

HSBC Bank Plc is simplifying its operating model to one integrated business with two main hubs in London and Paris.

HSBC Bank plc operates in 20 markets[1]. Our operating entities represent the Group to customers, regulators, employees and other stakeholders. We are organised around the principal operating units detailed below.

The London hub consists of the UK non-ring fenced bank, which provides overall governance and management for the Europe region as a whole and is a global centre of excellence for wholesale banking for the Group. In addition, the management team directly oversees our businesses in Armenia, Channel Islands & Isle of Man, and Malta.

HSBC Continental Europe, comprises our Paris hub and its European Union ('EU') branches (Belgium, Czech Republic, Greece, Ireland, Italy, Luxembourg, Netherlands, Poland, Spain and Sweden). We are creating an integrated Continental European bank anchored on Paris to better serve our clients, and simplify our organisation. HSBC France changed its name on 1 December 2020 to become HSBC Continental Europe, reflecting the purpose and nature of its activities, namely an integrated Continental European bank connecting our customers to HSBC's global network.

HSBC Germany Holdings GmbH serves the European Union's largest economy and one of the leading export nations globally. HSBC Germany's business proposition mirrors the importance of trade and global connectivity.

1 *Full list of markets where HSBC Bank plc has a presence: Armenia, Belgium, Channel Islands and Isle of Man, Czech Republic, France, Germany, Greece, Ireland, Italy, Israel, Luxembourg, Malta, Netherlands, Poland, Russia, South Africa, Spain, Sweden, Switzerland and the UK.*

HSBC Bank plc's vision and strategy

We are restructuring our European business to be successful and sustainable, with higher returns. Our vision is to be the leading bank for international corporates in Europe, focused primarily on clients that value our network with a focus on transactional banking and financing. This is complemented by a targeted wealth offering, through our Wealth and Personal Banking business (see Products and Services). HSBC Bank plc will remain a key centre of excellence for risk management and product expertise within the Group.

Governments and businesses across Europe are at the forefront of international efforts to combat climate change and are world leaders in sustainable finance. We share these values and want to help governments and businesses lead the transition to a sustainable future.

The impact of Covid-19 on the execution of our strategy

In February 2020, our business update outlined plans to remodel our European business, enabling us to become simpler and more competitive. The transformation of Europe has begun and is now in full implementation and we strive to closely support customers and colleagues through organisational change.

Consistent with the Group, HSBC Bank plc paused client and employee transformation actions from late March to mid-June 2020. Further information as to how we have and will continue to support our stakeholders can be found on page 7.

During the early stages of the outbreak of Covid-19, our clients required support through a variety of funding mechanisms. This led to an inflationary effect on the Risk-weighted assets ('RWAs') held by HSBC Bank plc, as there was a greater demand for finance. HSBC UK Holdings Ltd. injected £1bn of Common equity tier 1 ('CET1') to HSBC Bank plc, demonstrating the ability of the Group to support its subsidiaries, whilst strengthening HSBC Bank plc's position to withstand the economic shocks as a result of Covid-19.

Looking ahead, with continued low interest rates, higher levels of credit losses and uncertainty on the unwinding of government support schemes, we expect to be operating in a more challenging environment for an extended period. Whilst Covid-19 has affected the phasing of our transformation activity, it has not altered our strategy.

Transformation in Europe

The strategy involves a deep transformation of our business in Europe. In order to simplify our organisation, we have implemented a leaner management structure, operating as one integrated business with hubs in London and Paris, supported by shared services (see HSBC in Europe). This aligns with UK and European Union legal entity and regulatory requirements for financial services, following the UK's withdrawal from the European Union.

The group's risk-weighted assets ('RWAs') reduced by £3.0bn, 2 percent, during the year. Gross RWA savings of £18.8bn from management actions, including actions to support the group's transformation, were offset by changes in asset size and quality, and updates to models, methodology and policy.

Full year adjusted operating expenses for 2020 were £5.4bn, an increase of 1% versus prior year. This included a number of one off items such as: the impairment of real estate assets in France, lower capitalisation of IT spend following the write-off of intangible assets, increases in the EU Single Resolution Fund and legal provisions and settlements. Excluding these items, operating expenses decreased reflecting additional cost savings from management actions, including a reduction in FTE, tight control of contractor and consultancy spend as well as lower discretionary spend.

In HSBC Continental Europe, the transformation has focused on four pillars. The strategic review of the retail operations which is ongoing and no decision has been made; the repositioning of GBM for which a social plan ('Plan de Sauvegarde pour l'Emploi') has been approved by the French Ministry of Labour; the reshaping of CMB, Global Functions and HOST through a voluntary redundancy plan; and, the transformation of the HSBC Continental Europe EU Branches, which increases focus on client related activities whilst better leveraging our Paris hub and the Group's Centres of Excellence.

HSBC Germany Holdings GmbH demonstrated its resilience and performed strongly throughout 2020. We purchased the remaining minority interests in HSBC Trinkaus & Burkhardt AG, achieving a 100% shareholding on 26 January 2021. This will enable our business in Germany to be fully integrated with the rest of the HSBC Group.

Investing to capitalise on our strengths

We continue to invest in Transaction Banking (Global Liquidity and Cash Management 'GLCM', Global Trade and Receivable Finance 'GTRF' and Foreign Exchange 'FX'), which is central to our strategy. In September 2020, *The Banker* named HSBC as 'Best Transaction Bank in Western Europe' in their annual Transaction Banking Awards.

We are committed to maintaining our core strength in Global Liquidity and Cash Management, where we are focussed on enhancing our digital and self-serve capabilities for our clients. In 2020, we deployed eight additional currencies for our corporate cards. We also enabled Single Euro Payments Area (SEPA) instant payments in Ireland, allowing clients to send and receive payments in real time. To continue to better serve our customers through new ways of working, we expect to deploy self-serve capabilities to our Liquidity Management Portal, Cards and Receivables platforms.

Global Trade and Receivables Finance's ambition is to make trade safer, faster and easier. In 2020 we enhanced our value proposition by rolling out a core trade platform in France and further developed our offering through partnership with Fintech providers. We expect to increase investment in new product platforms, and deploy automated Anti-Money Laundering and Sanctions controls.

In Foreign Exchange we further enhanced our electronic trading infrastructure to provide improved risk management to our clients. Our focus is to support customers' FX and cross-border payment needs through improved pricing tools and e-trading.

Process of UK withdrawal from the European Union

The UK left the EU on 31 January 2020 and entered a transition period until 31 December 2020. During the transition period, the UK continued to be bound by EU laws and regulations. A Trade and Cooperation Agreement between the EU and the UK was agreed on 24 December 2020 and ratified on 30 December 2020. However, the Agreement included limited elements on financial services, and, as a result, did not change the assumptions on which the group's UK withdrawal from the EU plans had been developed. We will continue to work with regulators, governments and our customers and seek to manage any risks created by the Trade and Cooperation Agreement, or from future regulatory cooperation proposals on financial services between the UK and the EU, as they arise, particularly across those industry sectors most impacted.

For further details on our approach to the UK's withdrawal from the EU, see 'Areas of special interest' on page 27.

Our Global Businesses

The Group manages its products and services through its three global businesses: GBM; CMB; WPB[1]; and Corporate Centre (Corporate Centre comprises, certain legacy assets, central stewardship costs, and interests in our associates and joint ventures).

Our global businesses

Our operating model consists of three global businesses and a Corporate Centre, supported by HSBC Operations, Services and Technology, and 11 global functions, including Risk, Finance, Compliance, Legal, Marketing and Human Resources.

Global Banking and Markets ('GBM')

HSBC Global Banking and Markets delivers tailored financial solutions to major government, corporate and institutional clients worldwide. We provide a comprehensive suite of services across lending, advisory and capital markets, trade services, research, securities services and global liquidity and cash management.

Our European teams bring together relationship managers and product specialists, to deliver financial solutions customised to suit our clients' business specific growth ambitions and financial objectives. We continue to work closely with colleagues in CMB, to provide a range of tailored products and seamless services that meet the needs of clients across the bank. GBM operates as an integral part of the global business and also contributes significant revenues to other regions through our European client base.

Our business is underpinned by a focus on the highest standards of conduct and financial crime risk management. We remain committed to deepening client relationships, improving synergies across HSBC global businesses. We continue to invest in digital programmes focused on clients such as HSBCnet, streamlining the platform and improving customer experience. Cost discipline remains a priority, as we strive to simplify the business through streamlining business lines, operations and technology.

Commercial Banking ('CMB')

We serve customers ranging from small enterprises focused on their local market to corporates operating across borders. We support multinationals across the region and provide the tools and expertise that European businesses need to thrive.

Our network of relationship managers and product specialists work closely to meet customer needs, from term loans to region-wide treasury and trade solutions. We are fully committed to helping European businesses navigate change and seize export opportunities.

Commercial Banking is at the centre of creating revenue synergies within the Group. We work closely with our Global Banking and Markets colleagues to provide expertise in capital finance and advisory solutions to support our Commercial Banking clients. Our trade teams within Commercial Banking also provide import and export finance solutions to Global Banking and Markets clients.

With major operations in France and Germany, and full-service centres in hubs such as Ireland, the Netherlands and Switzerland, we provide corporates with the means to consolidate and simplify their European operations, enabling our customers to have greater visibility over their liquidity position and unlock efficiencies in their treasury structures. Our customers expect us to be innovative, whether it is a receivables finance solution to optimise working capital or support in pursuing the sustainability agenda. One way we are helping customers in their sustainability efforts is through their supply chains, by developing green financing solutions that are beneficial for buyer and seller alike.

Wealth and Personal Banking ('WPB')[1]

In Europe, Wealth and Personal Banking serves around 1.2 million customers with their financial needs through Private Banking, Retail Banking, Wealth Management, Insurance and Asset Management.

Our core retail proposition offers a full suite of products including personal banking, mortgages, loans, credit cards, savings, investments and insurance. Alongside this, WPB offers various propositions in certain markets, including Jade, Premier, and Advance; as well as wealth solutions, financial planning and international services. In the Channel Islands and Isle of Man, we serve local Islanders as well as international customers through our HSBC Expat proposition.

Our Private Banking proposition serves high net worth and ultra-high net worth clients with investable assets greater than £4m in Channel Islands and Isle of Man, France and Germany. The range of services available to private banking clients includes investment management, Private Wealth Solutions and bespoke lending such as lending against financial assets and residential mortgage financing for high-end properties.

The depth of our global business service matches that of our diverse client needs: from branches, self-service terminals, telephone service centres and digital services. Private Banking hosts a 'Next Generation' programme of events to support our client's next generation and offers philanthropy advisory to our clients. We continue to focus on meeting the needs of our customers, the communities we serve, and our people, whilst working to build the bank of the future.

	GBM	CMB	WPB
Adjusted profit/(loss) before tax			
	£23m	**£152m**	**£(132)m**
	(2019: £201m)	(2019: £457m)	(2019: £277m)
Risk-Weighted Assets			
	£76,582m	**£26,923m**	**£12,082m**
	(31 Dec 2019: £81,466m)	(31 Dec 2019: £28,750m)	(31 Dec 2019: £9,119m)

1 *Global Private Banking and Retail Banking and Wealth management have been merged to form WPB. Refer to Note 9 Segmental analysis.*

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

How we do business

We conduct our business to support the sustained success of our customers, employees and other stakeholders.

Our approach

Our purpose is 'Opening up a world of opportunity' and we aim to be the preferred international banking partner for our clients.

To achieve this in a way that is sustainable, we are guided by our values: we value difference; we succeed together; we take responsibility; and we get it done.

We build and maintain strong relationships with all of our stakeholders, including customers, employees and the communities in which we operate. This will help us deliver our strategy and operate our business in a way that is sustainable.

In 2020, our ability to help our stakeholders was more important than ever, as we continued to promote and encourage good conduct through our employee's behaviours and the decisions we take during these unprecedented times. We define conduct as delivering fair outcomes for our customers and not disrupting the orderly and transparent operation of financial markets. This is central to our long-term success and ability to serve customers. We have clear policies, frameworks and governance in place to protect them. For further information on conduct, see page 80.

Details on our conduct framework are available at www.hsbc.com/conduct.

Our stakeholders

Building strong relationships with our stakeholders helps enable us to deliver our strategy in line with long-term values, and operate the business in a sustainable way. Our stakeholders are the people who work for us, bank with us, own us, regulate us, and live in the societies we serve and the planet we all inhabit. These human connections are complex and overlap. Many of our employees are customers and shareholders, while our business customers are often suppliers. We exist to serve, creating value for our customers and shareholders. Our size and global reach mean our actions can have a significant impact. We are committed to doing business responsibly, and thinking for the long term. This is key to delivering our strategy.

Our section 172 statement, detailing our Directors' responsibility to stakeholders, can be found on page 10.

Supporting our stakeholders through Covid-19

The Covid-19 outbreak has created a great deal of uncertainty and disruption for the people, businesses and communities we serve around the world. It is affecting everyone in different ways. We are tailoring our response to the different circumstances and situations in which our stakeholders find themselves.

Customers

The 2020 operating environment posed significant challenges for our customers across the region. Our immediate priority is to do what we can, to provide them with support and flexibility. This has included offering payment relief, assisting our customers to restructure their balance sheets and providing access to government lending schemes.

In the UK, we participated in available government-backed schemes, obtaining accreditation in CLBILS (Coronavirus Large Business Interruption Loan Scheme) and assisting customers in accessing the Covid Corporate Financing Facility (CCFF). In addition, where appropriate, we guided customers in accessing Capital Markets. The Commercial Bank have held educational sessions for existing customers explaining the construct and potential benefits of CLBILS.

In France, our Commercial Banking team issued lending which related to the French government-backed, Covid-19 Business Interruption Guarantee Scheme ('PGE'). Within Global Banking and Markets and Commercial Banking, digital enhancements have been deployed to support clients working remotely (e.g. electronic signature solutions).

In Germany, Markets have benefitted from retail investors demand for warrants and certificates, successfully managed customer's currency risks and facilitated capital market financing. In addition, our Commercial Banking team led a number of Equity Capital Markets transactions and processed Covid-19 related credit requests, with a small proportion via government lending schemes.

The full breakdown of our participation in finance lending schemes can be found on page 60 (customer relief programmes).

We have taken steps to protect customers and our colleagues. With customers conducting more of their banking online, we have deployed new technology to enable them to engage with us in different ways, including video calls with relationship managers, regular webinars and continuous coverage from our sales/traders whether from home or from the office.

Employees

The Covid-19 outbreak tested our employees in many ways and they adapted quickly to the fast-changing environment. We provided new and enhanced support to ensure the well-being of employees and have encouraged a culture of looking out for each other. Our priorities for our employees are mental health, flexible working and financial well-being. In addition to our bi-annual employee Snapshot survey, in 2020, we ran a Covid-19 well-being survey which showed 90% of our staff felt that the group was providing them with the information needed to work as effectively as possible during the Covid-19 situation. 85% of our staff felt that their line manager was providing them with the support they need to work through the impact of Covid-19.

In March, we paused the redundancy programme intended to deliver the reduction in headcount we announced in February. We decided in June to lift the pause on redundancies, proceeding thoughtfully but purposefully, while taking local considerations into account.

We strive to support employees closely through all organisational change. We use objective and appropriate selection criteria for redundancies. Our focus is to prioritise retention of our permanent employees through mechanisms such as redeployment. Where we are unable to, we provide employees with access to employee assistance programmes and career transition support.

Communities

To deal with the immediate and long term impact of the Covid-19 outbreak in Europe, each market has supported respective staff and clients, whilst also supporting leading Non-Governmental Organisations; providing medical response, food security and access to support for vulnerable people.

Colleagues in each market have identified relevant programmes such as: support to people in over-indebtedness, protection of women and vulnerable children, foodbank support or the funding of medical research. More than $1.2m of the total $25m Group pledge has benefited causes in 17 European countries.

Regulators and governments

We have proactively engaged with regulators and governments in Europe, regarding the policy changes issued in response to the Covid-19 outbreak, to help our customers and to contribute to an economic recovery.

Suppliers

We made early payments to thousands of our suppliers during the year to support them through the Covid-19 outbreak.

Investors

HSBC Bank plc maintains an active dialogue with its investors. The bank's relationship with its debt investors is maintained by HSBC Group Investor Relations, as many of these relationships span investments across multiple entities, within the broader HSBC Group. Engagement with HSBC Bank plc's investors primarily takes place as a part of HSBC Group's usual course investor relations work.

Our ESG metrics and targets

We have established targets that guide how we do business, including how we operate and how we serve our customers. These targets are designed to help us to make our business – and those of our customers – more environmentally sustainable. They also help us to improve employee advocacy and diversity at senior levels as well as strengthen our market conduct.

The 2020 annual incentive scorecards of the Group Chief Executive, Group Chief Financial Officer and members of the Group Executive Committee have 30% weightings for measures linked to outcomes that underpin the ESG metrics below. ESG metrics are also incorporated into the Europe Chief Executive and Executive Committee member scorecards.

Our Environmental metrics:

HSBC Holdings plc disclosures on streamlined energy and carbon reporting (SECR) requirements, cover HSBC Bank plc. HSBC Bank plc's main activities related to measuring our carbon dioxide emissions are summarised below:

We report our carbon emissions following the Greenhouse Gas Protocol which incorporates the scope 2 market-based emission methodology. We report carbon dioxide emissions resulting from energy use in our buildings and employees' business travel. In 2020 we collected data on energy use and business travel for our operations in Europe in France, Germany, Malta, Switzerland, which accounted for approximately 23% of our FTEs in Europe[1].

At the end of 2020, the group achieved 0.69 tonnes of CO2 per FTE down by 44% compared to 2019 and thus met HSBC's 2020 goal of 2 tonnes CO2 per FTE. The exceptional circumstances caused by the Covid-19 outbreak affected working behaviours which helped drive further environmental footprint reductions in our operations.

For further information regarding our environmental footprint, please visit https://www.hsbc.com/our-approach/our-climate-strategy/becoming-a-net-zero-bank.

Our Social metrics:

- Employee engagement was 46% as at the end of 2020, down by 1% compared to 2019[2].
- Employee gender diversity, our target was 22.9% of women in senior leadership roles by the end of 2020. The outcome for 2020 was 22.4% of women in senior leadership roles[3].

Our Governance metrics:

- Sustained delivery of global conduct outcomes, with 92.7% of staff having completed conduct training in 2020. Our target for 2020 was 98%[4].

1 *To estimate the emissions of our operations in countries and territories where we have operational control and a small presence, we scale up the emissions data from to 100%.*
2 *Performance is based on our employee Snapshot results. We transitioned to the employee engagement index in 2020.*
3 *Senior leadership is classified as 0 to 3 in our global career band structure. We narrowly missed our 2020 target, our focus on improving gender balance in senior leadership across Europe remains a priority for HSBC Bank plc's executive committee for 2021.*
4 *The launch of Conduct Global Mandatory Training in 2020 was slightly delayed due to the Covid-19 outbreak and the completion date was rolled over into 2021. Our target at the end of deployment period is 98%.*

Non-financial reporting

We have the responsibility to protect our customers, our communities and the integrity of the financial system. In this section, we outline our requirements under the Non-Financial Reporting Directive.

Environmental matters

We recognise our wider obligations to the communities where we operate, and understand economic growth must also be sustainable. In October 2020, we announced an ambitious plan to prioritise financing and investment that supports the transition to a net zero global economy, and which helps to build a thriving, resilient future for society and businesses.

Our climate plan has three elements: to support our portfolio of customers to make the transition; to unlock climate solutions and innovation; and to transform HSBC into a net zero bank. To achieve these goals, we will work with a range of stakeholders including charities, governments, and policymakers. More information about our assessment of climate risk can be found in the HSBC Holdings plc annual report, under the Task Force on Climate-related Financial Disclosures and climate strategy.

In 2020, in recognition of our work to support the global transition to a low-carbon economy, we have been named as 'Western Europe's Best Bank for Sustainable Finance' by *Euromoney*.

Since our 2017 global pledge to provide and facilitate $100bn of sustainable financing and investment by 2025, HSBC Bank plc has contributed $44.6bn or 48 per cent of the Group performance ($93.1bn) against this target. We help drive market innovation and enable flow of capital to sustainable businesses. In addition, we are helping to shape the Sustainable Finance market in Europe through: dialogue with regulatory and industry bodies, producing industry-leading research, participating and organising dedicated events and engaging with communities.

Important effort has gone into strengthening our own expertise through training on Sustainable Finance over the year:

- Around 8400 participants across Europe have attended online training sessions on Sustainable Finance. Around 20 senior leaders attended the 2020 Sustainability Leadership Programme, a 2 day training session dedicated to Sustainable Finance.
- In France, CMB launched a partnership to support French corporate clients with their Corporate Social Responsibility and ESG strategy and energy transition.

We've also progressed in shaping and deploying the product proposition where European countries have been pioneering and are still leading the way. For instance, HSBC is heavily involved in developing the green, socially responsible and sustainability bond market.

Some examples of corporate sustainability bonds:

- We have acted as Green Structuring Advisor and Sole Lead Manager for Henkel who are the first corporate issuer of a plastic waste reduction bond. Henkel issued privately placed corporate bonds ($70 million and €25 million tranches) with a five-year tenor to dedicated Japanese and German ESG-investors.
- We acted as joint bookrunner for the cement industry's first ever sustainability-linked bond. Under the terms of the €850 million deal, Switzerland-based LafargeHolcim commits to reduce the carbon intensity of the cement it produces (scope 1) by 17.5 per cent by the end of 2030 from a 2018 base year.
- HSBC acted as Joint Lead Manager for Volkswagen's first green bonds with a volume of €2 billion. The proceeds of the bonds will be used in accordance to Volkswagen's Green Finance Framework, including the funding of the modular electric drive matrix (MEB).

Other types of green products were developed to new segments of markets and customers:

- In Spain, Vidrala was the first client to invest £5 million in HSBC's Green Deposits scheme. HSBC is using the capital to fund environmentally-progressive projects such as renewable energy, energy efficiency, pollution control and biodiversity conservation which align with our client's climate action commitments.

- In the Channel Islands and Isle of Man, we launched the first green loan for personal customers to encourage islanders to realize their green projects, such as buying an electric car or improving the environmental credentials for their home.

We want to be a leading international bank in Europe creating a bank fit for the future. Sustainable finance will continue to be key to our long-term strategy and we will continue to prioritise our customers' investments and growth in this area.

Employee matters

Our employees and the societies they represent and serve span many cultures, communities and continents. We believe this diversity makes us stronger, and we are dedicated to building a diverse and connected workforce where everyone feels a sense of belonging.

In July 2020, the Group set out global ethnicity commitments to improve opportunities for Black and ethnic minority employees and boost the diversity of our senior leadership. A common requirement behind our ethnicity commitments is improving the quality and reporting of employee ethnicity data, to be more transparent about our representation and accountable for the effectiveness of our actions. In October 2020 we published the ethnicity data for the UK and we are exploring how we can improve the data across European countries in line with local laws and regulations. For further details on employee ethnicity, please refer to the HSBC Holdings plc ESG data pack.

We have carried out actions to drive improvements in representation and sentiment across multiple dimensions of diversity and inclusion, strengthen our employee networks, and to improve our diversity data. Our diversity focus goes beyond gender to include ethnicity, disability and LGBT+. Our key achievements are detailed on page 92 under Diversity and Inclusion.

The development of our people is core to the success of our organisation. We continue to develop and implement practices that build employee capability and identify, develop and deploy talented employees; this ensures an appropriate supply of high calibre individuals with the right values, skills and experience for current and future senior management positions.

Since the launch of HSBC University in 2017, we have continued to add to the portfolio of world class leadership and professional development programmes for leaders and people managers. This is even more important for HSBC Bank plc as our Transformation programme is implemented and we fulfil our commitment to our employees through this process to ensure they have access to the right tools to support their future career.

HSBC Future Skills

We have developed a flagship Future Skills programme to prepare our people for the changing skills required in the future workplace. We are encouraging our employees to take ownership of their development and supporting them to do so. We are creating an innovative internal talent marketplace through new technology that helps improve career development by matching the skills and aspirations of our people with business needs and opportunities.

Working with research partners such as the World Economic Forum we have defined a framework of future skills that we believe will be important in the world as a result of technology and customer behaviour changes. Some of these skills such as negotiating, communicating with impact, or leading change are not new, but they will become even more fundamental in the future of work. However, we also expect newer skills such as design mindset, computational thinking or new media literacy to become more prevalent in our organisation as our Future Skills movement progresses.

In the final quarter of 2020 HSBC Europe started the creation of a Future Skills 'movement', launched off the back of a 'MySkills' Festival week held throughout the region in the month of November. The purpose of the week was to create a unique space for colleagues to come together, experience new things, engage with intriguing content and get inspired as to what the future of work could mean for them, HSBC and the wider communities that we support.

In 2021, we will continue this campaign with some exciting enhancements with the aim of providing greater opportunities for colleagues to develop and thrive in the HSBC of the future.

Social matters

We have a responsibility to invest in the long-term prosperity of the communities where we operate. We recognise that technology is developing at a rapid pace and that a range of new and different skills are now needed to succeed. For this reason, much of our focus is on programmes that develop employability and financial capability. We also back climate solutions and innovation, and contribute to disaster relief efforts based on need. In 2020 in Europe, we contributed £2.5m to charitable programmes and our employees volunteered 2,300 hours to community activities during the working day.

Human rights

Our commitment to respecting human rights, principally as they apply to our employees, our suppliers and through our financial services lending, is set out in our 2015 Statement on Human Rights. This statement, along with our ESG Updates and our statements under the UK's Modern Slavery Act ('MSA'), is available on www.hsbc.com/our-approach/measuring-our-impact.

Anti-corruption and anti-bribery

We are committed to high standards of ethical behaviour and operate a zero-tolerance approach to bribery and corruption. Our anti-bribery and corruption policy sets the framework for the Group and this is followed throughout HSBC Bank plc, to comply with anti-bribery and corruption legislation in all jurisdictions in which we operate, and gives practical effect to global initiatives, such as the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. Where local legislation is in place in a jurisdiction, local policies are in place as appropriate, for example in France the AFA (Agence Francaise Anti-corruption) is adhered to.

The principal risks addressed by our anti-bribery and corruption policy are the risk that our employees, associated persons or customers engage in bribery or corruption, or that the Group does so through its strategic activities.

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

Non-Financial Information Statement

Disclosures required pursuant to the Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016 can be found on the following pages:

Environmental matters (including the impact of the company's business on the environment)	Page 8
The company's employees	Pages 7 to 11 and 92 to 93
Social matters	Page 9
Respect for human rights	Page 9
Anti-corruption and anti-bribery matters	Page 25
Business model	Page 6
Principal risks	Page 20

HSBC creates value by providing products and services to meet our customers' needs. We aim to do so in a way that fits seamlessly into their lives. This helps us to build long-lasting relationships with our customers. HSBC maintains trust by striving to protect our customers' data and information, and delivering fair outcomes for them and if things go wrong, we need to address complaints in a timely manner. Operating with high standards of conduct is central to our long-term success and underpins our ability to serve our customers. Our Conduct Framework guides activities to strengthen our business and increases our understanding of how the decisions we make affect customers and other stakeholders. Details on our Conduct Framework are available at www.hsbc.com.

Section 172 statement

Section 172 of the Companies Act requires a director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing this, section 172 requires a director to have regard, amongst other matters, to: the likely consequences of any decision in the long term; the interests of the company's employees; the need to foster the company's business relationships with suppliers, customers and others; the impact of the company's operations on the community and the environment; the desirability of the company maintaining a reputation for high standards of business conduct; and the need to act fairly as between members of the company.

The Board considered a range of factors when making decisions and is supported in the discharge of its duties by:

- an induction programme and ongoing training to provide an understanding of our business and financial performance and prospects;
- management processes which ensure that proposals presented to Board and Committee meetings for decision include information relevant to determine the action that would most likely promote the success of the bank and engagement with stakeholders where relevant to support appropriate decision making; and
- agenda planning for Board and Committee meetings to provide sufficient time for the consideration and discussion of key matters.

2020 was an unprecedented year as a result of the Covid-19 outbreak, and as such the Board was required to take decisions in the context of an uncertain and ever-changing external environment. The Board made a concerted effort to ensure that each stakeholder group received an appropriate level of consideration given the circumstances and Directors were provided with regular updates addressing how the outbreak was affecting, amongst others, the bank's clients and employees to ensure their interests and views were being taken into account. The effect of the outbreak influenced the Board's discussions in a number of ways, and the Board met more frequently and engaged with management more often during the height of the crisis to assess the impact of the outbreak on the bank and its key stakeholders. The Executive Committee also met more regularly during this period, with more frequent reports to the Board to ensure directors were kept informed about developments across the full range of the bank's activities, including the impacts of Covid-19 on customers, clients, supply chains and employees. There was also more intensive dialogue with the bank's regulators.

Stakeholder Engagement

The Board understands the importance of effective engagement with its stakeholders and is committed to open and constructive dialogue. This helps build trust and allows the Board to better understand and respond to the challenges facing the bank. Depending on the nature of the issue in question, however, the relevance of each stakeholder group may differ and not every decision the Board makes will necessarily result in a positive outcome for all stakeholders.

For further details regarding the role of the Board and the way in which it makes decisions, including key activities during 2020, please see page 88.

The Board regularly receives reports from management on issues concerning customers, the environment, communities, suppliers, employees, regulators, governments and investors, which it takes into account in its discussions and in its decision-making process under section 172. In addition to this, the Board seeks to understand the interests and views of the bank's stakeholders by engaging with them directly as appropriate. The Covid-19 outbreak materially restricted the Board's ability to engage with stakeholders face-to-face, but examples of how Directors were able to maintain effective contact are set out below:

Customers

Customers are at the core of the bank's business model and a primary stakeholder: without customers there would be no bank. The Board strives to ensure it has a broad understanding of customers, their needs and challenges, and to give full consideration to these.

During the year, the CEO and his senior management team continued to engage directly with customers, often virtually, while the Board closely monitored the bank's approach to supporting customers and endorsed the bank's participation in government support schemes in response to Covid-19 and the associated increases in risk-weighted assets this required. The Board also received regular reports from senior management on interaction with customers, which included key performance indicators measuring the impacts and challenges to customers as a result of Covid-19, the Europe transformation programme and associated conduct considerations. Dedicated deep dive sessions were also held, with one such session focused on the Insurance business and the impacts of the pandemic on customer cover.

Employees

Employees are critical to the successful operation of the Company and its long-term future.

During the year the Board received regular updates from senior management on various metrics and feedback tools in relation to employees, including updates on Diversity and Inclusion and the Gender Pay Gap. In response to the Covid-19 outbreak, updates were also provided on the impact on employee wellbeing and how the bank was supporting its staff. The focus on employees by the Board was also heightened through the frequent updates provided on the Europe transformation programme and how staff were being impacted by the level of change.

Shareholders and Investors

The Company is a wholly owned subsidiary of the HSBC Group and, as such, the Board took into account the implications of its decisions with regard to its ultimate shareholder, HSBC Holdings plc, and its debt security investors.

During the course of the year, the Group Chairman held a number of principal subsidiary chair conferences which were attended by the Chairman of the Board. In addition, Chairs of the Audit and Risk committees participated in regional Audit and Risk committee forums hosted by their Group counterparts. These were attended both by the bank's Directors as well as Audit and Risk Committee Chairs of material subsidiaries. The Board also received updates from management on the bank's debt issuance programmes.

Regulators and Governments

Directors regularly meet with the bank's regulators, the Financial Conduct Authority ('FCA') and Prudential Regulatory Authority ('PRA'), and seek to proactively engage them on specific issues. It is central to the success of the bank that it has strong relationships with these stakeholders and that there is a mutual understanding on expectations and challenges given their impact on customers, the business model and the bank's strategy.

During the year, members of the Board met regularly with regulators both in the UK and Europe and engagement continued during 2020 notwithstanding the logistical challenges posed by the Covid-19 outbreak.

Suppliers

Suppliers are critical to supporting the infrastructure and operations of the business and have contractual relationships with the bank.

During the year, the Board received an update on the bank's performance against its statutory reporting obligations in respect of the payment of third party suppliers. This also provided an insight into the impact of its procurement processes and procedures on suppliers.

Communities and Environment

The Company has legal, regulatory and social responsibilities to the community and its environment.

During the year the Board received updates on the group's evolving climate and sustainable finance strategy and net zero ambition. There will be more extensive engagement in 2021 as part of the development of a sustainable finance strategy tailored for Europe and also to provide updates to the Board on delivery against climate targets and strategy execution.

Employee Engagement

The Chief Executive Officer and the Executive Team are actively involved in the engagement of employees through leadership calls and quarterly all employee webcasts to keep the workforce up-to-date on business developments and answer questions. In addition, the Chief Executive Officer issues a Europe-wide newsletter which updates employees on positive initiatives across the region. During 2020 he also participated in a number of podcasts/webcasts that focused on Diversity & Inclusion and the future workplace. The Board receives regular updates from the Chief Executive Officer and the Head of HR on employee matters, including feedback received through Town Halls and Exchanges, which this year included sessions dedicated to the Europe transformation programme, as well as through regular employee surveys such as the Banking Standards Board and Snapshot. As a result of Covid-19, a further Wellbeing survey was organised for employees as a way to assess staff health and wellbeing during the crisis. These were discussed at the Board and focus groups have been set up to obtain further insights into the results. One of the non-executive Directors also has a particular focus on employee matters to enhance the Board's view of people issues and to gain a better understanding of the employee perspective. Further details of the bank's engagement with employees can be found on pages 7 to 11 and 92 to 93.

Principal Decisions

Set out below are some of the principal decisions made by the Board during 2020. Each example includes an explanation of how the Directors have regard to the matters set out in section 172(1)(a)-(f) of the Act when discharging their duties.

Appointment of Chief Executive Officer

In March 2020, Nuno Matos was appointed as the bank's Chief Executive Officer, to lead the implementation of the Europe transformation programme. The appointment followed a thorough and robust search process led by the Nomination, Remuneration and Governance Committee ('NRGC'), and further details on the process can be found in the NRGC Report on page 90.

In taking their decision, the Board considered amongst other matters the ability of prospective candidates to engage constructively and develop trusted relationships with the bank's stakeholders as well as the capacity to maintain strong relations with the workforce whilst implementing significant strategic change.

The Board was pleased to appoint someone to this role from within the organisation, thereby providing consistency of culture, an understanding of the business strategy and model and an appreciation of key stakeholder relationships.

During the process, the Board engaged with stakeholders in HSBC Holdings plc due to their understanding of the specifications required of the role holder and oversight of the Europe transformation programme. The regulator was also engaged to determine the suitability of prospective candidates due to its knowledge of the bank and the regulatory responsibilities attached to this position.

Such engagement helped the Board determine that the appointment was in the best interests of the Company as a whole.

These considerations were also of paramount importance when, following the announcement of Nuno Matos' appointment as Chief Executive Officer of Wealth and Personal Banking, the Board was required to consider potential successors. In reaching its decision in December 2020 to appoint Colin Bell as the bank's new Chief Executive Officer, a key factor was identifying the best candidate to continue driving effective execution of the Europe transformation programme in order to realise the benefits of that plan for the bank's stakeholders.

Europe Transformation Programme

In April 2020, the Board approved a revised Annual Operating Plan to implement the bank's response to the revised Group Strategy, which is referred to as the Europe transformation programme.

The Board provided support to the members of the Executive Committee in their development of the plans. In advance of approval, the Board also constructively challenged and engaged with senior management to consider the likely consequences of the strategic actions proposed on all of its stakeholders, including shareholders, investors and the wider community.

Customers were identified as particularly important stakeholders under the programme, with the Board recognising the need to transform the business to become a profitable, successful and sustainable bank serving the Group's international clients in Europe. The Board, however, acknowledged that the focus of the new strategy, in particular the proposed reduction in Risk Weighted Assets, would require some client relationships to be restructured. Employees were also identified as key stakeholders given the importance of ensuring staff understood and implemented the strategy. At the same time, it was acknowledged that the Europe transformation programme anticipated a material reduction in regional staff numbers and that the process would need to be managed with particular care and sensitivity. The Board was especially focused on the wellbeing of employees given the volume of change to be initiated, as well as the importance of treating customers fairly. Due to the extraordinary impact of the Covid-19 outbreak, the decision was therefore made to pause the employee redundancy programme and client restructuring during the second quarter of the year. When the pause on redundancies was lifted in June, measures were put in place to manage the process as sensitively as possible, redeploy staff where possible and provide support to employees leaving the bank.

Appointment of independent non-executive Director and establishment of new governance body

In November 2020, the Board approved the appointment of Juliet Robinson as an independent non-executive Director. The Nomination, Remuneration and Governance Committee, on behalf of the Board, agreed a role specification which was driven by recommendations from the HSBC Holdings plc Subsidiary Governance Review summarised on page 88 and the Committee's own assessment, which highlighted the need to enhance the Board's capabilities in the areas of technology transformation and operational resilience. In parallel, the Board approved the establishment of a new governance body, the Transformation, Operational Resilience and Technology Committee as described on page 90, with a focus on providing enhanced oversight in these areas under the authority of the Board and Risk Committee.

In reaching these decisions, the interests of the bank's regulators were a particular focus given the heightened regulatory scrutiny over technology governance within the Group and the banking sector more generally. Customers and suppliers were also identified as important stakeholders, since they will be the ultimate beneficiaries of successful execution of the significant operational and technology changes anticipated under the Europe transformation programme .

Capitalisation of the bank and HSBC Continental Europe

As a result of the significant and sudden capital impact caused by the adverse economic conditions and market volatility following the onset of the Covid-19 outbreak, in March 2020 the Board approved a £1 billion CET1 capitalisation of the bank by HSBC Holdings plc (via the bank's intermediate holding company). In April 2020, the Board also approved the injection of up to €900 million in CET1 and Tier 2 capital by the bank into HSBC Continental Europe, €500 million of which was utilised in May 2020 in the form of Tier 2 capital, to ensure that HSBC Continental Europe remained well-capitalised notwithstanding the impact of Covid-19, and to underpin its capacity to support customers during the pandemic and support the transfer of assets from the bank to HSBC Continental Europe in anticipation of the end of the Brexit transition period.

In taking these decisions, the Board was focused on the bank's obligations to its regulators and investors to maintain prudential soundness in the face of the uncertainties presented by Covid-19, as well as ensuring that the bank and its subsidiaries would remain well-positioned to support their customers, suppliers, employees and the wider community notwithstanding the unprecedented challenges posed by the outbreak.

Tax

Our approach to tax

We are committed to applying both the letter and the spirit of the law in all territories where we operate, and have adopted the UK Code of Practice for the Taxation of Banks. As a consequence, we seek to pay our fair share of tax in the countries in which we operate. We continue to strengthen our processes to help ensure our banking services are not associated with any arrangements known or suspected to facilitate tax evasion.

HSBC continues to apply global initiatives to improve tax transparency such as:

- the US Foreign Account Tax Compliance Act ('FATCA');
- the OECD Standard for Automatic Exchange of Financial Account Information (also known as the Common Reporting Standard);
- the Capital Requirements Directive IV ('CRD IV') Country by Country Reporting;
- the OECD Base Erosion and Profit Shifting ('BEPS') initiative; and
- the UK legislation on the corporate criminal offence ('CCO') of failing to prevent the facilitation of tax evasion.

We do not expect the BEPS or similar initiatives adopted by national governments to adversely impact our results

Key Performance Indicators

The Board of Directors tracks the group's progress in implementing its strategy with a range of financial and non-financial measures or key performance indicators ('KPIs'). Progress is assessed by comparison with the group strategic priorities, operating plan targets and historical performance. The group reviews its KPIs regularly in light of its strategic objectives and may adopt new or refined measures to better align the KPIs to HSBC's strategy and strategic priorities.

Financial KPIs

	2020	2019
(Loss) before tax (reported) (£m)	**(1,614)**	(872)
(Loss)/profit before tax (adjusted) (£m)	**(184)**	603
Cost efficiency ratio (reported) (%)	**113.6**	112.2
Cost efficiency ratio (adjusted) (%)	**89.6**	87.9
Return on tangible equity (%)	**(2.7)**	0.6
Common equity tier 1 capital ratio (%)	**14.7**	14.2

(Loss)/profit before tax (reported/adjusted): Reported (loss)/ profit before tax is the (loss)/profit as reported under IFRS. Adjusted (loss)/profit before tax adjusts the reported (loss)/profit for the effect of significant items as detailed on pages 16 to 17.

Reported loss before tax in 2020 was £(1,614)m compared to a loss before tax of £(872)m in 2019. This was primarily driven by higher Expected Credit Losses ('ECL') from charges related to specific wholesale exposures, and charges related to the impact of Covid-19 on the economic outlook. Revenue also decreased driven by the impact of lower interest rates on our deposit franchises and insurance manufacturing business, as well as adverse movements in valuation adjustments in GBM. This was partly offset by lower operating expenses. Reported operating expenses in 2020 included a £802m impairment of intangibles, mainly software, while in 2019 reported operating expenses included a £1,167m impairment of goodwill as well as costs of £87m associated with the group's preparation for the UK's exit from the Europe Union. This decrease was partly offset by higher expenses related to restructuring and other related costs, including severance costs, arising from the bank's transformation programme.

Adjusted profit before tax decreased due to higher ECL and lower revenue. The decrease in revenue included the impact of the low interest rate environment on our businesses and adverse market impacts on PVIF in insurance manufacturing in WPB. This was partly offset by a stronger performance in GBM in Markets. Operating expenses increased reflecting a number of specific items incurred in 2020. This offset a significant reduction in operating expenses as a result of the tight control of discretionary spend to reflect the economic outlook and the initial impact of our transformation of the bank.

Cost efficiency ratio (reported/adjusted) is measured as total operating expenses divided by net operating income before expected credit losses and other credit impairment charges.

In 2020, reported revenue decreased by 2% while reported operating expenses decreased by 1%. The cost efficiency ratio therefore worsened by 1.4 percentage points. Reported revenue decreased, mainly due to the lower interest rate environment impacting our businesses, partly offset by lower reported operating expenses, mainly due to lower impairment of goodwill and other intangible assets.

The cost efficiency ratio (adjusted) worsened by 1.7 percentage points from 2019, mainly reflecting lower revenue and higher adjusted costs driven by the factors mentioned above.

Return on tangible equity ('RoTE') is computed by adjusting reported results to exclude significant items, the movements in the present value of in-force long-term insurance business ('PVIF') and for impairments of goodwill, divided by average reported equity adjusted for goodwill, intangibles and PVIF for the period. The adjustment to reported results and reported equity excludes amounts attributable to non-controlling interests.

CET1 capital ratio represents the ratio of common equity tier 1 capital to total risk-weighted assets. CET1 capital is the highest quality form of capital comprising shareholders' equity and related non-controlling interests less regulatory deductions and adjustments.

The group seeks to maintain a strong capital base to support the development of its business and meet regulatory capital requirements at all times.

The CET1 capital ratio increased during the year mainly due to a reduction in risk-weighted assets ('RWAs') and an increase in CET1 capital as a result of a £1bn capital injection by HSBC UK Holdings Limited .

Non-financial KPIs

We monitor a range of non-financial KPIs focusing on customers, people, culture and values including customer service satisfaction, employee engagement and diversity and sustainability.

For details on customer service and satisfaction please refer below; for the remaining non-financial KPIs, refer to the Non financial reporting section on page 8 and Corporate Governance section on page 86 to 94.

Customer service and satisfaction

WPB

In WPB Europe, enhancing customer experience and improving satisfaction remains integral to our strategy. This is monitored through a number of customer satisfaction metrics covering branch, contact centre and digital channels. We recognise the importance of customer feedback and continue to enhance our insights to gain a better understanding of our clients to provide a more personalised and relevant service.

Digital continues to be a principal area of investment enhancing customer experience. In 2020 we demised our legacy platforms for five of our markets and plan to continue to migrate the remaining markets to the latest Public Website, Mobile App and Online Banking platforms in 2021 driving cost efficiencies and improving customer experience. We enhanced our online Account Opening journey for Expat clients (WPB Channel Islands & Isle of Man) reducing the time to apply and open accounts, achieving a 248% increase in opened accounts year on year. Our Private Banking arm is also committed to enhancing digital offerings, including enhanced capabilities to support our advisory offering, a revised mobile banking app and improved internal platforms to support our people in delivering improved client service.

We recognise that enhancing customer satisfaction is an evolving process and are committed to ensure our investments and focus are prioritised to achieve this.

CMB

Customer experience, satisfaction and conduct are key priorities for Commercial Banking in Europe. We continue to remain focused on enhancing our insights through relevant and measurable metrics that enable us to improve understanding of our customers. In 2020, our customers have indicated that the key strengths of our existing franchise are the skills and knowledge of our people and our global international network. This is further complemented by our product and service capabilities which support our customers' business aspirations. We have received a number of external recognitions including i) the world's leading bank for trade finance for the fourth year in a row, in the *Euromoney* Trade Finance Survey ii) Best Global Cash Manager for *Euromoney* Cash Management Survey 2020 iii) World's Best Bank for Transaction Services iv) Best Transaction Bank in Western Europe by *The Banker* Transaction Banking Awards 2020.

Conversely, we acknowledge that we do not always consistently meet our customers' expectations. To address this, we plan to continue to streamline our onboarding process and to examine customer feedback to identify opportunities for improvement. Building on our efforts in 2020, further work is planned for 2021 that will use customer insights to help improve customer experience and satisfaction.

GBM

We remain committed to providing excellent customer value and continue to strive towards improving our proposition to meet client needs.

In 2020, HSBC won the Global Excellence in Leadership award from *Euromoney* in relation to our leadership role during the Covid-19 outbreak. Other major awards include industry accolades from *The Banker* for 'Best Transaction Bank in Western Europe' and 'Best Bank for Securities Services' in 2020. Greenwich rated us #1 Standout FX Dealer for Global Corporates and we remain a top 3 player for Emerging Markets in 2020. We continue to be ranked 1st in Emerging EMEA Equity Sales this year in the Extel survey.

We work with clients in achieving their green ambitions, and as part of that we are proud to be #1 for Green, Social and Sustainable Bonds.

In the UK, we continue to make strong progress in our event business where we have executed over 20 ECM deals in 2020, our highest one year total in over a decade, raising over £10bn for UK corporates. We acted as Global Coordinator on many of these transactions including leading the first major UK IPO of 2020 and also the first Covid-19 related primary placing. HSBC is also the fastest growing FTSE 350 Corporate Broking franchise in the market and continues to invest in order to deliver excellent service to our clients and grow the business going forwards.
Key performance indicators calculated by Greenwich are used to assess a variety of conduct areas. The measure is calculated by the percentage of promoters who are giving a rating of 9 & 10 less the detractors (0 to 6) and is benchmarked against the competition. In 2020, for the metric 'HSBC treats me fairly', our European business received a score of 75, 6 points ahead of our competitors and for 'Staff conduct themselves with professional integrity', we scored 80, 1 point ahead of competitors.

Economic background and outlook

UK

Challenging times

The UK economy has faced a challenging few months. Surging Covid-19 infections saw a 4-week national lockdown implemented in November 2020, then another stricter lockdown in January 2021, which could continue through Q1. Restrictions have included the closure of non-essential retail, restaurants and, more recently, schools. While GDP held up well in the fourth quarter of 2020, rising by 1.0% quarter on quarter, HSBC research expects output to decline in the first quarter of 2021. The labour market remains depressed, with the unemployment rate rising to 5.0% in the three months to November, up from 3.8% before the crisis.

In addition, on 31 December 2020, the UK's post-Brexit transition period came to an end. The UK has signed a trade deal with the EU including tariff-free goods trade. But a range of non-tariff barriers to goods trade – including customs formalities – are now in place. And limited arrangements are in place to facilitate services trade. Early signs suggest that the move to new trading arrangements has entailed a degree of economic disruption.

Looking ahead, the prospect of a vaccine rollout should allow Covid-19-related restrictions to ease, while further adjustment on the part of businesses to new trading arrangements with the EU should see the economy stage a gradual recovery over the course of this year and next. However, ongoing headwinds, including elevated debt levels, corporate insolvencies and unemployment mean that, after an initial bounce, the recovery may prove very protracted.

Policy debates ahead

In response to the Covid-19 outbreak, the Bank of England (BoE) cut Bank Rate from 0.75% to 0.1% last year, and announced a total of £460bn worth of asset purchases under its Quantitative Easing (QE) programme. The BoE has also been consulting financial institutions on the feasibility of cutting Bank Rate below zero. While that remains a possibility, HSBC Research forecasts no policy rate changes this year or next.

Fiscal policy support has also been substantial – over the past year it has included a temporary VAT cut, grants to businesses affected by Covid-19 and the Job Retention Scheme which has offered large wage subsidies to enable companies to keep staff on their payroll. UK government net debt has reached almost 100% of GDP and, at some point over the coming year, it is possible that the government will consider measures geared towards unwinding support in order to stabilise the public finances.

Eurozone

The long road to recovery

After a summer which saw a partial recovery from lockdowns in spring, eurozone GDP fell by 0.7% in the fourth quarter of 2020. That was the result of renewed restrictions implemented to contain the spread of Covid-19. Indeed, at the turn of the year, some sectors of the economy, most notably hospitality, were effectively shut down. Overall, the level of output in the fourth quarter was estimated to be 5.1% below its pre-pandemic peak. Unemployment, meanwhile, is fairly elevated at 8.3% in December, versus a March 2020 trough of 7.2%. Inflation remains low – the eurozone annual consumer price inflation rate stood at 0.9% in January.

Prospects for the rollout of a Covid-19 vaccine may eventually bring an end to the need for significant social distancing measures. However, the lingering effects of Covid-19 (joblessness, corporate failures and debt) will likely see activity struggling to return to pre-crisis levels. With the economy set to continue to run below capacity, HSBC Research's view is that underlying inflation should remain muted through this year and next.

Fiscal and monetary support continue

Substantial fiscal support measures continue. For example, many eurozone governments have extended 'short-time' work schemes, which offer generous wage subsidies aimed at keeping people in work. These measures will, however, keep public debt burdens elevated. This year should also see funds start to flow from the €750bn EU Recovery Fund.

Meanwhile, the prospect of subdued inflation is likely to keep monetary policy very loose. The European Central Bank ('ECB') has so far announced €1.85tn of asset purchases under its Pandemic Emergency Purchase Programme. These purchases may have helped support financial markets, helping them absorb the large volume of public debt issuance stemming from the crisis. HSBC Research is not forecasting any ECB policy changes from here, but further loosening measures cannot be ruled out.

Financial summary

Use of non-GAAP financial measures

Our reported results are prepared in accordance with International Financial Reporting Standards ('IFRSs'), as detailed in the Financial Statements starting on page 107. In measuring our performance, the financial measures that we use include those derived from our reported results in order to eliminate factors that distort year-on-year comparisons. These are considered non-GAAP financial measures.

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

Change in reportable segments since year end 2019

Effective from the second quarter in 2020, we simplified our organisation structure by merging Global Private Banking ('GPB') and Retail Banking and Wealth Management ('RBWM') to form Wealth and Personal Banking ('WPB'). We also renamed our Balance Sheet Management function as Markets Treasury to reflect the activities it undertakes more accurately and its relationship to our Treasury function more broadly. This followed realignments within our internal reporting and includes the reallocation of Markets Treasury from Corporate Centre to the global businesses. Comparative data has been re-presented accordingly and reflected in all the business performance commentary.The global business segmental results are presented on an adjusted basis in accordance with IFRS 8 'Operating Segments', as detailed in 'Basis of preparation' in Note 9: Segmental Analysis on page 139. Reconciliation of reported and adjusted performance are presented on pages 15 to 17.

Adjusted performance

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

We use 'significant items' to describe collectively the group of individual adjustments excluded from reported results when arriving at adjusted performance. These items 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 year-on-year performance.

Changes from 1 January 2020

Interest rate benchmark reform – Phase 2

Interest Rate Benchmark Reform Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 issued in August 2020 represents the second phase of the IASB's project on the effects of interest rate benchmark reform, addressing issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of the reform.

Under these amendments, changes made to a financial instrument measured at other than fair value through profit or loss that are economically equivalent and required by interest rate benchmark reform, do not result in the derecognition or a change in the carrying amount of the financial instrument. Instead they require the effective interest rate to be updated to reflect the change in the interest rate benchmark. In addition, hedge accounting will not be discontinued solely because of the replacement of the interest rate benchmark if the hedge meets other hedge accounting criteria.

These amendments apply from 1 January 2021 with early adoption permitted. HSBC Bank plc has adopted the amendments from 1 January 2020 and has made the additional disclosures as required by the amendments.

Summary consolidated income statement for the year ended

	Footnotes	2020 £m	2019 £m
Net interest income		**1,898**	1,483
Net fee income		**1,400**	1,344
Net income from financial instruments measured at fair value		**2,314**	3,882
Gains less losses from financial investments		**95**	38
Net insurance premium income		**1,559**	2,147
Other operating income		**417**	516
Total operating income	1	**7,683**	9,410
Net insurance claims, benefits paid and movement in liabilities to policyholders		**(1,783)**	(3,366)
Net operating income before expected credit losses and other credit impairment charges		**5,900**	6,044
Change in expected credit losses and other credit impairment charges		**(808)**	(124)
Net operating income		**5,092**	5,920
Total operating expenses excluding impairment of goodwill and other intangible assets	1	**(5,903)**	(5,615)
Impairment of goodwill and other intangible assets		**(802)**	(1,167)
Operating Loss		**(1,613)**	(862)
Share of Loss in associates and joint ventures		**(1)**	(10)
Loss before tax		**(1,614)**	(872)
Tax expense		**136**	(119)
Loss for the year		**(1,478)**	(991)
Loss attributable to shareholders of the parent company		**(1,488)**	(1,013)
Profit attributable to non-controlling interests		**10**	22

1 Total operating income and expense include significant items as detailed on pages 15 to 17.

Reported performance

The following commentary reflects the newly formed Wealth and Personal Banking ('WPB') business segment following the simplification of our organisational structure. We also renamed our Balance Sheet Management function as Markets Treasury to reflect the activities it undertakes more accurately and its relationship to our Treasury function more broadly.

Performance in 2020 was heavily impacted by lower interest rates resulting in lower revenue. There was also a deterioration in the future economic outlook resulting in high Expected Credit Losses ('ECL').

Reported loss before tax was £(1,614)m, compared with a loss before tax in 2019 of £(872)m, an increase of £742m. This was mainly due to higher ECL driven by charges related to specific wholesale exposures, and charges related to the impact of Covid-19. Reported revenue was lower, impacted by the effect of interest rate reductions on our deposit franchises, market impacts on the present value of in-force ('PVIF') long-term insurance contracts in insurance manufacturing in WPB, an adverse movement in valuation adjustments in GBM and a decrease in the fair value of preference share holdings in Visa. Revenue also included restructuring and other related costs comprising disposal losses associated with RWA reductions as well as a property-related gain, both of which related to the commitments at our February 2020 business update. This was partly offset by higher revenue in GBM driven by a strong trading performance in our Markets businesses. Operating expenses were lower, mainly driven by lower impairment of goodwill and other intangible assets, partly offset by higher transformation costs.

Net interest income ('NII') increased by £415m or 28% compared to the prior year. NII was lower in WPB, CMB, and GBM compared with 2019, mainly driven by the impact of the lower interest rate environment. This was more than offset by a reduction in the funding cost of trading assets, and through initiatives to reduce the overall funding costs of the bank through retiring more expensive wholesale funding.

Net fee income increased by £56m or 4% compared to the prior year, primarily in Global Banking due to higher transaction volumes in the Capital Markets businesses primarily from market activity, including debt and equity issuances, driven by the impact of Covid-19. This was partly offset by a decrease in WPB, notably Retail Banking and Asset Management, driven by adverse market conditions and lower levels of customer activity reflecting the impact of Covid-19.

Net income from financial instruments measured at fair value decreased by £1,568m or 40% compared with the prior year. In WPB, revenue decreased primarily reflecting less favourable equity market performance in France compared with 2019 due to the impact of the Covid-19 outbreak on the value of equity and unit trust assets supporting insurance contracts. After large losses in the first quarter of 2020, there was a partial recovery in the remainder of the year.
This adverse movement resulted in a corresponding movement in liabilities to policyholders, reflecting the extent to which policyholders participate in the investment performance of the associated assets. The offsetting movements are recorded in net insurance claims and benefits paid and movement in liabilities to policyholders.

Net income also reduced due to lower trading interest income, booked in Corporate Centre, related to the funding of our trading activities, which was offset by lower cost of funding in net interest income above. In addition, there was a decrease in the fair value of preference shareholdings in Visa in WPB and CMB.

Gains less losses from financial investments increased by £57m, mainly driven by higher gains on the disposal of bonds held at fair value through other comprehensive income ('FVOCI') in Markets Treasury.

Net insurance premium income decreased by £588m or 27%, mainly in WPB, driven by lower business volumes in France, partly offset by an increase in the UK, mainly due to higher sales of single premium investment business.

Net insurance claims, benefits paid and movement in liabilities to policyholders decreased by £1,583m or 47%, primarily in the insurance business in WPB. The decrease was driven by lower valuations on financial assets supporting contracts where the policyholder is subject to part or all of the investment risk. The losses recognised on the financial assets measured at fair value through profit and loss that are held to support these insurance contract liabilities are reported in 'Net income from financial instruments designated at fair value'. This was partly offset by a decrease in premium income.

Other operating income decreased by £99m or 19%, mainly due to adverse market impacts on insurance manufacturing in WPB. This was driven by the impact of lower interest rates on the valuations of the liabilities under insurance contracts.

Changes in expected credit losses and other impairment charges ('ECL') increased by £684m, mainly driven by higher charges related to a small number of wholesale exposures, notably in GBM and CMB, and higher charges related to the ongoing impact of of the Covid-19 outbreak on the forward economic outlook.

Total operating expenses excluding impairment of goodwill and other intangible assets increased by £288m or 5%. This increase reflects a number of significant items during the period:

- an increase of £324m in expenses related to restructuring and other related costs arising from the group's transformation programme; partly offset by
- the non-recurrence of costs of £87m associated with the group's preparation for the UK's exit from the Europe Union booked in 2019.

Impairment of goodwill and other intangible assets in 2020 of £802m principally comprises the write-off of capitalised software. This mainly relates to our businesses in the UK and France and reflected the underperformance and deterioration in the future forecasts of these businesses, substantially relating to prior periods.

In 2019, operating expenses included a £1,167m goodwill impairment as a result of reductions in forecast future cash flows, which reflected the challenging market conditions and negative interest rates in the Eurozone as well as refinements and revisions of the methodologies employed to allocate carrying value in use.

Share of (loss)/profit in associates and joint ventures was a loss of £(1)m compared to a loss of £(10)m in 2019. This was driven by a partial reversal of the loss booked in the first half of the year on the share of profit recognised from our associates.

Tax credit was £136m compared to a tax expense of £119m in 2019.

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Adjusted performance

Significant revenue items by business segment – (gains)/losses for the year ended

	WPB	CMB	GBM	Corporate Centre	Total
	£m	£m	£m	£m	£m
31 Dec 2020					
Reported revenue	**1,035**	**1,132**	**3,784**	**(51)**	**5,900**
Significant revenue items	**—**	**1**	**189**	**(93)**	**97**
– debit valuation adjustment on derivative contracts	**—**	**—**	**2**	**—**	**2**
– fair value movement on non-qualifying hedges	**—**	**1**	**2**	**(2)**	**1**
– restructuring and other related costs	**—**	**—**	**185**	**(91)**	**94**
Adjusted revenue	**1,035**	**1,133**	**3,973**	**(144)**	**5,997**
31 Dec 2019[1]					
Reported revenue	1,356	1,211	3,743	(266)	6,044
Significant revenue items	1	1	30	(7)	25
– UK customer redress programmes	1	—	—	—	1
– debit valuation adjustment on derivative contracts	—	—	27	—	27
– fair value movement on non-qualifying hedges	—	1	3	(7)	(3)
Adjusted revenue	1,357	1,212	3,773	(273)	6,069

1 *A change in reportable segments was made in 2020. Comparative data have been re-presented accordingly. For further guidance, refer to Note 9 on page 139.*

Significant cost items by business segment – (recoveries)/charges for the year ended

	WPB	CMB	GBM	Corporate Centre	Total
	£m	£m	£m	£m	£m
31 Dec 2020					
Reported operating expenses	**(1,169)**	**(773)**	**(4,179)**	**(584)**	**(6,705)**
Significant cost items	**41**	**114**	**680**	**498**	**1,333**
– restructuring and other related costs[2]	**5**	**79**	**218**	**377**	**679**
– settlements and provisions in connection with legal and regulatory matters	**—**	**—**	**1**	**8**	**9**
– impairment of other intangible assets	**36**	**35**	**461**	**113**	**645**
Adjusted operating expenses	**(1,128)**	**(659)**	**(3,499)**	**(86)**	**(5,372)**
31 Dec 2019[3]					
Reported operating expenses	(1,729)	(1,175)	(3,678)	(200)	(6,782)
Significant cost items	652	529	147	122	1,450
– costs of structural reform[1]	—	3	29	55	87
– restructuring and other related costs	20	6	117	61	204
– settlements and provisions in connection with legal and regulatory matters	—	—	1	6	7
– impairment of goodwill	632	520	—	—	1,152
Adjusted operating expenses	(1,077)	(646)	(3,531)	(78)	(5,332)

1 *Costs of structural reform includes costs associated with the UK's exit from the EU.*
2 *Includes the write down of software £148m.*
3 *A change in reportable segments was made in 2020. Comparative data have been re-presented accordingly. For further guidance, refer to Note 9 on page 139.*

Net impact on profit before tax by business segment

	WPB	CMB	GBM	Corporate Centre	Total
	£m	£m	£m	£m	£m
31 Dec 2020					
Reported loss before tax	**(173)**	**37**	**(846)**	**(632)**	**(1,614)**
Net impact on reported profit and loss	**41**	**115**	**869**	**405**	**1,430**
– Significant revenue items	**—**	**1**	**189**	**(93)**	**97**
– Significant cost items	**41**	**114**	**680**	**498**	**1,333**
Adjusted profit/(loss) before tax	**(132)**	**152**	**23**	**(227)**	**(184)**
31 Dec 2019[1]					
Reported profit/(loss) before tax	(376)	(73)	24	(447)	(872)
Net impact on reported profit and loss	653	530	177	115	1,475
– Significant revenue items	1	1	30	(7)	25
– Significant cost items	652	529	147	122	1,450
Adjusted profit/(loss) before tax	277	457	201	(332)	603

1 *A change in reportable segments was made in 2020. Comparative data have been re-presented accordingly. For further guidance, refer to Note 9 on page 139.*

Adjusted performance

The following commentary reflects the newly formed WPB business segment following the simplification our our organisational structure. We also renamed our Balance Sheet Management function as Markets Treasury to reflect the activities it undertakes more accurately and its relationship to our Treasury function more broadly.

Adjusted loss before tax of £(184)m compared to a profit before tax of £603m, down by £787m when compared with 2019. This was mainly driven by higher ECL and lower adjusted revenue. ECL was higher due to charges related to the ongoing global impact of Covid-19 outbreak on the forward economic outlook and on our customers. Adjusted revenue decreased primarily from the impact of the lower interest rate environment and the impact of volatile items including market impacts on insurance manufacturing in WPB and an adverse movement in valuation adjustments in GBM. Adjusted operating expenses were higher reflecting a number of specific items incurred in 2020. This was partly offset by a significant reduction in operating expenses as a result of the tight control of discretionary spend to reflect the economic outlook and the initial impact of our transformation of the bank.

Adjusted revenue decreased by £72m or 1%, primarily in WPB and CMB, partly offset by an increase in GBM and Corporate Centre.

The decrease in adjusted revenue reflected the impact of the lower interest rate environment on our businesses, particularly in Global Liquidity and Cash Management ('GLCM') within GBM and CMB, although deposit balances grew compared to 2019. In WPB, the lower interest rate environment resulted in adverse market impacts on insurance manufacturing. In addition, Insurance Manufacturing revenue was lower due to adverse market impacts following a sharp fall in equity markets in the first quarter, although this substantially reversed over the remainder of the year as equity markets recovered. In GBM, adjusted revenue included the impact of adverse credit and funding valuations, notably in the first quarter, which were partly reversed in the subsequent quarters, and a reduction in revenue in Principal Investments ('PI') including the non-recurrence of a 2019 valuation gain.

These reductions were partly offset by higher revenue in Global Markets, notably in the Foreign Exchange and Credit businesses, from market volatility. Revenue also increased in Corporate Centre, primarily due to the reallocation of certain internal liquidity charges to the global businesses in the 2020.

Adjusted ECL were £684m higher compared with 2019, mainly reflecting charges relating to a small number of wholesale exposures (in both CMB and GBM. There was also an increase in stage 1 and stage 2 charges, notably in the first half of the year, reflecting the deterioration in the forward economic outlook impacted by the Covid-19 outbreak. The economic outlook stabilised in the second half of the year in 2020, and as a result, stage 1 and stage 2 provisions were broadly unchanged compared with the first half of the year.

Adjusted operating expenses increased by £40m or 1% reflecting a number of specific items incurred in 2020 including the impairment of real estate assets in France, legal provisions and settlements and the impact of reduced capitalisation of IT spend following the write-off of intangible assets in June 2020. The Single Resolution Fund ('SRF') contribution in France was also higher compared with 2019.

In line with our transformation plans and to reflect the economic outlook, we reviewed and re-prioritised spend. This resulted in a reduction in FTE, tight control of contractor and consultancy spend as well as lower discretionary spend.

Share of (loss)/profit in associates and joint ventures was a loss of £1m compared to a loss of £10m in 2019, reflecting a partial reversal of the loss booked in the first half of year on the share of profit recognised from our associates.

Global Banking and Markets

Adjusted profit before tax was £23m, a decrease of £178m compared with 2019. This was largely driven by higher ECL, partly offset by higher revenue and lower operating expenses.

Revenue increased by £200m or 5%, mainly in Global Markets driven by a strong Foreign Exchange and Fixed Income ('FICC') performance, notably in Credit and Foreign Exchange, driven by increased market volatility.

This was partly offset by lower revenue in Equities, mainly driven by the non-repeat of a legal provision release in 2019. Excluding this, revenue was higher driven by a stronger performance in the second half of the year from equity derivatives as equity markets recovered and volatility increased. Markets also received a higher allocation of the bank's funding costs compared with 2019 to better reflect internal funding used to finance activities in the business.

GLCM revenue also decreased driven by margin compression following reductions in interest rates, although this was partly offset by growth in average balances. Revenue was also lower in Principal Investments ('PI') including the non-repeat of a 2019 gain.

ECL increased by £410m due to higher charges against a small number of clients in Global Banking within the oil and gas as well as real estate sectors. In addition, there were higher charges related to the impact of Covid-19 on the forward economic outlook.

Operating expenses decreased by £32m or 1% compared with 2019, mainly due to lower performance-related pay and lower market transaction costs. This was partly offset by an increase in SRF levy in France and the transfer of the levy from Corporate Centre in Germany.

Commercial Banking

Adjusted profit before tax was £152m, down by £305m compared with 2019. This was mainly driven by higher ECL and lower revenue largely due to the impact of lower interest rates.

Revenue decreased by £79m or 7% compared with 2019. This was primarily due to lower revenue in GLCM driven by the lower interest rate environment, partly offset by growth in average deposit balances. Revenue also decreased due to adverse fair value movements in preference share holdings in Visa in the UK.

ECL increased by £213m compared with 2019, mainly driven by higher charges against specific customers, notably in the travel, retail and automobile sectors. In addition, there were higher charges related to the global impact of Covid-19 on the forward economic outlook and on our customers.

Operating expenses increased by £13m, mainly reflecting an impairment of real estate assets in France and higher compliance costs and SRF levy in France and Germany.

Wealth and Personal Banking ('WPB')

Adjusted loss before tax of £132m compared with a profit before tax of £277m in 2019, down by £409m. This was primarily due to lower revenue, higher operating expenses and higher ECL.

Revenue decreased by £322m or 24%, mainly in insurance manufacturing in France largely driven by adverse market impacts due to the lower interest rate environment, and lower new business volumes. Revenue also decreased in our Asset Management Group ('AMG') and Retail Banking businesses due to adverse market conditions, lower levels of customer activity and lower Assets Under Management ('AUM') reflecting the impact of Covid-19. In the UK, revenue was also lower, mainly due to a decrease in the fair value of our preference share holdings in Visa. In the Channel Islands and Isle of Man, there was a decrease in revenue from deposits due to the low interest rate environment despite growth in average balances.

ECL were £36m higher compared with 2019, mainly driven by higher charges relating to the global impact of Covid-19 on the forward economic outlook.

Operating expenses increased by £51m or 5%. This was primarily driven by an impairment of real estate assets in France, partly offset by lower discretionary spend, notably marketing costs as well as lower staff and consultancy costs.

Corporate Centre

Adjusted loss before tax of £227m was £104m lower than the loss before tax of £332m in 2019. This was mainly driven by higher revenue, partly offset by lower releases of ECL and higher operating expenses.

Revenue was higher by £129m, primarily driven by the reallocation of certain internal liquidity charges to the global businesses in 2020. Revenue also increased in Legacy Credit driven by lower losses on portfolio disposals compared with 2019.

ECL net releases of £4m in 2020 compared with net releases of £29m in 2019. This reflected provision releases following Legacy Credit portfolio disposals in both years, with a higher level of portfolio disposals in 2019.

Operating expenses increased by £8m or 10%, mainly driven by an impairment of real estate assets in France, partly offset by the transfer of the SRF levy in Germany to the global businesses in 2020.

Shares of (loss)/profit in associates and joint ventures was a loss of £1m compared to a loss of £10m in 2019. This reflected a partial reversal of provision booked in the first have of the year on the share of profit recognised from our associates.

Dividends

The consolidated reported loss for the year attributable to the shareholders of the bank was £(1,488)m.

No dividend in respect of 2020 was declared on the ordinary share capital during the year.

Further information about the results is given in the consolidated income statement on page 108.

Review of business position

Summary consolidated balance sheet at 31 Dec

	2020 £m	2019 £m
Total assets	**681,150**	636,491
– cash and balances at central banks	**85,092**	51,816
– trading assets	**86,976**	98,249
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**16,220**	17,012
– derivatives	**201,210**	164,538
– loans and advances to banks	**12,646**	11,467
– loans and advances to customers	**101,491**	108,391
– reverse repurchase agreements – non-trading	**67,577**	85,756
– financial investments	**51,826**	46,464
– other assets	**58,112**	52,798
Total liabilities	**657,301**	612,479
– deposits by banks	**34,305**	23,991
– customer accounts	**195,184**	177,236
– repurchase agreements – non-trading	**34,903**	49,385
– trading liabilities	**44,229**	48,026
– financial liabilities designated at fair value	**40,792**	41,642
– derivatives	**199,232**	161,083
– debt securities in issue	**17,371**	25,039
– liabilities under insurance contracts	**22,816**	21,509
– other liabilities	**68,469**	64,568
Total equity	**23,849**	24,012
Total shareholders' equity	**23,666**	23,503
Non-controlling interests	**183**	509

There are no reconciling items between the adjusted and reported view of the balance sheet for 2020 and 2019.

The group maintained a strong and liquid balance sheet with the ratio of customer advances to customer accounts of 52.0% compared with 61.2% as at 31 December 2019. The increase in customer accounts had impact on higher level of cash and balances at central bank as compared to 2019. Derivative assets increased by 22.3%, primarily from mark-to-market gains. The increase in derivative assets was broadly consistent with the increase in derivative liabilities as the underlying risk is broadly matched.

The equity balance decreased by 0.7% as a result of losses during the period, largely offset by capital injection received during the year. Debt securities in issue decreased by 30.6% in line with the funding strategy. Additionally repurchase and reverse repurchase agreements (non-trading) decreased by 29.3% and 21.2%, respectively, as a result of market activities.

Net interest margin

Net interest margin is calculated by dividing net interest income as reported in the income statement by the average balance of interest-earning assets. Average balances are based on daily averages of the group's activities.

Net interest income

	2020	2019
	£m	£m
Interest income	4,086	5,504
Interest expense	(2,188)	(4,021)
Net interest income	**1,898**	**1,483**
Average interest-earning assets	369,617	343,944
	%	%
Gross interest yield[1]	0.74	1.25
Less: gross interest payable[1]	(0.27)	(0.93)
Net interest spread[2]	0.47	0.32
Net interest margin[3]	0.51	0.43

1 *Gross interest yield is the average annualised interest rate earned on average interest-earning assets ('AIEA'). Gross interest payable is the average annualised interest cost as a percentage of average interest-bearing liabilities.*
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 liabilities.*
3 *Net interest margin is net interest income expressed as an annualised percentage of AIEA.*

Summary of interest income by asset type

	2020			2019		
	Average balance	Interest income	Yield[1]	Average balance	Interest income	Yield[1]
	£m	£m	%	£m	£m	%
Short term funds and loans and advances to banks	90,841	(113)	(0.12)	66,056	108	0.16
Loans and advances to customers	116,518	2,058	1.77	117,665	2,492	2.12
Reverse repurchase agreements – non-trading	68,573	22	0.03	77,140	478	0.62
Financial investments	51,335	652	1.27	50,194	935	1.86
Other interest-earning assets	42,350	118	0.28	32,889	287	0.87
Total interest-earning assets	**369,617**	**2,737**	**0.74**	**343,944**	**4,300**	**1.25**
Trading assets and financial assets designated or mandatorily measured at fair value[2]	66,061	1,000	1.51	73,862	1,974	2.67
Expected credit losses provision	(1,347)	–	–	(1,192)	–	–
Non-interest-earning assets	306,223	–	–	266,527	–	–
Total assets	**740,554**	**3,737**	**0.50**	**683,141**	**6,274**	**0.92**

1 *Interest yield calculations include negative interest on assets recognised as interest expense in the income statement.*
2 *Interest income arising from trading assets is included within 'Net trading income' in the income statement.*

Summary of interest expense by type of liability and equity

	2020			2019		
	Average balance	Interest expense	Cost[1]	Average balance	Interest expense	Cost[1]
	£m	£m	%	£m	£m	%
Deposits by banks	28,812	(60)	(0.21)	23,298	146	0.63
Financial liabilities designated at fair value – own debt issued	16,279	107	0.66	16,409	201	1.22
Customer accounts	143,807	321	0.22	136,544	1,028	0.75
Repurchase agreements – non-trading	38,829	(129)	(0.33)	49,801	337	0.68
Debt securities in issue and subordinated debts	36,502	439	1.20	37,944	683	1.80
Other interest-bearing liabilities	47,384	160	0.34	38,559	422	1.09
Total interest-bearing liabilities	**311,613**	**838**	**0.27**	**302,555**	**2,817**	**0.93**
Trading liabilities and financial liabilities designated at fair value (excluding own debt issued)[2]	65,356	1,252	1.92	71,549	1,705	2.38
Non-interest-bearing current accounts	55,990	–	–	50,208	–	–
Total equity and other non-interest bearing liabilities	307,595	–	–	258,829	–	–
Total equity and liabilities	**740,554**	**2,090**	**0.28**	**683,141**	**4,522**	**0.66**

1 *Interest payable calculations include negative interest on liabilities recognised as interest income in the income statement.*
2 *Interest expense arising from trading liabilities is included within 'Net trading income' in the income statement.*

Risk overview

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

Our banking risks include credit risk, treasury risk, market risk, resilience risk, regulatory compliance risk, financial crime and fraud risk and model risk. We also incur insurance risk. In addition to these banking risks, we have identified top and emerging risks with the potential to have a material impact on our financial results, or reputation and the sustainability of our long-term business model.

The exposure to our risks and risk management of these are explained in more detail in the Risk section of the Report of the Directors on pages 22 to 86.

During 2020, a number of changes to our top and emerging risks have been made, to reflect the revised assessment of their effect on the group.

A new risk in respect of the Covid-19 outbreak was added in 2020.

Risk		Mitigants
Externally driven		
Covid-19	●	Since the Covid-19 outbreak, we have worked with regulators, governments and our customers to implement measures to mitigate the financial, operational and other impacts of the outbreak on our clients, our businesses and the economies in which we operate. We have successfully invoked business continuity plans to effectively manage our operations under the constraints imposed by governments in response to the outbreak.
UK exit from EU	▲	The UK left the EU on 31 January 2020 and entered a transition period until 31 December 2020. During the transition period, the UK continued to be bound by EU laws and regulations. A Trade and Cooperation Agreement between the EU and the UK was agreed on 24 December 2020 and ratified on 30 December 2020. However, the Agreement included limited elements on financial services, and, as a result, did not change the group's UK withdrawal from EU planning. We will continue to work with regulators, governments and our customers to manage any risks created by the Trade and Cooperation Agreement,or from future regulatory cooperation proposals on financial services between the UK and the EU, as they arise, particularly across those industry sectors most impacted.
Geopolitical risk	▲	We monitor developments in geopolitical risk and assess what impacts this may have on our portfolios. Further negotiations between the UK and the EU are expected in a number of areas not covered by the Trade and Cooperation Agreement and we continue to follow developments closely. Covid-19 has resulted in an unprecedented global economic slowdown with a significant increase in credit stress across our portfolios. We have increased the frequency and depth of our monitoring activities with Covid-19 vulnerability assessments performed as part of the customer reviews. Stress tests and other sectorial reviews were performed in 2020 to identify portfolios or customers who were experiencing or were likely to experience financial difficulty as a result of Covid-19. We have also increased resources to help address the increased level of credit defaults in the current environment.
Cyber threat and unauthorised access to systems	▶	We help protect the group and our customers by continuing to strengthen our cyber defences, helping enable the safe execution of our business priorities and the security of our customers' information. Our data-driven approach, grounded in strong controls that mitigate advanced cyber threats, enhances our capability in threat detection, access controls and resiliency.
Regulatory focus on conduct of business	▲	We monitor regulatory developments closely and engage with regulators, as appropriate, to help ensure that new regulatory requirements are implemented effectively and in a timely way. In addition to developments driven by the Covid-19 outbreak, we are keeping abreast of the emerging regulatory agenda, which is increasingly focused on diversity, sustainable development, climate change, operational resilience and digital services and innovation.
Financial Crime and Fraud risk	▶	We continued to support our customers and business throughout the Covid-19 outbreak, while ensuring that our controls remained effective to manage financial crime risk. We progressed with our plans to improve our fraud controls and we continue to invest in both advanced analytics and artificial intelligence, which remain key components of our next generation of tools to fight financial crime.
Market illiquidity and volatility	▲	The Covid-19 outbreak has created significant volatility in global markets. Against this background we continue to monitor risks closely and report regularly on illiquidity and concentration risks to the PRA.
Ibor transition	▲	We are part of the Group's Interbank Offered Rates ('Ibor') transition programme and remain focused on providing alternative near risk-free rate products, and making them available to our customers, along with updating the supporting processes and systems. We engage with industry participants and regulatory working groups to aid an orderly transition within the required timelines. In light of delays in market and client readiness caused by the Covid-19 outbreak, we are engaging and prioritising clients for transition of their outstanding contracts linked to Ibors that already have a confirmed demise.
Climate Related Risks	▶	We continue to improve how we identify, oversee and manage climate-related risk, both physical and transition. Our risk management priorities are focusing on: assessing the physical and transition risk in our wholesale credit portfolio; reviewing retail mortgage exposures in respect of natural hazard risk; and developing scenarios internally for risk management, planning and stress testing. We continue to engage with our stakeholders, in particular with regard to how we compile related data and disclosures.
Internally driven		
People risk	▲	We continue to monitor workforce capacity and capability requirements in line with our strategy and any emerging issues in the markets in which we operate. We have also put in place measures to ensure that our people are properly supported and able to work safely during the Covid-19 outbreak. We are monitoring people risks that may arise due to business transformation to help ensure that we sensitively manage any redundancies and support impacted employees.
IT systems infrastructure and resilience	▶	We actively monitor and improve service resilience across our technology infrastructure to minimise service disruption to our customers, and enhance our service management disciplines and change execution capabilities. We continued to adapt our IT systems during 2020 to support our customers and operations during the Covid-19 outbreak. We are also seeking to reduce the complexity of our technology estate and this includes consolidation of our core banking systems onto a single strategic platform.

Risk		Mitigants
Internally driven		
Execution risk	▲	We continue to strengthen our prioritisation and governance processes for significant strategic, regulatory and compliance projects. With business continuity plans in place across the markets in which we operate and significant remote working in place, the impact of Covid-19 on the bank's major change programmes continues to be closely monitored.
Model risk	▲	We continue to strengthen oversight of models and the second line of defence Model Risk Management function. We are embedding a new model risk policy, which includes updated controls around use and monitoring of models. We have developed new model risk appetite measures, which will be implemented in the first quarter of 2021. Potential revisions to capital models are underway to reflect the extreme economic shocks and various government support measures resulting from the Covid-19 outbreak.
Data management	▶	We continue to enhance and advance our insights, data aggregation, reporting and decisions through ongoing improvement and investments (including machine learning and artificial intelligence capabilities). Our work to modernise our data infrastructure also continues, building on the Cloud to increase flexibility and scalability and improve our fit for purpose data while also respecting the evolving regulatory landscape regarding the localisation of data. This is a crucial component of effectively managing our risk.
Third Party Risk Management	▶	We continue to enhance our third-party risk management programme to help ensure compliance with our third party risk policy and required standards. We work closely with our third parties to monitor performance and, as a result of the Covid-19 outbreak, their financial stability. In 2021, we will continue to strengthen our third-party risk framework and improve our technology, process and people capabilities.

▲ Risk has heightened during 2020
▶ Risk remains at the same level as 2019
● New risk introduced in 2020

On behalf of the Board
J Fleurant, Director
22 February 2021
Registered number 14259

Risk

Our approach to risk

Our risk appetite

We recognise the importance of a strong culture, which refers to our shared attitudes, values and standards that shape behaviours related to risk awareness, risk taking and risk management. All our people are responsible for the management of risk, with the ultimate accountability residing with the Board.

We seek to build our business for the long term by balancing social, environmental and economic considerations in the decisions we make. Our strategic priorities are underpinned by our endeavour to operate in a sustainable way. This helps us to carry out our social responsibility and manage the risk profile of the business. We are committed to managing and mitigating climate-related risks, both physical and transition, and continue to incorporate consideration of these into how we manage and oversee risks internally and with our customers.

The following principles guide the group's overarching appetite for risk and determine how our businesses and risks are managed.

Financial position

- Strong capital position, defined by regulatory and internal ratios.
- Liquidity and funding management for each entity on a stand-alone basis.

Operating model

- Ambition to generate returns in line with our risk appetite and strong risk management capability.
- Ambition to deliver sustainable earnings and appropriate returns for shareholders.

Business practice

- Zero tolerance for knowingly engaging in any business, activity or association where foreseeable reputational risk or damage has not been considered and/or mitigated.
- No appetite for deliberately or knowingly causing detriment to consumers arising from our products and services or incurring a breach of the letter or spirit of regulatory requirements.
- No appetite for inappropriate market conduct by a member of staff or by any group business.

Enterprise-wide application

Our risk appetite encapsulates consideration of financial and non-financial risks and is expressed in both quantitative and qualitative terms. It is applied at the global business level, at the country level and to material European entities.

Our risk management framework

An established risk governance framework and ownership structure ensures oversight of, and accountability for, the effective management of risk within the group. HSBC's Risk Management Framework ('RMF') fosters the continuous monitoring of the risk environment and an integrated evaluation of risks and their interactions. Integral to the RMF are risk appetite, stress testing and the identification of emerging risks.

The bank's Risk Committee focuses on risk governance and provides a forward-looking view of risks and their mitigation. The Risk Committee is a committee of the Board and has responsibility for oversight and advice to the Board on, amongst other things, the bank's risk appetite, tolerance and strategy, systems of risk management, internal control and compliance. Additionally, members of the Risk Committee attend meetings of the Chairman's Nominations and Remuneration Committee at which the alignment of the reward structures to risk appetite is considered.

In carrying out its responsibilities, the Risk Committee is closely supported by the Chief Risk Officer, the Chief Financial Officer, the Head of Internal Audit and the Head of Compliance, together with other business functions on risks within their respective areas of responsibility.

Responsibility for managing both financial and non-financial risk lies with our people. They are required to manage the risks of the business and operational activities for which they are responsible. We maintain oversight of our risks through our various specialist Risk Stewards, as well as the accountability held by the Chief Risk Officer.

Non-financial risk includes some of the most material risks HSBC faces, such as cyber attacks, poor customer outcomes and loss of data. Actively managing non-financial risk is crucial to serving our customers effectively and having a positive impact on society. During 2020 we continued to strengthen the control environment and our approach to the management of non-financial risk, as is broadly set out in our risk management framework. The management of non-financial risk focuses on governance and risk appetite, providing a single view of the non-financial risks that matter most, and associated controls. It incorporates a risk management system designed to enable the active management of non-financial risk. Our ongoing focus is on simplifying our approach to non-financial risk management, while driving more effective oversight and better end-to-end identification and management of risks. This is overseen by the Operational and Resilience Risk function, headed by the Group Head of Operational and Resilience Risk.

Three lines of defence

To create a robust control environment to manage risks, we use an activity-based three lines of defence model, whereby the activity a member of staff undertakes drives which line they reside within. This model delineates management accountabilities and responsibilities for risk management and the control environment.

The model underpins our approach to risk management by clarifying responsibility, encouraging collaboration and enabling efficient coordination of risk and control activities. The three lines are summarised below:

- The first line of defence owns the risks and is responsible for identifying, recording, reporting and managing them, and ensuring that the right controls and assessments are in place to mitigate them.
- The second line of defence challenges the first line of defence on effective risk management, and provides advice and guidance in relation to the risk.

- The third line of defence is our Internal Audit function, which provides independent assurance that the group's risk management approach and processes are designed and operating effectively.

Risk appetite

We formally articulate our risk appetite through our risk appetite statement ('RAS'), which is approved by the Board on the recommendation of the Risk Committee. Setting out our risk appetite ensures that planned business activities provide an appropriate balance of return for the risk we are taking, and that we agree a suitable level of risk for our strategy. In this way, risk appetite informs our financial planning process and helps senior management to allocate capital to business activities, services and products.

The RAS consists of qualitative statements and quantitative metrics, covering financial and non-financial risks. It is fundamental to the development of business line strategies, strategic and business planning and senior management balanced scorecards. Performance against the RAS is reported to the Risk Management Meeting ('RMM') so that any actual performance that falls outside the approved risk appetite is discussed and appropriate mitigating actions are determined. This reporting allows risks to be promptly identified and mitigated, and informs risk-adjusted remuneration to drive a strong risk culture.

Risk management

As a provider of banking and financial services, the group actively manages risk as a core part of its day-to-day activities. It continues to maintain a strong liquidity position and is well positioned for the evolving regulatory landscape.

Stress testing

Stress testing is an important tool that is used by banks, as part of their internal risk management, and regulators to assess vulnerabilities in individual banks and/or the financial banking sector under hypothetical adverse scenarios. The results of stress testing are used to assess banks' resilience to a range of adverse shocks and to assess their capital adequacy.

HSBC Bank plc is subject to regulatory stress testing in several jurisdictions. These requirements are increasing in frequency and granularity. They include the programmes of the Bank of England ('BoE'), Prudential Regulation Authority ('PRA') and the European Banking Authority ('EBA'). Assessment by regulators is on both a quantitative and qualitative basis, the latter focusing on our portfolio quality, data provision, stress testing capability and capital planning processes.

A number of internal macroeconomic and event-driven scenarios specific to the European region were considered and reported to senior management during the course of the year. The selection of stress scenarios is based upon the output of our top and emerging risks identified and our risk appetite. The results help the Board and senior management to set our risk appetite and confirm the strength of our strategic and financial plans. Our risk appetite is set at a level that enables the group to withstand future stress impacts.

The macroeconomic internal stress test, conducted throughout 2020, considered combinations of various potential impacts as identified in our top and emerging risks, in particular the ramifications of various potential scenarios relating to the UK's exit from the EU, Covid-19, geopolitical tensions and trade wars, and operational risk.

The group also conducts Reverse Stress Testing. This exercise requires a firm to assess scenarios and circumstances that would render its business model unviable, thereby identifying potential business vulnerabilities. Examples include extreme macroeconomic downturn scenarios, or specific idiosyncratic events, covering operational risk.

In 2020, the BoE cancelled the annual BoE concurrent stress testing exercise due to the Covid-19 outbreak.

Key developments and risk profile

Key developments in 2020

We have actively managed the risks resulting from the Covid-19 outbreak and its impacts on our customers and operations during 2020, as well as other key risks described in this section.

In addition, we enhanced our risk management in the following areas:

- In January 2020, we simplified our approach and articulation of risk management through the combination of our enterprise risk management framework and our operational risk management framework.
- A new model risk policy is being progressively implemented to improve how we manage model risk and meet enhanced external expectations.
- We continued to focus on simplifying our approach to non-financial risk management. We are driving more effective oversight and better end-to-end identification and management of non-financial risks.
- We established the Treasury Risk Management function. This function is a dedicated second line of defence, providing independent oversight of treasury activities across capital risk, liquidity and funding risk, structural foreign exchange risk, interest rate in the banking book together with pension risk.
- We continue to support the business and our customers throughout the global pandemic, while continuing to manage financial crime risk. We continued to invest in both advanced analytics and artificial intelligence, which remain key components of our next generation of tools to fight financial crime.
- We formed a new Operational and Resilience Risk combined sub-function. The sub-function provides robust first line of defence oversight and risk steward oversight, supported by clear plans and evidenced by effective and timely independent challenge. The sub-function helps to ensure that the first line of defence are focused firmly on priority tasks. By bringing the two teams together, we expect to benefit from improved stewardship, better risk management capabilities and better outcomes for our customers.

Top and emerging risks

Top and emerging risks are those that may impact on the financial results, reputation or business model of the bank. If these risks were to occur, they could have a material effect on the group. The exposure to these risks and our risk management approach are explained in more detail below.

Externally driven

Covid-19

The Covid-19 outbreak continues to dominate the political and economic landscape, as it did throughout much of 2020. The twin shocks of a public health emergency and the resultant economic fallout have been felt around the world, and hit both advanced and emerging markets. The closure of borders threatened medical and food supplies for many markets, and there is the potential for countries and territories to focus efforts on building resilient supply chains closer to home to be less vulnerable to global shocks.

Further waves of infections emerged in the fourth quarter of 2020 with a new variant also identified in the UK and national level lockdown measures are now in place to varying degrees in countries across Europe including the UK, France, Germany and Ireland. The development of Covid-19 vaccines has raised hopes of widespread immunisations being achieved by the end of 2021 and government measures being eased. However tensions could increase as countries compete for the array of vaccines either under development, approved or pending approval, while the potential differences in protection offered by vaccines and the speed and scale with which they can be manufactured may impact the speed of economic recovery.

Mitigating actions

- We have successfully invoked business continuity plans to effectively manage our operations under the constraints posed by governments of the countries in which we operate in response to the outbreak.
- We have increased the frequency and depth of monitoring activities, and performed stress tests and other sectoral reviews to identify portfolios or customers who were experiencing, or were likely to experience, financial difficulty as a result of the Covid-19 outbreak.

Process of UK withdrawal from the European Union

The UK left the EU on 31 January 2020 and entered a transition period until 31 December 2020. A Trade and Cooperation Agreement between the EU and the UK was agreed on 24 December 2020 and ratified on 30 December 2020. With respect to Financial Services, it includes a joint declaration of cooperation and both parties are expected in the coming months to enter discussions with the aim of agreeing a Memorandum of Understanding establishing the framework for this cooperation. As expected, the passport arrangement expired at the end of the transition period, and therefore all Financial Institutions in the UK, including HSBC Bank plc, have lost their existing EU regulatory permissions to continue servicing clients in the European Economic Area ('EEA') from 1 January 2021:

- Clients: the UK's departure from the EU is likely to impact our clients operating models, including their supply chains, working capital requirements, investment decisions and financial markets infrastructure access. Some EEA incorporated clients will be required to be migrated from the UK to HSBC Continental Europe (or another EEA entity) and most customers who we expect can no longer be serviced out of the UK have now been migrated.
- People: we have identified and established the required roles to support our new business model across the group following the UK's exit from the EU. Our priority is to ensure that we continue to support our clients and people under the new Trade and Cooperation Agreement, and help minimise any disruption.

Mitigating actions

- We continue to track and close the remaining actions including client migrations, resolution of any potential product restrictions for our customers.
- We are undertaking a comprehensive impact assessment of the Trade and Cooperation Agreement to understand the range of potential implications for our customers, our products and our business.
- We actively monitor our portfolio to identify areas of stress, supported by stress testing analyses. Vulnerable sectors or asset classes, third party dependencies are subject to additional management review to determine if any adjustments to risk policy or appetite are required.
- We will actively participate in external discussions in relation to the development of an appropriate Equivalence framework.
- We continue to stay very close to our clients, via proactive communications and dedicated channels to respond to customer queries, and will monitor for any operational and/or other impacts as a consequence of the Trade and Cooperation Agreement, in particular Trade clients due to the increased documentation requirement to comply with import/export licence procedures as well as rules of origin.
- We are supporting our UK employees resident in EEA countries and EEA employees resident in the UK, with their settlement applications.
- We will continue to work with regulators, governments and our clients in an effort to manage risks as they arise, particularly across the most impacted sectors.

Geopolitical risk

Our operations and portfolios are exposed to risks associated with political instability, civil unrest and military conflict, which could lead to disruption of our operations, physical risk to our staff and/or physical damage to our assets.

The Trade and Co-operation Agreement agreed between the UK and the EU avoids the imposition of tariffs and quotas in UK-EU goods trade, and therefore a more material setback to the expected gradual recovery of the UK and EU economies from recessions caused by the Covid-19 outbreak. However, the new trading relationship features non tariff barriers, and leaves several aspects of the broader relationship, including financial services trade, for further negotiation. A five-year review clause could also introduce periodic instability in bilateral relations.

Mitigating actions

- We continually monitor the geopolitical outlook, in particular in countries where we have material exposures and/or a physical presence.
- We use internal stress tests and scenario analysis as well as regulatory stress test programmes, to adjust limits and exposures to reflect our risk appetite and mitigate risks as appropriate.
- We have taken steps to enhance physical security in those geographical areas deemed to be at high risk from terrorism.
- We have reviewed our business continuity plans following the Covid-19 outbreak, to ensure the safety and well-being of our staff and customers and to ensure our ability to maintain our business operations is upheld.

Cyber threat and unauthorised access to systems

Together with other organisations, we continue to operate in a challenging cyber threat environment, which requires ongoing investment in business and technical controls to defend against these threats.

Key threats include unauthorised access to online customer accounts, advanced malware attacks, attacks on third-party suppliers and security vulnerabilities being exploited.

Mitigating actions

- We continually evaluate threat levels for the most prevalent attack types and their potential outcomes. To further protect our business and our customers we strengthened our controls to reduce the likelihood and impact of advanced malware, data leakage, infiltration of payment systems and denial of service attacks.
- We continue to enhance our cybersecurity capabilities, including cloud security, identity and access management, metrics and data analytics, and third-party security reviews. An important part of our defence strategy is ensuring our people remain aware of cybersecurity issues and know how to report incidents.
- We report and review cyber risk and control effectiveness quarterly at executive and non-executive Board level. We also report it across our businesses and functions, to help ensure appropriate visibility and governance of the risk and mitigating actions.
- We participate globally in several industry bodies and working groups to share information about tactics employed by cyber-crime groups and to collaborate in fighting, detecting and preventing cyber attacks on financial organisations.

Regulatory focus on conduct of business

Financial service providers continue to operate to stringent regulatory and supervisory requirements, particularly in the areas of capital and liquidity management, conduct of business, financial crime, internal control frameworks, the use of models and the integrity of financial services delivery. Regulatory changes may affect the activities of the group.

Mitigating actions

- We are fully engaged, wherever possible, with the government and regulators in the UK and Europe to help ensure that new requirements are properly considered by regulators and the financial sector and can be implemented effectively.
- In particular, we have engaged proactively with regulators and governments across the economies in which we operate regarding the policy changes issued in response to Covid-19 to help our customers and to contribute to an economic recovery.

Financial crime and fraud risk

Financial institutions remain under considerable regulatory scrutiny regarding their ability to prevent and detect financial crime. Financial crime threats continue to evolve, often in tandem with increased geopolitical developments, posing challenges for financial institutions to keep abreast of developments and manage conflicting laws. The global economic slowdown as a result of the Covid-19 outbreak and the resulting rapid deployment of government relief measures to support individuals and businesses, have increased the risk of fraud. Developments around virtual currencies, stablecoins and central bank digital currencies have continued, with the industry's financial crime risk assessment and management frameworks in their early stages. The evolving regulatory environment presents an execution challenge. We continue to face increasing challenges presented by national data privacy requirements in a global organisation, which may affect our ability to manage financial crime risks effectively. There has also been an increase in media and public scrutiny on how financial crime is managed within financial institutions.

In December 2012, among other agreements, HSBC Holdings plc ('HSBC Holdings') agreed to an undertaking with the UK Financial Services Authority, which was replaced by a Direction issued by the FCA in 2013, and consented to a cease-and-desist consent order with the US Federal Reserve Board ('FRB'), both of which contained certain forward-looking anti-money laundering ('AML') and sanctions-related obligations. We 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. Reflective of our significant progress in strengthening financial crime risk management capabilities, our engagement with the Skilled Person was terminated in 1Q 2020 and in 2Q 2020, a new Skilled Person with a narrower mandate was appointed to assess the remaining areas that require further work in order for us to transition fully to business-as-usual financial crime risk management. Thereafter, in 2020, the FCA issued a new, more tailored Direction that replaces the previous Direction issued in 2013. The Independent Consultant will continue to carry out an annual Office of Foreign Assets Control ('OFAC') compliance review at the FRB's discretion. The role of the Skilled Person/Independent Consultant is discussed on page 81.

Mitigating actions

- We continue to enhance our financial crime risk management capabilities. We are investing in next generation capabilities to fight financial crime through the application of advanced analytics and artificial intelligence. We continue to monitor geopolitical developments closely and the impacts on our financial crime controls.
- We are strengthening and investing in our fraud controls, to introduce next generation anti-fraud capabilities to protect both customers and the bank. We have developed procedures and controls to manage the risks associated with direct and indirect exposure to virtual currencies, and we continue to monitor external developments. We continue to educate our staff on emerging digital products and associated risks.
- We continue to monitor external developments on stable coins and central bank digital currencies, engaging with central banks and regulators on financial crime risk management.
- We continue to work with jurisdictions and relevant international bodies to address data privacy challenges through international standards, guidance, and legislation to help enable effective management of financial crime risk.
- We continue to take steps designed to ensure that the reforms we have put in place are both effective and sustainable over the long term.

Market illiquidity and volatility

The Covid-19 outbreak has created significant volatility in global markets across 2020. Market liquidity, as defined by the ability to trade the desired volume of a financial security in a timely manner, continues to vary. Liquidity remains challenging due to multiple factors: regulatory demands such as increased capital requirements constraining the overall balance sheet size of financial institutions, the implementation of the Volcker rule, which prohibits certain trading activities, and the impact of revised collateral and internal liquidity requirements.

This is a market-wide issue, where HSBC may incur losses or result in lower revenue.

Mitigating actions

- We continually monitor our positions more vulnerable to illiquidity and concentration risks, adjusting our market risk limits and risk appetite where appropriate.

Climate-related risks

Climate change can impact a number of our risk types:

- Transition risk, arising from the move to a low-carbon economy, such as through policy, regulatory and technological changes.
- Physical risk, through increasing severity and/or frequency of severe weather events or other climatic events (e.g. sea level rise, flooding).

These have potential to cause both idiosyncratic and systemic risks, resulting, over time, in potential financial impacts for HSBC. Impacts could materialise through higher risk-weighted assets ('RWAs'), greater transactional losses and/or increased capital requirements.

Mitigating actions

- A dedicated Climate Risk Oversight Forum ('CROF') is responsible for shaping and overseeing HSBC's approach to climate risk to support the Group in managing climate-related risks that are outside of risk appetite. We are establishing our governance and delivery plan which will see our own forum which will be chaired by the CRO with the mandate of mirroring the responsibilities of the Global CROF.
- We will start to introduce Risk Appetite metrics during 2021 together with the development of reporting capabilities and key indicators.
- We implement HSBC Group sustainability risk policies as part of its broader reputational risk framework. We focus our policies on sensitive sectors that may have a high adverse impact on people or on the environment and in which we have a significant number of customers. These include sectors with potentially high-carbon impacts.
- HSBC continues to expand its thinking with regards to stress testing of climate risks. It has commenced sector specific scenario analysis and continues current work to source data and develop scenarios.
- The Group is working with the PRA, FCA and the wider industry through their Climate Financial Risk Forum to ensure it remains aware of and drives emerging best practice.

Ibor transition

Throughout 2020, our interbank offered rate ('Ibor') transition programme, which is tasked with the development of new replacement near risk-free rate ('RFR') products and transition from legacy Ibor contracts, has continued to implement the required IT and operational changes necessary to facilitate an orderly transition from Ibors to RFRs, or alternative benchmarks, such as policy interest rates. These changes have enabled the group to meet regulatory endorsed milestones related to product readiness and the clearing house led transition to RFR discounting. Additionally, to further support our business and our customers, our programme's scope has widened to include additional interest rate benchmarks, which now have a plan for demise in the near future.

We have identified financial and non-financial risks related to the transition and developed key actions to mitigate the identified risks. These risks include those associated with the continued sale of products referencing Ibor through 2020. The group has, however, actively removed certain Ibor referencing products from sale, and implemented processes and controls to manage the continued sale of Ibor products to meet our clients' needs. As products referencing Ibor continue to be sold, and RFR products are developed, considerations relating to the enforceability of fallback provisions and the evolution of RFR market conventions have potentially increased legal and compliance risks. Furthermore, the impact of the Covid-19 outbreak has compressed timelines for client engagement and potentially increased the resilience risks associated with the rollout of new products, transition of legacy contracts, and new RFR sales.

Mitigating Actions

- We are part of the HSBC Group programme to facilitate an orderly transition to alternative benchmarks and replacement RFR products for our business and our clients. The execution of this programme is overseen by the Group Chief Risk Officer, with the group's transition overseen by our CRO as monitored through our Risk Management Meeting.
- We have and continue to carry out extensive training, communication and client engagement to facilitate appropriate selection of products.
- We have dedicated teams in place to support the development of and transition to alternative rate and replacement RFR products.
- We are implementing IT and operational changes to enable a longer transition window.
- We met the third quarter 2020 regulatory endorsed milestones for implementing changes to contractual documentation.
- We assess, monitor and dynamically manage risks, and implement specific mitigating controls when required.
- We continue to engage with regulatory and industry bodies actively to mitigate risks relating to hedge accounting changes, multiple RFR market conventions, and so-called 'tough legacy' contracts that have no appropriate replacements or no likelihood of renegotiation to transition. This includes providing feedback and responses on recent ICE Benchmark Administration ('IBA') and FCA consultations.

Internally driven

People risk

Our success in delivering our strategic priorities and managing the regulatory environment proactively depends on the development and retention of our leadership and high-performing employees. The ability to continue to attract, develop and retain competent individuals in an employment market impacted by the Covid-19 outbreak is challenging particularly due to organisational restructuring. Changed working arrangements, local Covid-19 restrictions and health concerns during the pandemic also impact on employee mental health and well-being.

Mitigating actions

- We have put in place measures to help support our people so they are able to work safely during the Covid-19 outbreak.
- We promote a diverse and inclusive workforce and provide active support across a wide range of health and wellbeing activities. We continue to build our speak up culture through active campaigns.
- Monitoring of people risks that have arisen due to organisational restructuring, helping to ensure we manage redundancies sensitively and support impacted employees.
- Launch of the Future Skills Curriculum through HSBC University to help provide the critical skills that will enable employees and HSBC to be successful in the future.
- We continue to develop succession plans for key management roles, with actions agreed and reviewed on a regular basis by the group's Executive Committee.
- We have robust plans in place, driven by senior management, to mitigate the effect of external factors that may impact our employment practices. Political, legislative and regulatory challenges are closely monitored to minimise the impact on the attraction and retention of talent and key performers.

IT systems infrastructure and resilience

HSBC is committed to investing in the reliability and resilience of its IT systems and critical services. HSBC does so in order to protect its customers and ensure they do not receive disruption to services, which could result in reputational and regulatory damage.

The group's strategy includes simplification of our technology estate to reduce complexity and costs; this includes consolidation of our core banking systems onto a single strategic platform. The target state will leverage existing and known technology, and will be simpler and easier to maintain. However, as with any strategic transformation programme risks associated with implementation must be managed continuously.

Mitigating actions

- We continue to invest in transforming how software solutions are developed, delivered and maintained, with a particular focus on providing high-quality, stable and secure services. As part of this, we are concentrating on improving system resilience and service continuity testing. We have enhanced the security features of our software development life cycle and improved our testing processes and tools.
- During 2020, we have upgraded many of our IT systems, simplified our service provision and replaced older IT infrastructure and applications. These enhancements led to continued global improvements in service availability during 2020 for both our customers and employees.
- We manage implementation risks arising from the simplification of our technology estate continuously via thorough oversight of these risks at all levels of the programme and reporting up to our Risk Committee.

Execution risk

In order to deliver our strategic objectives and meet mandatory regulatory requirements, it is important for HSBC to maintain a strong focus on execution risk. This requires robust management of significant resource-intensive and time-sensitive programmes. Risks arising from the magnitude and complexity of change may include regulatory censure, reputational damage or financial losses. Current major initiatives include managing the operational implications of the UK's departure from the EU; Ibor transition; and the implementation of business transformation and the impacts of this on our people.

Mitigating actions

- Our prioritisation and governance processes for significant projects are monitored by the group's Executive Committee.
- In 2020, with business continuity plans in place across the markets in which we operate and significant remote working in place, the impact of Covid-19 on the bank's major change programmes continues to be closely monitored.

Model risk

Model risk arises whenever business decision-making includes reliance on models. We use models in both financial and non-financial contexts and in a range of business applications such as customer selection, product pricing, financial crime transaction monitoring, creditworthiness evaluation and financial reporting. Assessing model performance is a continuous undertaking. Models can need redevelopment as market conditions change. This was required following the outbreak of Covid-19 as some models used for estimating credit losses needed to be redeveloped due to the dramatic change to inputs including GDP, unemployment rates and housing prices.

Prior to the Covid-19 outbreak a key area of focus was improving and enhancing our model risk governance, and this activity continued throughout 2020. We prioritised the redevelopment of internal ratings-based ('IRB') and internal models methods ('IMM') models, in relation to counterparty credit, as part of the IRB repair and Basel III programmes with a key focus on enhancing the quality of data used as model inputs.

Mitigating actions

- We enhanced the monitoring and review of loss model performance through our Model Risk Management function as part of a broader quarterly process to determine loss levels. The Model Risk Management team aims to provide strong and effective review and challenge of any future redevelopment of these models.
- We are appointing model risk stewards for our key entities to support, oversee and guide the global businesses and functions on model risk management. The risk stewards will provide close monitoring of changes in model behaviour, working closely with business and function model owners and sponsors.
- We worked with the model owners of IRB models and traded risk models to increase our engagement on management of model risk with key regulators including the PRA and the ECB.
- We updated the model risk policy and introduced model risk standards to enable a more risk-based approach to model risk management.
- We refreshed the model risk controls through the risk control assessment process. Employees who work in the first line of defence are expected to complete testing using the new enhanced controls in order to assess and understand model risk across the global businesses and key geographies.
- The model inventory system was upgraded to provide more granular measurement and management of model risk for multiple applications of a single model.
- We are redeveloping our IRB and IMM models for counterparty credit and our internal models approach ('IMA') for traded risk models. These will be submitted for PRA approval over the next two years.

Data management

The group currently uses a large number of systems and applications to support key business processes and operations. As a result, we often need to reconcile multiple data sources, including customer data sources, to reduce the risk of error. Along with other organisations, we also need to meet external regulatory obligations such as the General Data Protection Regulation ('GDPR'), Basel Committee for Banking Supervision ('BCBS') 239, and Basel III.

Mitigating actions

- We are improving data quality across a large number of systems globally. Our data management, aggregation and oversight continues to strengthen and enhance the effectiveness of internal systems and processes. We are implementing data controls for end to end critical processes to improve our data capture at the point of entry and throughout the data lifecycle.
- Through our global data management framework we are expanding and enhancing our data governance processes to help monitor the quality of critical customer, product, reference and transaction data proactively and resolve associated data issues in a timely manner.
- We continue to modernise our data and analytics infrastructure through investments in advanced capabilities in cloud visualisation, machine learning and artificial intelligence platforms.
- We help protect customer data via our global data privacy framework that establishes data privacy practices, design principles and guidelines that enable us to demonstrate compliance with data privacy laws and regulations in the jurisdictions in which the group operates.
- To help our employees keep abreast of data privacy laws and regulations we continue to hold data privacy awareness training highlighting our commitment to protect personal data for customers, employees and stakeholders.

Third Party Risk Management

We utilise third parties for the provision of a range of services, in common with other financial service providers. Risks arising from the use of third party service providers may be less transparent and therefore more challenging to manage or influence. It is critical that we ensure we have appropriate risk management policies, processes and practices. These should include adequate control over the selection, governance and oversight of third parties, particularly for key processes and controls that could affect operational resilience. Any deficiency in our management of risks arising from the use of third parties could affect our ability to meet strategic, regulatory or client expectations and damage our reputation.

Mitigating actions

- We continued to embed our third party management framework in the first line of defence through a dedicated team. We have deployed processes, controls and technology to assess third party service providers against key criteria and associated control monitoring testing and assurance.
- A dedicated oversight forum in the second line of defence monitors the embedding of policy requirements and performance against risk appetite.

Areas of special interest

Process of UK withdrawal from the European Union

The UK left the EU on 31 January 2020 and entered a transition period until 31 December 2020. A Trade and Cooperation Agreement between the EU and the UK was agreed on 24 December 2020 and ratified by the UK on 30 December 2020. It includes a joint declaration of cooperation, and, in the coming months, both parties are expected to enter discussions with the aim of agreeing a Memorandum of Understanding establishing the framework for this cooperation. As expected, the current passport arrangement expired at the end of the transition period, and therefore financial Institutions in the UK including HSBC Bank plc lost their existing EU regulatory permissions or 'passporting rights' to continue servicing clients in the European Economic Area (EEA) from 1 January 2021. The Trade and Cooperation Agreement mainly focused on goods and services but also covered a wide range of other areas, including competition, state aid, tax, fishery, transport, data and security. However, it included limited elements on financial services, and, as a result, did not change HSBC's planning in relation to the UK's withdrawal from the EU.

Our programme to manage the impact of the UK leaving the EU has now been largely completed. It was based on the assumption of a scenario whereby the UK exits the transition period without the financial passporting or regulatory equivalence framework that supports cross-border business.

Legal entity restructuring

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

Product offering

To accommodate for customer migrations and new business after the UK's departure from the EU, we expanded and enhanced our existing product offering in France, the Netherlands and Ireland. We also opened a new branch in Stockholm to service our customers in the Nordics.

Customer migrations

The UK's departure from the EU is likely to have an impact on our clients' 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 was to minimise the level of change for our customers, we were required to migrate some EEA-incorporated clients from the UK to HSBC Continental Europe, or another EEA entity. We have now migrated almost all clients who we expect can no longer be serviced out of the UK and their respective jurisdictions and we are working in close collaboration with them to swiftly manage their transition in 2021.

Employees

The migration of EEA-incorporated clients requires us to strengthen our local teams in the EU, and France in particular.

Given the scale and capabilities of our existing business in France, we are well prepared to take on additional roles and activities. We have now completed the transfer of roles from London to Paris to support our post-UK withdrawal from the EU operating model.

Looking beyond the transfer of roles to the EU, we are also providing support to our UK employees who are UK citizens resident in EEA countries and EEA employees resident in the UK, for example with settlement applications.

We have completed our programme work in terms of ensuring we were prepared for the UK leaving the EU under the terms described above. However, there remain risks, many of them linked to absence of some equivalence decisions between the EU and the UK.

Equivalence decisions are an established feature of EU law which allow the authorities in the UK and EU to rely on the other's regime for specific regulatory purposes only. Whilst the UK and the EU have made a number of equivalence decisions, these decisions do not give UK firms full access to EU clients and counterparties.

We have carried out detailed reviews of our credit portfolios to determine those sectors and customers most vulnerable to the UK's exit from the EU and will continue to monitor any implications for our clients in adhering to the new requirements under the Trade and Cooperation agreement. For further details, see 'Measurement uncertainty and sensitivity analysis of ECL estimates' on page 42.

Ibor transition

Interbank offered rates ('Ibors') are used to set interest rates on hundreds of trillions of US dollars of different types of financial transactions and are used extensively for valuation purposes, risk measurement and performance benchmarking.

The FCA announced in July 2017 that it would no longer continue to persuade or require panel banks to submit rates for the London interbank offered rate ('Libor') after 2021. In addition, the 2016 EU Benchmark Regulation, which aims to ensure the accuracy, robustness and integrity of interest rate benchmarks, has resulted in other regulatory bodies' reassessment of their national benchmarks. This includes the Euro Overnight Index Average ('Eonia'). As a result, industry-led National Working Groups ('NWGs') are actively discussing the mechanisms for an orderly transition of five Libors to their chosen replacement rates.

The transition process away from Ibors, including the transition of legacy contracts that reference Ibors, exposes the group to material execution risks, and increases some financial and non-financial risks.

As our Ibor transition programme progresses into the execution phase, resilience and operational risks, are heightened. This is due to an expected increase in the number of new near risk-free rate ('RFR') products being rolled out, compressed timelines for the transition of legacy Ibor contracts and the extensive systems and process changes required to facilitate both new products and the transition. This is being exacerbated by the current interest rate environment where low Libor rates, in comparison with replacement RFR, could affect decisions to transition contracts early, further compressing transition timelines. Regulatory compliance, legal and conduct risks may also increase as a result of both the continued sale of products referencing Ibors, and the sale of new products referencing RFRs, principally due to the lack of established market conventions, and the timelines for transition.

Financial risks resulting from the discontinuation of Ibors and the development of market liquidity in RFRs will also affect the group throughout transition. The differences in Ibor and RFR interest rates will create a basis risk that we need to actively manage through appropriate financial hedging. Basis risk in the trading book and in the banking book may arise out of the asymmetric adoption of RFRs across assets and liabilities and across currencies and products. In addition, this may limit the ability to hedge effectively.

The orderly transition from Ibors continues to be the programme's key objective through 2021 and can be broadly grouped into two workstreams: the development of alternative rate and RFR product capabilities and the transition of legacy Ibor contracts.

Development of alternative rate and RFR product capabilities

All global businesses have actively developed and implemented system and operational capabilities for alternative rates, such as policy interest rates, and replacement RFR products during 2020. Several key transactions for near RFR products undertaken within Wholesale. The offering of RFR products is expected to be expanded, with further releases for products referencing the Sterling Overnight Index Average ('Sonia') and the Secured Overnight Financing Rate ('SOFR') set for the first half of 2021, in addition to products linked to other RFRs set to be released throughout 2021.

These developments and the reduced suitability of Ibor products have enabled us to cease selling certain Ibor linked products. While Ibor sales do continue for a number of product lines, Ibor exposures that have post-2021 maturities are reducing, aided by market compression of Ibor trades, and undertaking new transactions in alternative rate and replacement RFR products, as market liquidity builds.

Transition legacy contracts

In addition to offering alternative rate and replacement RFR products, the development of new product capabilities will also help facilitate the transition of legacy Ibor and Eonia products. The group has begun to engage clients to determine their ability to transition in line with the readiness of alternative rate and replacement RFR products. The Covid-19 outbreak and the interest rate environment may have affected clients' abilities to transition early, and has resulted in compressed timelines for the transition of legacy Ibor contracts. However, for some US dollar Libor legacy contracts, this timing risk may be mitigated in part by the recent announcement by the Libor benchmark administrator, ICE Benchmark Administration Limited ('IBA'), to consult on extending the publication of overnight and one, three, six and 12 month US dollar Libor settings to 30 June 2023. Despite the proposed extension, regulatory and industry guidance has been clear that market participants should cease writing new US dollar Libor contracts as soon as is practicable, and in any event by the end of 2021. While the extended deadline will result in additional US dollar Libor transactions maturing before cessation, not all of them will, so it is possible that other proposed solutions, including legislative relief, will still be needed.

The group continues to have Ibor and Eonia derivatives, loan, and bond exposures maturing beyond 2021. For the derivatives exposures, the adoption of the ISDA protocol, as a fallback provision, which came into effect in January 2021, and the successful changes made by clearing houses to discount derivatives using euro short-term rate ('€str') and secured overnight funding rate ('SOFR') reduce the risk of a disorderly transition of the derivatives market.

For the group's loan book, the global businesses have developed commercial strategies that include active client engagement and communication, providing detailed information on RFR products to determine our clients' abilities to transition to a suitable alternative rate or replacement RFR product, before Ibor cessation.

The administrator of Libor, IBA, has announced a proposal to extend the publication date of most US dollar Libor tenors until 30 June 2023. Publication of one-week and two-month tenors will cease after 31 December 2021. This proposal, if endorsed, would reduce the amounts presented in the above table as some financial instruments included will reach their contractual maturity date prior to 30 June 2023.

Financial instruments impacted by IBOR reforms

(audited)

Amendments to IFRSs issued in August 2020 (Interest Rate Benchmark Reform Phase 2) represents the second phase of the IASB's project on the effects of interest rate benchmark reform, addressing issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of reform.

Under these amendments, changes made to a financial instrument measured at other than fair value through profit or loss that are economically equivalent and required by interest rate benchmark reform, do not result in the derecognition or a change in the carrying amount of the financial instrument. Instead they require the effective interest rate to be updated to reflect the change in the interest rate benchmark. In addition, hedge accounting will not be discontinued solely because of the replacement of the interest rate benchmark if the hedge meets other hedge accounting criteria.

These amendments apply from 1 January 2021 with early adoption permitted. HSBC has adopted the amendments from 1 January 2020.

	Financial instruments yet to transition to alternative benchmarks, by main benchmark			
	USD Libor	GBP Libor	EONIA	Others[1]
At 31 Dec 2020	£m	£m	£m	£m
Non-derivative financial assets[2]	10,012	5,762	1	184
Non-derivative financial liabilities[2]	1,933	1,410	3	1
Derivative notional contract amount	1,700,582	868,313	196,515	134,693

1 *Comprises financial instruments referencing other significant benchmark rates yet to transition to alternative benchmarks (EUR Libor, JPY Libor, CHF Libor, SOR and THBFIX).*
2 *Gross carrying amount excluding allowances for expected credit losses.*

The amounts in the above table relate to HSBC's main operating entities[1] and provide an indication of the extent of the group's exposure to the Ibor benchmarks which are due to be replaced. Amounts are in respect of financial instruments that:

- contractually reference an interest rate benchmark that is planned to transition to an alternative benchmark;
- have a contractual maturity date after 31 December 2021, the date by which Libor is expected to cease;
- are recognised on HSBC's consolidated balance sheet.
- The amounts in the above table predominantly represent the bank's exposure.

[1]*Entities where we have material exposures impacted by Ibor reform in countries including the United Kingdom, France, and Germany.*

Risks related to Covid-19

The Covid-19 outbreak and its effect on the global economy have impacted our customers and our performance, and the future effects of the outbreak are uncertain. The outbreak necessitated governments to respond at unprecedented levels to protect public health, local economies and livelihoods. It has affected countries and territories at different times and varying degrees as it has developed. The varying government measures in response have added challenges, given the rapid pace of change and significant operational demands. The speed at which countries and territories will be able to unwind their government measures and return to pre-Covid-19 economic levels will vary based on the levels of infection and local political decisions and access and ability to rollout vaccines. There remains a risk of subsequent waves of infection, as evidenced by the recently emerged new more transmissible variants of the virus. Renewed outbreaks emphasise the ongoing threat of Covid-19 even in countries that have recorded lower than average cases so far.

Government restrictions imposed around the world to limit the spread of Covid-19 has resulted in a sharp contraction in global economic activity, including countries in Europe. The extent of any recovery in economic activity and reduction in unemployment rates across our major markets in 2021 will be dependent upon successful rollout of vaccination programmes, coupled with effective non-pharmacological measures to contain the virus, such as 'track and trace' systems and restrictions to mobility that will lead to a decline in infections across over the course of the year. Governments and Central Banks are expected to continue to work together, to ensure that households and firms receive an appropriate level of financial support until restrictions on economic activity and mobility can be materially eased. Such support is intended to ensure that labour and housing markets do not experience abrupt, negative corrections and is also intended to limit the extent of long term structural damage to economies. There is a high degree of uncertainty associated with economic forecasts in the current environment and there are significant risks therefore to even a gradual recovery in economic activity in 2021. The degree of uncertainty varies by market, driven by country specific trends in the evolution of the pandemic and associated policy responses and any impacts felt from the new Trade and Cooperation Agreement in place between the UK and the EU from 1 January 2021.

There is a material risk of a renewed drop in economic activity. The economic fallout from the Covid-19 outbreak risks increasing inequality across markets that have already suffered from social unrest. This will leave the burden on governments and central banks to maintain or increase fiscal and monetary stimulus. After financial markets suffered a sharp fall in the early phases of the spread of Covid-19, they rebounded but still remain volatile. Depending on the degree to which global economic growth suffers permanent losses, financial asset prices may suffer a further sharp fall.

Governments and central banks in major economies have deployed extensive measures to support their local populations. Measures implemented by governments have included income support to households and funding support to businesses. Central bank measures have included cuts to policy rates, support to funding markets and asset purchases. These measures are being extended in countries where further waves of the Covid-19 outbreak are prompting renewed government restrictions. Central banks are expected to maintain record-low interest rates for a considerable period of time and the debt burden of governments is expected to rise significantly.

In many of our markets we have initiated market-specific measures to support our personal and business customers through these challenging times. These included mortgage assistance, payment holidays, the waiving of certain fees and charges, and liquidity relief for businesses facing market uncertainty and supply chain disruption. We have also worked closely with governments and supporting national schemes that focus on the parts of the economy most impacted by Covid-19. On 1 July 2020 HSBC Bank plc became an accredited lender under the UK's Coronavirus Large Business Interruption Loan Scheme ('CLBILS'). For details of our customer relief programmes see page 60.

The rapid introduction and varying nature of the government support schemes, as well as customer expectations, has led to risks as the Group implements large-scale changes in a short period of time. This has led to increased operational risks, including complex conduct considerations, increased reputational risk and increased risk of fraud. These risks are likely to be heightened further as and when those government support schemes are unwound.

Our capital, funding and liquidity position is expected to help us to continue supporting our customers throughout the Covid-19 outbreak.

In many of our markets, the Covid-19 outbreak has led to a weakening in GDP, a key input used for calculating expected credit loss ('ECL'), and there remains the risk of more adverse economic scenarios given its ongoing impact. Furthermore, ECL will also increase from other parts of our business impacted by the disruption to supply chains. The impact will vary by sectors of the economy, with retail, hospitality and commercial real estate among those facing distress. The impact of the outbreak on the long-term prospects of businesses in these sectors is uncertain and may lead to significant ECL charges on specific exposures, which may not be fully captured in ECL estimates. In addition, in times of crisis, fraudulent activity is often more prevalent, leading to potentially significant ECL charges or operational losses. The significant changes in economic and market drivers, customer behaviours and government actions caused by Covid-19 have materially impacted the performance of financial models. IFRS9 model performance has been dramatically impacted over the course of 2020 which has increased reliance on management judgment in determining the appropriate level of ECL estimates. These models are driven by forecasts of economic factors such as GDP and unemployment. Many of these models were not able to deliver reliable outputs given the dramatic volatility in these forecasts, many of which significantly exceeded observed historic extremes, as a consequence of the global economic crisis. There has also been an unprecedented response from governments to provide a variety of economic stimulus packages to support livelihoods and the highest hit business sectors which could not be predicted by models.

In order to address some model limitations and performance issues, we have redeveloped some of the key models used to calculate ECL estimates. These models have been independently validated by the Model Risk Management team and have been assessed as having the ability to deliver reliable credit loss estimates. While this has reduced the reliance on management judgement for determining ECL estimates in some portfolios, the current uncertain economic outlook coupled with the expected end to government support schemes has led to post model management adjustments still being required.

The Model Risk Management team is reviewing IFRS9 model performance at the country and group level on a quarterly basis to assess whether or not the models in place can deliver reliable outputs. These assessments provide the credit teams with a view of model reliability. IFRS 9 model redevelopment will continue as the economic consequences of the the Covid-19 outbreak become clearer over time as economic conditions normalise and actual credit losses occur.

As a result of the Covid-19 outbreak, business continuity responses have been implemented and the majority of service level agreements have been maintained. We have not experienced any major impacts to the supply chain from our third-party service providers due to Covid-19.

There remain significant uncertainties in assessing the duration of the Covid-19 outbreak and its impact. The actions taken by the various governments and central banks, in particular in the UK, provide an indication of the potential severity of the downturn and post-recovery environment, which from a commercial, regulatory and risk perspective could be significantly different to past crises and persist for a prolonged period. A continued prolonged period of significantly reduced economic activity as a result of the impact of the outbreak would have a materially adverse effect on our financial condition, results of operations, prospects, liquidity, capital position and credit ratings. We continue to monitor the situation closely, and given the novel or prolonged nature of the outbreak, additional mitigating actions may be required.

Interest rate environment

We have implemented capabilities and commercialised pricing to accommodate negative interest rates for a significant portion of our Euro and Swiss franc denominated business. Central banks have reduced interest rates in most financial markets due to the adverse impact on the timelines and path for economic recovery from the Covid-19 outbreak, which has in turn increased the likelihood of negative interest rates across more countries, including the UK. This raises a number of risks and concerns.

We have a programme of work that is confirming our negative rate operational capabilities for sterling denominated business and improving our readiness where required. This programme is focused upon ensuring that our systems and processes can accommodate zero, near zero or negative rates and determining the resulting impacts on our customers, while being fully mindful of all regulatory constraints. Pricing decisions will continue to be informed based on the needs of our customers, together with balance sheet and market environment considerations, to ensure a fair exchange in value. For most deposit products, decisions may be made to pass through the negative rates to customers.

However, the move to negative rates will result in our commercial margins being compressed, impacting our profitability. The pricing of this risk will need to be carefully considered, given the significant impact that prolonged low interest rates are likely to have on our net interest income. If there is a rebalancing of portfolios toward fee-generating business and trading activities to offset reduced profits, we may become exposed once rates start rising again. These factors may challenge the long-term profitability of the banking sector, including that of the group, and will be considered as part of our transformation programme.

Our material banking and insurance risks

The material risk types associated with our banking and insurance manufacturing operations are described in the following tables.

Description of risks – banking operations

Risks	Arising from	Measurement, monitoring and management of risk
Credit risk (see page 32) The risk of financial loss if a customer or counterparty fails to meet an obligation under a contract.	Credit risk arises principally from direct lending, trade finance and leasing business, but also from certain other products such as guarantees and derivatives.	Credit risk is: • measured as the amount that could be lost if a customer or counterparty fails to make repayments; • monitored using various internal risk management measures and within limits approved by individuals within a framework of delegated authorities; and • managed through a robust risk control framework that outlines clear and consistent policies, principles and guidance for risk managers.
Treasury risk (see page 71) The risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements, including the risk of adverse impact on earnings or capital due to structural foreign exchange exposures and changes in market interest rates, and including the financial risks arising from historic and current provision of pensions and other post employment benefits to staff and their dependants.	Treasury risk arises from changes to the respective resources and risk profiles driven by customer behaviour, management decisions or the external environment.	Treasury risk is: • measured through appetites set as target and minimum ratios; • monitored and projected against appetites and using stress and scenario testing; and • managed through control of resources in conjunction with risk profiles and cashflows.
Market risk (see page 76) The risk that movements in market factors such as foreign exchange rates, interest rates, credit spreads, equity prices and commodity prices will reduce our income or the value of our portfolios.	Exposure to market risk is separated into two portfolios: • trading portfolios; and • non-trading portfolios. Market risk exposures arising from our insurance operations are discussed on page 82.	Market risk is: • measured using sensitivities, value at risk ('VaR') and stress testing, giving a detailed picture of potential gains and losses for a range of market movements and scenarios, as well as tail risks over specified time horizons; • monitored using VaR, stress testing and other measures, including the sensitivity of net interest income and the sensitivity of structural foreign exchange; and • managed using risk limits approved by the risk management meeting ('RMM') and the RMM in various global businesses.
Resilience risk (see page 79) Resilience risk is the risk that we are unable to provide critical services to our customers, affiliates, and counterparties as a result of sustained and significant operational disruption.	Resilience risk arises from failures or inadequacies in processes, people, systems or external events. These may be driven by rapid technological innovation, changing behaviours of our consumers, cyber-threats and attacks, crossborder dependencies, and third party relationships.	Resilience risk is: • measured through a range of metrics with defined maximum acceptable impact tolerances, and against our agreed risk appetite. • monitored through oversight of enterprise processes, risks, controls and strategic change programmes; and • managed by continuous monitoring and thematic reviews.
Regulatory compliance risk (see page 80) The risk that we fail to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice, and incur fines and penalties and suffer damage to our business.	Regulatory compliance risk arises from the risks associated with breaching our duty to our customers and other counterparties, inappropriate market conduct and breaching other regulatory requirements.	Regulatory compliance risk is: • measured by reference to identified metrics, incident assessments, regulatory feedback and the judgement and assessment of our regulatory compliance teams; • monitored against the first line of defence risk and control assessments, the results of the monitoring and control activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections; and • managed by establishing and communicating appropriate policies and procedures, training employees in them, and monitoring activity to assure their observance. Proactive risk control and/or remediation work is undertaken where required.
Financial crime risk (see page 81) The risk that we knowingly or unknowingly help parties to commit or to further potentially illegal activity, including both internal and external fraud.	Financial crime and fraud risk arises from day-to-day banking operations.	Financial crime and fraud risk is: • measured by reference to identified metrics, incident assessments, regulatory feedback and the judgement and assessment of our financial crime risk teams; • monitored against our financial crime risk appetite statement and metrics, the results of the monitoring and control activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections; and • managed by establishing and communicating appropriate policies and procedures, training employees in them, and monitoring activity to ensure their observance. Proactive risk control and/or remediation work is undertaken where required.

Description of risks – banking operations (continued)

Risks	Arising from	Measurement, monitoring and management of risk
Model risk (see page 82)		
Model risk is the potential for adverse consequences from business decisions informed by models, which can be exacerbated by errors in methodology, design or the way they are used.	Model risk arises in both financial and non-financial contexts whenever business decision making includes reliance on models.	Model risk is: • measured by reference to model performance tracking and the output of detailed technical reviews, with key metrics including model review statuses and findings; • monitored against model risk appetite statements, insight from the independent review function, feedback from internal and external audits, and regulatory reviews; and • managed by creating and communicating appropriate policies, procedures and guidance, training colleagues in their application, and supervising their adoption to ensure operational effectiveness.

Our insurance manufacturing subsidiaries are regulated separately from our banking operations. Risks in our insurance entities are managed using methodologies and processes that are subject to Group oversight. Our insurance operations are also subject to some of the same risks as our banking operations, and these, are covered by the Group's risk management processes. There are though specific risks inherent to the insurance operations as noted below.

Description of risks – insurance manufacturing operations

Risks	Arising from	Measurement, monitoring and management of risk
Financial risk (see page 82)		
For insurance entities, Financial risk includes the risk of not being able to effectively match liabilities arising under insurance contracts with appropriate investments and that the expected sharing of financial performance with policyholders under certain contracts is not possible.	Exposure to financial risks arises from: • market risk affecting the fair values of financial assets or their future cash flows; • credit risk; and • liquidity risk of entities not being able to make payments to policyholders as they fall due.	Financial risk is: • measured (i) for credit risk, in terms of economic capital and the amount that could be lost if a counterparty fails to make repayments; (ii) for market risk, in terms of economic capital, internal metrics and fluctuations in key financial variables; and (iii) for liquidity risk, in terms of internal metrics, including stressed operational cash flow projections; • monitored through a framework of approved limits and delegated authorities; and • managed through a robust risk control framework that outlines clear and consistent policies, principles and guidance. This includes using product design and asset liability matching and bonus rates.
Insurance risk (see page 82)		
The risk that, over time, the cost of the contract, including claims and benefits may exceed the total amount of premiums and investment income received.	The cost of claims and benefits can be influenced by many factors, including mortality and morbidity experience, as well as lapse and surrender rates.	Insurance risk is: • measured in terms of life insurance liabilities and economic capital allocated to insurance underwriting risk; • monitored though a framework of approved limits and delegated authorities; and • managed through a robust risk control framework that outlines clear and consistent policies, principles and guidance. This includes using product design, underwriting, reinsurance and claims-handling procedures.

Credit risk

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

Credit risk management

Key developments in 2020

Due to unique market conditions in the Covid-19 outbreak, we expanded operational practices to provide short-term support to customers under the current policy framework. For further details of market-specific measures to support our personal and business customers, see page 29. Outside these Covid-19 initiatives, there have been no material changes to credit risk policy and we continue to apply the requirements of IFRS 9 'Financial Instruments' within Credit risk.

Governance and structure

We have established group-wide credit risk management and related IFRS 9 processes. We continue to actively assess the impact of economic developments in key markets on specific customers, customer segments or portfolios. As credit conditions change, we take mitigating action, including the revision of risk appetites or limits and tenors, as appropriate. In addition, we continue to evaluate the terms under which we provide credit facilities within the context of individual customer requirements, the quality of the relationship, local regulatory requirements, market practices and our local market position.

Credit risk sub-function

(Audited)

Credit approval authorities are delegated by the Board to the Chief Executive together with the authority to sub-delegate them. The Credit risk sub-function in Risk is responsible for the key policies and processes for managing credit risk, which include formulating credit policies and risk rating frameworks, guiding the appetite for credit risk exposures, undertaking independent reviews and objective assessment of credit risk, and monitoring performance and management of portfolios.

The principal objectives of our credit risk management are:

- to maintain across the group a strong culture of responsible lending and a robust risk policy and control framework;
- to both partner and challenge global businesses in defining, implementing and continually re-evaluating our risk appetite under actual and scenario conditions; and
- to ensure there is independent, expert scrutiny of credit risks, their costs and mitigation.

Key risk management process

IFRS 9 'Financial Instruments' process

The IFRS 9 process comprises three main areas: modelling and data; implementation; and governance.

Modelling and data

The Group has established IFRS 9 modelling and data processes in various geographies, which are subject to internal model risk governance including independent review of significant model developments.

Implementation

A centralised impairment engine performs the ECL calculation using data, which is subject to a number of validation checks and enhancements, from a variety of client, finance and risk systems. Where possible, these checks and processes are performed in a globally consistent and centralised manner.

Governance

Management review forums are established in order to review and approve the impairment results. Management review forums have representatives from Credit Risk and Finance. Required members of the committee are the heads of Wholesale Credit, Market Risk, and Wealth and Personal Banking Risk, as well as the global business Chief Financial Officers and the Chief Accounting Officer.

Concentration of exposure

(Audited)

Concentrations of credit risk arise when a number of counterparties or exposures have comparable economic characteristics, or are engaged in similar activities, or operate in the same geographical areas/industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions. The group uses a number of controls and measures to minimise undue concentration of exposure in the group's portfolios across industry, country and customer groups. These include portfolio and counterparty limits, approval and review controls, and stress testing.

Credit quality of financial instruments

(Audited)

Our risk rating system facilitates the internal ratings-based approach under the Basel framework adopted by the Group to support the calculation of our minimum credit regulatory capital requirement. The five credit quality classifications each encompass a range of granular internal credit rating grades assigned to wholesale and retail lending businesses, and the external ratings attributed by external agencies to debt securities.

For debt securities and certain other financial instruments, external ratings have been aligned to the five quality classifications based upon the mapping of related Customer Risk Rating ('CRR') to external credit rating.

Wholesale lending

The CRR 10-grade scale summarises a more granular underlying 23-grade scale of obligor probability of default ('PD'). All corporate customers are rated using the 10- or 23-grade scale, depending on the degree of sophistication of the Basel approach adopted for the exposure.

Each CRR band is associated with an external rating grade by reference to long-run default rates for that grade, represented by the average of issuer-weighted historical default rates. This mapping between internal and external ratings is indicative and may vary over time.

Retail lending

Retail lending credit quality is based on a 12-month point-in-time probability-weighted PD.

Credit quality classification

		Sovereign debt securities and bills	Other debt securities and bills	Wholesale lending and derivatives		Retail lending	
	Footnotes	External credit rating	External credit rating	Internal credit rating	12-month probability of default %	Internal credit rating	12 month probability-weighted PD %
Quality classification	1,2						
Strong		**BBB and above**	**A- and above**	**CRR1 to CRR2[1]**	**0 – 0.169**	**Band 1 and 2**	**0.000 – 0.500**
Good		**BBB- to BB**	**BBB+ to BBB-**	**CRR3**	**0.170 – 0.740**	**Band 3**	**0.501 – 1.500**
Satisfactory		**BB- to B and unrated**	**BB+ to B and unrated**	**CRR4 to CRR5**	**0.741 – 4.914**	**Band 4 and 5**	**1.501 – 20.000**
Sub-standard		**B- to C**	**B- to C**	**CRR6 to CRR8**	**4.915 – 99.999**	**Band 6**	**20.001 – 99.999**
Credit impaired		**Default**	**Default**	**CRR9 to CRR10**	**100**	**Band 7**	**100**

1 Customer risk rating ('CRR').
2 12-month point-in-time probability-weighted PD.

Quality classification definitions

- 'Strong' exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss.
- 'Good' exposures require closer monitoring and demonstrate a good capacity to meet financial commitments, with low default risk.
- 'Satisfactory' exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk.
- 'Sub-standard' exposures require varying degrees of special attention and default risk is of greater concern.
- 'Credit-impaired' exposures have been assessed as described in Note 1.2(i) on the Financial Statements.

Renegotiated loans and forbearance

'Forbearance' describes concessions made on the contractual terms of a loan in response to an obligor's financial difficulties.

A loan is classed as 'renegotiated' when we modify the contractual payment terms on concessionary terms because we have significant concerns about the borrowers' ability to meet contractual payments when due. Non-payment-related concessions (e.g. covenant waivers), while potential indicators of impairment, do not trigger identification as renegotiated loans.

Loans that have been identified as renegotiated retain this designation until maturity or derecognition.

For details of our policy on derecognised renegotiated loans, see Note 1.2(i) on the financial statements.

Credit quality of renegotiated loans

On execution of a renegotiation, the loan will also be classified as credit impaired if it is not already so classified. In wholesale lending, all facilities with a customer, including loans that have not been modified, are considered credit impaired following the identification of a renegotiated loan.

Wholesale renegotiated loans are classified as credit impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period, and there are no other indicators of impairment. Personal renegotiated loans generally remain credit impaired until repayment, write-off or derecognition.

Renegotiated loans and recognition of expected credit losses

(Audited)

For retail lending, unsecured renegotiated loans are generally segmented from other parts of the loan portfolio. Renegotiated expected credit loss assessments reflect the higher rates of losses typically encountered with renegotiated loans. For wholesale lending, renegotiated loans are typically assessed individually. Credit risk ratings are intrinsic to the impairment assessments. The individual impairment assessment takes into account the higher risk of the future non-payment inherent in renegotiated loans.

Impairment assessment

(Audited)

For details of our impairment policies on loans and advances and financial investments see Note 1.2(i) on the financial statements.

Write-off of loans and advances

(Audited)

For details of our accounting policy on the write-off of loans and advances, see Note 1.2(i) on the financial statements.

Unsecured personal facilities, including credit cards, are generally written off at between 150 and 210 days past due. The standard period runs until the end of the month in which the account becomes 180 days contractually delinquent. Write-off periods may be extended, generally to no more than 360 days past due. However, in exceptional circumstances, they may be extended further.

For secured facilities, write-off should occur upon repossession of collateral, receipt of proceeds via settlement, or determination that recovery of the collateral will not be pursued.

Any secured assets maintained on the balance sheet beyond 60 months of consecutive delinquency-driven default require additional monitoring and review to assess the prospect of recovery.

There are exceptions in a few countries where local regulation or legislation constrain earlier write-off, or where the realisation of collateral for secured real estate lending takes more time. In the event of bankruptcy or analogous proceedings, write-off may occur earlier than the maximum periods stated above. Collection procedures may continue after write-off.

Credit risk in 2020

At 31 December 2020, gross loans and advances to customers and banks of £115.6bn decreased by £5.3bn, compared with 31 December 2019. This included favourable foreign exchange movements of £3.7bn. Excluding foreign exchange movements, the decline was driven by a £10.4bn decrease in wholesale loans and advances to customers. This was partly offset by a £0.4bn increase in personal loans and advances and a £1.0bn increase in loans and advances to banks.

During the first half of 2020, the group experienced a significant increase in allowances for ECL, which subsequently stabilised during the second half of 2020. Excluding foreign exchange movements, the allowance for ECL in relation to loans and advances to customers increased by £403m from 31 December 2019. This was attributable to:

- a £379m increase in wholesale loans and advances to customers, of which £175m was driven by stages 1 and 2; and
- a £24m increase in personal loans and advances to customers, of which £23m was driven by stages 1 and 2.

During the first six months of the year, the group experienced significant migrations from stage 1 to stage 2, reflecting a worsening of the economic outlook. This trend slowed during the second half of 2020 as forward economic guidance ('FEG') remained broadly stable in comparison with 30 June 2020, with some countries experiencing transfers from stage 2 to stage 1. At 31 December 2020, stage 3 gross loans and advances to customers of £3.0bn increased by £0.9bn, compared with 31 December 2019. As the Covid-19 outbreak continues, there may be volatility in future stage 3 balances, in particular due to the expiration of the measures implemented by governments, regulators and banks to support customers.

Summary of credit risk

The following disclosure presents the gross carrying/nominal amount of financial instruments to which the impairment requirements in IFRS9 are applied and the associated allowance for ECL. The allowance for ECL increased from £1,113m at 31 December 2019 to £1,632m at 31 December 2020.

The allowance for ECL at 31 December 2020 comprised of £1,497m (2019: £1,050m) in respect of assets held at amortised cost, £135m (2019: £63m) in respect of loan commitments and financial guarantees, and £22m (2019: £16m) in respect of debt instruments measured at FVOCI.

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

(Audited)

	31 Dec 2020		31 Dec 2019	
	Gross carrying/ nominal amount	**Allowance for ECL[1]**	Gross carrying/ nominal amount	Allowance for ECL[1]
The group	**£m**	**£m**	£m	£m
Loans and advances to customers at amortised cost	**102,960**	**(1,469)**	109,428	(1,037)
– personal	**26,499**	**(208)**	24,833	(173)
– corporate and commercial	**62,987**	**(1,168)**	66,990	(809)
– non-bank financial institutions	**13,474**	**(93)**	17,605	(55)
Loans and advances to banks at amortised cost	**12,662**	**(16)**	11,471	(4)
Other financial assets measured at amortised cost	**202,763**	**(12)**	181,755	(9)
– cash and balances at central banks	**85,093**	**(1)**	51,816	—
– items in the course of collection from other banks	**243**	**—**	707	—
– reverse repurchase agreements – non trading	**67,577**	**—**	85,756	—
– financial investments	**15**	**—**	13	—
– prepayments, accrued income and other assets[2]	**49,835**	**(11)**	43,463	(9)
Total gross carrying amount on balance sheet	**318,385**	**(1,497)**	302,654	(1,050)
Loans and other credit related commitments	**143,036**	**(112)**	121,447	(54)
– personal	**2,211**	**(1)**	1,950	(2)
– corporate and commercial	**75,863**	**(89)**	68,893	(50)
– financial	**64,962**	**(22)**	50,604	(2)
Financial guarantees[3]	**3,969**	**(23)**	4,318	(9)
– personal	**32**	**—**	34	—
– corporate and commercial	**2,735**	**(19)**	2,849	(8)
– financial	**1,202**	**(4)**	1,435	(1)
Total nominal amount off balance sheet[4]	**147,005**	**(135)**	125,765	(63)
	465,390	**(1,632)**	428,419	(1,113)

	Fair value	**Memorandum allowance for ECL[5]**	Fair value	Memorandum allowance for ECL[5]
	£m	**£m**	£m	£m
Debt instruments measured at fair value through other comprehensive income ('FVOCI')	**51,713**	**(22)**	46,360	(16)

1 The total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.
2 Includes only those financial instruments which are subject to the impairment requirements of IFRS 9. 'Prepayments, accrued income and other assets' as presented within the consolidated balance sheet on page 110 includes both financial and non-financial assets.
3 Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.
4 Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.
5 Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in the income statement.

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

(Audited)

	31 Dec 2020		31 Dec 2019	
	Gross carrying/ nominal amount	**Allowance for ECL[1]**	Gross carrying/ nominal amount	Allowance for ECL[1]
The bank	**£m**	**£m**	£m	£m
Loans and advances to customers at amortised cost	**43,831**	**(590)**	50,314	(388)
– personal	**3,582**	**(13)**	3,637	(8)
– corporate and commercial	**26,014**	**(494)**	29,839	(345)
– non-bank financial institutions	**14,235**	**(83)**	16,838	(35)
Loans and advances to banks at amortised cost	**8,078**	**(15)**	9,525	(3)
Other financial assets measured at amortised cost	**135,900**	**(1)**	114,330	—
– cash and balances at central banks	**48,777**	**—**	30,149	—
– items in the course of collection from other banks	**37**	**—**	44	—
– reverse repurchase agreements-non trading	**50,137**	**—**	50,736	—
– financial investments	**2,214**	**—**	—	—
– prepayments, accrued income and other assets[2]	**34,735**	**(1)**	33,401	—
Total gross carrying amount on balance sheet	**187,809**	**(606)**	174,169	(391)
Loans and other credit related commitments	**45,308**	**(81)**	39,682	(25)
– personal	**352**	**—**	308	(1)
– corporate and commercial	**25,444**	**(66)**	25,495	(23)
– financial	**19,512**	**(15)**	13,879	(1)
Financial guarantees[3]	**1,510**	**(13)**	3,695	(4)
– personal	**3**	**—**	3	—
– corporate and commercial	**457**	**(9)**	674	(3)
– financial	**1,050**	**(4)**	3,018	(1)
Total nominal amount off balance sheet[4]	**46,818**	**(94)**	43,377	(29)
	234,627	**(700)**	217,546	(420)

	Fair value	**Memorandum allowance for ECL[5]**	Fair value	Memorandum allowance for ECL[5]
	£m	**£m**	£m	£m
Debt instruments measured at FVOCI[5]	**28,699**	**(9)**	26,506	(4)

1 *The total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.*
2 *Includes only those financial instruments which are subject to the impairment requirements of IFRS 9. 'Prepayments, accrued income and other assets' as presented within the consolidated balance sheet on page 110 includes both financial and non-financial assets.*
3 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
4 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
5 *Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in the income statement.*

The following table provides an overview of the group's and bank'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: These financial assets are 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: There is objective evidence of impairment, and are therefore considered to be in default or otherwise credit-impaired on which a lifetime ECL is recognised.
- Purchased or originated credit-impaired ('POCI'): Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses 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 31 December 2020

(Audited)

	Gross carrying/nominal amount[2]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI[3]	Total	Stage 1	Stage 2	Stage 3	POCI[3]	Total	Stage 1	Stage 2	Stage 3	POCI[3]	Total
The group	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%	%
Loans and advances to customers at amortised cost	83,179	16,774	2,966	41	102,960	(129)	(297)	(1,031)	(12)	(1,469)	0.2	1.8	34.8	29.3	1.4
– personal	24,991	974	534	–	26,499	(18)	(37)	(153)	–	(208)	0.1	3.8	28.7	–	0.8
– corporate and commercial	46,773	14,052	2,121	41	62,987	(100)	(225)	(831)	(12)	(1,168)	0.2	1.6	39.2	29.3	1.9
– non-bank financial institutions	11,415	1,748	311	–	13,474	(11)	(35)	(47)	–	(93)	0.1	2.0	15.1	–	0.7
Loans and advances to banks at amortised cost	12,533	129	–	–	12,662	(13)	(3)	–	–	(16)	0.1	2.3	–	–	0.1
Other financial assets measured at amortised cost	202,659	65	39	–	202,763	(2)	–	(10)	–	(12)	–	–	25.6	–	–
Loan and other credit-related commitments	128,956	13,814	266	–	143,036	(34)	(68)	(10)	–	(112)	–	0.5	3.8	–	0.1
– personal	1,991	217	3	–	2,211	–	(1)	–	–	(1)	–	0.5	–	–	–
– corporate and commercial	65,199	10,404	260	–	75,863	(29)	(51)	(9)	–	(89)	–	0.5	3.5	–	0.1
– financial	61,766	3,193	3	–	64,962	(5)	(16)	(1)	–	(22)	–	0.5	33.3	–	–
Financial guarantees[1]	2,839	1,008	121	1	3,969	(4)	(10)	(9)	–	(23)	0.1	1.0	7.4	–	0.6
– personal	26	5	1	–	32	–	–	–	–	–	–	–	–	–	–
– corporate and commercial	1,878	737	119	1	2,735	(3)	(7)	(9)	–	(19)	0.2	0.9	7.6	–	0.7
– financial	935	266	1	–	1,202	(1)	(3)	–	–	(4)	0.1	1.1	–	–	0.3
At 31 Dec 2020	**430,166**	**31,790**	**3,392**	**42**	**465,390**	**(182)**	**(378)**	**(1,060)**	**(12)**	**(1,632)**	**–**	**1.2**	**31.3**	**28.6**	**0.4**

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
2 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
3 *Purchased or originated credit-impaired ('POCI').*

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when they are 30 days past due ('DPD') and are transferred from stage 1 to stage 2. The following disclosure presents the ageing of stage 2 financial assets by those less than 30 days and greater than 30 DPD and therefore presents those financial assets classified as stage 2 due to ageing (30 DPD) and those identified at an earlier stage (less than 30 DPD).

Stage 2 days past due analysis at 31 December 2020

(Audited)

	Gross carrying amount			Allowance for ECL			ECL coverage %		
		Of which:	*Of which:*		*Of which:*	*Of which:*		*Of which:*	*Of which:*
	Stage 2	*1 to 29 DPD[1,2]*	*30 and > DPD[1,2]*	*Stage 2*	*1 to 29 DPD[1,2]*	*30 and > DPD[12]*	*Stage 2*	*1 to 29 DPD[1,2]*	*30 and > DPD[1,2]*
The group	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*%*	*%*	*%*
Loans and advances to customers at amortised cost:	16,774	*64*	*50*	(297)	*(3)*	*(2)*	1.8	*4.7*	*4.0*
– personal	974	*54*	*39*	(37)	*(2)*	*(2)*	3.8	*3.7*	*5.1*
– corporate and commercial	14,052	*9*	*11*	(225)	*(1)*	*–*	1.6	*11.1*	*–*
– non-bank financial institutions	1,748	*1*	*–*	(35)	*–*	*–*	2.0	*–*	*–*
Loans and advances to banks at amortised cost	129	–	–	(3)	–	–	2.3	–	–
Other financial assets measured at amortised cost	65	–	–	–	–	–	–	–	–

1 *Days past due ('DPD'). Up-to-date accounts in stage 2 are not shown in amounts presented above.*
2 *The days past due amounts presented above are on a contractual basis and include the benefit of any customer relief payment holidays granted.*

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 31 December 2019 (continued)

(Audited)

	Gross carrying/nominal amount[2]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI[3]	Total	Stage 1	Stage 2	Stage 3	POCI[3]	Total	Stage 1	Stage 2	Stage 3	POCI[3]	Total
The group	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%	%
Loans and advances to customers at amortised cost	100,077	7,238	2,043	70	109,428	(104)	(126)	(774)	(33)	(1,037)	0.1	1.7	37.9	47.1	0.9
– personal	23,273	1,073	487	—	24,833	(6)	(23)	(144)	—	(173)	—	2.1	29.6	—	0.7
– corporate and commercial	59,654	5,806	1,460	70	66,990	(85)	(100)	(591)	(33)	(809)	0.1	1.7	40.5	47.1	1.2
– non-bank financial institutions	17,150	359	96	—	17,605	(13)	(3)	(39)	—	(55)	0.1	0.8	40.6	—	0.3
Loans and advances to banks at amortised cost	11,408	63	—	—	11,471	(4)	—	—	—	(4)	—	—	—	—	—
Other financial assets measured at amortised cost	181,697	26	32	—	181,755	—	—	(9)	—	(9)	—	—	28.1	—	—
Loan and other credit-related commitments	118,078	3,235	129	5	121,447	(22)	(11)	(21)	—	(54)	—	0.3	16.3	—	—
– personal	1,859	88	3	—	1,950	—	(2)	—	—	(2)	—	2.3	—	—	0.1
– corporate and commercial	65,796	2,967	125	5	68,893	(20)	(9)	(21)	—	(50)	—	0.3	16.8	—	0.1
– financial	50,423	180	1	—	50,604	(2)	—	—	—	(2)	—	—	—	—	—
Financial guarantees[1]	3,685	567	63	3	4,318	(2)	(6)	(1)	—	(9)	0.1	1.1	1.6	—	0.2
– personal	33	—	1	—	34	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	2,352	433	61	3	2,849	(2)	(6)	—	—	(8)	0.1	1.4	—	—	0.3
– financial	1,300	134	1	—	1,435	—	—	(1)	—	(1)	—	—	100.0	—	0.1
At 31 Dec 2019	414,945	11,129	2,267	78	428,419	(132)	(143)	(805)	(33)	(1,113)	—	1.3	35.5	42.3	0.3

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
2 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
3 *Purchased or originated credit-impaired ('POCI').*

Stage 2 days past due analysis at 31 December 2019 (continued)

(Audited)

	Gross carrying amount			Allowance for ECL			ECL coverage %		
		Of which:	*Of which:*		*Of which:*	*Of which:*		*Of which:*	*Of which:*
	Stage 2	*1 to 29 DPD[1]*	*30 and > DPD[1]*	Stage 2	*1 to 29 DPD[1]*	*30 and > DPD[1]*	Stage 2	*1 to 29 DPD[1]*	*30 and > DPD[1]*
The group	£m	*£m*	*£m*	£m	*£m*	*£m*	%	*%*	*%*
Loans and advances to customers at amortised cost	7,238	*73*	*100*	(126)	*(1)*	*(3)*	1.7	*1.4*	*3.0*
– personal	1,073	*58*	*44*	(23)	*(1)*	*(1)*	2.1	*1.7*	*2.3*
– corporate and commercial	5,806	*15*	*56*	(100)	—	*(2)*	1.7	—	*3.6*
– non-bank financial institutions	359	—	—	(3)	—	—	0.8	—	—
Loans and advances to banks at amortised cost	63	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	26	*5*	—	—	—	—	—	—	—

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

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 31 December 2020

(Audited)

	Gross carrying/nominal amount[2]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI[3]	Total	Stage 1	Stage 2	Stage 3	POCI[3]	Total	Stage 1	Stage 2	Stage 3	POCI[3]	Total
The bank	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%	%
Loans and advances to customers at amortised cost	34,629	7,921	1,279	2	43,831	(79)	(158)	(351)	(2)	(590)	0.2	2.0	27.4	100.0	1.3
– personal	3,455	70	57	–	3,582	(1)	(8)	(4)	–	(13)	–	11.4	7.0	–	0.4
– corporate and commercial	18,670	6,424	918	2	26,014	(70)	(121)	(301)	(2)	(494)	0.4	1.9	32.8	100.0	1.9
– non-bank financial institutions	12,504	1,427	304	–	14,235	(8)	(29)	(46)	–	(83)	0.1	2.0	15.1	–	0.6
Loans and advances to banks at amortised cost	7,995	83	–	–	8,078	(12)	(3)	–	–	(15)	0.2	3.6	–	–	0.2
Other financial assets measured at amortised cost	135,843	35	22	–	135,900	–	–	(1)	–	(1)	–	–	4.5	–	–
Loan and other credit-related commitments	39,343	5,905	60	–	45,308	(28)	(48)	(5)	–	(81)	0.1	0.8	8.3	–	0.2
– personal	338	14	–	–	352	–	–	–	–	–	–	–	–	–	–
– corporate and commercial	21,895	3,492	57	–	25,444	(23)	(39)	(4)	–	(66)	0.1	1.1	7.0	–	0.3
– financial	17,110	2,399	3	–	19,512	(5)	(9)	(1)	–	(15)	–	0.4	33.3	–	0.1
Financial guarantees[1]	1,203	253	54	–	1,510	(2)	(4)	(7)	–	(13)	0.2	1.6	13.0	–	0.9
– personal	2	1	–	–	3	–	–	–	–	–	–	–	–	–	–
– corporate and commercial	331	73	53	–	457	(1)	(1)	(7)	–	(9)	0.3	1.4	13.2	–	2.0
– financial	870	179	1	–	1,050	(1)	(3)	–	–	(4)	0.1	1.7	–	–	0.4
At 31 Dec 2020	**219,013**	**14,197**	**1,415**	**2**	**234,627**	**(121)**	**(213)**	**(364)**	**(2)**	**(700)**	**0.1**	**1.5**	**25.7**	**100.0**	**0.3**

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
2 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
3 *Purchased or originated credit-impaired ('POCI').*

Stage 2 days past due analysis at 31 December 2020

	Gross carrying amount			Allowance for ECL			ECL coverage %		
		Of which:	*Of which:*		*Of which:*	*Of which:*		*Of which:*	*Of which:*
	Stage 2	*1 to 29 DPD[1]*	*30 and > DPD[1]*	Stage 2	*1 to 29 DPD[1]*	*30 and > DPD[1]*	Stage 2	*1 to 29 DPD[1]*	*30 and > DPD[1]*
The bank	£m	*£m*	*£m*	£m	*£m*	*£m*	%	*%*	*%*
Loans and advances to customers at amortised cost:	7,921	*16*	*8*	(158)	*(1)*	*(1)*	2.0	*6.3*	*12.5*
– personal	70	*15*	*8*	(8)	*(1)*	*(1)*	11.4	*6.7*	*12.5*
– corporate and commercial	6,424	*1*	–	(121)	–	–	1.9	–	–
– non-bank financial institutions	1,427	–	–	(29)	–	–	2.0	–	–
Loans and advances to banks at amortised cost	83	–	–	(3)	–	–	3.6	–	–
Other financial assets measured at amortised cost	35	–	–	–	–	–	–	–	–

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

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 31 December 2019 (continued)

(Audited)

	Gross carrying/nominal amount[2]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI[3]	Total	Stage 1	Stage 2	Stage 3	POCI[3]	Total	Stage 1	Stage 2	Stage 3	POCI[3]	Total
The bank	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%	%
Loans and advances to customers at amortised cost	46,173	3,430	678	33	50,314	(58)	(67)	(239)	(24)	(388)	0.1	2.0	35.3	72.7	0.8
– personal	3,562	57	18	—	3,637	(1)	(3)	(4)	—	(8)	—	5.3	22.2	—	0.2
– corporate and commercial	26,082	3,109	615	33	29,839	(48)	(62)	(211)	(24)	(345)	0.2	2.0	34.3	72.7	1.2
– non-bank financial institutions	16,529	264	45	—	16,838	(9)	(2)	(24)	—	(35)	0.1	0.8	53.3	—	0.2
Loans and advances to banks at amortised cost	9,487	38	—	—	9,525	(3)	—	—	—	(3)	—	—	—	—	—
Other financial assets measured at amortised cost	114,306	16	8	—	114,330	—	—	—	—	—	—	—	—	—	—
Loan and other credit-related commitments	38,820	839	18	5	39,682	(15)	(8)	(2)	—	(25)	—	1.0	11.1	—	0.1
– personal	305	3	—	—	308	—	(1)	—	—	(1)	—	33.3	—	—	0.3
– corporate and commercial	24,657	815	18	5	25,495	(14)	(7)	(2)	—	(23)	0.1	0.9	11.1	—	0.1
– financial	13,858	21	—	—	13,879	(1)	—	—	—	(1)	—	—	—	—	—
Financial guarantees[1]	3,363	275	57	—	3,695	(1)	(2)	(1)	—	(4)	—	0.7	1.8	—	0.1
– personal	3	—	—	—	3	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	468	150	56	—	674	(1)	(2)	—	—	(3)	0.2	1.3	—	—	0.4
– financial	2,892	125	1	—	3,018	—	—	(1)	—	(1)	—	—	100.0	—	—
At 31 Dec 2019	212,149	4,598	761	38	217,546	(77)	(77)	(242)	(24)	(420)	—	1.7	31.8	63.2	0.2

1 Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.
2 Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.
3 Purchased or originated credit-impaired ('POCI').

Stage 2 days past due analysis at 31 December 2019 (continued)

	Gross carrying amount			Allowance for ECL			ECL coverage %		
		Of which:	*Of which:*		*Of which:*	*Of which:*		*Of which:*	*Of which:*
	Stage 2	*1 to 29 DPD1*	*30 and > DPD1*	Stage 2	*1 to 29 DPD1*	*30 and > DPD1*	Stage 2	*1 to 29 DPD1*	*30 and > DPD1*
The bank	£m	*£m*	*£m*	£m	*£m*	*£m*	%	*%*	*%*
Loans and advances to customers at amortised cost:	3,430	*13*	*6*	(67)	—	—	2.0	—	—
– Personal	57	*13*	*6*	(3)	—	—	5.3	—	—
– Corporate and commercial	3,109	—	—	(62)	—	—	2.0	—	—
– Non-bank financial institutions	264	—	—	(2)	—	—	0.8	—	—
Loans and advances to banks at amortised cost	38	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	16	—	—	—	—	—	—	—	—

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

Credit exposure

Maximum exposure to credit risk

(Audited)

This section provides information on balance sheet items and their offsets as well as loan and other credit-related commitments.

The offset on derivatives remains in line with the movements in maximum exposure amounts.

'Maximum exposure to credit risk' table

The following table presents our maximum exposure before taking account of any collateral held or other credit enhancements (unless such enhancements meet accounting offsetting requirements). The table excludes financial instruments whose carrying amount best represents the net exposure to credit risk and it excludes equity securities as they are not subject to credit risk. For the financial assets recognised on the balance sheet, the maximum exposure to credit risk equals their carrying amount; for financial guarantees and other guarantees granted, it is the maximum amount that we would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments, it is generally the full amount of the committed facilities.

The offset in the table relates to amounts where there is a legally enforceable right of offset in the event of counterparty default and where, as a result, there is a net exposure for credit risk purposes. However, as there is no intention to settle these balances on a net basis under normal circumstances, they do not qualify for net presentation for accounting purposes. No offset has been applied to off-balance sheet collateral. In the case of derivatives the offset column also includes collateral received in cash and other financial assets.

Other credit risk mitigants

While not disclosed as an offset in the following 'Maximum exposure to credit risk' table, other arrangements are in place which reduce our maximum exposure to credit risk. These include a charge over collateral on borrowers' specific assets such as residential properties, collateral held in the form of financial instruments that are not held on balance sheet and short positions in securities. In addition, for financial assets held as part of linked insurance/investment contracts the risk is predominantly borne by the policyholder. See Note 28 on the financial statements for further details of collateral in respect of certain loans and advances and derivatives.

Collateral available to mitigate credit risk is disclosed in the Collateral section on page 64.

Maximum exposure to credit risk

(Audited)

	2020			2019		
	Maximum exposure	**Offset**	**Net**	Maximum exposure	Offset	Net
The group	**£m**	**£m**	**£m**	£m	£m	£m
Loans and advances to customers held at amortised cost	**101,491**	**(8,717)**	**92,774**	108,391	(10,419)	97,972
– personal	**26,291**	**(3)**	**26,288**	24,660	—	24,660
– corporate and commercial	**61,819**	**(7,662)**	**54,157**	66,181	(8,833)	57,348
– non-bank financial institutions	**13,381**	**(1,052)**	**12,329**	17,550	(1,586)	15,964
Loans and advances to banks at amortised cost	**12,646**	**(137)**	**12,509**	11,467	(75)	11,392
Other financial assets held at amortised cost	**203,084**	**(10,604)**	**192,480**	181,983	(21,848)	160,135
– cash and balances at central banks	**85,092**	**—**	**85,092**	51,816	—	51,816
– items in the course of collection from other banks	**243**	**—**	**243**	707	—	707
– reverse repurchase agreements – non trading	**67,577**	**(10,604)**	**56,973**	85,756	(21,848)	63,908
– financial investments	**15**	**—**	**15**	13	—	13
– prepayments, accrued income and other assets	**50,157**	**—**	**50,157**	43,691	—	43,691
Derivatives	**201,210**	**(200,137)**	**1,073**	164,538	(163,779)	759
Total on balance sheet exposure to credit risk	**518,431**	**(219,595)**	**298,836**	466,379	(196,121)	270,258
Total off-balance sheet	**165,368**	**—**	**165,368**	148,306	—	148,306
– financial and other guarantees[1]	**18,177**	**—**	**18,177**	19,456	—	19,456
– loan and other credit-related commitments	**147,191**	**—**	**147,191**	128,850	—	128,850
At 31 Dec	**683,799**	**(219,595)**	**464,204**	614,685	(196,121)	418,564

	2020			2019		
The bank	**£m**	**£m**	**£m**	£m	£m	£m
Loans and advances to customers held at amortised cost	**43,241**	**(8,711)**	**34,530**	49,926	(17,409)	32,517
– personal	**3,569**	**—**	**3,569**	3,629	—	3,629
– corporate and commercial	**25,520**	**(7,661)**	**17,859**	29,494	(8,833)	20,661
– non-bank financial institutions	**14,152**	**(1,050)**	**13,102**	16,803	(8,576)	8,227
Loans and advances to banks at amortised cost	**8,063**	**—**	**8,063**	9,522	—	9,522
Other financial assets held at amortised cost	**135,948**	**(10,003)**	**125,945**	114,440	(14,936)	99,504
– cash and balances at central banks	**48,777**	**—**	**48,777**	30,149	—	30,149
– items in the course of collection from other banks	**37**	**—**	**37**	44	—	44
– reverse repurchase agreements – non trading	**50,137**	**(10,003)**	**40,134**	50,736	(14,936)	35,800
– financial investments	**2,214**	**—**	**2,214**	—	—	—
– prepayments, accrued income and other assets	**34,783**	**—**	**34,783**	33,511	—	33,511
Derivatives	**182,066**	**(181,925)**	**141**	152,496	(152,450)	46
Total on balance sheet exposure to credit risk	**369,318**	**(200,639)**	**168,679**	326,384	(184,795)	141,589
Total off-balance sheet	**54,899**	**—**	**54,899**	55,298	—	55,298
– financial and other guarantees[1]	**8,640**	**—**	**8,640**	11,236	—	11,236
– loan and other credit-related commitments	**46,259**	**—**	**46,259**	44,062	—	44,062
At 31 Dec	**424,217**	**(200,639)**	**223,578**	381,682	(184,795)	196,887

1 'Financial and other guarantees' represents 'Financial guarantees' and 'Performance and other guarantees' as disclosed in Note 30, net of ECL.

Concentration of exposure

We have a number of businesses with a broad range of products. We operate in a number of markets with the majority of our exposures in UK and France.

For an analysis of:

- financial investments, see Note 15 on the financial statements;
- trading assets, see Note 10 on the financial statements;
- derivatives, see page 66 and Note 14 on the financial statements; and
- loans and advances by industry sector and by the location of the principal operations of the lending subsidiary or by the location of the lending branch, see page 61 for wholesale lending and page 67 for personal lending.

Credit deterioration of financial instruments

(Audited)

A summary of our current policies and practices regarding the identification, treatment and measurement of stage 1, stage 2 and stage 3 (credit impaired) and POCI financial instruments can be found in Note 1.2 on the financial statements.

Measurement uncertainty and sensitivity analysis of ECL estimates

(Audited)

The recognition and measurement of ECL involves the use of significant judgement and estimation. We form multiple economic scenarios based on economic forecasts, apply these assumptions to credit risk models to estimate future credit losses, and probability-weight the results to determine an unbiased ECL estimate. Management judgemental adjustments are used to address late breaking events, data and model limitations, model deficiencies and expert credit judgements.

Methodology

Four economic scenarios have been used to capture the exceptional nature of the current economic environment and to articulate management's view of the range of potential outcomes. Scenarios produced to calculate ECL are aligned to HSBC's top and emerging risks. Three of these scenarios are drawn from consensus forecasts and distributional estimates. The Central scenario is deemed the 'most likely' scenario, and usually attracts the largest probability weighting, while the outer scenarios represent the tails of the distribution which are less likely to occur. The Central scenario is created using the average of a panel of external forecasters, while consensus Upside and Downside scenarios are created with reference to distributions for select markets that capture forecasters' views of the entire range of outcomes. Management has chosen to use an additional scenario to represent its view of severe downside risks. The use of an additional scenario is in line with HSBC's forward economic guidance methodology and has been regularly used over the course of 2020. Management may include additional scenarios if it feels that the consensus scenarios do not adequately capture the top and emerging risks. Unlike the consensus scenarios, these additional scenarios are driven by narrative assumptions, could be country-specific and may result in shocks that drive economic activity permanently away from trend.

Description of economic scenarios

The economic assumptions presented in this section have been formed by HSBC with reference to external forecasts specifically for the purpose of calculating ECL.

The world economy experienced a deep economic shock in 2020. As Covid-19 spread globally, governments in many of our markets sought to limit the human impact by imposing significant restrictions on mobility, in turn driving the deep falls in activity that were observed in the first half of the year. Restrictions were eased as cases declined in response to the initial measures, which supported an initial rebound in economic activity by the third quarter of 2020. This increase in mobility unfortunately led to renewed transmission of the virus in several countries, placing healthcare systems under significant burden, leading governments to re-impose restrictions on mobility and causing economic activity to decline once more.

Economic forecasts are subject to a high degree of uncertainty in the current environment. Limitations of forecasts and economic models require a greater reliance on management judgement in addressing both the error inherent in economic forecasts and in assessing associated ECL outcomes. The scenarios used to calculate ECL are described below.

The consensus Central scenario

The group's Central scenario features an improvement in economic growth in 2021 as activity and employment gradually return to the levels experienced prior to the outbreak of Covid-19.

Despite the sharp contraction in activity, government support in advanced economies played a crucial role in averting significant financial distress. At the same time, central banks in our key markets implemented a variety of measures, which included lowering their main policy interest rates, implementing emergency support measures for funding markets, and either restarting or increasing quantitative easing programmes in order to support economies and the financial system. Across our key markets, governments and central banks are expected to continue to work together to ensure that households and firms receive an appropriate level of financial support until restrictions on economic activity and mobility can be materially eased. Such support intends to ensure that labour and housing markets do not experience abrupt, negative corrections and also intends to limit the extent of long term structural damage to economies.

Our Central scenario incorporates expectations that governments and public health authorities in our key markets will implement large vaccination programmes, first by inoculating critical groups and then increasing coverage to include the wider population. The deployment of mass vaccination programmes marks a significant step forward in combating the virus and will ease the burden on healthcare systems. We expect vaccination programmes across our key markets to contribute positively to recovery prospects and our Central scenario assumes a steady increase in the proportion of the population inoculated against Covid-19 over the course of 2021.

Differences across markets in the speed and scale of economic recovery in the Central scenario reflect timing differences in the progression of the Covid-19 outbreak, national level differences in restrictions imposed, the coverage achieved by vaccination programmes and the scale of support measures.

The key features of our Central scenario are:

- Economic activity across our key markets will recover in 2021, supported by a successful rollout of vaccination programmes. We expect vaccination programmes, coupled with effective non-pharmacological measures to contain the virus including 'track and trace' systems and restrictions to mobility, to lead to a significant decline in infections across our key markets by the end of 2021.
- Where government support programmes are available, they will continue to provide support to labour markets and households in 2021. We expect a gradual reversion of the unemployment rate to pre-crisis levels over the course of the projection period as a result of economic recovery and due to the orderly withdrawal of government support.
- Inflation will converge towards central bank targets in our key markets.
- In advanced economies, government support in 2020 led to large deficits and a significant increase in public debt. This support is expected to continue as needed and deficits are expected to reduce gradually over the projection period. Sovereign debt levels will remain high and our Central scenario does not assume fiscal austerity.
- Policy interest rates in key markets will remain at current levels for an extended period and will increase very modestly towards the end of our projection period. Central banks will continue to provide assistance through their asset purchase programmes as needed.
- The West Texas Intermediate oil price is forecast to average \$43 per barrel over the projection period.

The following table describes key macroeconomic variables and the probabilities assigned in the consensus Central scenario.

Central scenario 2021–2025

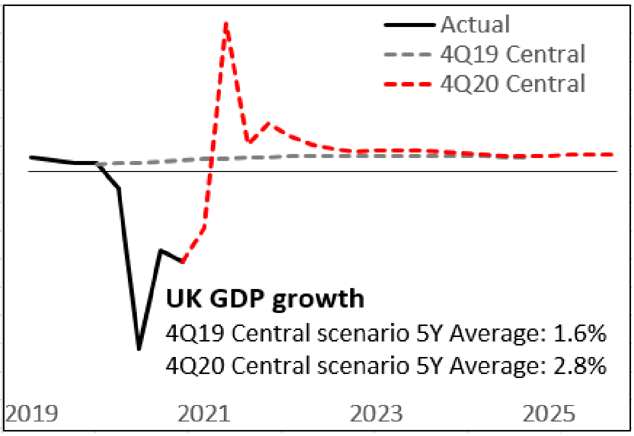
	UK %	France %
GDP growth rate		
2020: Annual average growth rate	(11.0)	(9.7)
2021: Annual average growth rate	4.9	5.9
2022: Annual average growth rate	3.1	2.9
2023: Annual average growth rate	2.4	2.2
5-year average	2.8	2.9
Unemployment rate		
2020: Annual average rate	4.6	7.9
2021: Annual average rate	6.9	10.0
2022: Annual average rate	5.8	9.1
2023: Annual average rate	5.4	8.8
5-year average	5.6	9.0
House Price growth		
2020: Annual average growth rate	2.3	4.4
2021: Annual average growth rate	(2.1)	(0.5)
2022: Annual average growth rate	0.9	4.1
2023: Annual average growth rate	3.0	4.1
5-year average	1.9	2.8
Short term interest rate		
2020: Annual average rate	0.3	(0.4)
2021: Annual average rate	0.1	(0.5)
2022: Annual average rate	0.1	(0.5)
2023: Annual average rate	0.1	(0.5)
5-year average	0.2	(0.5)
Probability	40	40

The graphs comparing the respective Central scenarios in the fourth quarters of 2019 and 2020 reveal the extent of economic dislocation that occurred in 2020 and the impact this has had on central projections made at the end of 2019.

The emergent nature of the Covid-19 outbreak at the end of 2019 meant that, consistent with other banks, the group's Central scenario did not, on a forward-looking basis, consider the impact of the virus. Our Central scenario at the 2019 year-end projected moderate growth over a five-year horizon, with strong prospects for employment and a gradual increase in policy interest rates by central banks in the major economies of Europe. The onset of the virus led to a fundamental reassessment of our central forecast and the distribution of risks over the course of 2020. Our Central scenario at the end of 2020, as described above, is based on assumptions that are considerably different.

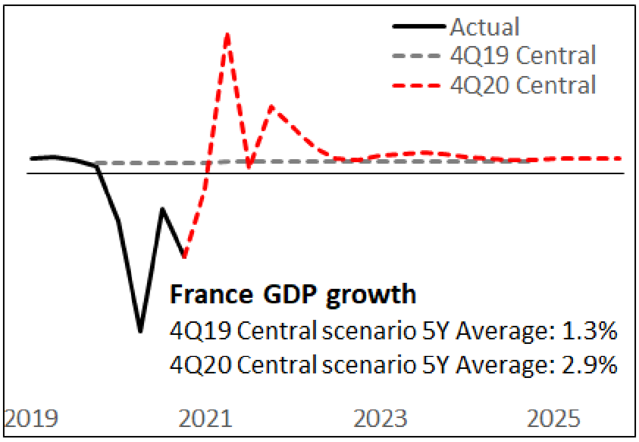
GDP growth: Comparison

UK



Note: Real GDP shown as year-on-year percentage change.

France



Note: Real GDP shown as year-on-year percentage change.

The consensus Upside scenario

Compared with the consensus Central scenario, the consensus Upside scenario features a faster recovery in economic activity during the first two years, before converging to long-run trends.

The scenario is consistent with a number of key upside risk themes. These include the orderly and rapid global abatement of Covid-19 via successful containment and prompt deployment of a vaccine; continued support from fiscal and monetary policy and smooth relations between the UK and the EU, which enables the two parties to swiftly reach a comprehensive agreement on trade and services.

The following table describes key macroeconomic variables and the probabilities assigned in the consensus Upside scenario.

Consensus Upside scenario best outcome

	UK %	France %
GDP growth rate	19.9 (2Q21)	19.5 (2Q21)
Unemployment rate	3.7 (4Q22)	7.9 (4Q22)
House price growth	6.9 (4Q22)	5.7 (2Q22)
Short term interest rate	0.1 (2Q22)	(0.4) (1Q21)
Probability consensus Upside	5	5

Note: Extreme point in the consensus Upside is 'best outcome' in the scenario, for example the highest GDP growth and the lowest unemployment rate, in the first two years of the scenario.

Downside scenarios

The year 2021 is expected to be a period of economic recovery, but the progression and management of the pandemic presents a key risk to global growth. A new and more contagious strain of the virus increased the transmission rate in the UK and resulted in stringent restrictions to mobility towards the end of 2020. This viral strain observed in the UK, together with aggressive strains observed in other countries including South Africa and Brazil, introduce the risk that transmission may increase significantly within the national borders of a number of countries in 2021 and also raise concerns around the efficacy of vaccines as the virus mutates. Some countries may keep significant restrictions to mobility in place for an extended period of time and at least until critical segments of the population can be inoculated. Further risks to international travel also arise.

A number of vaccines have been developed and approved for use at a rapid pace and plans to inoculate significant proportions of national populations in 2021 across many of our key markets are a clear positive for economic recovery. While we expect vaccination programmes to be successful, governments and healthcare authorities face country-specific challenges that could affect the speed and spread of vaccinations. These challenges include the logistics of inoculating a significant proportion of national populations within a limited timeframe and the public acceptance of vaccines. On a global level, supply challenges could affect the pace of roll-out and the efficacy of vaccines is yet to be determined.

Government support programmes in advanced economies in 2020 were supported by accommodative actions taken by central banks. These measures by governments and central banks have provided households and firms with significant support. An inability or unwillingness to continue with such support or the untimely withdrawal of support present a downside risk to growth.

While Covid-19 and related risks dominate the economic outlook, geopolitical risks also present a threat. These risks include the Trade and Co-operation Agreement between the UK and EU which averted a disorderly UK departure from the EU, but the risk of future disagreements remain, which may hinder the ability to reach a more comprehensive agreement on trade and services.

The consensus Downside scenario

In the consensus Downside scenario, economic recovery is considerably weaker compared with the Central scenario. GDP growth remains weak, unemployment rates stay elevated and asset and commodity prices fall before gradually recovering towards their long-run trends.

The scenario is consistent with the key downside risks articulated above. Further outbreaks of Covid-19, coupled with delays in vaccination programmes, lead to longer-lasting restrictions on economic activity in this scenario. Other global risks also increase and drive increased risk-aversion in asset markets.

The following table describes key macroeconomic variables and the probabilities assigned in the consensus Downside scenario.

Consensus Downside scenario worst outcome

	UK	France
	%	%
GDP growth rate	(7.6) (1Q21)	(3.0) (1Q21)
Unemployment rate	9.4 (4Q21)	11.2 (1Q21)
House price growth	(10.8) (4Q21)	(3.3) (2Q21)
Short-term interest rate	0.1 (1Q21)	(0.5) (1Q21)
Probability consensus Downside	**40**	**40**

Note: Extreme point in the consensus Downside is 'worst outcome' in the scenario, for example lowest GDP growth and the highest unemployment rate, in the first two years of the scenario.

Additional Downside scenario

An additional Downside scenario that features a global recession has been created to reflect management's view of severe risks. In this scenario, infections rise in 2021 and setbacks to vaccine programmes imply that successful roll-out of vaccines only occurs towards the end of 2021 and it takes until the end of 2022 for the pandemic to come to an end. The scenario also assumes governments and central banks are unable to significantly increase fiscal and monetary programmes, which results in abrupt corrections in labour and asset markets.

The following table describes key macroeconomic variables and the probabilities assigned in the additional Downside scenario.

Additional Downside scenario worst outcome

	UK	France
	%	%
GDP growth rate	(10.1) (1Q21)	(6.7) (1Q21)
Unemployment rate	9.8 (3Q21)	12.3 (1Q21)
House price growth	(14.5) (4Q21)	(7.1) (3Q21)
Short-term interest rate	0.8 (2Q21)	0.2 (2Q21)
Probability additional Downside	**15**	**15**

Note: Extreme point in the additional Downside is 'worst outcome' in the scenario, for example lowest GDP growth and the highest unemployment rate, in the first two years of the scenario.

In considering economic uncertainty and assigning probabilities to scenarios, management has considered both global and country-specific factors. This has led management to assigning scenario probabilities that are tailored to its view of uncertainty in individual markets.

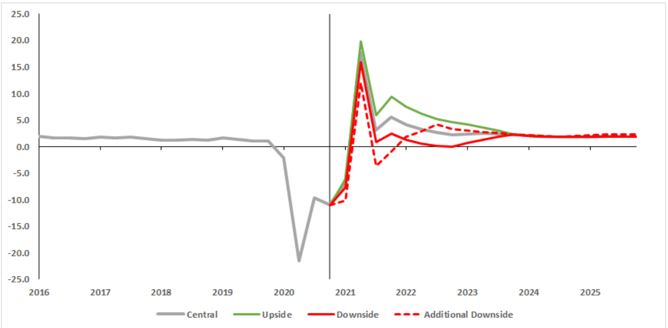
To inform its view, management has considered trends in the progression of the virus in individual countries, the expected reach and efficacy of vaccine roll-outs over the course of 2021, the size and effectiveness of future government support schemes and the connectivity with other countries. Management has also been guided by the actual response to the Covid-19 outbreak and by the economic experience across countries in 2020.

The UK and France face the greatest economic uncertainty in our key markets. In the UK, the discovery of a more infectious strain of the virus and subsequent national restrictions on activity imposed before the end of 2020 have resulted in considerable uncertainty in the economic outlook. In France, the increases in cases and hospitalisations towards the end of 2020, the difficulties experienced with the launch of a national vaccination programme and the wide range of measures taken to restrict activity similarly affect the economic outlook. Given these considerations, the Central and the consensus Downside scenario for the UK and France have each been assigned 40% probability. This reflects management's view that as a result of elevated uncertainty in these two markets, the Central scenario cannot be viewed as the single most likely outcome. The additional Downside scenario has been assigned 15% probability to reflect the view that the balance of risks is weighted to the downside.

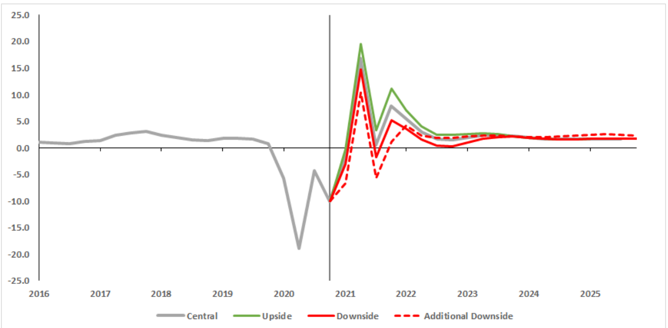
Uncertainty related to the continued impact of the pandemic and the ability of governments to control its spread via restrictions and vaccinations over the course of 2021 also play a prominent role in assigning scenario weights to our other markets.

The following graphs show the historical and forecasted GDP growth rate for the various economic scenarios in UK and France.

UK



France



Critical accounting estimates and judgements

The calculation of ECL under IFRS 9 involves significant judgements, assumptions and estimates. The level of estimation uncertainty and judgement has increased during 2020 as a result of the economic effects of the Covid-19 outbreak, including significant judgements relating to:

- the selection and weighting of economic scenarios, given rapidly changing economic conditions in an unprecedented manner, uncertainty as to the effect of government and central bank support measures designed to alleviate adverse economic impacts, and a wider distribution of economic forecasts than before the pandemic. The key judgements are the length of time over which the economic effects of the pandemic will occur, the speed and shape of recovery. The main factors include the effectiveness of pandemic containment measures, the pace of roll-out and effectiveness of vaccines, and the emergence of new variants of the virus, plus a range of geopolitical uncertainties, which together represent a very high degree of estimation uncertainty, particularly in assessing Downside scenarios;

- estimating the economic effects of those scenarios on ECL, where there is no observable historical trend that can be reflected in the models that will accurately represent the effects of the economic changes of the severity and speed brought about by the Covid-19 outbreak. Modelled assumptions and linkages between economic factors and credit losses may underestimate or overestimate ECL in these conditions, and there is significant uncertainty in the estimation of parameters such as collateral values and loss severity; and
- the identification of customers experiencing significant increases in credit risk and credit impairment, particularly where those customers have accepted payment deferrals and other reliefs designed to address short-term liquidity issues given muted default experience to date. The use of segmentation techniques for indicators of significant increases in credit risk involves significant estimation uncertainty.

How economic scenarios are reflected in ECL calculations

Models are used to reflect economic scenarios on ECL estimates. As described above, modelled assumptions and linkages based on historical information could not alone produce relevant information under the unprecedented conditions experienced in 2020, and it was necessary to place greater emphasis on judgemental adjustments to modelled outcomes than in previous years.

We have developed globally consistent methodologies for the application of forward economic guidance into the calculation of ECL for wholesale and retail credit risk. These standard approaches are described below, followed by the management judgemental adjustments made, including those to reflect the circumstances experienced in 2020.

For wholesale, a global methodology is used for the estimation of the term structure of probability of default ('PD') and loss given default ('LGD'). For PDs, we consider the correlation of forward economic guidance to default rates for a particular industry in a country. For LGD calculations, we consider the correlation of forward economic guidance to collateral values and realisation rates for a particular country and industry. PDs and LGDs are estimated for the entire term structure of each instrument.

For impaired loans, LGD estimates take into account independent recovery valuations provided by external consultants where available or internal forecasts corresponding to anticipated economic conditions and individual company conditions. In estimating the ECL on impaired loans that are individually considered not to be significant, we incorporate forward economic guidance proportionate to the probability-weighted outcome and the Central scenario outcome for non-stage 3 populations.

For retail, the impact of economic scenarios on PD is modelled at a portfolio level. Historical relationships between observed default rates and macroeconomic variables are integrated into IFRS 9 ECL estimates by using economic response models. The impact of these scenarios on PD is modelled over a period equal to the remaining maturity of the underlying asset or assets. The impact on LGD is modelled for mortgage portfolios by forecasting future loan-to-value ('LTV') profiles for the remaining maturity of the asset by using national level forecasts of the house price index and applying the corresponding LGD expectation.

These models are based largely on historical observations and correlations with default rates. Management judgemental adjustments are described below.

Management judgemental adjustments

In the context of IFRS 9, management judgemental adjustments are short-term increases or decreases to the ECL at either a customer or portfolio level to account for late breaking events, model and data limitations and deficiencies, and expert credit judgement applied following management review and challenge.

The most severe projections at 31 December 2020 of macroeconomic variables are outside the historical observations on which IFRS 9 models have been built and calibrated to operate. Moreover, the complexities of country-specific governmental support programmes, the impacts on customer behaviours and the unpredictable pathways of the pandemic have never been modelled. Consequently, the group's IFRS 9 models, in some cases, generate outputs that appear overly sensitive when compared with other economic and credit metrics. Governmental support programmes and customer payment reliefs have dislocated the correlation between economic conditions and defaults on which models are based. Management judgemental adjustments are required to help ensure that an appropriate amount of ECL impairment is recognised.

We have internal governance in place to regularly monitor management judgemental adjustments and, where possible, to reduce the reliance on these through model recalibration or redevelopment, as appropriate. During 2020 the composition of modelled ECL and management judgemental adjustments changed significantly, reflecting the path of the pandemic, containment efforts and government support measures, and this is expected to continue to be the case until economic conditions improve. Wider-ranging model changes will take time to develop and need observable loss data on which models can be developed. Models will be revisited over time once the longer-term impacts of Covid-19 are observed. Therefore, we anticipate significant management judgemental adjustments for the foreseeable future.

Management judgemental adjustments made in estimating the reported ECL at 31 December 2020 are set out in the following table. The table includes adjustments in relation to data and model limitations resulting from the pandemic, and as a result of the regular process of model development and implementation. It shows the adjustments applicable to the scenario-weighted ECL numbers. Adjustments in relation to Downside scenarios are more significant, as results are subject to greater uncertainty.

Management judgemental adjustments to ECL[1]

	Retail	Wholesale	Total
	£m	£m	£m
Low-risk counterparties (banks, sovereigns and government entities)	–	8	8
Corporate lending adjustments	–	56	56
Retail lending PD adjustments	(10)	–	(10)
Retail model default suppression adjustment	3	–	3
Other retail lending adjustments	16	–	16
Total	**9**	**64**	**73**

1 *Management judgemental adjustments presented in the table reflect increases or (decreases) to ECL, respectively.*

During 2020, management judgemental adjustments reflected the volatile economic conditions associated with the Covid-19 pandemic. The composition of modelled ECL and management judgemental adjustments changed significantly over 2020 as certain economic measures, such as GDP growth rate, passed the expected low point in a number of key markets and returned towards those reflected in modelled relationships, subject to continued uncertainty in the recovery paths of different economies.

The adjustments relating to low-credit-risk exposures are mainly to highly rated banks, sovereigns and US government-sponsored entities, where modelled credit factors did not fully reflect the underlying fundamentals of these entities or the effect of government support and economic programmes in the Covid-19 environment.

Adjustments to corporate exposures principally reflect the outcome of management judgements for high-risk and vulnerable sectors in some of our key markets, supported by credit experts' input, quantitative analysis and benchmarks. Considerations include potential default suppression in some sectors due to government intervention and late-breaking (idiosyncratic) developments.

The retail model default suppression adjustment was applied as defaults remain temporarily suppressed due to government support and customer relief programmes, which have supported stabilised portfolio performance. Retail models are reliant on the assumption that as macroeconomic conditions deteriorate, defaults will crystallise. This adjustment aligns the increase in default due to changes in economic conditions to the period of time when defaults are expected to be observed. The retail model default suppression adjustment will be monitored and updated prospectively to ensure appropriate alignment with expected performance taking into consideration the levels and timing of government support and customer relief programmes.

Retail lending PD adjustments are primarily related to an adjustment made in relation to the UK. The downside unemployment forecasts were outside the historical bounds on which the model was developed resulting in unintuitive levels of PD. This adjustment reduced the sensitivity of PD to better align with the historical correlation between changes in levels of unemployment and defaults.

Economic scenarios sensitivity analysis of ECL estimates

Management considered the sensitivity of the ECL outcome against the economic forecasts as part of the ECL governance process by recalculating the ECL under each scenario described above for selected portfolios, applying a 100% weighting to each scenario in turn. The weighting is reflected in both the determination of a significant increase in credit risk and the measurement of the resulting ECL.

The ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible ECL outcomes. The impact of defaults that might occur in the future under different economic scenarios is captured by recalculating ECL for loans in stages 1 and 2 at the balance sheet date. The population of stage 3 loans (in default) at the balance sheet date is unchanged in these sensitivity calculations. Stage 3 ECL would only be sensitive to changes in forecasts of future economic conditions if the loss-given default (‘LGD’) of a particular portfolio was sensitive to these changes.

There is a particularly high degree of estimation uncertainty in numbers representing tail risk scenarios when assigned a 100% weighting.

For wholesale credit risk exposures, the sensitivity analysis excludes ECL and financial instruments related to defaulted obligors because the measurement of ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios. Therefore, it is impracticable to separate the effect of macroeconomic factors in individual assessments. For retail credit risk exposures, the sensitivity analysis includes ECL for loans and advances to customers related to defaulted obligors. This is because the retail ECL for secured mortgage portfolios including loans in all stages is sensitive to macroeconomic variables.

Wholesale and retail sensitivity

The wholesale and retail sensitivity analysis is stated inclusive of management judgemental adjustments, as appropriate to each scenario. The results tables exclude portfolios held by the insurance business and small portfolios, and as such cannot be directly compared to personal and wholesale lending presented in other credit risk tables. Additionally in both the wholesale and retail analysis, the comparative period results for additional/ alternative Downside scenarios are also not directly comparable with the current period, because they reflect different risk profiles relative to the consensus scenarios for the period end.

Wholesale analysis

IFRS 9 ECL sensitivity to future economic conditions

	UK £m	France £m
ECL of loans and advances to customers at 31 December 2020[1]		
Reported ECL	**317**	**88**
Consensus scenarios		
Central scenario	**219**	**82**
Upside scenario	**156**	**73**
Downside scenario	**339**	**98**
Additional Downside scenario	**657**	**178**
Gross carrying amount[2]	**137,825**	**123,444**
ECL of loans and advances to customers at 31 December 2019[1, 3]		
Reported ECL	119	42
Consensus scenarios		
Central scenario	92	40
Upside scenario	83	38
Downside scenario	108	60
Alternative scenarios		
UK alternative Downside scenario 1 (‘AD1’)	160	
Gross carrying amount [2]	125,085	119,967

1 *ECL sensitivity includes off-balance sheet financial instruments that are subject to significant measurement uncertainty.*
2 *Includes low credit-risk financial instruments such as debt instruments at FVOCI, which have high carrying amounts but low ECL under all the above scenarios.*
3 *ECL sensitivities for 2019 exclude portfolios utilising less complex modelling approaches and management judgemental adjustments only included in reported ECL.*

At 31 December 2020, the higher sensitivity in UK is largely driven by significant exposure in the country and more severe impacts of the downside scenarios relative to the central and probability weighted scenarios.

Retail analysis

IFRS 9 ECL sensitivity to future economic conditions[1]

	UK £m	France £m
ECL of loans and advances to customers at 31 December 2020[2]		
Reported ECL	**12**	**114**
Consensus scenarios		
Central scenario	**11**	**113**
Upside scenario	**8**	**111**
Downside scenario	**14**	**115**
Additional Downside scenario	**17**	**118**
Gross carrying amount	**1,980**	**19,254**
ECL of loans and advances to customers at 31 December 2019[2]		
Reported ECL	8	102
Consensus scenarios		
Central scenario	7	102
Upside scenario	7	102
Downside scenario	9	103
Gross carrying amount	2,012	17,749

1 *ECL sensitivities exclude portfolios utilising less complex modelling approaches.*
2 *ECL sensitivity includes only on-balance sheet financial instruments to which IFRS 9 impairment requirements are applied.*

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

The following disclosure provides a reconciliation by stage of the group's gross carrying/nominal amount and allowances for loans and advances to banks and customers, including loan commitments and financial guarantees. Movements are calculated on a quarterly basis and therefore fully capture stage movements between quarters. If movements were calculated on a year-to-date basis they would only reflect the opening and closing position of the financial instrument. The transfers of financial instruments represents the impact of stage transfers upon the gross carrying/nominal amount and associated allowance for ECL.

The net remeasurement of ECL arising from stage transfers represents the increase or decrease due to these transfers, for example, moving from a 12-month (stage 1) to a lifetime (stage 2) ECL measurement basis. Net remeasurement excludes the underlying customer risk rating ('CRR')/probability of default ('PD') movements of the financial instruments transferring stage. This is captured, along with other credit quality movements in the 'changes in risk parameters – credit quality' line item.

Changes in 'New financial assets originated or purchased', 'Assets derecognised (including final repayments)' and 'Changes to risk parameters – further lending/repayments' represent the impact from volume movements within the group's lending portfolio.

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

(Audited)

	Non credit – impaired				Credit – impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
The group	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2020	195,249	(132)	11,103	(143)	2,235	(796)	78	(33)	208,665	(1,104)
Transfers of financial instruments	(19,123)	(62)	16,792	93	2,331	(31)	–	–	–	–
– Transfers from Stage 1 to Stage 2	(31,600)	54	31,600	(54)	–	–	–	–	–	–
– Transfers from Stage 2 to Stage 1	12,821	(121)	(12,821)	121	–	–	–	–	–	–
– Transfers to Stage 3	(351)	7	(2,147)	32	2,498	(39)	–	–	–	–
– Transfers from Stage 3	7	(2)	160	(6)	(167)	8	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	60	–	(67)	–	(2)	–	–	–	(9)
New financial assets originated or purchased	95,477	(62)	–	–	–	–	10	(1)	95,487	(63)
Asset derecognised (including final repayments)	(72,860)	6	(2,553)	21	(998)	139	(16)	1	(76,427)	167
Changes to risk parameters – further lending/repayments	(21,912)	48	5,666	6	(41)	101	(11)	(2)	(16,298)	153
Changes to risk parameters – credit quality	–	(53)	–	(248)	–	(687)	–	–	–	(988)
Changes to model used for ECL calculation	–	10	–	(36)	–	–	–	–	–	(26)
Assets written off	–	–	–	–	(252)	252	(23)	23	(275)	275
Credit related modifications that resulted in derecognition	–	–	–	–	(18)	5	–	–	(18)	5
Foreign exchange	6,058	5	498	(3)	95	(33)	2	–	6,653	(31)
Others[2]	1,826	–	220	(1)	–	2	–	–	2,046	1
At 31 Dec 2020	184,715	(180)	31,726	(378)	3,352	(1,050)	40	(12)	219,833	(1,620)
ECL income statement charge for the period		9		(324)		(449)		(2)		(766)
Recoveries										2
Others										(17)
Total ECL income charge for the period										(781)

	At 31 Dec 2020		12 months ended 31 Dec 2020
	Gross carrying/nominal amount	Allowance for ECL	ECL charge
	£m	£m	£m
As above	219,833	(1,620)	(781)
Other financial assets measured at amortised cost	202,763	(12)	(2)
Non-trading reverse purchase agreement commitments	42,794	–	–
Performance and other guarantees not considered for IFRS 9			(17)
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/Summary consolidated income statement	465,390	(1,632)	(800)
Debt instruments measured at FVOCI	51,713	(22)	(8)
Total allowance for ECL/total income statement ECL charge for the period	n/a	(1,654)	(808)

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
2 *Includes the period on period movement in exposures relating to other HSBC Group companies. As at 31 December 2020, these amounted to £2bn and were classified as Stage 1 with no ECL.*

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

(Audited)

	Non credit – impaired				Credit – impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
The group	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2019	205,009	(154)	17,010	(207)	2,557	(989)	124	(78)	224,700	(1,428)
Transfers of financial instruments:	1,566	(61)	(2,198)	83	632	(22)	—	—	—	—
– Transfers from Stage 1 to Stage 2	(8,660)	19	8,660	(19)	—	—	—	—	—	—
– Transfers from Stage 2 to Stage 1	10,426	(80)	(10,426)	80	—	—	—	—	—	—
– Transfers to Stage 3	(205)	1	(487)	24	692	(25)	—	—	—	—
– Transfers from Stage 3	5	(1)	55	(2)	(60)	3	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	52	—	(28)	—	(1)	—	—	—	23
New financial assets originated or purchased	113,078	(79)	—	—	—	—	21	(16)	113,099	(95)
Asset derecognised (including final repayments)	(88,021)	5	(1,479)	17	(411)	96	(7)	3	(89,918)	121
Changes to risk parameters – further lending/repayments	(26,328)	60	(2,380)	21	(99)	62	23	8	(28,784)	151
Changes to risk parameters – credit quality	—	46	—	(38)	—	(333)	—	(28)	—	(353)
Changes to model used for ECL calculation	—	—	—	—	—	—	—	—	—	—
Assets written off	—	—	—	—	(304)	304	(78)	78	(382)	382
Credit related modifications that resulted in derecognition	—	—	—	—	(65)	46	—	—	(65)	46
Foreign exchange	(6,029)	4	(341)	4	(84)	32	(6)	3	(6,460)	43
Others[2]	(4,026)	(5)	491	5	9	9	1	(3)	(3,525)	6
At 31 Dec 2019	195,249	(132)	11,103	(143)	2,235	(796)	78	(33)	208,665	(1,104)
ECL Income statement charge for the period		84		(28)		(176)		(33)		(153)
Recoveries										6
Others										(3)
Total ECL income statement charge/ for the period										(150)

	At 31 Dec 2019		12 months ended 31 Dec 2019
	Gross carrying/nominal amount	Allowance for ECL	ECL charge
	£m	£m	£m
As above	208,665	(1,104)	(150)
Other financial assets measured at amortised cost	181,755	(9)	3
Non-trading reverse purchase agreement commitments	37,999	—	—
Performance and other guarantees not considered for IFRS 9			(4)
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/Summary consolidated income statement	428,419	(1,113)	(151)
Debt instruments measured at FVOCI	46,360	(16)	27
Total allowance for ECL/total income statement ECL charge for the period	n/a	(1,129)	(124)

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
2 *Includes the period on period movement in exposures relating to other HSBC Group companies. As at 31 December 2019, these amounted to £(5)bn and were classified as Stage 1 with no ECL.*

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

(Audited)

	Non credit – impaired				Credit – impaired				Total	
	Stage 1		Stage 2		Stage 3		POCI			
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
The bank	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2020	94,937	(77)	4,582	(77)	753	(242)	38	(24)	100,310	(420)
Transfers of financial instruments	(12,397)	(27)	11,422	47	975	(20)	–	–	–	–
– Transfers from Stage 1 to Stage 2	(17,892)	36	17,892	(36)	–	–	–	–	–	–
– Transfers from Stage 2 to Stage 1	5,676	(68)	(5,676)	68	–	–	–	–	–	–
– Transfers to Stage 3	(183)	5	(845)	17	1,028	(22)	–	–	–	–
– Transfers from Stage 3	2	–	51	(2)	(53)	2	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	26	–	(34)	–	–	–	–	–	(8)
New financial assets originated or purchased	14,911	(43)	–	–	–	–	–	–	14,911	(43)
Asset derecognised (including final repayments)	(7,687)	2	(666)	2	(167)	9	(15)	1	(8,535)	14
Changes to risk parameters – further lending/repayments	(5,898)	35	(1,201)	13	(25)	(9)	2	(3)	(7,122)	36
Changes to risk parameters – credit quality	–	(54)	–	(129)	–	(232)	–	1	–	(414)
Changes to model used for ECL calculation	–	10	–	(36)	–	–	–	–	–	(26)
Assets written off	–	–	–	–	(118)	118	(23)	23	(141)	141
Credit related modifications that resulted in derecognition	–	–	–	–	(16)	4	–	–	(16)	4
Foreign exchange	(60)	7	24	1	(2)	4	–	–	(38)	12
Others[2]	(5,384)	–	–	–	(5)	5	–	–	(5,389)	5
At 31 Dec 2020	78,422	(121)	14,161	(213)	1,395	(363)	2	(2)	93,980	(699)
ECL income statement charge for the period		(24)		(184)		(232)		(1)		(441)
Recoveries										–
Others										(12)
Total ECL income charge for the period										(453)

	At 31 Dec 2020		12 months ended 31 Dec 2020
	Gross carrying/nominal amount	Allowance for ECL	ECL charge
	£m	£m	£m
As above	93,980	(699)	(453)
Other financial assets measured at amortised cost	135,900	(1)	4
Non-trading reverse purchase agreement commitments	4,747	–	–
Performance and other guarantees not considered for IFRS 9			(3)
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/Summary consolidated income statement	234,627	(700)	(452)
Debt instruments measured at FVOCI	28,699	(9)	(5)
Total allowance for ECL/total income statement ECL charge for the period	n/a	(709)	(457)

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
2 *Includes the period on period movement in exposures relating to other HSBC Group companies. As at 31 December 2020, these amounted to £(5)bn and were classified as Stage 1 with no ECL.*

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

(Audited)

	Non-credit – impaired				Credit – impaired				Total	
	Stage 1		Stage 2		Stage 3		POCI			
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance/ for ECL	Gross carrying/ nominal amount	Allowance/ for ECL
The bank	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2019	124,740	(115)	11,439	(154)	1,179	(467)	108	(75)	137,466	(811)
Transfers of financial instruments:	2,678	(32)	(2,983)	50	305	(18)	—	—	—	—
– Transfers from Stage 1 to Stage 2	(3,736)	15	3,736	(15)	—	—	—	—	—	—
– Transfers from Stage 2 to Stage 1	6,602	(47)	(6,602)	47	—	—	—	—	—	—
– Transfers to Stage 3	(192)	1	(145)	18	337	(19)	—	—	—	—
– Transfers from Stage 3	4	(1)	28	—	(32)	1	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	31	—	(15)	—	—	—	—	—	16
New financial assets originated or purchased	18,132	(57)	—	—	—	—	18	(15)	18,150	(72)
Asset derecognised (including final repayments)	(12,180)	1	(602)	16	(99)	14	—	—	(12,881)	31
Changes to risk parameters - further lending/repayments	(19,884)	45	(2,538)	24	(249)	35	14	(2)	(22,657)	102
Changes to risk parameters – credit quality	—	34	—	(10)	—	(89)	—	(7)	—	(72)
Changes to model used for ECL calculation	—	—	—	—	—	—	—	—	—	—
Assets written off	—	—	—	—	(194)	194	—	—	(194)	194
Credit related modifications that resulted in derecognition	—	—	—	—	(62)	45	—	—	(62)	45
Foreign exchange	(218)	2	(21)	—	(7)	3	(3)	2	(249)	7
Others[2]	(18,331)	14	(713)	12	(120)	41	(99)	73	(19,263)	140
At 31 Dec 2019	94,937	(77)	4,582	(77)	753	(242)	38	(24)	100,310	(420)
ECL income statement charge for the period		54		15		(40)		(24)		5
Recoveries										2
Others										(10)
Total ECL income statement charge/ for the period										(3)

	At 31 Dec 2019		12 months ended 31 Dec 2019
	Gross carrying/nominal amount	Allowance for ECL	ECL charge
	£m	£m	£m
As above	100,310	(420)	(3)
Other financial assets measured at amortised cost	114,330	—	—
Non-trading reverse purchase agreement commitments	2,906	—	—
Performance and other guarantees not considered for IFRS 9			2
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/Summary consolidated income statement	217,546	(420)	(1)
Debt instruments measured at FVOCI	26,506	(4)	2
Total allowance for ECL/total income statement ECL charge for the period	n/a	(424)	1

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
2 *Includes the period on period movement in exposures relating to other HSBC Group companies. As at 31 December 2019, these amounted to £(12)bn and were classified as Stage 1 with no ECL.*

Credit quality

Credit quality of financial instruments

(Audited)

We assess the credit quality of all financial instruments that are subject to credit risk. The credit quality of financial instruments is a point-in-time assessment of the probability of default ('PD'), whereas stages 1 and 2 are determined based on relative deterioration of credit quality since initial recognition. Accordingly, for non-credit-impaired financial instruments, there is no direct relationship between the credit quality assessment and stages 1 and 2, though typically the lower credit quality bands exhibit a higher proportion in stage 2.

The five credit quality classifications each encompass a range of granular internal credit rating grades assigned to wholesale and personal lending businesses and the external ratings attributed by external agencies to debt securities, as shown in the table on page 33.

Distribution of financial instruments by credit quality at 31 December 2020

(Audited)

The group	Gross carrying/notional amount Strong £m	Good £m	Satisfactory £m	Sub-standard £m	Credit impaired £m	Total £m	Allowance for ECL £m	Net £m
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	43,077	24,780	26,477	5,619	3,007	102,960	(1,469)	101,491
– personal	19,232	4,341	2,251	141	534	26,499	(208)	26,291
– corporate and commercial	16,340	17,132	22,330	5,023	2,162	62,987	(1,168)	61,819
– non-bank financial institutions	7,505	3,307	1,896	455	311	13,474	(93)	13,381
Loans and advances to banks held at amortised cost	10,518	721	1,412	11	—	12,662	(16)	12,646
Cash and balances at central banks	84,964	—	129	—	—	85,093	(1)	85,092
Items in the course of collection from other banks	240	—	3	—	—	243	—	243
Reverse repurchase agreements – non-trading	57,282	8,370	1,920	5	—	67,577	—	67,577
Financial investments	2	—	13	—	—	15	—	15
Prepayments, accrued income and other assets	47,928	566	1,285	17	39	49,835	(11)	49,824
– endorsements and acceptances	62	2	31	2	2	99	(1)	98
– accrued income and other	47,866	564	1,254	15	37	49,736	(10)	49,726
Debt instruments measured at fair value through other comprehensive income[1]	46,029	2,487	405	153	—	49,074	(22)	49,052
Out-of-scope for IFRS 9								
Trading assets	34,302	5,996	9,493	410	—	50,201	—	50,201
Other financial assets designated and otherwise mandatorily measured at fair value through profit or loss	2,460	1,152	587	4	—	4,203	—	4,203
Derivatives	165,868	30,113	4,299	890	40	201,210	—	201,210
Total gross carrying amount on balance sheet	492,670	74,185	46,023	7,109	3,086	623,073	(1,519)	621,554
Percentage of total credit quality	79%	12%	8%	1%	—	100%		
Loans and other credit-related commitments	97,281	26,361	17,081	2,047	266	143,036	(112)	142,924
Financial guarantees	1,340	1,153	1,020	334	122	3,969	(23)	3,946
In-scope: Irrevocable loan commitments and financial guarantees	98,621	27,514	18,101	2,381	388	147,005	(135)	146,870
Loans and other credit-related commitments	2,525	986	578	177	1	4,267	—	4,267
Performance and other guarantees	6,728	3,808	3,145	422	179	14,282	(51)	14,231
Out-of-scope: Revocable loan commitments and non-financial guarantees	9,253	4,794	3,723	599	180	18,549	(51)	18,498

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Distribution of financial instruments by credit quality at 31 December 2019 (continued)

(Audited)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
The group	£m	£m	£m	£m	£m	£m	£m	£m
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	43,805	32,224	27,863	3,423	2,113	109,428	(1,037)	108,391
– personal	16,704	4,902	2,597	143	487	24,833	(173)	24,660
– corporate and commercial	17,252	22,767	22,573	2,868	1,530	66,990	(809)	66,181
– non-bank financial institutions	9,849	4,555	2,693	412	96	17,605	(55)	17,550
Loans and advances to banks held at amortised cost	9,709	1,163	581	18	—	11,471	(4)	11,467
Cash and balances at central banks	51,658	42	116	—	—	51,816	—	51,816
Items in the course of collection from other banks	705	1	1	—	—	707	—	707
Reverse repurchase agreements – non-trading	72,587	10,819	2,258	92	—	85,756	—	85,756
Financial investments	2	—	11	—	—	13	—	13
Prepayments, accrued income and other assets	41,895	546	983	7	32	43,463	(9)	43,454
– endorsements and acceptances	33	35	13	—	1	82	—	82
– accrued income and other	41,862	511	970	7	31	43,381	(9)	43,372
Debt instruments measured at fair value through other comprehensive income[1]	41,431	2,105	811	191	1	44,539	(16)	44,523
Out-of-scope for IFRS 9								
Trading assets	42,335	6,934	9,731	956	—	59,956	—	59,956
Other financial assets designated and otherwise mandatorily measured at fair value through profit or loss	1,265	684	3,367	7	—	5,323	—	5,323
Derivatives	130,929	24,973	8,048	588	—	164,538	—	164,538
Total gross carrying amount on balance sheet	436,321	79,491	53,770	5,282	2,146	577,010	(1,066)	575,944
Percentage of total credit quality	76%	14%	9%	1%	—	100%		
Loans and other credit-related commitments	74,056	27,374	18,721	1,162	134	121,447	(54)	121,393
Financial guarantees	1,822	1,103	1,001	326	66	4,318	(9)	4,309
In-scope: Irrevocable loan commitments and financial guarantees	75,878	28,477	19,722	1,488	200	125,765	(63)	125,702
Loans and other credit-related commitments	4,485	1,931	899	139	3	7,457	—	7,457
Performance and other guarantees	7,525	3,052	3,870	639	100	15,186	(39)	15,147
Out-of-scope: Revocable loan commitments and non-financial guarantees	12,010	4,983	4,769	778	103	22,643	(39)	22,604

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Distribution of financial instruments by credit quality at 31 December 2020

(Audited)

The bank	Gross carrying/notional amount						Allowance for ECL	Net
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total		
	£m	£m	£m	£m	£m	£m	£m	£m
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	20,109	12,752	8,496	1,193	1,281	43,831	(590)	43,241
– personal	1,804	816	880	25	57	3,582	(13)	3,569
– corporate and commercial	7,870	9,401	6,785	1,038	920	26,014	(494)	25,520
– non-bank financial institutions	10,435	2,535	831	130	304	14,235	(83)	14,152
Loans and advances to banks held at amortised cost	7,256	412	410	–	–	8,078	(15)	8,063
Cash and balances at central banks	48,777	–	–	–	–	48,777	–	48,777
Items in the course of collection from other banks	37	–	–	–	–	37	–	37
Reverse repurchase agreements – non-trading	41,057	7,213	1,862	5	–	50,137	–	50,137
Financial investments	2,214	–	–	–	–	2,214	–	2,214
Prepayments, accrued income and other assets	34,495	94	120	4	22	34,735	(1)	34,734
– endorsements and acceptances	44	2	22	–	2	70	(1)	69
– accrued income and other	34,451	92	98	4	20	34,665	–	34,665
Debt instruments measured at fair value through other comprehensive income[1]	27,762	62	3	–	–	27,827	(9)	27,818
Out-of-scope for IFRS 9								
Trading assets	21,486	5,922	9,406	410	–	37,224	–	37,224
Other financial assets designated and otherwise mandatorily measured at fair value through profit or loss	94	788	382	4	–	1,268	–	1,268
Derivatives	150,837	26,966	3,625	638	–	182,066	–	182,066
Total gross carrying amount on balance sheet	354,124	54,209	24,304	2,254	1,303	436,194	(615)	435,579
Percentage of total credit quality	81%	13%	6%	–	–	100%		
Loans and other credit-related commitments	29,939	10,375	4,422	512	60	45,308	(81)	45,227
Financial guarantees	913	134	376	33	54	1,510	(13)	1,497
In-scope: Irrevocable loan commitments and financial guarantees	30,852	10,509	4,798	545	114	46,818	(94)	46,724
Loans and other credit-related commitments	475	235	148	173	1	1,032	–	1,032
Performance and other guarantees	4,670	1,701	623	127	35	7,156	(13)	7,143
Out-of-scope: Revocable loan commitments and non-financial guarantees	5,145	1,936	771	300	36	8,188	(13)	8,175

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Distribution of financial instruments by credit quality at 31 December 2019 (continued)

(Audited)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
The bank	£m	£m	£m	£m	£m	£m	£m	£m
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	20,751	17,246	10,353	1,253	711	50,314	(388)	49,926
– personal	1,846	897	857	19	18	3,637	(8)	3,629
– corporate and commercial	6,976	13,043	8,165	1,007	648	29,839	(345)	29,494
– non-bank financial institutions	11,929	3,306	1,331	227	45	16,838	(35)	16,803
Loans and advances to banks held at amortised cost	8,166	915	431	13	—	9,525	(3)	9,522
Cash and balances at central banks	30,149	—	—	—	—	30,149	—	30,149
Items in the course of collection from other banks	44	—	—	—	—	44	—	44
Reverse repurchase agreements – non-trading	40,284	8,209	2,155	88	—	50,736	—	50,736
Financial investments	—	—	—	—	—	—	—	—
Prepayments, accrued income and other assets	33,100	182	111	—	8	33,401	—	33,401
– endorsements and acceptances	3	35	3	—	1	42	—	42
– accrued income and other	33,097	147	108	—	7	33,359	—	33,359
Debt instruments measured at fair value through other comprehensive income[1]	26,009	73	3	—	—	26,085	(4)	26,081
Out-of-scope for IFRS 9								
Trading assets	29,183	6,849	9,599	956	—	46,587	—	46,587
Other financial assets designated and otherwise mandatorily measured at fair value through profit or loss	84	377	1,789	7	—	2,257	—	2,257
Derivatives	128,381	20,396	3,140	579	—	152,496	—	152,496
Total gross carrying amount on balance sheet	316,151	54,247	27,581	2,896	719	401,594	(395)	401,199
Percentage of total credit quality	79%	14%	7%	—	—	100%		
Loans and other credit-related commitments	22,854	9,955	6,708	142	23	39,682	(25)	39,657
Financial guarantees	2,964	210	410	54	57	3,695	(4)	3,691
In-scope: Irrevocable loan commitments and financial guarantees	25,818	10,165	7,118	196	80	43,377	(29)	43,348
Loans and other credit-related commitments	2,606	1,244	434	119	2	4,405	—	4,405
Performance and other guarantees	5,102	1,340	774	308	30	7,554	(9)	7,545
Out-of-scope: Revocable loan commitments and non-financial guarantees	7,708	2,584	1,208	427	32	11,959	(9)	11,950

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Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage distribution

(Audited)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
The group	£m	£m	£m	£m	£m	£m	£m	£m
Loans and advances to customers at amortised cost	43,077	24,780	26,477	5,619	3,007	102,960	(1,469)	101,491
– stage 1	42,579	21,351	17,556	1,693	–	83,179	(129)	83,050
– stage 2	498	3,429	8,921	3,926	–	16,774	(297)	16,477
– stage 3	–	–	–	–	2,966	2,966	(1,031)	1,935
– POCI	–	–	–	–	41	41	(12)	29
Loans and advances to banks at amortised cost	10,518	721	1,412	11	–	12,662	(16)	12,646
– stage 1	10,479	674	1,372	8	–	12,533	(13)	12,520
– stage 2	39	47	40	3	–	129	(3)	126
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	190,416	8,936	3,350	22	39	202,763	(12)	202,751
– stage 1	190,407	8,924	3,321	7	–	202,659	(2)	202,657
– stage 2	9	12	29	15	–	65	–	65
– stage 3	–	–	–	–	39	39	(10)	29
– POCI	–	–	–	–	–	–	–	–
Loans and other credit-related commitments	97,281	26,361	17,081	2,047	266	143,036	(112)	142,924
– stage 1	95,270	21,398	11,758	530	–	128,956	(34)	128,922
– stage 2	2,011	4,963	5,323	1,517	–	13,814	(68)	13,746
– stage 3	–	–	–	–	266	266	(10)	256
– POCI	–	–	–	–	–	–	–	–
Financial guarantees	1,340	1,153	1,020	334	122	3,969	(23)	3,946
– stage 1	1,337	883	496	123	–	2,839	(4)	2,835
– stage 2	3	270	524	211	–	1,008	(10)	998
– stage 3	–	–	–	–	121	121	(9)	112
– POCI	–	–	–	–	1	1	–	1
At 31 Dec 2020	342,632	61,951	49,340	8,033	3,434	465,390	(1,632)	463,758
Debt instruments at FVOCI[1]								
– stage 1	45,958	2,424	233	–	–	48,615	(12)	48,603
– stage 2	71	63	172	153	–	459	(10)	449
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
At 31 Dec 2020	46,029	2,487	405	153	–	49,074	(22)	49,052

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Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage distribution (continued)

(Audited)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
The group	£m	£m	£m	£m	£m	£m	£m	£m
Loans and advances to customers at amortised cost	43,805	32,224	27,863	3,423	2,113	109,428	(1,037)	108,391
– stage 1	43,804	31,864	23,006	1,403	—	100,077	(104)	99,973
– stage 2	1	360	4,857	2,020	—	7,238	(126)	7,112
– stage 3	—	—	—	—	2,043	2,043	(774)	1,269
– POCI	—	—	—	—	70	70	(33)	37
Loans and advances to banks at amortised cost	9,709	1,163	581	18	—	11,471	(4)	11,467
– stage 1	9,671	1,161	561	15	—	11,408	(4)	11,404
– stage 2	38	2	20	3	—	63	—	63
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	166,847	11,408	3,369	99	32	181,755	(9)	181,746
– stage 1	166,847	11,402	3,352	96	—	181,697	—	181,697
– stage 2	—	6	17	3	—	26	—	26
– stage 3	—	—	—	—	32	32	(9)	23
– POCI	—	—	—	—	—	—	—	—
Loans and other credit-related commitments	74,056	27,374	18,721	1,162	134	121,447	(54)	121,393
– stage 1	73,949	26,824	16,868	437	—	118,078	(22)	118,056
– stage 2	107	550	1,853	725	—	3,235	(11)	3,224
– stage 3	—	—	—	—	129	129	(21)	108
– POCI	—	—	—	—	5	5	—	5
Financial guarantees	1,822	1,103	1,001	326	66	4,318	(9)	4,309
– stage 1	1,821	1,087	663	114	—	3,685	(2)	3,683
– stage 2	1	16	338	212	—	567	(6)	561
– stage 3	—	—	—	—	63	63	(1)	62
– POCI	—	—	—	—	3	3	—	3
At 31 Dec 2019	296,239	73,272	51,535	5,028	2,345	428,419	(1,113)	427,306
Debt instruments at FVOCI[1]								
– stage 1	41,368	2,089	568	—	—	44,025	(7)	44,018
– stage 2	63	16	243	191	—	513	(9)	504
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	1	1	—	1
At 31 Dec 2019	41,431	2,105	811	191	1	44,539	(16)	44,523

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Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage distribution (continued)

(Audited)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
The bank	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Loans and advances to customers at amortised cost	20,109	12,752	8,496	1,193	1,281	43,831	(590)	43,241
– stage 1	19,650	10,014	4,918	47	–	34,629	(79)	34,550
– stage 2	459	2,738	3,578	1,146	–	7,921	(158)	7,763
– stage 3	–	–	–	–	1,279	1,279	(351)	928
– POCI	–	–	–	–	2	2	(2)	–
Loans and advances to banks at amortised cost	7,256	412	410	–	–	8,078	(15)	8,063
– stage 1	7,254	366	375	–	–	7,995	(12)	7,983
– stage 2	2	46	35	–	–	83	(3)	80
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	126,580	7,307	1,982	9	22	135,900	(1)	135,899
– stage 1	126,579	7,306	1,953	5	–	135,843	–	135,843
– stage 2	1	1	29	4	–	35	–	35
– stage 3	–	–	–	–	22	22	(1)	21
– POCI	–	–	–	–	–	–	–	–
Loans and other credit-related commitments	29,939	10,375	4,422	512	60	45,308	(81)	45,227
– stage 1	28,569	8,176	2,453	145	–	39,343	(28)	39,315
– stage 2	1,370	2,199	1,969	367	–	5,905	(48)	5,857
– stage 3	–	–	–	–	60	60	(5)	55
– POCI	–	–	–	–	–	–	–	–
Financial guarantees	913	134	376	33	54	1,510	(13)	1,497
– stage 1	910	121	170	2	–	1,203	(2)	1,201
– stage 2	3	13	206	31	–	253	(4)	249
– stage 3	–	–	–	–	54	54	(7)	47
– POCI	–	–	–	–	–	–	–	–
At 31 Dec 2020	184,797	30,980	15,686	1,747	1,417	234,627	(700)	233,927
Debt instruments at FVOCI[1]								
– stage 1	25,570	62	–	–	–	25,632	(7)	25,625
– stage 2	–	–	3	–	–	3	(2)	1
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
At 31 Dec 2020	25,570	62	3	–	–	25,635	(9)	25,626

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Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage distribution (continued)

(Audited)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
The bank	£m	£m	£m	£m	£m	£m	£m	£m
Loans and advances to customers at amortised cost	20,751	17,246	10,353	1,253	711	50,314	(388)	49,926
– stage 1	20,751	17,027	8,310	85	—	46,173	(58)	46,115
– stage 2	—	219	2,043	1,168	—	3,430	(67)	3,363
– stage 3	—	—	—	—	678	678	(239)	439
– POCI	—	—	—	—	33	33	(24)	9
Loans and advances to banks at amortised cost	8,166	915	431	13	—	9,525	(3)	9,522
– stage 1	8,149	914	411	13	—	9,487	(3)	9,484
– stage 2	17	1	20	—	—	38	—	38
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	103,577	8,391	2,266	88	8	114,330	—	114,330
– stage 1	103,577	8,387	2,254	88	—	114,306	—	114,306
– stage 2	—	4	12	—	—	16	—	16
– stage 3	—	—	—	—	8	8	—	8
– POCI	—	—	—	—	—	—	—	—
Loans and other credit-related commitments	22,854	9,955	6,708	142	23	39,682	(25)	39,657
– stage 1	22,754	9,867	6,186	13	—	38,820	(15)	38,805
– stage 2	100	88	522	129	—	839	(8)	831
– stage 3	—	—	—	—	18	18	(2)	16
– POCI	—	—	—	—	5	5	—	5
Financial guarantees	2,964	210	410	54	57	3,695	(4)	3,691
– stage 1	2,963	200	200	—	—	3,363	(1)	3,362
– stage 2	1	10	210	54	—	275	(2)	273
– stage 3	—	—	—	—	57	57	(1)	56
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2019	158,312	36,717	20,168	1,550	799	217,546	(420)	217,126
Debt instruments at FVOCI[1]								
– stage 1	26,009	73	—	—	—	26,082	(2)	26,080
– stage 2	—	—	3	—	—	3	(2)	1
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2019	26,009	73	3	—	—	26,085	(4)	26,081

1 *For the purposes of this disclosure gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowance. As such the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the balance sheet as it excludes fair value gains and losses.*

Credit-impaired loans

(Audited)

The group determines that a financial instrument is credit impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default. If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit default to be defined based on 180 days past due. Therefore the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans which are considered defaulted or otherwise credit-impaired.

Renegotiated loans and forbearance

The following table shows the gross carrying amounts of the group's holdings of renegotiated loans and advances to customers by industry sector and by stages. Mandatory and general offer loan modifications that are not borrower-specific, for example market-wide customer relief programmes, have not been classified as renegotiated loans. For details on customer relief schemes see page 60.

A summary of our current policies and practices for renegotiated loans and forbearance is set out in 'Credit risk management' on page 32.

Renegotiated loans and advances to customers at amortised costs by stage allocation

The group	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Gross carrying amount					
Personal	—	—	122	—	122
– first lien residential mortgages	—	—	97	—	97
– other personal lending	—	—	25	—	25
Wholesale	43	348	773	40	1,204
– corporate and commercial	43	348	773	40	1,204
– non-bank financial institutions	—	—	—	—	—
At 31 Dec 2020	43	348	895	40	1,326
Allowance for ECL					
Personal	—	—	(18)	—	(18)
– first lien residential mortgages	—	—	(14)	—	(14)
– other personal lending	—	—	(4)	—	(4)
Wholesale	(1)	(9)	(211)	(12)	(233)
– corporate and commercial	(1)	(9)	(211)	(12)	(233)
– non-bank financial institutions	—	—	—	—	—
At 31 Dec 2020	(1)	(9)	(229)	(12)	(251)

The group					
Gross carrying amount					
Personal	—	—	75	—	75
– first lien residential mortgages	—	—	57	—	57
– other personal lending	—	—	18	—	18
Wholesale	285	327	346	69	1,027
– corporate and commercial	285	327	345	69	1,026
– non-bank financial institutions	—	—	1	—	1
At 31 Dec 2019	285	327	421	69	1,102
Allowance for ECL					
Personal	—	—	(14)	—	(14)
– first lien residential mortgages	—	—	(10)	—	(10)
– other personal lending	—	—	(4)	—	(4)
Wholesale	(2)	(6)	(84)	(32)	(124)
– corporate and commercial	(2)	(6)	(84)	(32)	(124)
– non-bank financial institutions	—	—	—	—	—
At 31 Dec 2019	(2)	(6)	(98)	(32)	(138)

The bank	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Gross carrying amount					
Personal	—	—	7	—	7
– first lien residential mortgages	—	—	6	—	6
– other personal lending	—	—	1	—	1
Wholesale	39	181	520	2	742
– corporate and commercial	39	181	520	2	742
At 31 Dec 2020	39	181	527	2	749
Allowance for ECL					
Personal	—	—	—	—	—
– first lien residential mortgages	—	—	—	—	—
– other personal lending	—	—	—	—	—
Wholesale	(1)	(4)	(124)	(2)	(131)
– corporate and commercial	(1)	(4)	(124)	(2)	(131)
At 31 Dec 2020	(1)	(4)	(124)	(2)	(131)

Renegotiated loans and advances to customers at amortised costs by stage allocation (continued)

	Stage 1	Stage 2	Stage 3	POCI	Total
The bank	£m	£m	£m	£m	£m
Gross carrying amount					
Personal	—	—	4	—	4
– first lien residential mortgages	—	—	3	—	3
– other personal lending	—	—	1	—	1
Wholesale	171	201	135	33	540
– corporate and commercial	171	201	135	33	540
At 31 Dec 2019	171	201	139	33	544
Allowance for ECL					
Personal	—	—	—	—	—
– first lien residential mortgages	—	—	—	—	—
– other personal lending	—	—	—	—	—
Wholesale	(1)	(5)	(21)	(24)	(51)
– corporate and commercial	(1)	(5)	(21)	(24)	(51)
At 31 Dec 2019	(1)	(5)	(21)	(24)	(51)

Customer relief programmes

In response to the Covid-19 outbreak, governments and regulators around the world have introduced a number of support measures for both personal and wholesale customers in market-wide schemes. The following table presents the number of personal accounts/wholesale customers and the associated drawn loan values of customers under these schemes and HSBC-specific measures at 31 December 2020. In relation to personal lending, the majority of relief measures, including payment holidays, relate to existing lending, while in wholesale lending the relief measures comprise of payment holidays, refinancing of existing facilities and new lending under government backed schemes.

At 31 December 2020, the gross carrying value of loans to personal customers under relief was £197m. This comprised £69m in relation to mortgages and £128m in relation to other personal lending. The gross carrying value of loans to wholesale customers under relief was £5,468m. We continue to monitor the recoverability of loans granted under customer relief programmes, including loans to a small number of customers that were subsequently found to be ineligible for such relief. The ongoing performance of such loans remains an area of uncertainty at 31 December 2020.

Personal lending

Extant at 31 December 2020		UK	HSBC Continental Europe[1]	Germany	Other markets[2]	Total
Market-wide schemes						
Number of accounts granted mortgage customer relief	00s	1	—	—	—	1
Drawn loan value of accounts granted mortgage customer relief	£m	9	—	—	—	9
Number of accounts granted other personal lending customer relief	00s	<1	5	—	—	5
Drawn loan value of accounts granted other personal lending customer relief	£m	—	38	—	—	38
HSBC-specific measures						
Number of accounts granted mortgage customer relief	00s	—	<1	—	3	3
Drawn loan value of accounts granted mortgage customer relief	£m	—	2	—	58	60
Number of accounts granted other personal lending customer relief	00s	—	3	—	2	5
Drawn loan value of accounts granted other personal lending customer relief	£m	—	85	—	5	90
Total personal lending to major markets under market-wide schemes and HSBC-specific measures						
Number of accounts granted mortgage customer relief	00s	1	<1	—	3	4
Drawn loan value of accounts granted mortgage customer relief	£m	9	2	—	58	69
Number of accounts granted other personal lending customer relief	00s	<1	8	—	2	10
Drawn loan value of accounts granted other personal lending customer relief	£m	—	123	—	5	128
Market-wide schemes and HSBC-specific measures – mortgage relief as a proportion of total mortgages	%	0.5	0.1	—	2.2	0.9
Market-wide schemes and HSBC-specific measures – other personal lending relief as a proportion of total other personal lending loans and advances	%	—	0.7	—	2.3	0.7

Wholesale lending

Extant at 31 December 2020		UK	HSBC Continental Europe[1]	Germany	Other markets[2]	Total
Market-wide schemes						
Number of customers under market-wide schemes	00s	<1	49	<1	1	50
Drawn loan value of customers under market-wide schemes	£m	1	3,997	47	24	4,069
HSBC-specific measures						
Number of customers under HSBC-specific measures	00s	<1	3	—	<1	4
Drawn loan value of customers under HSBC-specific measures	£m	1	1,103	—	295	1,399
Total wholesale lending to major markets under market-wide schemes and HSBC-specific measures						
Number of customers	00s	<1	52	<1	1	54
Drawn loan value	£m	2	5,100	47	319	5,468
Market-wide schemes and HSBC-specific measures as a proportion of total wholesale lending loans and advances	%	—	20.7	0.7	22.7	8.5

1 HSBC Continental Europe includes France and branches in Spain, Poland and Greece.
2 Other markets include Malta, Jersey, Armenia and Middle east leasing partnership.

The initial granting of customer relief does not automatically trigger a migration to stage 2 or 3. However, information provided by payment deferrals is considered in the context of other reasonable and supportable information. This forms part of the overall assessment for whether there has been a significant increase in credit risk and credit impairment to identify loans for which lifetime ECL is appropriate. An extension in payment deferral does not automatically result in a migration to stage 2 or stage 3. The key accounting and credit risk judgement to ascertain whether a significant increase in credit risk has occurred is whether the economic effects of the Covid-19 outbreak on the customer are likely to be temporary over the lifetime of the loan, and whether they indicate that a concession is being made in respect of financial difficulty that would be consistent with stage 3.

Market-wide schemes

The following narrative provides further details on the major government and regulatory schemes offered in the UK, HSBC Continental Europe, Germany and Malta.

UK personal lending

Mortgages

Customer relief granted on UK mortgages primarily consists of payment holidays or partial payment deferrals.

Relief is offered for up to a total of six months. No payment is required from the borrower during this period and interest continues to be charged as usual. There is no impact upon the customers' arrears or default status from the utilisation of these schemes.

Other personal lending payment holidays

Customer relief is granted for up to six months. The maximum relief value is up to the due payment amount (i.e. monthly expected payment) during the period.

UK wholesale lending

The primary relief granted under government schemes consists of Coronavirus Large Business Interruption Loan Schemes ('CLBILS'). It provides finance to medium and large-sized enterprises that have a turnover in excess of £45m with loans of up to £200m. The interest rate and tenor of the loan are negotiated on commercial terms. A government guarantee of 80% is provided under the scheme.

HSBC Continental Europe personal lending

France - Other personal lending

The Prêt garanti par l'Etat ('PGE') government scheme provides term lending to professionals, firms, business owners, craftsmen and micro-entrepreneurs for a maximum duration of six years including a first year deferral. The maximum relief value is at 25% of baseline turnover with the maximum amount of €2.25m granted. Borrowers need to confirm that Covid-19 has placed them under temporary financial hardship and that they didn't experience financial difficulties before the crisis.

HSBC Continental Europe wholesale lending

France

The Prêt garanti par l'Etat ('PGE') government scheme provides term lending to all registered French companies, excluding real estate special purpose vehicles ('SPVs'), banks, and companies subject to insolvency proceedings, for a maximum duration of one year (with the option to amortise up to five years). The maximum loan value is linked to turnover.

Spain

The Official Credit Institute (Instituto de Crédito Oficial) ('ICO') scheme provides funding to Spanish companies, that are not listed as delinquent or insolvent and are not in a critical situation as defined by Regulation, for a maximum tenor of five years. The maximum loan size is linked to company wage bills and turnover. HSBC Spain assesses the eligibility of facilities for funding up to €50m. Facilities over €50m are referred to the ICO.

Germany – wholesale lending

Kreditanstalt für Wiederaufbau (KfW) Coronavirus Aid provides lending to corporates for a maximum tenor of five years.

Malta - wholesale lending

The Covid-19 guarantee scheme provides funding to all business undertakings established and operating in Malta, for a maximum loan tenor of five years. The maximum loan value is €10m for small and medium enterprises and €25m for large enterprises. Higher amounts must be referred to Malta Development Bank.

HSBC-specific measures

UK wholesale lending

HSBC is offering repayment holidays on small business term loans, flexible business loans, fixed rate loans and LIBOR loans to CMB customers. The duration is three to six months and there is no specific cap or maximum loan value.

France business banking lending

Payment holidays offered to professionals, firms, business owners, craftsmen and micro-entrepreneurs for a duration between one and six months (with possible extension up to twelve months for tourism industry).

France wholesale lending

Payment holidays offered to commercial banking customers focused largely on business banking or lower end micro and medium enterprises. The duration is between 3 and 18 months and there is no specific maximum loan value.

Malta personal lending

Mortgages and term loans

Repayment holidays were offered to customers for an initial duration between three and six months. In addition, customers have subsequently been granted the ability to apply for a second extension of up to a further six months.

Malta wholesale lending

Repayment holidays offered to customers for a duration between three and six months. There is no specific cap or maximum loan value.

Wholesale lending

This section provides further details on the countries and industries comprising wholesale loans and advances to customers and banks. Industry granularity is also provided by stage with geographical data presented for loans and advances to customers and banks, loans and other credit-related commitments and financial guarantees.

Total wholesale lending for loans and advances to banks and customers by stage distribution

	Gross carrying amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
The group	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Corporate and commercial	46,773	14,052	2,121	41	62,987	(100)	(225)	(831)	(12)	(1,168)
– agriculture, forestry and fishing	108	8	9	–	125	–	–	(5)	–	(5)
– mining and quarrying	1,110	215	108	–	1,433	(1)	(3)	(2)	–	(6)
– manufacture	8,598	2,900	286	13	11,797	(11)	(34)	(93)	(3)	(141)
– electricity, gas, steam and air-conditioning supply	2,532	299	29	–	2,860	(3)	(3)	(5)	–	(11)
– water supply, sewerage, waste management and remediation	260	44	4	–	308	–	(2)	(3)	–	(5)
– construction	589	265	131	2	987	(7)	(17)	(46)	(2)	(72)
– wholesale and retail trade, repair of motor vehicles and motorcycles	7,074	1,779	283	1	9,137	(10)	(22)	(171)	(1)	(204)
– transportation and storage	3,506	2,175	253	–	5,934	(31)	(30)	(81)	–	(142)
– accommodation and food	964	408	23	–	1,395	(2)	(8)	(12)	–	(22)
– publishing, audiovisual and broadcasting	2,381	424	50	–	2,855	(2)	(16)	(11)	–	(29)
– real estate	5,256	1,266	393	–	6,915	(17)	(28)	(194)	–	(239)
– professional, scientific and technical activities	3,219	1,409	179	25	4,832	(3)	(14)	(53)	(6)	(76)
– administrative and support services	6,470	2,336	259	–	9,065	(8)	(19)	(125)	–	(152)
– public administration and defence, compulsory social security	449	147	–	–	596	(1)	(1)	–	–	(2)
– education	26	76	1	–	103	–	(3)	(1)	–	(4)
– health and care	490	127	9	–	626	(1)	(10)	(6)	–	(17)
– arts, entertainment and recreation	127	85	4	–	216	–	(3)	(3)	–	(6)
– other services	2,443	25	100	–	2,568	(2)	(2)	(20)	–	(24)
– activities of households	2	–	–	–	2	–	–	–	–	–
– government	1,153	53	–	–	1,206	(1)	–	–	–	(1)
– asset-backed securities	16	11	–	–	27	–	(10)	–	–	(10)
Non-bank financial institutions	11,415	1,748	311	–	13,474	(11)	(35)	(47)	–	(93)
Loans and advances to banks	12,533	129	–	–	12,662	(13)	(3)	–	–	(16)
At 31 Dec 2020	70,721	15,929	2,432	41	89,123	(124)	(263)	(878)	(12)	(1,277)
By country										
UK	32,869	7,695	1,097	2	41,663	(87)	(147)	(310)	(2)	(546)
France	25,378	4,514	739	2	30,633	(16)	(55)	(417)	(2)	(490)
Germany	5,460	1,692	334	–	7,486	(4)	(20)	(68)	–	(92)
Other countries	7,014	2,028	262	37	9,341	(17)	(41)	(83)	(8)	(149)
At 31 Dec 2020	70,721	15,929	2,432	41	89,123	(124)	(263)	(878)	(12)	(1,277)

Total wholesale lending for loans and other credit-related commitments and financial guarantees[1] by stage distribution

	Nominal amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
The group	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Corporate and commercial	67,077	11,141	379	1	78,598	(32)	(58)	(18)	–	(108)
Financial	62,701	3,459	4	–	66,164	(6)	(19)	(1)	–	(26)
At 31 Dec 2020	129,778	14,600	383	1	144,762	(38)	(77)	(19)	–	(134)
By geography										
Europe	129,778	14,600	383	1	144,762	(38)	(77)	(19)	–	(134)
– of which: UK	*34,908*	*6,066*	*109*	–	*41,083*	*(29)*	*(51)*	*(12)*	–	*(92)*
– of which: France	*80,356*	*1,992*	*49*	–	*82,397*	*(3)*	*(9)*	*(3)*	–	*(15)*
– of which: Germany	*11,208*	*5,711*	*193*	–	*17,112*	*(2)*	*(9)*	*(1)*	–	*(12)*

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

Total wholesale lending for loans and advances to banks and customers by stage distribution (continued)

	Gross carrying amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
The group	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Corporate and commercial	59,654	5,806	1,460	70	66,990	(85)	(100)	(591)	(33)	(809)
– agriculture, forestry and fishing	86	7	10	—	103	—	—	(7)	—	(7)
– mining and quarrying	1,335	400	1	—	1,736	(3)	(6)	—	—	(9)
– manufacture	11,764	1,411	148	46	13,369	(18)	(33)	(66)	(9)	(126)
– electricity, gas, steam and air-conditioning supply	2,543	313	37	—	2,893	(4)	(14)	(5)	—	(23)
– water supply, sewerage, waste management and remediation	422	31	—	—	453	—	—	—	—	—
– construction	891	113	145	23	1,172	(1)	(2)	(62)	(23)	(88)
– wholesale and retail trade, repair of motor vehicles and motorcycles	8,534	903	316	1	9,754	(10)	(5)	(159)	(1)	(175)
– transportation and storage	5,112	216	264	—	5,592	(11)	(8)	(43)	—	(62)
– accommodation and food	985	286	16	—	1,287	(2)	—	(8)	—	(10)
– publishing, audiovisual and broadcasting	2,656	164	23	—	2,843	(5)	(2)	(4)	—	(11)
– real estate	6,414	979	218	—	7,611	(13)	(9)	(104)	—	(126)
– professional, scientific and technical activities	5,869	178	33	—	6,080	(4)	(1)	(20)	—	(25)
– administrative and support services	7,566	534	224	—	8,324	(7)	(6)	(100)	—	(113)
– public administration and defence, compulsory social security	555	138	—	—	693	—	(2)	—	—	(2)
– education	111	3	2	—	116	(1)	—	(1)	—	(2)
– health and care	305	38	8	—	351	(1)	(3)	(5)	—	(9)
– arts, entertainment and recreation	337	9	5	—	351	—	—	(4)	—	(4)
– other services	3,319	13	10	—	3,342	(4)	—	(3)	—	(7)
– activities of households	3	—	—	—	3	—	—	—	—	—
– government	831	60	—	—	891	—	—	—	—	—
– asset-backed securities	16	10	—	—	26	(1)	(9)	—	—	(10)
Non-bank financial institutions	17,150	359	96	—	17,605	(13)	(3)	(39)	—	(55)
Loans and advances to banks	11,408	63	—	—	11,471	(4)	—	—	—	(4)
At 31 Dec 2019[1]	88,212	6,228	1,556	70	96,066	(102)	(103)	(630)	(33)	(868)
By country										
UK	43,946	3,184	550	33	47,713	(52)	(49)	(187)	(24)	(312)
France	27,082	1,223	528	3	28,836	(17)	(21)	(316)	(1)	(355)
Germany	8,406	541	220	—	9,167	(1)	(4)	(40)	—	(45)
Other countries	8,778	1,280	258	34	10,350	(32)	(29)	(87)	(8)	(156)
At 31 Dec 2019	88,212	6,228	1,556	70	96,066	(102)	(103)	(630)	(33)	(868)

Total wholesale lending for loans and other credit-related commitments and financial guarantees[2] by stage distribution (continued)

	Nominal amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
The group	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Corporate and commercial	68,148	3,400	186	8	71,742	(22)	(15)	(21)	—	(58)
Financial	51,723	314	2	—	52,039	(2)	—	(1)	—	(3)
At 31 Dec 2019[1]	119,871	3,714	188	8	123,781	(24)	(15)	(22)	—	(61)
By geography										
Europe	119,871	3,714	188	8	123,781	(24)	(15)	(22)	—	(61)
– of which: UK	*32,779*	*943*	*75*	*5*	*33,802*	*(14)*	*(7)*	*(3)*	—	*(24)*
– of which: France	*69,226*	*913*	*48*	—	*70,187*	*(3)*	*(1)*	*(12)*	—	*(16)*
– of which: Germany	*13,634*	*1,389*	*63*	—	*15,086*	*(1)*	*(1)*	*(8)*	—	*(10)*

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

Collateral and other credit enhancement

(Audited)

Although collateral can be an important mitigant of credit risk, it is the group's practice to lend on the basis of the customer's ability to meet their obligations out of cash flow resources rather than placing primary reliance on collateral and other credit risk enhancements. Depending on the customer's standing and the type of product, facilities may be provided without any collateral or other credit enhancements. For other lending, a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of default, the group may utilise the collateral as a source of repayment.

Depending on its form, collateral can have a significant financial effect in mitigating our exposure to credit risk. Where there is sufficient collateral, an expected credit loss is not recognised. This is the case for reverse repurchase agreements and for certain loans and advances to customers where the loan to value ('LTV') is very low.

Mitigants may include a charge on borrowers' specific assets, such as real estate or financial instruments. Other credit risk mitigants include short positions in securities and financial assets held as part of linked insurance/investment contracts where the risk is predominantly borne by the policyholder. Additionally, risk may be managed by employing other types of collateral and credit risk enhancements, such as second charges, other liens and unsupported guarantees. Guarantees are normally taken from corporates and export credit agencies. Corporates would normally provide guarantees as part of a parent/subsidiary relationship and span a number of credit grades. The export credit agencies will normally be investment grade.

Certain credit mitigants are used strategically in portfolio management activities. While single name concentrations arise in portfolios managed by Global Banking and Corporate Banking, it is only in Global Banking that their size requires the use of portfolio level credit mitigants. Across Global Banking, risk limits and utilisations, maturity profiles and risk quality are monitored and managed proactively. This process is key to the setting of risk appetite for these larger, more complex, geographically distributed customer groups. While the principal form of risk management continues to be at the point of exposure origination, through the lending decision-making process, Global Banking also utilises loan sales and credit default swap ('CDS') hedges to manage concentrations and reduce risk. These transactions are the responsibility of a dedicated Global Banking portfolio management team. Hedging activity is carried out within agreed credit parameters, and is subject to market risk limits and a robust governance structure. Where applicable, CDSs are entered into directly with a central clearing house counterparty. Otherwise our exposure to CDS protection providers is diversified among mainly banking counterparties with strong credit ratings.

CDS mitigants are held at portfolio level and are not included in the expected loss calculations. CDS mitigants are not reported in the following tables.

Collateral on loans and advances

The following tables include off-balance sheet loan commitments, primarily undrawn credit lines.

The collateral measured in the following tables consists of charges over cash and marketable financial instruments. The values in the tables represent the expected market value on an open market basis. No adjustment has been made to the collateral for any expected costs of recovery. Marketable securities are measured at their fair value.

Other types of collateral such as unsupported guarantees and floating charges over the assets of a customer's business are not measured in the following tables. While such mitigants have value, often providing rights in insolvency, their assignable value is not sufficiently certain and they are therefore assigned no value for disclosure purposes.

The LTV ratios presented are calculated by directly associating loans and advances with the collateral that individually and uniquely supports each facility. When collateral assets are shared by multiple loans and advances, whether specifically or, more generally, by way of an all monies charge, the collateral value is pro-rated across the loans and advances protected by the collateral.

For credit-impaired loans, the collateral values cannot be directly compared with impairment allowances recognised. The LTV figures use open market values with no adjustments. Impairment allowances are calculated on a different basis, by considering other cash flows and adjusting collateral values for costs of realising collateral as explained further on page 123.

Other corporate, commercial and financial (non-bank) loans and advances

Other corporate, commercial and financial (non-bank) loans are analysed separately in the following table, which focuses on the countries containing the majority of our loans and advances balances. For financing activities in other corporate and commercial lending, collateral value is not strongly correlated to principal repayment performance.

Collateral values are generally refreshed when an obligor's general credit performance deteriorates and we have to assess the likely performance of secondary sources of repayment should it prove necessary to rely on them.

Wholesale lending – corporate, commercial and financial (non-bank) loans and advances including loan commitments by level of collateral for key countries by stage (excluding commercial real estate)

(Audited)

	Total		*Of which:* UK		*Of which:* France		*Of which:* Germany	
	Gross carrying/ nominal amount	ECL coverage	*Gross carrying/ nominal amount*	*ECL coverage*	*Gross carrying/ nominal amount*	*ECL coverage*	*Gross carrying/ nominal amount*	*ECL coverage*
The group	£m	%	*£m*	*%*	*£m*	*%*	*£m*	*%*
Stage 1								
Not collateralised	117,820	0.1	*49,970*	*0.1*	*47,647*	*–*	*13,685*	*–*
Fully collateralised	12,232	0.1	*8,241*	*0.2*	*2,163*	*–*	*638*	*–*
LTV ratio:								
– less than 50%	1,886	0.3	*1,019*	*0.3*	*543*	*–*	*–*	*–*
– 51% to 75%	4,403	0.2	*3,489*	*0.2*	*901*	*–*	*–*	*–*
– 76% to 90%	751	0.1	*267*	*0.4*	*360*	*–*	*–*	*–*
– 91% to 100%	5,192	–	*3,466*	*–*	*359*	*–*	*638*	*–*
Partially collateralised (A):	3,476	0.1	*59*	*–*	*3,167*	*0.1*	*–*	*–*
– *collateral value on A*	*2,855*		*32*		*2,621*		*–*	
Total Stage 1	**133,528**	**0.1**	***58,270***	***0.1***	***52,977***	***–***	***14,323***	***–***
Stage 2								
Not collateralised	23,132	1.0	*12,398*	*1.2*	*2,447*	*1.1*	*6,220*	*0.4*
Fully collateralised	1,838	1.2	*630*	*1.0*	*649*	*1.1*	*290*	*0.3*
LTV ratio:								
– less than 50%	824	1.5	*326*	*1.2*	*348*	*0.6*	*–*	*–*
– 51% to 75%	334	1.2	*269*	*0.4*	*45*	*2.2*	*–*	*–*
– 76% to 90%	47	2.1	*26*	*3.8*	*17*	*–*	*–*	*–*
– 91% to 100%	633	0.8	*9*	*–*	*239*	*1.3*	*290*	*0.3*
Partially collateralised (B):	2,629	0.7	*87*	*2.3*	*2,528*	*0.6*	*–*	*–*
– *collateral value on B*	*2,223*		*14*		*2,200*		*–*	
Total Stage 2	**27,599**	**1.0**	***13,115***	***1.2***	***5,624***	***0.9***	***6,510***	***0.4***
Stage 3								
Not collateralised	1,803	36.3	*740*	*29.7*	*529*	*63.9*	*441*	*15.2*
Fully collateralised	210	9.5	*152*	*1.3*	*12*	*66.7*	*21*	*14.3*
LTV ratio:								
– less than 50%	25	28.0	*2*	*–*	*7*	*57.1*	*–*	*–*
– 51% to 75%	27	29.6	*17*	*5.9*	*3*	*66.7*	*–*	*–*
– 76% to 90%	120	0.8	*118*	*0.8*	*1*	*100.0*	*–*	*–*
– 91% to 100%	38	10.5	*15*	*–*	*1*	*100.0*	*21*	*14.3*
Partially collateralised (C):	275	24.0	*71*	*11.3*	*191*	*26.2*	*–*	*–*
– *collateral value on C*	*182*		*40*		*136*		*–*	
Total Stage 3	**2,288**	**32.4**	***963***	***23.9***	***732***	***54.1***	***462***	***15.2***
POCI								
Not collateralised	37	27.0	*2*	*100.0*	*–*	*–*	*–*	*–*
Fully collateralised	–	–	*–*	*–*	*–*	*–*	*–*	*–*
LTV ratio:								
– less than 50%	–	–	*–*	*–*	*–*	*–*	*–*	*–*
– 51% to 75%	–	–	*–*	*–*	*–*	*–*	*–*	*–*
– 76% to 90%	–	–	*–*	*–*	*–*	*–*	*–*	*–*
– 91% to 100%	–	–	*–*	*–*	*–*	*–*	*–*	*–*
Partially collateralised (D):	3	100.0	*–*	*–*	*3*	*100.0*	*–*	*–*
– *collateral value on D*	*3*		*–*		*3*		*–*	
Total POCI	**40**	**32.5**	***2***	***100.0***	***3***	***100.0***	***–***	***–***
At 31 Dec 2020	**163,455**	**0.7**	***72,350***	***0.7***	***59,336***	***0.8***	***21,295***	***0.5***

Wholesale lending – corporate, commercial and financial (non-bank) loans and advances including loan commitments by level of collateral for key countries by stage (excluding commercial real estate) (continued)

(Audited)

	Total		Of which:					
			UK		France		Germany	
	Gross carrying/ nominal amount	ECL coverage	Gross carrying/ nominal amount	ECL coverage	Gross carrying/ nominal amount	ECL coverage	Gross carrying/ nominal amount	ECL coverage
The group	£m	%	£m	%	£m	%	£m	%
Stage 1								
Not collateralised	131,034	0.1	59,634	0.1	43,672	—	18,298	—
Fully collateralised	16,650	0.1	11,610	0.1	3,069	0.1	898	—
LTV ratio:								
– less than 50%	3,360	0.1	2,462	0.1	794	—	—	—
– 51% to 75%	3,326	0.2	2,085	0.2	1,018	0.1	—	—
– 76% to 90%	1,013	0.1	259	—	548	—	—	—
– 91% to 100%	8,951	—	6,804	—	709	0.1	898	—
Partially collateralised (A):	2,316	0.1	335	—	1,759	0.1	—	—
– *collateral value on A*	*1,753*		203		1,448		—	
Total Stage 1	150,000	0.1	71,579	0.1	48,500	—	19,196	—
Stage 2								
Not collateralised	7,050	1.2	2,910	1.7	1,456	0.6	1,534	0.3
Fully collateralised	865	1.2	623	0.8	142	2.1	76	—
LTV ratio:								
– less than 50%	271	1.1	253	0.8	17	—	—	—
– 51% to 75%	169	0.6	124	0.8	46	—	—	—
– 76% to 90%	29	—	18	—	11	—	—	—
– 91% to 100%	396	1.5	228	0.9	68	2.9	76	—
Partially collateralised (B):	86	—	29	—	55	—	—	—
– *collateral value on B*	*34*		1		32		—	
Total Stage 2	8,001	1.2	3,562	1.5	1,653	0.7	1,610	0.3
Stage 3								
Not collateralised	1,161	45.7	442	41.2	414	68.1	228	18.9
Fully collateralised	147	12.2	78	2.6	31	25.8	11	18.2
LTV ratio:								
– less than 50%	48	16.7	19	—	10	30.0	—	—
– 51% to 75%	14	21.4	2	—	12	25.0	—	—
– 76% to 90%	32	3.1	25	—	7	14.3	—	—
– 91% to 100%	53	11.3	32	3.1	2	50.0	11	18.2
Partially collateralised (C):	141	20.6	47	8.5	76	22.4	—	—
– *collateral value on C*	*50*		30		10		—	
Total Stage 3	1,449	39.8	567	33.2	521	58.9	239	18.8
POCI								
Not collateralised	57	52.6	23	100.0	—	—	—	—
Fully collateralised	—	—	—	—	—	—	—	—
LTV ratio:								
– less than 50%	—	—	—	—	—	—	—	—
– 51% to 75%	—	—	—	—	—	—	—	—
– 76% to 90%	—	—	—	—	—	—	—	—
– 91% to 100%	—	—	—	—	—	—	—	—
Partially collateralised (D):	18	16.7	15	6.7	4	50.0	—	—
– *collateral value on D*	*16*		12		4		—	
Total POCI	75	44.0	38	63.2	4	50.0	—	—
At 31 Dec 2019	159,525	0.5	75,746	0.4	50,678	0.7	21,045	0.3

Other credit risk exposures

In addition to collateralised lending, other credit enhancements are employed and methods used to mitigate credit risk arising from financial assets. These are described in more detail below:

- Some securities issued by governments, banks and other financial institutions benefit from additional credit enhancement provided by government guarantees that cover the assets;
- Debt securities issued by banks and financial institutions include asset-backed securities ('ABSs') and similar instruments which are supported by underlying pools of financial assets. Credit risk associated with ABSs is reduced through the purchase of credit default swap ('CDS') protection;
- Trading loan and advances mainly pledged against cash collaterals are posted to satisfy margin requirements. There is limited credit risk on trading loans and advances since in the event of default of the counterparty these would be set off against the related liability. Reverse repos and stock borrowings are by their nature collateralised.

Collateral accepted as security that the group is permitted to sell or repledge under these arrangements is described on page 157 of the financial statements.

- The group's maximum exposure to credit risk includes financial guarantees and similar contracts granted; as well as loan and other credit-related commitments. Depending on the terms of the arrangement, we may use additional credit mitigation if a guarantee is called upon or a loan commitment is drawn and subsequently defaults.

For further information on these arrangements, see Note 30 on the financial statements.

Derivatives

We participate in transactions exposing us to counterparty credit risk. Counterparty credit risk is the risk of financial loss if the counterparty to a transaction defaults before satisfactorily settling it. It arises principally from over-the-counter ('OTC') derivatives and securities financing transactions and is calculated in both the trading and non-trading books. Transactions vary in value by reference to market factors such as interest rates, exchange rates or asset prices.

The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment ('CVA').

The International Swaps and Derivatives Association ('ISDA') master agreement is our preferred agreement for documenting derivatives activity. It is common, and our preferred practice, for the parties involved in a derivative transaction to execute a credit support annex ('CSA') in conjunction with the ISDA master agreement. Under a CSA, collateral is passed between the parties to mitigate the counterparty risk inherent in outstanding positions. The majority of our CSAs are with financial institutional clients.

We manage the counterparty exposure on our OTC derivative contracts by using collateral agreements with counterparties and netting agreements. Currently, we do not actively manage our general OTC derivative counterparty exposure in the credit markets, although we may manage individual exposures in certain circumstances.

We place strict policy restrictions on collateral types and as a consequence the types of collateral received and pledged are, by value, highly liquid and of a strong quality, being predominantly USD, EUR and GBP cash and G7 Government Bonds.

Where a collateral type is required to be approved outside the collateral policy, approval is required from a committee of senior representatives from Markets, Legal and Risk.

See Note 28 on the financial statements for details regarding legally enforceable right of offset in the event of counterparty default and collateral received in respect of derivatives.

Personal lending

This section provides further details on the countries and products comprising personal loans and advances to customers.

Further product granularity is also provided by stage, with geographical data presented for loans and advances to customers, loan and other credit-related commitments, and financial guarantees.

Total personal lending for loans and advances to customers at amortised costs by stage distribution

	Gross carrying amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
The group	£m	£m	£m	£m	£m	£m	£m	£m
By portfolio								
First lien residential mortgages	7,087	211	265	7,563	(9)	(10)	(77)	(96)
– of which: interest only (including offset)	*3,454*	*151*	*115*	*3,720*	*(1)*	*(3)*	*(30)*	*(34)*
– affordability including ARMs	*394*	*2*	*4*	*400*	*(2)*	*—*	*(1)*	*(3)*
Other personal lending	17,904	763	269	18,936	(9)	(27)	(76)	(112)
– other[1]	17,616	726	255	18,597	(7)	(21)	(75)	(103)
– credit cards	288	37	14	339	(2)	(6)	(1)	(9)
At 31 Dec 2020	24,991	974	534	26,499	(18)	(37)	(153)	(208)
By geography								
UK[2]	3,455	70	57	3,582	(2)	(9)	(5)	(16)
France	19,230	689	296	20,215	(7)	(20)	(92)	(119)
Germany	124	145	—	269	—	—	—	—
Other countries	2,182	70	181	2,433	(9)	(8)	(56)	(73)
At 31 Dec 2020	24,991	974	534	26,499	(18)	(37)	(153)	(208)

Total personal lending for loans and other credit-related commitments and financial guarantees[3] by stage distribution

	Nominal amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
The group	£m	£m	£m	£m	£m	£m	£m	£m
UK	340	15	—	355	—	—	—	—
France	1,170	29	3	1,202	—	—	—	—
Germany	65	170	—	235	—	—	—	—
Other countries	442	8	1	451	—	(1)	—	(1)
At 31 Dec 2020	2,017	222	4	2,243	—	(1)	—	(1)

1 *Of which £15,105m guaranteed by Credit Logement in France as at 31 December 2020.*
2 *Includes primarily first lien residential mortgages in Channel Islands and Isle of Man.*
3 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*

Total personal lending for loans and advances to customers at amortised costs by stage distribution (continued)

	Gross carrying amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
The group	£m	£m	£m	£m	£m	£m	£m	£m
By portfolio								
First lien residential mortgages	7,080	287	237	7,604	(2)	(7)	(71)	(80)
– *of which: interest only (including offset)*	*3,414*	*228*	*112*	*3,754*	—	*(3)*	*(28)*	*(31)*
– *affordability including ARMs*	*378*	*3*	*1*	*382*	—	—	—	—
Other personal lending	16,193	786	250	17,229	(4)	(16)	(73)	(93)
– other[1]	15,867	750	234	16,851	(3)	(12)	(72)	(87)
– credit cards	326	36	16	378	(1)	(4)	(1)	(6)
At 31 Dec 2019	23,273	1,073	487	24,833	(6)	(23)	(144)	(173)
By geography								
UK[2]	3,562	58	17	3,637	(1)	(4)	(3)	(8)
France	17,403	911	322	18,636	(3)	(15)	(87)	(105)
Germany	200	46	—	246	—	—	—	—
Other countries	2,108	58	148	2,314	(2)	(4)	(54)	(60)
At 31 Dec 2019	23,273	1,073	487	24,833	(6)	(23)	(144)	(173)

Total personal lending for loans and other credit-related commitments and financial guarantees[3] by stage distribution (continued)

	Nominal amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
The group	£m	£m	£m	£m	£m	£m	£m	£m
UK	308	3	—	311	—	(1)	—	(1)
France	961	35	4	1,000	—	—	—	—
Germany	129	46	—	175	—	—	—	—
Other countries	494	4	—	498	—	(1)	—	(1)
At 31 Dec 2019	1,892	88	4	1,984	—	(2)	—	(2)

1 *Of which £11,110m guaranteed by Credit Logement in France as at 31 December 2019.*
2 *Includes primarily first lien residential mortgages in Channel Islands and Isle of Man.*
3 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*

Collateral on loans and advances

The following table provides a quantification of the value of fixed charges we hold over specific assets where we have a history of enforcing, and are able to enforce, collateral in satisfying a debt in the event of the borrower failing to meet its contractual obligations, and where the collateral is cash or can be realised by sale in an established market.

The collateral valuation excludes any adjustment for obtaining and selling the collateral and in particular loans shown as collateralised or partially collateralised may also benefit from other forms of credit mitigants.

Personal lending: residential mortgage loans including loan commitments by level of collateral for key countries

(Audited)

	Total		Of which: UK		Of which: France	
	Gross exposure	ECL coverage	*Gross exposure*	*ECL coverage*	*Gross exposure*	*ECL coverage*
The group	£m	%	*£m*	*%*	*£m*	*%*
Stage 1						
Fully collateralised	7,308	0.1	*2,751*	*–*	*2,364*	*–*
LTV ratio:						
– less than 50%	3,110	0.1	*1,018*	*–*	*1,147*	*–*
– 51% to 60%	1,074	0.1	*293*	*–*	*513*	*–*
– 61% to 70%	991	0.1	*316*	*–*	*378*	*–*
– 71% to 80%	789	0.3	*214*	*–*	*225*	*–*
– 81% to 90%	505	0.4	*109*	*–*	*70*	*–*
– 91% to 100%	839	0.1	*801*	*–*	*31*	*–*
Partially collateralised (A):	90	–	*9*	*–*	*63*	*–*
LTV ratio:						
– 101% to 110%	21	–	*–*	*–*	*13*	*–*
– 111% to 120%	14	–	*2*	*–*	*10*	*–*
– greater than 120%	55	–	*7*	*–*	*40*	*–*
– *collateral value on A*	*81*		*5*		*63*	
Total	7,398	0.1	*2,760*	*–*	*2,427*	*–*
Stage 2						
Fully collateralised	202	4.0	*34*	*2.9*	*116*	*0.9*
LTV ratio:						
– less than 50%	114	1.8	*17*	*–*	*64*	*1.6*
– 51% to 60%	31	3.2	*4*	*–*	*21*	*–*
– 61% to 70%	22	4.5	*–*	*–*	*17*	*–*
– 71% to 80%	15	13.3	*–*	*–*	*10*	*–*
– 81% to 90%	6	16.7	*–*	*–*	*3*	*–*
– 91% to 100%	14	7.1	*13*	*7.7*	*1*	*–*
Partially collateralised (B):	10	20.0	*–*	–	*5*	*–*
LTV ratio:						
– 101% to 110%	4	25.0	*–*	*–*	*2*	*–*
– 111% to 120%	2	50.0	*–*	*–*	*–*	*–*
– greater than 120%	4	–	*–*	*–*	*3*	*–*
– *collateral value on B*	*10*		*–*		*5*	
Total	212	4.7	*34*	*2.9*	*121*	*0.8*
Stage 3						
Fully collateralised	200	22.0	*12*	*8.3*	*69*	*23.2*
LTV ratio:						
– less than 50%	95	13.7	*8*	*12.5*	*30*	*23.3*
– 51% to 60%	34	23.5	*3*	*–*	*10*	*30.0*
– 61% to 70%	34	26.5	*–*	*–*	*16*	*12.5*
– 71% to 80%	23	34.8	*1*	*–*	*7*	*28.6*
– 81% to 90%	9	44.4	*–*	*–*	*2*	*50.0*
– 91% to 100%	5	40.0	*–*	*–*	*4*	*25.0*
Partially collateralised (C):	65	50.8	*–*	*–*	*36*	*38.9*
LTV ratio:						
– 101% to 110%	10	60.0	*–*	*–*	*3*	*33.3*
– 111% to 120%	8	62.5	*–*	*–*	*1*	*–*
– greater than 120%	47	46.8	*–*	*–*	*32*	*40.6*
– *collateral value on C*	*35*		*–*		*17*	
Total	265	29.1	*12*	*8.3*	*105*	*28.6*
At 31 Dec 2020	7,875	1.2	*2,806*	*0.1*	*2,653*	*1.2*

Personal lending: residential mortgage loans including loan commitments by level of collateral for key countries (continued)

(Audited)

	Total		Of which: UK		Of which: France	
	Gross exposure	ECL coverage	*Gross exposure*	*ECL coverage*	*Gross exposure*	*ECL coverage*
The group	£m	%	*£m*	*%*	*£m*	*%*
Stage 1						
Fully collateralised	7,056	—	*2,887*	*—*	*2,290*	*—*
LTV ratio:						
– less than 50%	2,868	—	*971*	*—*	*984*	*—*
– 51% to 60%	961	—	*271*	*—*	*502*	*—*
– 61% to 70%	845	—	*258*	*—*	*402*	*—*
– 71% to 80%	676	—	*218*	*—*	*273*	*—*
– 81% to 90%	400	—	*127*	*—*	*89*	*—*
– 91% to 100%	1,306	0.1	*1,042*	*—*	*40*	*—*
Partially collateralised (A):	345	—	*4*	*—*	*74*	*—*
LTV ratio:						
– 101% to 110%	221	—	*—*	*—*	*15*	*—*
– 111% to 120%	65	—	*1*	*—*	*11*	*—*
– greater than 120%	59	—	*3*	*—*	*48*	*—*
– *collateral value on A*	*323*		*2*		*73*	
Total	7,401	—	*2,891*	*—*	*2,364*	*—*
Stage 2						
Fully collateralised	272	2.2	*43*	*—*	*190*	*0.5*
LTV ratio:						
– less than 50%	128	1.6	*15*	*—*	*91*	*1.1*
– 51% to 60%	44	2.3	*8*	*—*	*31*	*—*
– 61% to 70%	34	2.9	*1*	*—*	*28*	*—*
– 71% to 80%	33	3.0	*—*	*—*	*29*	*—*
– 81% to 90%	9	0.0	*—*	*—*	*8*	*—*
– 91% to 100%	24	4.2	*19*	*—*	*3*	*—*
Partially collateralised (B):	15	6.7	*—*	*—*	*8*	*—*
LTV ratio:						
– 101% to 110%	7	14.3	*—*	*—*	*2*	*—*
– 111% to 120%	2	—	*—*	*—*	*1*	*—*
– greater than 120%	6	—	*—*	*—*	*5*	*—*
– *collateral value on B*	*15*		*—*		*7*	
Total	287	—	*43*	*—*	*198*	*—*
Stage 3						
Fully collateralised	173	20.8	*14*	*7.1*	*89*	*27.0*
LTV ratio:						
– less than 50%	99	22.2	*11*	*9.1*	*52*	*30.8*
– 51% to 60%	25	16.0	*1*	*—*	*13*	*15.4*
– 61% to 70%	16	18.8	*1*	*—*	*8*	*12.5*
– 71% to 80%	17	17.6	*1*	*—*	*8*	*25.0*
– 81% to 90%	7	28.6	*—*	*—*	*3*	*33.3*
– 91% to 100%	9	22.2	*—*	*—*	*5*	*40.0*
Partially collateralised (C):	64	57.8	*—*	*—*	*13*	*30.8*
LTV ratio:						
– 101% to 110%	29	51.7	*—*	*—*	*5*	*20.0*
– 111% to 120%	14	71.4	*—*	*—*	*2*	*50.0*
– greater than 120%	21	57.1	*—*	*—*	*6*	*33.3*
– *collateral value on C*	*51*		*—*		*10*	
Total	237	30.8	*14*	*7.1*	*102*	*27.5*
At 31 Dec 2019	7,925	1.0	*2,948*	*—*	*2,664*	*1.1*

Treasury risk

Overview

Treasury risk is the risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements, together with the financial risks arising from the provision of pensions and other post-employment benefits to staff and their dependents. Treasury risk also includes the risk to our earnings or capital due to structural foreign exchange exposures and changes in market interest rates.

Treasury risk arises from changes to the respective resources and risk profiles driven by customer behaviour, management decisions or the external environment.

Approach and policy

Our objective in the management of treasury risk is to maintain appropriate levels of capital, liquidity, funding, foreign exchange and market risk to support our business strategy, and meet our regulatory and stress testing-related requirements.

Our approach to treasury management is driven by our strategic and organisational requirements, taking into account the regulatory, economic and commercial environment. We aim to maintain a strong capital and liquidity base to support the risks inherent in our business and invest in accordance with our strategy, meeting both consolidated and local regulatory requirements at all times.

Our policy is underpinned by our risk management framework, our internal capital adequacy assessment process ('ICAAP') and our internal liquidity adequacy assessment process ('ILAAP'). The risk framework incorporates a number of measures aligned to our assessment of risks for both internal and regulatory purposes.

These risks include credit, market, operational, pensions, structural foreign exchange and interest rate risk in the banking book.

The PRA is the supervisor of the bank and lead supervisor of the group. The PRA sets capital requirements and receives information on the capital and liquidity adequacy of the bank and the group. Individual banking subsidiaries are directly regulated by their local banking supervisors, who set and monitor their capital adequacy requirements.

Treasury risk management

Governance and structure

Capital and liquidity are the responsibility of HSBC Bank Plc Executive Committee and directly addressed by HSBC Bank Plc Board. Treasury risks are managed through the Asset and Liability Management Committee ('ALCO') and overseen by the Risk Management Meeting ('RMM').

Regarding Interest rate risk in the banking book ('IRRBB'), the Asset, Liability and Capital Management ('ALCM') function is responsible for managing non-traded interest rate risk, maintaining the transfer pricing framework and informing ALCO of the overall banking book interest rate risk exposure. Banking book interest rate positions may be transferred to be managed by the Markets Treasury business, previously known as Balance Sheet Management, within the market risk limits approved by the RMM. Effective governance of Markets Treasury is supported by the dual reporting lines it has to the Chief Executive Officer of GBM and to the Group Treasurer, with Risk acting as a second line of defence.

Pension risk is managed by a network of regional pension risk forums. The governance and oversight of the pension plans sponsored by HSBC within its European operations are the responsibility of the Europe Pension Oversight Forum ('POF'), which is chaired by the Bank's Head of Risk Strategy.

Capital, liquidity and structural foreign exchange exposure risk management processes

We manage group capital and to ensure that we exceed current and expected future requirements, and that we respect the payment priority of our capital providers. Throughout 2020, we complied with the PRA regulatory capital adequacy requirements, including those relating to stress testing.

There is a continued focus on the quality of regulatory reporting by the PRA and other regulators globally. We continue to strengthen our processes and controls over regulatory reporting, including commissioning independent external reviews of various aspects of regulatory reporting. As we strengthen our processes and controls, there may be impacts on some of our regulatory ratios such as the CET1 and liquidity coverage ratio ('LCR'). We continue to keep the PRA and other relevant regulators informed of adverse findings from external reviews and our progress in strengthening the control environment.

All the capital instruments included in our capital base have either been issued as fully compliant CRD IV securities (on an end point basis) or in accordance with the rules and guidance in the PRA's previous General Prudential Sourcebook, which are included in the capital base by virtue of the application of CRR II.

HSBC requires all operating entities to comply with HSBC Group's Liquidity and Funding Risk Management Framework ('LFRF') on a stand-alone basis and to meet regulatory and internal minimum requirements at all times. The LCR and net stable funding ratio ('NSFR') are key components of the LFRF.

The Group's operating entities are predominantly defined on a country basis to reflect the local management of liquidity and funding. However, where appropriate, this definition may be expanded to cover a consolidated group of legal entities or narrowed to a principal office (branch) of a wider legal entity to reflect the management under internal or regulatory definitions.

The RMM reviews and agrees annually the list of entities it directly oversees and the composition of these entities.

Details of HSBC's ('LFRF') can be found in the group's Pillar 3 document.

Structural foreign exchange exposures represent the group's net investments in subsidiaries, branches and associates, the functional currencies of which are currencies other than sterling. An entity's functional currency is that of the primary economic environment in which the entity operates.

Unrealised gains or losses due to revaluations of structured foreign exchange exposures are recognised in other comprehensive income, whereas other unrealised gains or losses arising from revaluations of foreign exchange positions are reflected in the income statement.

The group's structural foreign exchange exposures are managed with the primary objective of ensuring, where practical, that the group's consolidated capital ratios and the capital ratios of individual banking subsidiaries are largely protected from the effect of changes in exchange rates. We hedge structural foreign exchange exposures only in limited circumstances.

Measurement of interest rate risk in the banking book

The following measures are used by ALCM to monitor and control interest rate risk in the banking book including:

- non-traded VaR;
- Net Interest Income ('NII') sensitivity; and
- Economic Value of Equity ('EVE').

Non-traded VaR

Non-traded VaR uses the same models as those used in the trading book as discussed under the Market risk section, but for banking book balances.

Net interest income sensitivity

A principal part of our management of non-traded interest rate risk is to monitor the sensitivity of expected NII under varying interest rate scenarios (simulation modelling), where all other economic variables are held constant. This monitoring is undertaken by ALCO.

The group applies a combination of scenarios and assumptions relevant to the businesses as well as applying standard scenarios that are required throughout HSBC group.

NII sensitivity reflects the group's sensitivity of earnings to changes in market interest rates. Entities forecast both one year and five year NII sensitivities across a range of interest rate scenarios based on a static balance sheet assumption. Sites include business line rate pass-on assumptions, re-investment of maturing assets and liabilities at market rates per shock scenario and prepayment risk. NII is modelled based on no management actions i.e. the risk profile at the month end is assumed to remain constant throughout the forecast horizon.

Economic value of equity

EVE represents the present value of the future banking book cash flows that could be distributed to equity providers under a managed run-off scenario, i.e. the current book value of equity plus the present value of future net interest income in this scenario. EVE sensitivity is the extent to which the EVE value will change due to a pre-specified movement in interest rates, where all other economic variables are held constant.

Pension risk management processes

HSBC provides future pension benefits on a defined contribution basis from many of its European operations. However there remain future defined benefit pensions provided in the region.

Pension plans are run by local fiduciaries in line with local legislative requirements. The largest pension plan is the HSBC Trinkaus & Burkhardt Pension Scheme which is regulated by the German Company Benefits Act (Gesetz zur Verbesserung der betrieblichen Altersversorgung – Betriebsrentengesetz –BetrAVG).

In defined contribution pension plans, the contributions that HSBC is required to make are known, while the ultimate pension benefit will vary, typically with investment returns achieved by investment choices made by the employee. While the market risk to HSBC of defined contribution plans is low, it is still exposed to operational and reputational risk.

In defined benefit pension plans, the level of pension benefit is known. Therefore, the level of contributions required by HSBC will vary due to a number of risks, including:

- investments delivering a return below that required to provide the projected plan benefits;
- the prevailing economic environment leading to corporate failures, thus triggering write-downs in asset values (both equity and debt);
- a change in either interest rates or inflation, causing an increase in the value of the plan liabilities; and
- plan members living longer than expected (known as longevity risk).

Pension risk is assessed using an economic capital model that takes into account potential variations in these factors. The impact of these variations on both pension assets and pension liabilities is assessed using a one-in-200-year stress test. Scenario analysis and other stress tests are also used to support pension risk management.

To fund the benefits associated with defined benefit plans, sponsoring group companies, and in some instances employees, make regular contributions in accordance with advice from actuaries and in consultation with the plan's trustees where relevant. These contributions are normally set to ensure that there are sufficient funds to meet the cost of the accruing benefits for the future service of active members. However, higher contributions are required when plan assets are considered insufficient to cover the existing pension liabilities. Contribution rates are typically revised annually or once every three years, depending on the plan.

The defined benefit plans invest contributions in a range of investments designed to limit the risk of assets failing to meet a plan's liabilities. Any changes in expected returns from the investments may also change future contribution requirements. In pursuit of these long-term objectives, an overall target allocation of the defined benefit plan assets between asset classes is established. In addition, each permitted asset class has its own benchmarks, such as stock market or property valuation indices or liability characteristics. The benchmarks are reviewed at least once every three to five years and more frequently if required by local legislation or circumstances. The process generally involves an extensive asset and liability review.

Capital risk in 2020

Capital overview

Key capital numbers

	At	
	31 Dec 2020	31 Dec 2019
Available capital (£m)		
Common equity tier 1 capital	**18,042**	17,791
Tier 1 capital	**22,165**	22,130
Total regulatory capital	**33,438**	34,929
Risk-weighted assets (£m)		
Credit risk	**77,214**	79,208
Counterparty credit risk	**19,344**	21,286
Market risk	**14,589**	13,107
Operational risk	**11,245**	11,812
Total risk-weighted assets	**122,392**	125,413
Capital ratios (%)		
Common equity tier 1	**14.7**	14.2
Total tier 1	**18.1**	17.6
Total capital	**27.3**	27.9
Leverage ratio (transitional)		
Tier 1 capital (£m)	**22,165**	22,130
Total leverage ratio exposure measure (£m)	**565,049**	571,302
Leverage ratio (%)	**3.9**	3.9
Leverage ratio (fully phased-in)		
Tier 1 capital (£m)	**21,732**	21,480
Total leverage ratio exposure measure (£m)	**565,049**	571,302
Leverage ratio (%)	**3.8**	3.8

Capital figures and ratios in the table above are calculated in accordance with the Capital Requirements Regulation and Directive, as implemented ('CRR'). These include the regulatory transitional arrangements for IFRS 9 'Financial Instruments', including paragraph four of article 473a. Leverage ratios are calculated using the end point definition of capital and the IFRS 9 regulatory transitional arrangements.

Following the end of the transition period after the UK's withdrawal from the EU, any reference to EU regulations and directives (including technical standards) should be read as a reference to the UK's version of such regulation and/or directive, as onshored into UK law under the European Union (Withdrawal) Act 2018.

Own funds

Own funds disclosure

(Audited)

Ref*		At 31 Dec 2020 £m	31 Dec 2019 £m
	Common equity tier 1 ('CET1') capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	**797**	797
	– ordinary shares	**797**	797
2	Retained earnings	**17,407**	19,272
3	Accumulated other comprehensive income (and other reserves)	**2,888**	2,048
5	Minority interests (amount allowed in consolidated CET1)	**66**	350
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend	**(1,755)**	(3,019)
6	**Common equity tier 1 capital before regulatory adjustments**	**19,403**	19,448
28	Total regulatory adjustments to common equity tier 1	**(1,361)**	(1,657)
29	**Common equity tier 1 capital**	**18,042**	17,791
36	Additional tier 1 capital before regulatory adjustments	**4,167**	4,384
43	Total regulatory adjustments to additional tier 1 capital	**(44)**	(45)
44	**Additional tier 1 capital**	**4,123**	4,339
45	**Tier 1 capital**	**22,165**	22,130
51	Tier 2 capital before regulatory adjustments	**11,724**	13,229
57	Total regulatory adjustments to tier 2 capital	**(451)**	(430)
58	**Tier 2 capital**	**11,273**	12,799
59	**Total capital**	**33,438**	34,929

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

At 31 December 2020, our CET1 capital ratio increased to 14.7% from 14.2% at 31 December 2019. This was due to a decrease in RWAs and an increase in capital during the year. CET1 capital increased by £0.2bn during the year, mainly as a result of a capital injection of £1bn by HSBC UK Holdings Limited, foreign exchange differences of £0.4bn, offset by loss for the period on a regulatory basis (adjusted for intangible impairments) of £1.0bn net of dividends.

We have applied the revised regulatory treatment of software assets, which became a UK requirement in December 2020. The impact of the change on our CET1 ratio was immaterial.

Risk-weighted assets

Risk-weighted assets ('RWAs') decreased by £3.0bn during the year, including an increase of £0.4bn due to foreign currency translation differences. The £3.4bn decrease (excluding foreign currency translation differences) comprised the movements described by the following comments.

Asset size

The £0.9bn decrease in RWAs was driven mainly by a £2.8bn fall in CMB and a £0.8bn fall in GBM. This is primarily due to management initiatives under our transformation programme, partly offset by mark-to-market movements in counterparty credit risk RWAs. The £0.3bn fall in WPB was mainly driven by operational risk reductions. Market risk RWAs increased by £3.2bn due to market volatility.

Asset quality

The £2.2bn increase in asset quality was mainly driven by a £1.3bn rise in CMB and £1.0bn rise in GBM. This was mainly due to changes in portfolio mix and credit migration.

Model updates

Model updates led to a £0.1bn decrease in RWAs. This was mainly due to a £1.2bn fall in market risk RWAs as a result of changes to the calculation of risks not in VaR and the implementation of a new options portfolio model and a £0.1bn fall in GBM due to global corporate model updates. This was offset by a £1.3bn increase in WPB mainly related to our retail model in France.

Methodology and policy

The £4.5bn fall in RWAs included reductions from initiatives under our transformation programme and risk parameter refinements, offset by changes in approach to credit risk exposures.

GBM and CMB reduced RWAs by £7.4bn of which £4.8bn were under the transformation programme. These reductions stem from a variety of actions, including risk parameter refinements and improved collateral linkage. Changes under the CRR 'Quick Fix' relief package in relation to the implementation of the revised small and medium-sized enterprise supporting factor led to a £0.3bn fall in RWAs within CMB.

At the start of 2020, we implemented two changes that led to a £3.8bn increase in our wholesale credit risk exposures. Application of the new securitisation framework to the pre-existing book caused RWAs to rise by £2.8bn, mainly in Corporate Centre and GBM. We also transferred several UK corporate portfolios from the Advanced to the Foundation IRB approach which resulted in a £1.0bn rise in RWAs in GBM.

WPB RWAs increased by £1.5bn mainly as a result of changes to calculations on French retail exposures.

RWA movement by global business by key driver

	Credit risk, counterparty credit risk and operational risk					
	WPB	CMB	GBM	Corporate Centre	Market risk	Total RWAs
	£m	£m	£m	£m	£m	£m
RWAs at 1 Jan 2020	**9,119**	**28,768**	**68,569**	**5,850**	**13,107**	**125,413**
Asset size	**(260)**	**(2,780)**	**(831)**	**(241)**	**3,166**	**(946)**
Asset quality	**5**	**1,321**	**989**	**(160)**	**—**	**2,155**
Model updates	**1,346**	**(57)**	**(259)**	**24**	**(1,179)**	**(125)**
Methodology and policy	**1,522**	**(1,485)**	**(6,002)**	**1,296**	**204**	**(4,465)**
Foreign exchange movement	**313**	**1,072**	**(26)**	**(290)**	**(709)**	**360**
Total RWA movement	**2,926**	**(1,929)**	**(6,129)**	**629**	**1,482**	**(3,021)**
RWAs at 31 Dec 2020	**12,045**	**26,839**	**62,440**	**6,479**	**14,589**	**122,392**

Leverage ratio

Our leverage ratio calculated in accordance with the Capital Requirements Regulation was 3.8% at 31 December 2020, unchanged from 31 December 2019. The impact to our leverage ratio arising from the change in treatment of software assets was immaterial.

Pillar 3 disclosure requirements

Pillar 3 of the Basel regulatory framework is related to market discipline and aims to make financial services firms more transparent by requiring publication of wide-ranging information on their risks, capital and management. Our *Pillar 3 Disclosures at 31 December 2020* is published on our website, www.hsbc.com/investors

Structural foreign exchange exposures

The group's structural foreign currency exposure is represented by the net asset value of its foreign currency equity and subordinated debt investments in subsidiary undertakings, branches, joint ventures and associates.

For our policies and procedures for managing structural foreign exchange exposures, see page 71 of the 'Risk management' section.

Net structural foreign exchange exposures

	2020	2019
	£m	£m
Currency of structural exposure		
Euro	**8,511**	8,446
US Dollars	**1,081**	1,005
South African rand	**277**	324
Israeli new shekel	**159**	139
Russian rouble	**119**	155
Others, each less than £150m	**327**	301
At 31 Dec	**10,474**	**10,370**

Liquidity and funding risk in 2020

Liquidity coverage ratio

The 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 31 December 2020, all the group's principal operating entities were within the LCR risk tolerance level established by the Board and applicable under the LFRF.

The following table displays the individual LCR levels for HSBC Bank plc's principal operating entities on the European Commission Delegated Regulation basis.

Operating entities' LCRs

	At	
	31 Dec 2020	31 Dec 2019
	%	%
HSBC Bank plc	**136**	142
HSBC Continental Europe	**143**	152
HSBC Trinkaus & Burkhardt AG	**144**	125

While HQLA increased due to deposit growth, the LCR for HSBC Bank plc and HSBC Continental Europe declined, reflecting a reassessment of potential LCR outflows, particularly with respect to committed facilities.

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).

At 31 December 2020, all the group's principal operating entities were within the NSFR risk tolerance level established by the Board and applicable under the LFRF.

Operating entities' NSFRs

	At	
	31 Dec 2020	31 Dec 2019
	%	%
HSBC Bank plc[1]	**133**	122
HSBC Continental Europe[2]	**130**	117
HSBC Trinkaus & Burkhardt AG	**138**	121

1 *HSBC Bank plc uses an adjusted NSFR as a basis for establishing stable funding. The adjusted NSFR requires HSBC Bank plc to maintain sufficient stable funding and reflects its long term funding profile. The adjusted NSFR takes into account the anticipated regulatory changes approved under the Capital Requirements Regulation and Directive, as implemented ('CRR II'), and other internal adjustments commensurate with the risk profile of the balance sheet.*
2 *Post Brexit, the CRR II implementation is under review by PRA in terms of applicability for UK banks.*

Depositor concentration and term funding maturity concentration

The LCR and NSFR metrics assume a stressed outflow based on a portfolio of depositors within each depositor segment. To ensure the validity of these assumptions in the sense that the deposit base is sufficient diversified, the depositor concentration is monitored on an ongoing basis.

In addition to this, operating entities are exposed to term re-financing concentration risk if the current maturity profile results in future maturities being overly concentrated in any defined period.

Liquid assets of the group's principal operating entities

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.

Operating entities' liquid assets

	At Estimated liquidity value 31 Dec 2020 £m	At Estimated liquidity value 31 Dec 2019 £m
HSBC Bank plc		
Level 1	**88,942**	68,467
Level 2a	**8,260**	5,883
Level 2b	**3,888**	3,289
HSBC Continental Europe		
Level 1	**34,981**	32,410
Level 2a	**267**	747
Level 2b	**—**	—
HSBC Trinkaus & Burkhardt AG		
Level 1	**11,044**	7,573
Level 2a	**8**	27
Level 2b	**315**	294

Sources of funding

Our primary sources of funding are customer current accounts, repo and wholesale securities.

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 operating entities 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 at other balance sheet lines. In 2020, the level of customer accounts continued to exceed 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 for the group

	2020 £m	2019 £m
Sources		
Customer accounts	**195,184**	177,236
Deposits by banks	**34,305**	23,991
Repurchase agreements – non-trading	**34,903**	49,385
Debt securities in issue	**17,371**	25,039
Cash collateral, margin and settlement accounts	**47,173**	43,556
Subordinated liabilities	**13,764**	13,182
Financial liabilities designated at fair value	**40,792**	41,642
Liabilities under insurance contracts	**22,816**	24,509
Trading liabilities	**44,229**	48,026
– repos	**8,441**	349
– stock lending	**3,356**	7,498
– other trading liabilities	**32,432**	40,179
Total equity	**23,849**	24,012
Other balance sheet liabilities	**206,764**	168,913
At 31 Dec	**681,150**	636,491

	2020 £m	2019 £m
Uses		
Loans and advances to customers	**101,491**	108,391
Loans and advances to banks	**12,646**	11,467
Reverse repurchase agreements – non-trading	**67,577**	85,756
Cash collateral, margin and settlement accounts	**46,840**	40,254
Assets held for sale	**90**	13
Trading assets	**86,976**	98,249
– reverse repos	**8,182**	8,358
– stock borrowing	**4,137**	5,094
– other trading assets	**74,657**	84,797
Financial investments	**51,826**	46,464
Cash and balances with central banks	**85,092**	51,816
Other balance sheet assets	**228,612**	194,081
At 31 Dec	**681,150**	636,491

Contingent liquidity risk arising from committed lending facilities

The group provides customers with committed facilities such as standby facilities to corporate customers and committed backstop lines to conduits sponsored by the group. All of the undrawn commitments provided to conduits or external customers are accounted for in the LCR and NSFR in line with the applicable regulations. This ensures that under a stress scenario any additional outflow generated by increased utilisation of these committed facilities by either customers or the group's sponsored conduits will not give rise to liquidity risk for the group.

Since the group controls the size of the portfolio of securities held by these conduits, no contingent liquidity risk exposure arises as a result of these undrawn committed lending facilities. In relation to commitments to customers, the table below shows the level of undrawn commitments outstanding in terms of the five largest single facilities and the largest market sector.

The group's contractual exposures at 31 December monitored under the contingent liquidity risk limit structure

	Footnotes	2020 £bn	2019 £bn
Commitments to conduits			
Consolidated multi-seller conduits	1		
– total lines		**5.8**	4.4
– largest individual lines		**0.4**	0.2
Consolidated securities investment conduits – total lines		**1.6**	2.4
Commitments to customers			
– five largest	2	**6.6**	4.4
– largest market sector	3	**8.0**	8.7

1 *Exposures relate to the Regency multi-seller conduit. This vehicle provides funding to group customers by issuing debt secured by a diversified pool of customer-originated assets. In 2019, Regency ceased to be consolidated in HSBC Bank plc's LCR and adjusted NSFR reports.*
2 *Represents the undrawn balance for the five largest committed liquidity facilities provided to customers, other than those facilities to conduits.*
3 *Represents the undrawn balance for the total of all committed liquidity facilities provided to the largest market sector, other than those facilities to conduits.*

Asset encumbrance and collateral management

An asset is defined as encumbered if it has been pledged as collateral against an existing liability and, as a result, is no longer available to the group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. Collateral is managed on an operating entity basis consistent with the approach to managing liquidity and funding. Available collateral held in an operating entity is managed as a single consistent collateral pool from which each operating entity will seek to optimise the use of the available collateral. The objective of this disclosure is to facilitate an understanding of available and unrestricted assets that could be used to support potential future funding and collateral needs. The disclosure is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.

Summary of assets available to support potential future funding and collateral needs (on- and off-balance sheet)

	2020	2019
	£m	£m
Total on-balance sheet assets at 31 Dec	**681,150**	636,491
Less:		
– reverse repo/stock borrowing receivables and derivative assets	**(281,125)**	(263,762)
– other assets that cannot be pledged as collateral	**(51,068)**	(52,292)
Total on-balance sheet assets that can support funding and collateral needs at 31 Dec	**348,957**	320,437
Add: off-balance sheet assets		
– fair value of collateral received in relation to reverse repo/stock borrowing/derivatives that is available to sell or repledge	**213,690**	239,032
Total assets that can support future funding and collateral needs	**562,647**	559,469
Less:		
– on-balance sheet assets pledged	**(107,671)**	(94,860)
– re-pledging of off-balance sheet collateral received in relation to reverse repo/stock borrowing/derivatives	**(154,486)**	(179,442)
Assets available to support funding and collateral needs at 31 Dec	**300,490**	285,167

Market risk

Overview

Market risk is the risk that movements in market factors, including foreign exchange rates and commodity prices, interest rates, credit spreads and equity prices will reduce the group's income or the value of its portfolios.

Exposure to market risk is separated into two portfolios.

Trading portfolios comprise positions arising from market-making and warehousing of customer-derived positions.

Non-trading portfolios including Markets Treasury comprise positions that primarily arise from the interest rate management of the group's retail and commercial banking assets and liabilities, financial investments designated as held-to-collect-and-sale ('HTCS'), and exposures arising from the group's insurance operations.

Key developments in 2020

There were no material changes to our policies and practices for the management of market risk in 2020.

Market risk governance

(Audited)

The following diagram summarises the main business areas where trading and non-trading market risks reside, and the market risk measures used to monitor and limit exposures.

	Trading risk	Non-trading risk
Risk types	• Foreign exchange and commodities • Interest rates • Credit spreads • Equities	• Interest rates • Credit spreads • Foreign exchange
Global business	GBM	GBM, ALCO, CMB and WPB
Risk measure	Value at risk | Sensitivity | Stress testing	Value at risk | Sensitivity | Stress testing

Where appropriate, we apply similar risk management policies and measurement techniques to both trading and non-trading portfolios. Our objective is to manage and control market risk exposures to optimise return on risk while maintaining a market profile consistent with our established risk appetite.

Market risk is managed and controlled through limits approved by the group Chief Risk Officer. These limits are allocated across business lines and to the group and its subsidiaries. The majority of HSBC's total VaR and almost all trading VaR reside in GBM. Each major operating entity has an independent market risk management and control sub-function, which is responsible for measuring, monitoring and reporting market risk exposures against limits on a daily basis. Each operating entity is required to assess the market risks arising in its business and to transfer them either to its local Markets & Securities Services or Markets Treasury unit for management, or to separate books managed under the supervision of the local ALCO. The Traded Risk function enforces the controls around trading in permissible instruments approved for each site as well as following completion of the new product approval process. Traded Risk also restricts trading in the more complex derivative products to offices with appropriate levels of product expertise and robust control systems.

Market risk measures

Monitoring and limiting market risk exposures

Our objective is to manage and control market risk exposures while maintaining a market profile consistent with the group's risk appetite.

We use a range of tools to monitor and limit market risk exposures including sensitivity analysis, VaR, and stress testing

Sensitivity analysis

Sensitivity analysis measures the impact of individual market factor movements on specific instruments or portfolios, including interest rates, foreign exchange rates, credit spreads and equity prices, such as the effect of a one basis point change in yield. We use sensitivity measures to monitor the market risk positions within each risk type. Sensitivity limits are set for portfolios, products and risk types, with the depth of the market being one of the principal factors in determining the level of limits set.

Value at risk

VaR is a technique that estimates the potential losses on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The use of VaR is integrated into market risk management and is calculated for all trading positions regardless of how the group capitalises those exposures. Where there is not an approved internal model, the group uses the appropriate local rules to capitalise exposures.

In addition, the group calculates VaR for non-trading portfolios in order to have a complete picture of risk. The models are predominantly based on historical simulation. VaR is calculated at a 99% confidence level for a one-day holding period. Where we do not calculate VaR explicitly, we use alternative tools like Stress Testing.

The VaR models used by us are based predominantly on historical simulation. These models derive plausible future scenarios from past series of recorded market rates and prices, taking into account inter-relationships between different markets and rates such as interest rates and foreign exchange rates. The models also incorporate the effect of option features on the underlying exposures.

The historical simulation models used incorporates the following features:

- historical market rates and prices are calculated with reference to foreign exchange rates and commodity prices, interest rates, equity prices and the associated volatilities;
- potential market movements utilised for VaR are calculated with reference to data from the past two years; and
- VaR measures are calculated to a 99% confidence level and use a one-day holding period.

The nature of the VaR models means that an increase in observed market volatility will most likely lead to an increase in VaR without any changes in the underlying positions.

VaR model limitations

Although a valuable guide to risk, VaR should always be viewed in the context of its limitations. For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a holding period assumes that all positions can be liquidated or the risks offset during that period. This may not fully reflect the market risk arising at times of severe illiquidity, when the holding period may be insufficient to liquidate or hedge all positions fully;
- the use of a 99% confidence level by definition does not take into account losses that might occur beyond this level of confidence; and
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

Risk not in VaR framework

Other basis risks which are not completely covered in VaR, such as the Libor tenor basis, are complemented by our risk not in VaR ('RNIV') calculations, and are integrated into our capital framework.

Risk factors are reviewed on a regular basis and either incorporated directly in the VaR models, where possible, or quantified through the VaR-based RNIV approach or a stress test approach within the RNIV framework. The outcome of the VaR-based RNIV is included in the VaR calculation; a stressed VaR RNIV is also computed for the risk factors considered in the VaR-based RNIV approach.

Stress-type RNIVs include a deal contingent derivatives capital charge to capture risk for these transactions and a de-peg risk measure to capture risk to pegged and heavily managed currencies

Stress testing

Stress testing is an important procedure that is integrated into our market risk management tool to evaluate the potential impact on portfolio values of more extreme, although plausible, events or movements in a set of financial variables. In such scenarios, losses can be much greater than those predicted by VaR modelling.

Stress testing is implemented at legal entity, regional and overall Group levels. A standard set of scenarios is utilised consistently across all regions within the HSBC group. Scenarios are tailored to capture the relevant events or market movements at each level. The risk appetite around potential stress losses for the group is set and monitored against referral limits.

Market risk reverse stress tests are undertaken on the premise that there is a fixed loss. The stress testing process identifies which scenarios lead to this loss. The rationale behind the reverse stress test is to understand scenarios which are beyond normal business settings that could have contagion and systemic implications.

Stressed VaR and stress testing, together with reverse stress testing and the management of gap risk, provide management with insights regarding the 'tail risk' beyond VaR for which the group's appetite is limited.

Trading portfolios

Back-testing

We routinely validate the accuracy of our VaR models by back-testing them against both actual and hypothetical profit and loss against the corresponding VaR numbers. Hypothetical profit and loss excludes non-modelled items such as fees, commissions and revenues of intra-day transactions.

We would expect on average to see two or three profits in excess of the VaR at 1% confidence level and two or three losses in excess of VaR at the 99% confidence level over a one-year period. The actual number of profits or losses in excess of VaR over this period can therefore be used to gauge how well the models are performing.

We back-test our VaR at various entity hierarchy levels. Back-testing using the regulatory hierarchy includes entities which have approval to use VaR in the calculation of market risk regulatory capital requirement.

Non-trading portfolios

Non-trading VaR of HSBC Bank plc includes the interest rate risk of non-trading financial instruments held by the global businesses and transferred into portfolios managed by Markets Treasury or Asset, Liability and Capital Management ('ALCM') functions. In measuring, monitoring and managing risk in our non-trading portfolios, VaR is just one of the tools used. The management of interest rate risk in the banking book is described further in 'Non-trading interest rate risk' below, including the role of Markets Treasury. The Group's and HSBC Bank plc's control of market risk in the non-trading portfolios is based on transferring the assessed market risk of non-trading assets and liabilities created outside Markets Treasury or Markets, to the books managed by Markets Treasury, provided the market risk can be neutralised. The net exposure is typically managed by Markets Treasury through the use of fixed rate government bonds (liquid asset held in held-to-collect-and-sale ('HTCS' books)) and interest rate swaps. The interest rate risk arising from fixed rate government bonds held within HTCS portfolios is reflected within the group's non-trading VaR. Interest rate swaps used by Markets Treasury are typically classified as either a fair value hedge or a cash flow hedge and included within the group's non-trading VaR. Any market risk that cannot be neutralised in the market is managed by HSBC Bank plc ALCM in segregated ALCO books..

Defined benefit pension scheme

Market risk also arises within the Bank's defined benefit pension schemes to the extent that the obligations of the schemes are not fully matched by assets with determinable cash flows. Refer to the Pension risk management processes section on page 72 for additional information.

Market risk in 2020

Global financial conditions worsened rapidly with the onset of the Covid-19 outbreak from mid-February. Market volatility reached extreme levels across most asset classes and equity prices fell sharply. In credit markets, spreads and yields reached multi-year highs. The gold market experienced Covid-19 related disruption in refining and transportation, affecting the relative pricing of gold futures contracts. Oil prices collapsed due to rising oversupply as demand reduced materially from the economic slowdown. Financial markets stabilised from April onwards, as governments in several developed countries announced economic recovery programmes and key central banks intervened to provide liquidity and support asset prices. Global equity markets substantially recovered from their losses in March and credit spreads reverted towards pre-Covid-19 levels. During 2H20 markets remained susceptible to further bouts of volatility triggered by increases in Covid-19 cases and various geopolitical risks. Market sentiment improved after positive vaccine news and the US presidential elections in November 2020, adding momentum to the performance of risky assets.

We managed market risk prudently during 2020. Sensitivity exposures remained within appetite as the business pursued its core market-making activity in support of our customers during the outbreak. We also undertook hedging activities to protect the business from potential future deterioration in credit conditions. Market risk continued to be managed using a complementary set of exposure measures and limits, including stress and scenario analysis.

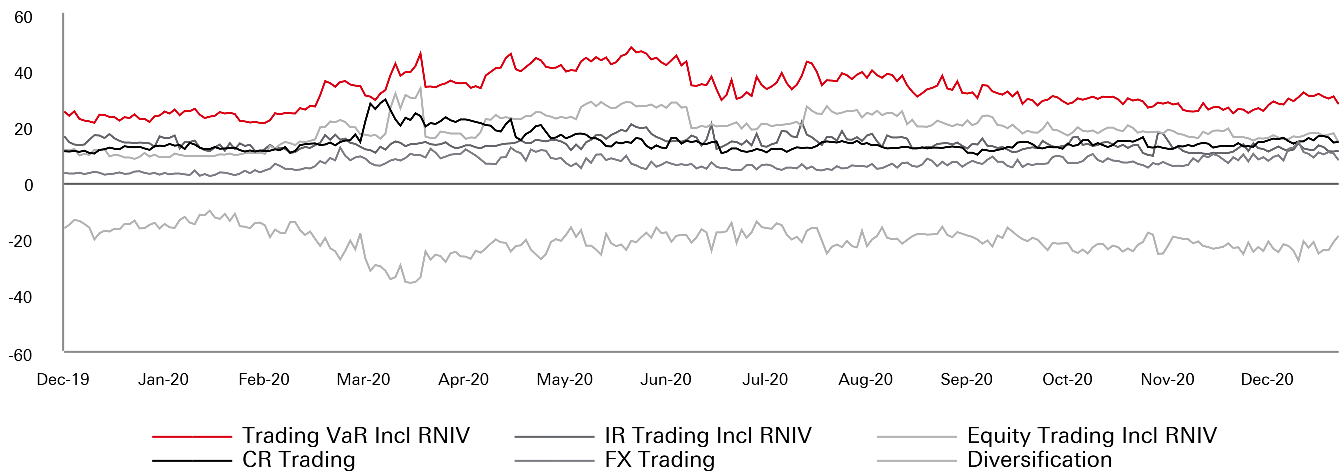
Trading portfolios

Value at risk of the trading portfolios

(Audited)

Trading VaR predominantly resides within Market & Securities Services where it was £27.5m at 31 December 2020 compared with £24.9m at 31 December 2019. The Total Trading VaR was fairly volatile during H1 and increased to a peak at £47.7m. This was driven by both the widening of the Credit spread levels during the peak of the crisis and the rise of the Equity dividend RNIV. During H2 the Total Trading VaR was much less volatile; it slightly decreased during the third quarter of 2020, owing to a decrease of the Equity VaR, before slightly increasing at the end of the year. The third quarter reduction was driven by risk position changes in the Equity portfolio whereas the increase observed at the end of the year is explained by position changes in both the Credit and FX trading portfolio.

Daily VaR (trading portfolios), 99% 1 day (£m)



The group's trading VaR for the year is shown in the table below.

Trading VaR, 99% 1 day

(Audited)

	Foreign exchange (FX) and commodity	Interest rate (IR)	Equity (EQ)	Credit Spread (CS)	Portfolio Diversification[1]	Total[2]
	£m	£m	£m	£m	£m	£m
Balance at 31 Dec 2020	**7.6**	**11.0**	**13.9**	**14.1**	**(19.2)**	**27.5**
Average	**6.5**	**13.5**	**18.7**	**14.1**	**(20.8)**	**32.1**
Maximum	**14.2**	**21.2**	**33.2**	**29.2**	**—**	**47.7**
Minimum	**2.0**	**9.2**	**8.1**	**9.6**	**—**	**20.9**
Balance at 31 Dec 2019	3.1	16.1	11.4	10.8	(16.5)	24.9
Average	4.1	17.1	10.3	17.1	(16.6)	32.0
Maximum	10.3	23.3	19.7	26.3	—	39.8
Minimum	2.0	12.9	6.3	8.3	—	23.2

1 *Portfolio diversification is the market risk dispersion effect of holding a portfolio containing different risk types. It represents the reduction in unsystematic market risk that occurs when combining a number of different risk types, for example, interest rate, equity and foreign exchange, together in one portfolio. It is measured as the difference between the sum of the VaR by individual risk type and the combined total VaR. A negative number represents the benefit of portfolio diversification. As the maximum occurs on different days for different risk types, it is not meaningful to calculate a portfolio diversification benefit for this measure.*

2 *The total VaR is non-additive across risk types due to diversification effect and it includes VaR RNIV.*

Back-testing

In 2020, HSBC Bank plc experienced 21 back testing exceptions in total, 15 of which against the Hypothetical P&L and 6 of which against the Actual P&L. The majority of these exceptions occurred during H1, as reported in the H1 2020 interim report.

The high number of Hypothetical back-testing exceptions that occurred in March 2020 was primarily due to the extreme market volatility resulting from the economic impact of the Covid-19 outbreak, which was significantly greater than the volatility used in the model calibration. In recognition of the exceptional market environment, the PRA has granted temporary relief, valid for six months, that permits UK firms, including HSBC, to offset the impact of the higher VaR multiplier resulting from exceptions that occurred after the onset of the Covid-19 outbreak. This offset was against incremental RNIV market risk capital requirements. This grace period expired at end of September, after which HSBC Bank plc were allowed to discount the majority of these exceptions since it was acknowledged they were not due to a model deficiency. During the second half of the year, HSBC Bank plc only experienced one exception against Hypothetical P&L and one against Actual P&L.

As a result, the number of exceptions in 2020 amounts to six against the Hypothetical P&L and four against the Actual P&L.

Non-trading portfolios

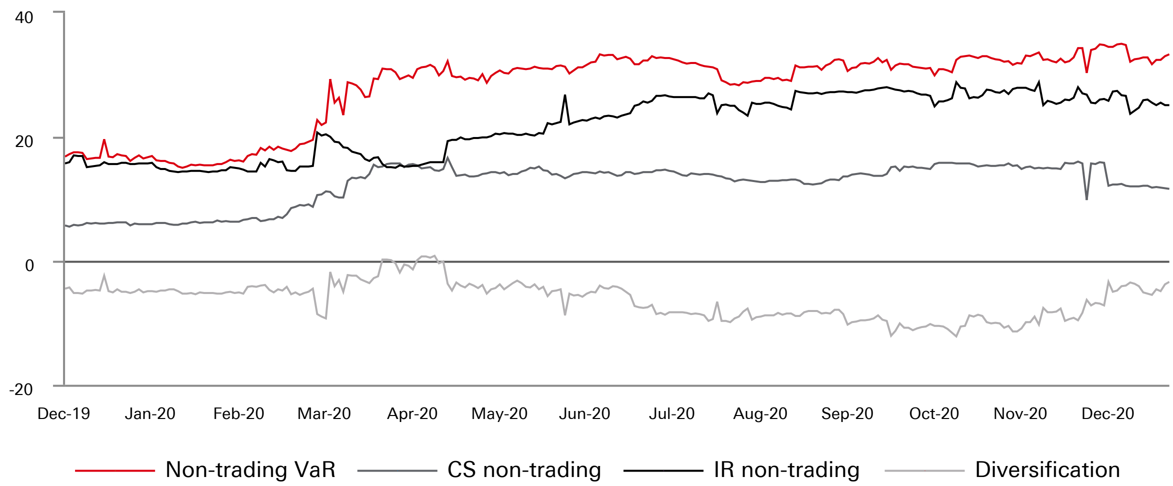
Value at risk of the non-trading portfolios

(Audited)

The non-trading VaR in 2020 was driven by interest rate risk in the banking book arising from Markets Treasury and ALCM book positions. It is to be noted that, as opposed to the previous years, the group Insurance entity has been included in the non trading VaR; this has a modest impact of around £0.5m. The non-trading VaR as at 31 December 2020 was £33.3m, driven by interest rate risk in the banking book arising from Markets Treasury and ALCM book positions. During first quarter of 2020, the VaR for non-trading activity increased from 31 December 2019 with spikes seen particularly during March and April due to unprecedented levels of volatility in the markets caused by the Covid-19 outbreak. Extreme volatility in the yields of sovereign debt and interest swaps, coupled with volatility in the spread of agencies and supranational led to an overall increase in the non-trading VaR during the first half of the year. During the second half of 2020, the total non trading book VaR was much more stable and fluctuated between £28m and £35m. The interest rate non trading book VaR trended higher during this period as the Markets Treasury business deployed the cash within the Liquid Asset Buffer ('LAB') into local government securities as opportunities arise.

The daily levels of total non-trading VaR over the last year are set out in the graph below.

Daily VaR (non-trading portfolios), 99% 1 day (£m)



The group's non-trading VaR for the year is shown in the table below.

Non-trading VaR, 99% 1 day

(Audited)

	Interest rate (IR)	Credit spread (CS)	Portfolio diversification[1]	Total[2]
	£m	£m	£m	£m
Balance at 31 Dec 2020	**25.1**	**11.6**	**(3.4)**	**33.3**
Average	**21.9**	**12.3**	**(6.3)**	**27.9**
Maximum	**28.8**	**16.6**	**—**	**35.0**
Minimum	**14.3**	**5.5**	**—**	**15.0**
Balance at 31/12/2019	15.7	5.7	(4.5)	16.8
Average	17.5	5.3	(4.3)	18.5
Maximum	20.7	7.3	—	22.5
Minimum	14.9	4.2	—	15.4

1 *Portfolio diversification is the market risk dispersion effect of holding a portfolio containing different risk types. It represents the reduction in unsystematic market risk that occurs when combining a number of different risk types, for example, interest rate, equity and foreign exchange, together in one portfolio. It is measured as the difference between the sum of the VaR by individual risk type and the combined total VaR. A negative number represents the benefit of portfolio diversification. As the maximum occurs on different days for different risk types, it is not meaningful to calculate a portfolio diversification benefit for this measure.*

2 *The total VaR is non-additive across risk types due to diversification effect.*

Resilience Risk

Overview

Resilience risk is the risk that we are unable to provide critical services to our customers, affiliates and counterparties, during sustained and significant operational disruption. Resilience risk arises from failures or inadequacies in processes, people, systems or external events.

Resilience Risk management

Key developments in 2020

In line with the increasing expectations from customers, regulators and our Board, and in response to a continually evolving threat landscape that the wider industry faces, we combined Operational and Resilience Risk to form a new Operational and Resilience Risk sub-function. This sub function provides robust non-financial risk steward oversight of the bank's business, functions, legal entities and critical business service management of risk, supported by effective and timely independent challenge. We carried out several initiatives during the year:

- We developed a regional hub accountable for core Operational and Resilience Risk activities.
- We implemented business and function aligned teams focused on emerging risks as well as material products and services.
- We deployed risk management oversight of the most material transformation programmes across HSBC Bank plc.
- We implemented central services including governance, reporting and transformation.
- We created a standalone assurance capability that provides independent review and evaluation of end to end processes, risks and key controls.

We prioritise these efforts on material risk and areas undergoing strategic growth, aligning our location strategy to this need.

Governance and structure

The Operational and Resilience Risk target operating model provides a consistent view across resilience risks, strengthening our risk management oversight while operating effectively as part of a simplified non-financial risk structure. We view resilience risk across seven risk types related to: third parties and supply chain; information, technology and cyber security; payments and manual processing; physical security; business interruption and contingency risk, buildings unavailability; and workplace safety.

Operational and Resilience Risk is governed in the group through the RMM and our Risk Committee with clear global escalation routes through to the Non-Financial Risk Management Board ('NFRMB'), chaired by the Group Chief Risk Officer and the Group Risk Management Meeting ('GRMM').

Key risk management process

Operational Resilience is our ability to anticipate, prevent, adapt, respond to, recover and learn from internal or external disruption, protecting customers, the markets we operate in and economic stability. Resilience is determined by assessing whether we are able to continue providing our most important services, within an agreed level. We accept that we will not be able to prevent all disruption, but we prioritise investment to continually improve the response and recovery strategies for our important business services.

Business operations continuity

As a result of Covid-19, we successfully implemented business continuity responses and continued to maintain the majority of service level agreements. We did not experience any major impacts to the supply chain from our third party service providers due to Covid-19. The risk of damage or theft to our physical assets or criminal injury to our colleagues remains unchanged and no significant incidents impacted our buildings or people.

Regulatory compliance risk

Overview

The Regulatory Compliance ('RC') is covered through the sub-function Regulatory Conduct. This provides independent, objective oversight and challenge, and promotes a compliance-orientated culture that supports the business in delivering fair outcomes for customers, maintaining the integrity of financial markets and achieving HSBC's strategic objectives.

Key developments in 2020

Whilst there were no material changes to the policies for the management of RC risk in 2020, there were enhancements to the RC Risk Taxonomy and Control Library.

- Our taxonomy is a key foundation of how we categorise risk, assign regulation, set policy and set the parameters of our Risk Stewardship. Work to review and refresh the risks and controls under L2 risks were completed in December 2020 and approved by the NFRO design authority meetings. We set out to and achieved our objective to simplify, clarify and rationalise the risks and controls.
- In October 2020, HSBC completed the implementation of the Conflicts Management Office Strategic Re-engineering programme. This included the deployment of enhanced Global Conflict Management Solution ('GCMS'), and to develop/release the new GCMS list modules.
- FX Deferred Prosecution Agreement: On 19 January 2021, it was confirmed that the FX DPA has expired. The bank will continue to implement reforms pursuant to our order.

Governance and structure

European Regulatory Conduct sits under the EMEA (Europe and MENAT), and Global Banking & Markets ('GBM') and Commercial Banking ('CMB') Chief Compliance Officer ('CCO'). The Head of Regulatory Conduct, Europe will liaise closely with the Group Regulatory Conduct Capability team to help drive a consistent group approach to conduct and culture related work. Regulatory Conduct continues to be structured as a global sub function with regional and country RC teams, which support and advise each global business and global function.

Key risk management processes

We regularly review our policies and procedures. Global policies and procedures require the prompt identification and escalation of any actual or potential regulatory breach to RC. Reportable events are escalated to the bank's RMM and Risk Committee, as appropriate. Matters relating to the Group's regulatory conduct of business are reported to the Group Risk Committee.

Conduct of business

In 2020, we continued to promote and encourage good conduct through our people's behaviour and decision making to deliver fair outcomes for our customers, and to maintain financial market integrity. During 2020:

- We continued to champion a strong conduct and customer focused culture. We implemented a number of measures throughout the Covid-19 outbreak to support our customers in financial difficulties. We also maintained service and supported colleagues in unprecedented conditions.
- We continued our focus on culture and behaviours, adapting our controls and risk management processes to reflect significant levels of remote working throughout the year.
- We continued to invest significant resources to improve our compliance systems and controls relating to our activities in Global Markets and to ensure market integrity. These included enhancements to: pricing and disclosure, order management and trade execution; trade; voice and audio surveillance; front office supervision; and the enforcement and discipline framework for employee misconduct.
- We continued to emphasise – and worked to create – an environment in which employees are encouraged and feel safe to speak up. We placed a particular focus on the importance of well-being during the pandemic through regular top-down communications, virtual town halls, videos and podcasts.
- We continued to embed conduct within our business line processes. We also considered and sought to mitigate the conduct impacts of the Group's strategic transformation programme and other key business change programmes, including those relating to the UK's departure from the EU and the Ibor transition.
- We delivered our sixth annual global mandatory training course on conduct to reinforce the importance of conduct for all colleagues.
- We are refreshing our approach to conduct arrangements across the Group with a view to ensuring that the arrangements remain appropriate for the nature of our business.

The Board continues to maintain oversight of conduct matters through the RMM and the Executive Committee.

Further information on our conduct is provided in the Strategic Report on page 7 and www.hsbc.com/conduct, and for conduct-related costs relating to significant items, see page 16.

Financial crime risk

Overview

To ensure that we do not knowingly or unknowingly help parties commit illegal (or potentially illegal) activity that arises from our day-to-day banking operations, we manage financial crime risk by providing policy, framework, and specialist capabilities through the Financial Crime function. In 2020, Financial Crime, as part of the wider Compliance structure, went through a significant transformation, with a new model designed to:

- Simplify the structure to make it easier for the function and the businesses to engage with each other;
- Clarify accountability between the First and Second line of defence and Group versus regions and countries;
- Embrace technology to drive greater automation, improve risk management and increase efficiency;
- Ensure we continue to build and improve capabilities in existing teams and attract the best talent in future; and
- Streamline, by setting out financial crime compliance and mitigation roles clearly between HSBC Bank plc's and HSBC UK ring-fenced bank.

Governance

The new Compliance model and structure, once fully implemented, will help us to achieve our long-term vision of setting industry-leading standards for compliance in financial services and meet the Bank's needs for the future. As part of the transformation, we appointed a new leadership team, which included the appointment of Chief Compliance Officers (CCOs). The CCO for Europe Middle East & Africa (EMEA) has responsibility and accountability for the Compliance function in the region.

Within the EMEA Compliance executive, the Europe Head of Financial Crime is responsible for promoting consistent implementation and best practice, and providing effective oversight of the operational effectiveness of the financial crime framework, to ensure the Bank's exposure to financial crime and related reputational risk is well managed. The Europe Head of Financial Crime also acts as the FCA's Senior Management Function ('SMF17'), Regional Money Laundering Reporting Officer (MLRO) and Risk Steward in relation to financial crime risks.

Structure

The Financial Crime function provides best practice monitoring, investigations, advisory, surveillance, risk assessment capabilities, able to identify financial crime and emergent risk issues proactively, quickly and effectively. The function supports the business to deliver world class customer experience whilst safeguarding against financial crime risk, engaging with external stakeholders (regulators and other banks) to enable the bank to understand current and future threats, and maintain a leading role in the industry.

The FC team's activities span both the first and second lines of defence.

- The first line specialist activities are: Investigations; Surveillance; Intelligence; and Transaction Monitoring Controls.
- The second line risk steward activities are: Affiliate Due Diligence; AML; Transaction Monitoring; Anti-Bribery & Corruption ('AB&C'); Advisory; Policy; Training; Tax Transparency; Sanctions; Fraud Risk; Insider Risk and Risk Assessment.

To oversee enterprise-wide management of financial crime risks, HSBC established Financial Crime Risk Management Committees ('FCRMCs') in June 2017, to maintain global standards, key policies and frameworks and support individuals in discharging their responsibilities under the Senior Managers Regime. In 2020, the key financial crime governance meeting was the HBEU FCRMC. This was held monthly and chaired by the bank's CEO, with business line leaders and the Regional Head of Financial Crime as key members. This forum ran in a consistent manner, monthly, and according to the Group Compliance Framework and Ways of Working standards rolled out by the Company Secretary.

Other Key developments in 2020

The professionals leading each of the areas of Financial Crime have extensive knowledge and experience. Country coverage has continued to mature, building strong and supportive relationships to manage the diversity of risk across Europe.

We continued to invest in our Intelligence-led Financial Crime Risk Management strategy; a high-level vision for enhancing the Bank's financial crime risk management, through the use of advanced analytics and emerging technology. The result will be an ability to dynamically provide more accurate, timely and actionable insights on financial crime risk to the business, starting with our Transaction Monitoring systems, which we are working towards in 2021.

The financial crime risk capabilities delivered through our Global Standards programme continued to be integrated into our day-to-day operations in 2020. Our AML, Sanctions and AB&C policy and control frameworks are embedded, and the transition of Tax Transparency risk stewardship responsibilities to Financial Crime teams (from Group Finance) has now been completed, augmented by awareness sessions and updated policies and procedures. In 2020, to mitigate bribery and corruption risk, we deployed automated tools to support the management of gifts and entertainment to and from our staff and to reconcile those records with employee expense claims.

We focused our anti-fraud capabilities on threats posed by new and existing typologies. As an example, Covid-19 presented an immediate financial crime risk to HSBC clients and operations, and to keep on top of the risks, Financial Crime proactively worked closely with business operations and consumers, through trend analysis, investigations and publications, to stay vigilant to the evolving landscape. Furthermore, in 2020, a new anti-Fraud policy and control framework was published, comprising new policies, a new control framework and a new fraud classification and reporting standard which the risk stewards will support the businesses in complying with throughout 2021.

Our surveillance capability deployed new controls and systems to better mitigate market abuse and misconduct. Specifically, introducing a more effective detection of control of information risks; introducing a new strategic communications system that enables new detective and analytical capabilities; deploying a trader surveillance control for our higher risk internal HSBC employees, customers and clients.

Skilled Person & Independent Consultant

Following expiration in December 2017 of the anti-money laundering Deferred Prosecution Agreement ('DPA') entered into with the US Department of Justice, the then Monitor continued to work in 2020 to serve in the capacity of the bank's Skilled Person under Section 166 of the Financial Services and Markets Act under the Direction issued by the FCA in 2013 (On 7 July 2020, the 2013 FCA Direction was replaced by a new FCA Direction (2020 FCA Direction)). Considering HSBC's significant progress towards its financial crime risk target end-state, in terms of key systems, processes and people, the Skilled Person narrowed their mandate to assess the remaining areas that required further work in order for HSBC to transition fully to business-as-usual financial crime risk management. More work was required to strengthen HSBC's automated transaction monitoring ('TM') and Sanctions risk management capabilities.

Transaction Monitoring: The FCA issued a Final Requirement Notice on 14 April 2020 (Requirement Notice), which required HSBC to provide the FCA with a report of an assessment of HSBC's progress and trajectory towards achieving an effective automated TM capability. HSBC engaged Ernst & Young LLP (EY) to conduct the required assessment (TM Review) in two phases: (i) between May and September 2020; and (ii) December 2020 to the end of June 2021, with three European countries in scope, the bank included. Phase 2 is currently underway and we expect a report by the end of the third quarter of 2021.

Sanctions: The Skilled Person also continued to work in capacity as an Independent Consultant (IC) under a cease-and-desist order issued by the US Federal Reserve Board (FRB). A further two FRB recommendations were closed in 2020 in the FRB7 report. This takes the total recommendations closed by both the Bank and the IC to 67 of the 69 recommendations issued across FRB Reviews 1-7. Of the two remaining recommendations, one was closed by the Bank but remains open with the IC; and another remains in progress. In 18 June 2020, IC issued the final FRB7 report, with no new recommendations. This concluded the FRB7 review which focused on HSBC's Mastergroup and Multi-National Corporation (MNC) programme, with a high level review on the OFAC Compliance programme, and marked the first FRB review in which the IC found HSBC to be "substantially compliant" with all OFAC Compliance elements of the 2012 FRB Cease and Desist Consent Order. HSBC is preparing for an FRB8 review, which is currently scheduled to commence in the first quarter of 2021.

Model risk

Overview

Model risk is the potential for adverse consequences from business decisions informed by models, which can be exacerbated by errors in methodology, design or the way they are used. Model risk arises in both financial and non-financial contexts whenever business decision making includes reliance on models.

Key developments in 2020

In 2020, we carried out a number of initiatives to further develop and embed the Model Risk Management sub-function, including:

- With the appointment of the Group Chief Model Risk Officer, our Head of model risk management now reports to both the Chief Risk Officer and the Group Chief Model Risk Officer.
- We updated the model risk policy and introduced model risk standards to enable a more risk-based approach to model risk management whilst retaining a consistent approach.
- Working with the businesses and functions, new model risk controls were developed in the Risk Control Library. These controls formed the basis for Model Risk Control Assessments that have been implemented for businesses and functions.
- We are introducing new risk appetite measures and metrics that provide forward looking measures of model risk.
- The Independent Model Validation team has begun a transformation program that will utilise advanced analytics and new workflow tools, with the objective of providing a more risk based, efficient and effective management of model validation processes.
- The consequences of Covid-19 on IFRS 9 model performance and reliability has resulted in enhanced monitoring of those models and related model adjustments. Dramatic changes to model inputs such as GDP and unemployment rates and the yet unknown impact of the government support programmes have made the model results unreliable. As a result, greater reliance has been placed on management underlays/overlays based on business judgement to derive expected credit losses.
- New IFRS 9 models for portfolios that required the largest model overlays during 2020 have been redeveloped, validated and implemented in the fourth quarter of 2020 including the updating of a key model for the UK portfolio. Limited new data was available for use in the recalibrations, therefore judgmental post-model adjustments were required to allow for the economic effects of the pandemic not captured by the models.

Governance and structure

We placed greater focus on our model risk activities during 2020. The HSBC Group elevated Model Risk Management to a function in its own right within the Global Risk Structure, where it had previously been structured as a sub-function within Global Risk Strategy, the global team now reports directly to the Global Chief Risk Officer. Our Model Risk Management team is headed by the Head of Model Risk Management with support from teams based in London, Dusseldorf and Paris.

Key risk management processes

We use a variety of modelling approaches, including regression, simulation, sampling, machine learning and judgemental scorecards for a range of business applications, in activities such as customer selection, product pricing, financial crime transaction monitoring, creditworthiness evaluation and financial reporting. Responsibility for managing model risk is delegated from the RMM to the Model Risk Committee, which is chaired by the Chief Risk Officer. This committee regularly reviews our model risk management policies and procedures, and requires the first line of defence to demonstrate comprehensive and effective controls based on a library of model risk controls provided by Model Risk Management. The Model Risk Committee is supported by dedicated model governance forums within each of the model areas and countries. Model Risk Management also reports on model risk to senior management on a regular basis through the use of the risk map, and top and emerging risks.

We regularly review the effectiveness of these processes, including the model oversight committee structure, to help ensure appropriate understanding and ownership of model risk is embedded in the businesses and functions.

Insurance manufacturing operations risk Overview

The majority of the risk in our insurance business derives from manufacturing activities and can be categorised as financial risk or insurance risk. Financial risks include market risk, credit risk and liquidity risk. Insurance risk is the risk, other than financial risk, of loss transferred from the holder of the insurance contract to HSBC, the issuer.

HSBC's bancassurance model

We operate an integrated bancassurance model which provides insurance products principally for customers with whom we have a banking relationship. The insurance contracts we sell relate to the underlying needs of our banking customers, which we can identify from our point-of-sale contacts and customer knowledge. For the products we manufacture, the majority of sales are of savings and investment products.

By focusing largely on personal and small and medium-sized enterprise businesses, we are able to optimise volumes and diversify individual insurance risks. We choose to manufacture these insurance products in HSBC subsidiaries based on an assessment of operational scale and risk appetite. Manufacturing insurance allows us to retain the risks and rewards associated with writing insurance contracts by keeping part of the underwriting profit and investment income within the group.

Where we do not have the risk appetite or operational scale to be an effective insurance manufacturer, we engage with a handful of leading external insurance companies in order to provide insurance products to our customers through our banking network and direct channels. These arrangements are generally structured with our exclusive strategic partners and earn the group a combination of commissions, fees and a share of profits. We distribute insurance products in all of our geographical regions.

Insurance products are sold through all global businesses, but predominantly by WPB and CMB through our branches and direct channels.

Insurance manufacturing operations risk management

Key developments in 2020

There were no material changes to the insurance risk management framework in 2020. Policies and practices for the management of risks associated with the selling of insurance contracts outside of bancassurance channels were enhanced in response to this being an increasing area of importance for the insurance business. Also, enhancements were made to the Capital Risk Framework for insurance operations to better align to the Group's Capital Risk Framework.

Governance

Insurance risks are managed to a defined risk appetite, which is aligned to the bank's risk appetite and risk management framework, including the three lines of defence model. For details on the governance framework, see page 22. The Group Insurance Risk Management Meeting oversees the control framework globally and is accountable to the WPB Risk Management Meeting on risk matters relating to the insurance business. The monitoring of the risks within the insurance operations is carried out by insurance risk teams. Specific risk functions, including Wholesale Credit & Market Risk, Operational Risk, Information Security Risk and Compliance, support Insurance Risk teams in their respective areas of expertise.

Stress and scenario testing

Stress testing forms a key part of the risk management framework for the insurance business. We participate in local and Group-wide regulatory stress tests, including the Bank of England stress test of the banking system, the European Insurance and Occupational Pensions Authority stress test, and individual country insurance regulatory stress tests.

These have highlighted that a key risk scenario for the insurance business is a prolonged low interest rate environment. In order to mitigate the impact of this scenario, the insurance operations are taking a number of actions including repricing some products to reflect lower interest rates, launching less capital intensive products, investing in more capital efficient assets and developing investment strategies to optimise the expected returns against the cost of economic capital.

Management and mitigation of key risk types

Our insurance manufacturing operations are subject to financial risk, including market risk, credit risk and liquidity risk, and insurance risk.

Market risk

All our insurance manufacturing subsidiaries have market risk mandates which specify the investment instruments in which they are permitted to invest and the maximum quantum of market risk which they may retain. They manage market risk by using, among others, some or all of the techniques listed below, depending on the nature of the contracts written:

- For products with discretionary participating features ('DPF'), adjusting bonus rates to manage the liabilities to policyholders. The effect is that a significant portion of the market risk is borne by the policyholder.
- Asset and liability matching where asset portfolios are structured to meet projected liability cash flows. The Group manages its assets using an approach that considers asset quality, diversification, cash flows matching, liquidity, volatility and target investment return. It is not always possible to match asset and liability durations due to uncertainty over the receipt of all future premiums and the timing of claims, and also because the forecast payment dates of liabilities may exceed the duration of the longest-dated investments available. We use models to assess the effect of a range of future scenarios on the values of assets and associated liabilities, and local ALCOs employ the outcomes in determining how to best structure asset holdings to support liabilities.
- Using derivatives to protect against adverse market movements or better match liability cash flows.
- For new products with investment guarantees, considering the cost when determining the level of premiums or the price structure.
- Periodically reviewing products identified as higher risk, which contain investment guarantees and embedded optionality features linked to savings and investment products, for active management.
- Designing new products to mitigate market risk, such as changing the investment return sharing between policyholders and the shareholder.
- Exiting, to the extent possible, investment portfolios whose risk is considered unacceptable.
- Repricing premiums charged on new contracts to policyholders.

Credit risk

Our insurance manufacturing subsidiaries are responsible for the credit risk, quality and performance of their investment portfolios. Our assessment of the creditworthiness of issuers and counterparties is based primarily upon internationally recognised credit ratings and other publicly available information.

Investment credit exposures are monitored against limits by our insurance manufacturing subsidiaries, and are aggregated and reported to HSBC Group Insurance Credit Risk and Group Credit Risk functions. Stress testing is performed on the investment credit exposures using credit spread sensitivities and default probabilities.

We use a number of tools to manage and monitor credit risk. These include a credit report which contains a watch-list of investments with current credit concerns, primarily investments that may be at risk of future impairment or where high concentrations to counterparties are present in the investment portfolio. The report is circulated monthly to senior management in Group Insurance and the individual country chief risk officers to identify investments which may be at risk of future impairment.

Liquidity risk

Risk is managed by cash flow matching and maintaining sufficient cash resources, investing in high credit-quality investments with deep and liquid markets, monitoring investment concentrations and restricting them where appropriate, and establishing committed contingency borrowing facilities.

Insurance manufacturing subsidiaries are required to complete quarterly liquidity risk reports for HSBC Group Insurance Risk function and an annual review of the liquidity risks to which it is exposed.

Insurance risk

The bank primarily uses the following techniques to manage and mitigate insurance risk:

- product design, pricing and overall proposition management (for example, management of lapses by introducing surrender charges);
- underwriting policy;
- claims management processes; and
- reinsurance which cedes risks above our acceptable thresholds to an external reinsurer thereby limiting our exposure.

Insurance manufacturing operations risk in 2020

Measurement

(Audited)

The risk profile of our insurance manufacturing businesses is measured using an economic capital approach. Assets and liabilities are measured on a market value basis, and a capital requirement is defined to ensure that there is a less than one-in-200 chance of insolvency over a one-year time horizon, given the risks to which the businesses are exposed. The methodology for the economic capital calculation is largely aligned to the pan-European Solvency II insurance capital regulations. The economic capital coverage ratio (economic net asset value divided by the economic capital requirement) is a key risk appetite measure. The Covid-19 outbreak caused sales of insurance products to be lower than forecast in 2020 although we responded by expanding digital and remote servicing capabilities. To date there has been limited impact on claims or lapse behaviours although this remains under close monitoring. The largest effect on insurance entities came from volatility in the financial markets and the material fall in interest rates which impact levels of capital and profitability. Businesses responded by executing de-risking strategies followed by subsequent re-risking of positions as markets recovered.Enhanced monitoring of risks and pricing conditions continues.The following table shows the composition of assets and liabilities by contract type.

Balance sheet of insurance manufacturing subsidiaries by type of contract

(Audited)

	Footnotes	With DPF £m	Unit- linked £m	Other contracts[1] £m	Shareholder assets and liabilities £m	Total £m
Financial assets		**20,261**	**2,412**	**249**	**2,490**	**25,412**
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss		**9,148**	**2,352**	**92**	**991**	**12,583**
– derivatives		**76**	**—**	**—**	**2**	**78**
– financial investments – at amortised cost		**372**	**1**	**—**	**17**	**390**
– financial investments – at fair value through other comprehensive income		**8,724**	**—**	**112**	**1,341**	**10,177**
– other financial assets	2	**1,941**	**59**	**45**	**139**	**2,184**
Reinsurance assets		**—**	**47**	**134**	**—**	**181**
PVIF	3	**—**	**—**	**—**	**647**	**647**
Other assets and investment properties		**809**	**1**	**—**	**60**	**870**
Total assets at 31 Dec 2020		**21,070**	**2,460**	**383**	**3,197**	**27,110**
Liabilities under investment contracts designated at fair value		**—**	**944**	**—**	**—**	**944**
Liabilities under insurance contracts		**20,962**	**1,512**	**342**	**—**	**22,816**
Deferred tax	4	**107**	**3**	**—**	**39**	**149**
Other liabilities		**—**	**—**	**—**	**1,776**	**1,776**
Total liabilities at 31 Dec 2020		**21,069**	**2,459**	**342**	**1,815**	**25,685**
Total equity at 31 Dec 2020		**—**	**—**	**—**	**1,425**	**1,425**
Total liabilities and equity at 31 Dec 2020		**21,069**	**2,459**	**342**	**3,240**	**27,110**
Financial assets		19,258	2,116	233	2,231	23,838
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss		8,222	2,057	78	1,359	11,716
– derivatives		61	—	—	2	63
– financial investments – at amortised cost		69	—	1	7	77
– financial investments – at fair value through other comprehensive income		9,033	—	105	749	9,887
– other financial assets	2	1,873	59	49	114	2,095
Reinsurance assets		—	50	129	—	179
PVIF	3	—	—	—	715	715
Other assets and investment properties		763	1	1	54	819
Total assets at 31 Dec 2019		20,021	2,167	363	3,000	25,551
Liabilities under investment contracts designated at fair value		—	862	—	—	862
Liabilities under insurance contracts		19,889	1,295	325	—	21,509
Deferred tax	4	137	6	—	31	174
Other liabilities		—	—	—	1,645	1,645
Total liabilities at 31 Dec 2019		20,026	2,163	325	1,676	24,190
Total equity at 31 Dec 2019		—	—	—	1,361	1,361
Total liabilities and equity at 31 Dec 2019		20,026	2,163	325	3,037	25,551

1 *'Other contracts' includes term assurance and credit life insurance.*
2 *Comprise mainly loans and advances to banks, cash and intercompany balances with other non-insurance legal entities.*
3 *Present value of in-force long-term insurance business.*
4 *'Deferred tax' includes the deferred tax liabilities arising on recognition of PVIF.*

Key risk types

The key risks for the insurance operations are market risks (in particular interest rate and equity) and credit risks, followed by insurance underwriting risks and operational risks. Liquidity risk, whilst significant for the bank, is minor for our insurance operations.

Market risk

(Audited)

Description and exposure

Market risk is the risk of changes in market factors affecting the bank's capital or profit. Market factors include interest rates, equity and growth assets and foreign exchange rates.

Our exposure varies depending on the type of contract issued. Our most significant life insurance products are investment contracts with discretionary participating features ('DPF') issued in France. These products typically include some form of capital guarantee or guaranteed return on the sums invested by the policyholders, to which discretionary bonuses are added if allowed by the overall performance of the funds. These funds are primarily invested in bonds with a proportion allocated to other asset classes, to provide customers with the potential for enhanced returns.

DPF products expose the bank to the risk of variation in asset returns, which will impact our participation in the investment performance. In addition, in some scenarios the asset returns can become insufficient to cover the policyholders' financial guarantees, in which case the shortfall has to be met by the bank. Amounts are held against the cost of such guarantees, calculated by stochastic modelling.

The cost of such guarantees is accounted for as a deduction from the present value of in-force 'PVIF' asset, unless the cost of such guarantees is already explicitly allowed for within the insurance contracts liabilities, under the local rules. The table below shows the total reserve held for the cost of guarantees, the range of investment returns on assets supporting these products and the implied investment return that would enable the business to meet the guarantees. The cost of guarantees increased to £347m (2019: £203m) primarily due to the reduction in swap rates in France. For unit-linked contracts, market risk is substantially borne by the policyholder, but some market risk exposure typically remains as fees earned are related to the market value of the linked assets.

Financial return guarantees

(Audited)

	2020			2019		
	Investment returns implied by guarantee	**Long-term investment returns on relevant portfolios**	**Cost of guarantees**	Investment returns implied by guarantee	Long-term investment returns on relevant portfolios	Cost of guarantees
	%	**%**	**£m**	%	%	£m
Capital	**—**	**0.7 - 2.0**	**162**	—	1.2 - 2.4	71
Nominal annual return	**2.6**	**2.0**	**96**	2.6	2.4	58
Nominal annual return	**4.5**	**2.0**	**89**	4.5	2.4	74
At 31 Dec			**347**			203

Sensitivities

The following table illustrates the effects of selected interest rate and equity price scenarios on our profit for the year and the total equity of our insurance manufacturing subsidiaries.

Where appropriate, the effects of the sensitivity tests on profit after tax and equity incorporate the impact of the stress on the PVIF. Due in part to the impact of the cost of guarantees and hedging strategies which may be in place, the relationship between the profit and total equity and the risk factors is non-linear. Therefore, the results disclosed should not be extrapolated to measure sensitivities to different levels of stress. For the same reason, the impact of the stress is not necessarily symmetrical on the upside and downside. The sensitivities are stated before allowance for management actions which may mitigate the effect of changes in the market environment. The sensitivities presented allow for adverse changes in policyholder behaviour that may arise in response to changes in market rates. The differences between the impacts on profit after tax and equity are driven by the changes in value of the bonds measured at fair value through other comprehensive income, which are only accounted for in equity.

Sensitivity of the group's insurance manufacturing subsidiaries to market risk factors

(Audited)

	2020		2019	
	Effect on profit after tax	**Effect on total equity**	Effect on profit after tax	Effect on total equity
	£m	**£m**	£m	£m
+100 basis point parallel shift in yield curves	**110**	**89**	84	67
-100 basis point parallel shift in yield curves	**(203)**	**(179)**	(175)	(157)
10% increase in equity prices	**39**	**39**	28	28
10% decrease in equity prices	**(42)**	**(42)**	(30)	(30)

Credit risk

(Audited)

Description and exposure

Credit risk arises in two main areas for our insurance manufacturers:

- risk associated with credit spread volatility and default by debt security counterparties after investing premiums to generate a return for policyholders and shareholders; and
- risk of default by reinsurance counterparties and non-reimbursement for claims made after ceding insurance risk.

The amounts outstanding at the balance sheet date in respect of these items are shown in the table on page 84.

The credit quality of the reinsurers' share of liabilities under insurance contracts is assessed as 'satisfactory' or higher as defined on page 33, with 100% of the exposure being neither past due nor impaired. Credit risk on assets supporting unit-linked liabilities is predominantly borne by the policyholder; therefore our exposure is primarily related to liabilities under non-linked insurance and investment contracts and shareholders' funds. The credit quality of these financial assets is included in the table on page 50.

Liquidity risk

(Audited)

Description and exposure

Liquidity risk is the risk that an insurance operation, though solvent, either does not have sufficient financial resources available to meet its obligations when they fall due, or can secure them only at excessive cost.

The following table shows the expected undiscounted cash flows for insurance contract liabilities at 31 December 2020. The liquidity risk exposure is wholly borne by the policyholder in the case of unit-linked business and is shared with the policyholder for non-linked insurance.

The profile of the expected maturity of insurance contracts at 31 December 2020 remained comparable with 2019.

The remaining contractual maturity of investment contract liabilities is included in Note 27.

Expected maturity of insurance contract liabilities

(Audited)

	Expected cash flows (undiscounted)				
	Within 1 year	1-5 years	5-15 years	Over 15 years	Total
	£m	£m	£m	£m	£m
Unit-linked	**222**	**539**	**790**	**672**	**2,223**
With DPF and Other contracts	**1,565**	**5,765**	**7,735**	**6,077**	**21,142**
At 31 Dec 2020	**1,787**	**6,304**	**8,525**	**6,749**	**23,365**
Unit-linked	193	451	633	611	1,888
With DPF and Other contracts	1,373	5,163	6,815	6,714	20,065
At 31 Dec 2019	1,566	5,614	7,448	7,325	21,953

Insurance risk

Description and exposure

Insurance risk is the risk of loss through adverse experience, in either timing or amount, of insurance underwriting parameters (non-economic assumptions). These parameters include mortality, morbidity, longevity, lapses and unit costs.

The principal risk we face is that, over time, the cost of the contract, including claims and benefits, may exceed the total amount of premiums and investment income received.

The table on page 84 analyses our insurance manufacturing exposures by type of contract.

The insurance risk profile and related exposures remain largely consistent with those observed at 31 December 2019.

Sensitivities

The table below shows the sensitivity of profit and total equity to reasonably possible changes in non-economic assumptions across all our insurance manufacturing subsidiaries.

Mortality and morbidity risk is typically associated with life insurance contracts. The effect on profit of an increase in mortality or morbidity depends on the type of business being written. Our largest exposure to mortality and morbidity risk exists in the UK. Sensitivity to lapse rates depends on the type of contracts being written. For a portfolio of term assurance, an increase in lapse rates typically has a negative effect on profit due to the loss of future income on the lapsed policies. However, some contract lapses have a positive effect on profit due to the existence of policy surrender charges. We are most sensitive to a change in lapse rates in France.

Expense rate risk is the exposure to a change in the cost of administering insurance contracts. To the extent that increased expenses cannot be passed on to policyholders, an increase in expense rates will have a negative effect on our profits.

Sensitivity analysis

(Audited)

	2020	2019
	£m	£m
Effect on profit after tax and total equity at 31 Dec		
10% increase in mortality and/or morbidity rates	**(15)**	(20)
10% decrease in mortality and/or morbidity rates	**15**	18
10% increase in lapse rates	**(19)**	(20)
10% decrease in lapse rates	**21**	23
10% increase in expense rates	**(46)**	(42)
10% decrease in expense rates	**43**	42

Corporate Governance Report

The statement of corporate governance practices set out on pages 86 to 94, together with the information incorporated by reference, constitutes the Corporate Governance Report of HSBC Bank plc (the 'bank'). The following disclosures, read together with those in the Strategic Report, including the section 172 Statement on pages 10 and 11 and reporting on employee engagement on pages 7 to 11 describe how the Board has discharged its duty under section 172 of the Companies Act 2006 (the 'Act'), as well as the requirements under the Companies (Miscellaneous Reporting) Regulations 2018 (the 'Reporting Regulations').

Engagement with employees, suppliers, customers and others

Stakeholder	Page	Section
Customers	Page 7	How we do business
	Page 10	section 172 statement
Employees	Page 7	How we do business
	Pages 10 and 11	section 172 statement
	Pages 92 to 93	Corporate Governance statement
Communities / the environment	Pages 7 and 8	How we do business
Regulators	Page 7	How we do business
	Page 10	section 172 statement
Suppliers	Page 7	How we do business
	Page 10	section 172 statement

The bank, together with the wider Group, is committed to high standards of corporate governance. The Group has a comprehensive range of principles, policies and procedures influenced by the UK Corporate Governance Code with requirements in respect of Board independence, composition and effectiveness to ensure that the Group is well managed, with appropriate oversight and control. During the year, the bank adhered to these corporate governance principles, policies and procedures.

The Directors serving at 31 December 2020 are set out below.

Directors

Stephen O'Connor

Chairman

Chairman of the Nomination, Remuneration & Governance Committee

Appointed to the Board: May 2018. Chairman since August 2018

Stephen is a non-executive director of HSBC Continental Europe, Chairman and Founder of Quantile Technologies Limited, and a non-executive Director, Chairman of the Risk Committee and member of both the Audit and Nomination Committees of The London Stock Exchange Group plc and a Director of the London Stock Exchange plc. He is also a non-executive Director of the FICC Markets Standards Board. He has more than 25 years' investment banking experience in London and New York.

Former appointments include: Chairman of the International Swaps and Derivatives Association, prior to which he was Managing Director and a member of the Fixed Income Management Committee at Morgan Stanley.

Nuno Matos

Executive Director and Chief Executive Officer

Chairman of the Executive Committee

Appointed to the Board and as Chief Executive Officer: March 2020. Stepped down as Chief Executive Officer on 22 February 2021 and will be resigning from the Board on 23 February 2021.

Nuno is the Chief Executive of HSBC Bank plc and a Group General Manager. Nuno is also a member of the Supervisory Board of HSBC Trinkaus & Burkhardt AG and was previously CEO of HSBC Mexico. He joined HSBC in 2015 as regional head of RBWM in Latin America and Global Head of Retail Business Banking. Prior to joining HSBC, he held senior positions at Santander Group.

Jacques Fleurant

Executive Director and Chief Finance Officer

Member of the Executive Committee

Appointed to the Board and as Chief Finance Officer: August 2018

Jacques leads the Finance function in the support and control of HSBC's businesses and operations in Europe. Previously, he served as Chief Financial Officer for HSBC Bank Canada from July 2012 to August 2018.

Jacques joined HSBC in 2000 in Toronto, and has held a variety of senior roles in finance and operations. Prior to joining HSBC, he performed senior roles at Merrill Lynch and for the Canadian Revenue Agency.

Dame Mary Marsh

Independent non-executive Director

Member of the Risk Committee

Appointed to the Board: January 2009

Mary is the non-executive Chair of Trustees of the Royal College of Paediatrics and Child Health, a director of the London Symphony Orchestra, a member of the Governing Body of the London Business School and a Trustee of Teach First.

Former appointments include: founding Director of the Clore Social Leadership Programme and Chief Executive of the National Society for the Prevention of Cruelty to Children.

Stephen Moss

Non-executive Director

Appointed to the Board: April 2020. To resign from the Board on 23 February 2021.

Stephen was named Regional Chief Executive in March 2020, with responsibility for overseeing the Group's businesses in Europe (apart from HSBC UK); the Middle East, North Africa and Turkey; Latin America; and Canada. He joined HSBC in 1992 and has held roles in Hong Kong and London. Previously Stephen held the role of Chief of Staff to the Group Chief Executive leading Group Strategy and Planning, Group Mergers and Acquisitions, Global Communications, Global Events, Group Public Affairs and Group Corporate Sustainability. Stephen continues to oversee the Group's mergers and acquisitions activities, and is a non-executive director of The Saudi British Bank, HSBC Bank Middle East Limited, HSBC Middle East Holdings B.V., HSBC Latin America Holdings (UK) Limited and HSBC Bank Canada.

Yukiko Omura

Independent non-executive Director

Member of the Risk Committee

Appointed to the Board: May 2018

Yukiko is a non-executive Director of The Private Infrastructure Development Group Limited ('PIDG'), as well as Chair of GuarantCo Limited, a subsidiary of PIDG. She also serves as a non-executive Director of Assured Guaranty Ltd, and a member of the Supervisory Board of Nishimoto HD Co. Ltd. She has more than 35 years' international professional experience in both the public and private financial sector, performing senior roles for JP Morgan, Lehman Brothers, UBS and Dresdner Bank.

Former appointments include: Under-Secretary General and COO/ Vice President of the International Fund for Agricultural Development and Executive Vice President and CEO of the Multilateral Investment Guarantee Agency of the World Bank Group.

Dr Eric Strutz

Independent non-executive Director

Chairman of the Risk Committee, member of both the Audit Committee and the Nomination, Remuneration & Governance Committee

Appointed to the Board: October 2016

Eric is a member of the Supervisory Board and Chairs the Audit Committee of HSBC Trinkaus & Burkhardt AG, the Vice Chairman and Lead Independent Director of Partners Group Holding AG, where he also Chairs the Risk and Audit Committee, a member of the Board of Directors of Global Blue Group Holding AG, and a member of the Advisory Board and Chairman of the Audit & Risk Committee of Luxembourg Investment Company 261 Sarl.

Former appointments include: Chief Financial Officer of Commerzbank Group, Partner and Director of the Boston Consulting Group, as well as non-executive Director of Mediobanca Banca di Credito Finanziario SpA.

John Trueman

Deputy Chairman and independent non-executive Director

Member of the Risk Committee, the Audit Committee and the Nomination, Remuneration & Governance Committee

Appointed to the Board: September 2004. Deputy Chairman since December 2013

John is Chairman of HSBC Global Asset Management Limited. Former appointments include: Deputy Chairman of S.G. Warburg & Co Ltd.

Andrew Wright

Independent non-executive Director

Chairman of the Audit Committee, member of both the Risk Committee and the Nomination, Remuneration & Governance Committee

Appointed to the Board: May 2018

Andrew is a member of the Supervisory Board and Chairs the Risk Committee of HSBC Trinkaus & Burkhardt AG.

Former appointments include: Treasurer to the Prince of Wales and the Duchess of Cornwall, a role he held from May 2012 until June 2019, Global Chief Financial Officer for the Investment Bank at UBS AG, Chief Financial Officer, Europe and the Middle East at Lehman Brothers and Chief Financial Officer for the Private Client and Asset Management Division at Deutsche Bank.

Board Changes during 2020 and following the year-end

James Emmett stepped down from the Board on 29 February 2020 and Nuno Matos succeeded him as a Director and Chief Executive Officer of the bank and Europe with effect from 1 March 2020. On 30 November 2020, it was announced that Nuno Matos would step down from the Board to take up the position of Chief Executive Officer of Wealth and Personal Banking. Colin Bell has been appointed to succeed him as Chief Executive Officer of the bank and Europe with effect from 22 February 2021. His appointment as a Director will also take effect on 22 February 2021, immediately following the approval and signature of all documents comprising the bank's *Annual Report and Accounts 2020*. A brief biography is set out below:

Colin Bell joined HSBC in July 2016. He previously held the role of Group Chief Compliance Officer, and also led the Group transformation oversight programme.

Colin previously worked at UBS, which he joined in 2007, where he was the Global Head of Compliance and Operational Risk Control. Colin joined the British Army in 1990 and he served for 16 years in a variety of command and staff roles and completed the Joint Services Command and Staff College in 2001.

Stephen Moss was appointed as a non-independent non-executive director on 24 April 2020. He will step down from the Board on 23 February 2021 in anticipation of taking up the position of Chief Executive Officer, Middle East, North Africa and Turkey (MENAT) in April 2021, subject to regulatory approval.

Juliet Robinson joined the Board as an independent non-executive director and member of the Risk Committee with effect from 1 February 2021. A brief biography for Juliet is set out below:

Prior to her appointment to the Board, Juliet held a number of senior management positions at Morgan Stanley, most recently a dual role as European Head of Operations and Global Head of Shared Services and Banking Operations. Prior to 2007 she performed senior roles within Goldman Sachs International.

Company Secretary

The responsibilities of the Company Secretary include ensuring good governance practices at Board level and effective information flows within the Board and its committees and between senior management and the non-executive Directors.

Loren Wulfsohn acted as Company Secretary of the bank until 30 April 2020 and Philip Jockelson acted as Company Secretary for the remainder of the year.

Board of Directors

Role

The Board, led by the Chairman, is responsible amongst other matters for:

(i) promoting the long-term success of the bank and delivering sustainable value to shareholders and other stakeholders;

(ii) entrepreneurial leadership of the bank within a framework of prudent and effective controls which enables risks to be assessed and managed;

(iii) setting the bank's strategy and risk appetite statement including monitoring the bank's risk profile; and

(iv) approving the capital and operating plans and material transactions on the recommendation of management.

The role of the independent non-executive Directors is to support the development of proposals on strategy, hold management to account and ensure the executive Directors are discharging their responsibilities properly by promoting a culture that encourages constructive challenge. Non-executive Directors also review the performance of management in meeting agreed goals and objectives. The Chairman meets with the non-executive Directors without the executive Directors in attendance after each Board meeting and otherwise, as necessary.

The majority of the Board members are independent non-executive Directors. Both the Chief Executive Officer and the Chief Finance Officer are members of the Board. All Directors are subject to election or re-election at the bank's Annual General Meeting.

Operation of the Board

The Board is ordinarily scheduled to meet at least seven times a year but in 2020, given the unique challenges faced during the year as a result of the Covid-19 outbreak, the Board held nine scheduled meetings (with additional ad hoc meetings and weekly calls held during the height of the crisis) to ensure that the Board was properly informed on a regular basis regarding all key issues affecting the bank.

Board activities during 2020

In addition to responding to the impacts of the Covid-19 outbreak, the Board has focused during 2020 on resetting the region's strategic direction, supporting the Chief Executive and overseeing performance, risk and capital.

Due to the evolving external landscape during 2020, in addition to ongoing dialogue with management to progress the formulation and execution of the revised strategy, three dedicated strategy sessions were held by the Board during the course of the year. Deep dives on key aspects of the bank's business were also conducted to consider the performance and strategy of key businesses and countries.

During the year the Board also approved the financial, capital, liquidity and funding plans put forward by management and monitored the implementation of plans in anticipation of the end of the Brexit transition period. Further information on the principal decisions made by the Board during 2020, including in respect of the strategic reset and capital plans is located in the section 172 statement on pages 10 to 12.

Directors' emoluments

Details of the emoluments of the Directors of the bank for 2020, disclosed in accordance with the Companies Act, are shown in Note 5 'Employee compensation and benefits'.

Non-executive Directors do not have service contracts, but are engaged through letters of appointment. There are no obligations in the non-executive Directors' letters of appointment that could give rise to payments other than fees due or payments for loss of office.

Board committees

The Board delegates oversight of certain audit, risk, remuneration, nomination and governance matters to its committees. Each standing Board committee is chaired by a non-executive Board member and has a remit to cover specific topics in accordance with their respective terms of reference. Only independent non-executive Directors are members of Board committees. The Chairman of each non-executive Board Committee reports to the Board on the activities of the Committee since the previous Board meeting.

Board and Committee effectiveness and performance

The Board understands the importance of, and benefits that derive from regular reviews of the effectiveness of the Board and its Committees. In 2020, the bank was subject to an internally facilitated subsidiary governance review of the Group's main subsidiary Boards and Committees. The review focused on (i) the composition, skill-set, time commitment and fees for Boards and Committees; (ii) service quality and scope of governance and secretarial support; and (iii) the effectiveness of the bank's relationship with the Group. The results of the subsidiary governance review of the bank have been considered by the Board and work is ongoing to address recommendations. Executive Directors are also subject to performance evaluation which helps to determine the level of variable pay they receive each year.

At the date of this report, the following are the principal Committees of the Board:

Audit Committee

Role

The Audit Committee is accountable to the Board and has non-executive responsibility for oversight of and advice to the Board on financial reporting related matters, internal controls over financial reporting and implementation of the Group's policies and procedures for capturing and responding to whistleblower concerns. The Committee's key responsibilities are:

(i) to monitor and assess the integrity of the financial statements, formal announcements and regulatory information in relation to the bank's financial performance;

(ii) to ensure the effectiveness of, and ensure that management has appropriate controls over, financial reporting;

(iii) to review and monitor the relationship with the external auditor; and

(iv) to oversee the work of Internal Audit.

The Committee meets regularly with the bank's senior financial and Internal Audit management and the external auditors to consider, among other matters, the bank's financial reporting, the nature and scope of audit reviews, the effectiveness of the systems of internal control relating to financial reporting and the monitoring of the Finance function transformation programme. The Committee also has responsibility for the oversight of the bank's whistleblowing arrangements, and receives regular updates on the numbers and types of matters raised by employees through the whistleblowing arrangements that are in place.

Committee activities during 2020

In addition to significant accounting judgements, key matters considered by the Committee during the year included the impact of the Covid-19 outbreak, the bank's capital and risk management and Pillar 3 disclosures, the proposed adoption of Cloud by the Finance function, the independence, fees and performance of the external auditor, PricewaterhouseCoopers LLP, and updates on key issues identified by Internal Audit related to the bank and its subsidiaries.

The Committee also received updates from the Chairs of the Audit Committees of material subsidiaries of the Bank, updates from the external auditor on the progress and findings of their audit, and bi-annual updates on the tax position of the bank and its subsidiaries. It also received regular reports on whistle blowing.

Operation of the Committee

The Committee held eight scheduled meetings during the year and held separate meetings with each of the Chief Finance Officer, the Chief Risk Officer, the Head of Internal Audit and representatives of the external auditor without management present.

The current members are Andrew Wright (Chairman), Eric Strutz and John Trueman.

Significant accounting judgements and related matters considered by the Audit Committee ('AC') for the year ended 2020 included:

Key area	Action taken
Interim and annual reporting	The AC considered key judgements in relation to interim and annual reporting.
Expected credit loss ('ECL') allowances and charges	The AC considered the key judgements related to IFRS 9 and the related disclosures, including considerations in respect of ECL allowances and charges for wholesale lending. Attention was paid to credit risk assessment in the UK and Continental Europe and the adjustment to ECL for Covid-19 related economic uncertainty, including post-model adjustments.
Valuation of financial instruments	The AC considered the key valuation metrics and judgements involved in the determination of the fair value of financial instruments.
Going concern	The AC considered a wide range of information relating to present and potential conditions, including projections for profitability, cash flows, liquidity and capital.
Impairment of investment in subsidiary	The AC reviewed management's periodic assessment of impairment of investments in subsidiaries and paid particular attention to the reliability of the cash flow projections and long-term growth rate and discount rate assumptions. Management assessed that there had been no further impairment of the bank's investment in HSBC Continental Europe for the year ended 2020.
Non-financial assets impairment testing	The AC considered the results of the periodic non-financial assets impairment test. Management assessed that in total £1.0bn of non-financial assets are impaired or derecognised during the year mainly due to the cash generating units no longer having a value in use in excess of their net assets.
Appropriateness of provisioning for legal proceedings and regulatory matters	The AC received reports from management on the recognition and measurement of provisions and contingent liabilities for legal proceedings and regulatory matters. Matters included accounting judgements in relation to provisions and contingent liabilities arising from investigations by regulators and competition and law enforcement authorities around the world on the trading in the foreign exchange market.
IBOR transition	The AC considered the accounting implications of benchmark interest rate replacement for hedge accounting relationships at 31 December 2020, the longer term broader implications for financial instruments and other areas of accounting, and the related disclosures. The AC concluded that management's judgement regarding the continuation of hedge accounting was appropriate as at 31 December 2020 and that this position will be kept under review in the context of future market developments in the transition of interest rate benchmarks to new risk free rates.
Controls	The AC considered the financial control environment on an ongoing basis through the year, reviewing and challenging remediation actions undertaken and enhancements made. This included confirmation of mitigating controls where programmes of work had not fully completed by the year end. Areas of particular focus in 2020 have been Impairment of Non-Financial Assets, third party risk management, Business User Access, Model Risk Governance, general ledger substantiation and Financial Statement Disclosures.
Tax	The AC considered key judgements in relation to tax, notably the contingent liability for retrospective VAT assessments issued by HMRC and deferred tax asset recognition.
Insurance business revenue and cost sharing assumptions	The AC considered management's actions to address the impact of the prolonged low interest rate environment in the Eurozone on the insurance business and its implications for the present value of in-force contracts.
Sustainable Finance	The AC noted the regulatory developments on Environmental, Social, Governance ('ESG') reporting requirements.

Significant accounting judgements and related matters considered by the Audit Committee ('AC') for the year ended 2020 included: (continued)

Key area	Action taken
Regulatory reliefs and policy changes to alleviate impacts of Covid-19	The AC considered management's actions to implement the regulatory reliefs and policy changes made to alleviate impacts of Covid-19, including i) Deferrals to existing projects and regulatory reviews ii) Capital and liquidity reliefs to mitigate procyclical impacts and iii) Policy Clarifications, mainly application of IFRS 9 in light of the Covid-19 uncertainty and changes to the Capital Requirements Regulation.
Restructuring provisions	The AC considered key judgements in relation to restructuring provisions, mainly relating to transformation in HSBC Continental Europe.

Risk Committee

Role

The Risk Committee has overall non-executive responsibility for oversight of risk-related matters and the risks impacting the bank. The Committee's key responsibilities are:

(i) to advise the Board on risk appetite-related matters, and key regulatory submissions, including the ICAAP and ILAAP, as well as recovery and resolution planning;

(ii) to oversee and advise the Board on all risk-related matters, including financial risks, non-financial risks and the effectiveness of the bank's conduct framework;

(iii) to review and challenge the bank's stress testing exercises; and

(iv) to review the effectiveness of the bank's Risk Management Framework.

The Committee meets regularly with the bank's senior financial, risk, internal audit and compliance management and the external auditors to consider, among other matters, risk reports and internal audit reports and the effectiveness of compliance activities. The Risk Committee also has responsibility for the oversight of systems, operational resilience and the bank's IT infrastructure, including operational resilience of critical IT and other business services, cyber security, digital and major IT change programmes.

During 2021, the Risk Committee will be assisted in the discharge of its duties in respect of oversight of operational and IT resilience matters by a new advisory body, the Transformation, Operational Resilience and Technology Committee. This Committee will also assist the Board with oversight of the Europe transformation programme and IT Strategy. The new Committee will facilitate more in-depth discussion of these important topics and report to the Risk Committee and Board on its activities.

The current members are Juliet Robinson (Chair), Eric Strutz and Mary Marsh.

Committee activities during 2020

Key matters considered by the Committee during the year included the bank's approach to the financial and non-financial risks arising out of the Covid-19 outbreak, the Transformation programme, IBOR transition, implementation of the Payment Services Directive II, third party risk management, non-financial risks and preparations for the end of the Brexit transition period.

The Committee also reviewed and challenged key regulatory processes, including the bank's internal capital adequacy assessment process and the internal capital liquidity assessment process; recovery and resolution plans (including the bank's response to the Bank of England's Resolvability Assessment Framework requirements); the outcome of stress tests undertaken during the year; and the bank's capital and funding plans.

Operation of the Committee

The Committee held 11 scheduled meetings during the year and held separate meetings with the Head of Internal Audit, the Chief Risk Officer, the Chief Finance Officer and representatives of the external auditor without management present.

The current members are: Eric Strutz (Chairman), Mary Marsh, Yukiko Omura, John Trueman and Andrew Wright.

Nomination, Remuneration & Governance Committee

Role

The Nomination, Remuneration & Governance Committee has responsibility for:

(i) leading the process for Board appointments and for identifying and nominating, for the approval of the Board, candidates for appointment to the Board;

(ii) the endorsement of the appointment of individuals to certain Board and management positions at the bank's subsidiaries; including proposed fees payable to non-executive Directors on subsidiary boards;

(iii) reviewing the implementation and appropriateness of HSBC Group's remuneration policy and the remuneration of the bank's senior executives, including the identification of the Material Risk Taker population for the purposes of the Capital Requirements Directive; and

(iv) reviewing and developing the corporate governance framework on behalf of the Board and ensuring it is consistent with best corporate governance standards and practices while remaining appropriate to the size, complexity and strategy of the bank.

Committee activities during the year

Key matters considered by the Committee during the year included the appointment to the Board of new Directors, including a leading role in the identification of new Chief Executive Officers and an additional independent non-executive Director, as well as several senior positions within the bank's Executive Committee.

Other activities during the year included approval of a revised Board Diversity Policy. The Committee applies the principles in the policy when considering the composition of the Board, including in relation to gender, ethnicity and age. Other factors taken into account when assessing Board composition include the educational and professional background of directors, with specific focus during the year on securing new appointments with suitable experience to oversee execution of the Europe transformation programme.

The Group has implemented a Subsidiary Accountability Framework ('SAF') which seeks to ensure a consistent approach to governance across all subsidiaries in the Group, and to strengthen interaction and information flows between the bank and the Group. The SAF is now embedded and the Committee's remit now encompasses Governance oversight, which includes the implementation of the SAF across the region. The Committee reports on progress both to the Board and, through the Group Chairman's Forum, to the Group.

Operation of the Committee

The Committee held eight scheduled meetings during 2020, with additional meetings arranged to consider specific matters.

The current members are: Stephen O'Connor (Chairman), Eric Strutz, John Trueman and Andrew Wright.

Executive Committee

The Executive Committee is a committee of the Board and is accountable to the Board for the management and day-to-day running of the bank. The purpose of the Committee is to support the Chief Executive Officer of the bank in the performance of his duties and exercise of his powers, authorities and discretions in relation to the management of the bank and its subsidiaries and to support him in the discharge of his responsibilities to the Board. The Committee meets regularly and is chaired by the Chief Executive Officer.

Regular Risk Management Meetings of the Executive Committee, chaired by the Chief Risk Officer, are held to establish, maintain and periodically review the policy and guidelines for the management of risk within the bank.

Regular meetings of the Financial Crime Risk Management Committee are held to ensure effective enterprise-wide management of financial crime risk within the bank.

During 2020, in addition to its day-to-day oversight of the bank's operations, the Executive Committee's principal areas of focus included managing the bank's response to the Covid-19 outbreak (with daily meetings convened during the height of the crisis) and oversight of the bank's transformation programme through the establishment of a dedicated weekly Transformation Execution Committee. The Executive Committee also established a People Committee during 2020 to ensure due consideration of issues relevant to the bank's employees.

The bank continues to operate a Disclosure Committee, under the authority of the Chief Executive Officer, to support the bank in the discharge of its obligations under relevant Market Abuse Regulations. The Disclosure Committee is comprised of the Chief Finance Officer (Chairman), Chief Risk Officer, General Counsel, Company Secretary and the Global Head of Debt Investor Relations.

Dividends

Information about dividends paid during the year is provided on page 18 of the Strategic Report and in Note 8 to the financial statements.

Internal control

The Board is responsible for maintaining and reviewing the effectiveness of risk management and internal control systems and for determining the aggregate level and types of risks the bank is willing to take in achieving its strategic objectives.

To meet this requirement and to discharge its obligations under the FCA Handbook and the PRA Handbook, procedures have been designed for safeguarding assets against unauthorised use or disposal; for maintaining proper accounting records; and for ensuring the reliability and usefulness of financial information used within the business or for publication.

These procedures provide reasonable assurance against material misstatement, errors, losses or fraud. They are designed to provide effective internal control within the group and accord with the Financial Reporting Council's guidance for Directors issued in 2014, internal control and related financial and business reporting. The procedures have been in place throughout the year and up to 22 February 2021, the date of approval of this *Annual Report and Accounts 2020.*

The key risk management and internal control procedures include the following:

- Global principles: The HSBC Group's Global Principles set an overarching standard for all other policies and procedures and are fundamental to the Group's risk management structure. They inform and connect our purpose, values, strategy and risk management principles, guiding us to do the right thing and treat our customers and our colleagues fairly at all times.
- Risk management framework (RMF): The RMF provides an effective and efficient approach to how we govern and oversee the organisation as well as how we monitor and mitigate risks to the delivery of our strategy. It applies to all categories of risk, covering core governance, standards and principles that bring together all of the group's risk management practices into an integrated structure.
- Delegation of authority within limits set by the Board: Subject to certain matters reserved for the Board, the Chief Executive Officer has been delegated authority limits and powers within which to manage the day-to-day affairs of the group, including the right to sub-delegate those limits and powers. Each relevant executive has authority within which to manage the day-to-day affairs of the business or function for which he or she is accountable. Those individuals are required to maintain a clear and appropriate apportionment of significant responsibilities and to oversee the establishment and maintenance of systems of control that are appropriate to their business or function. Authorities to enter into credit and market risk exposures are delegated with limits to line management of group companies. However, credit proposals with specified higher-risk characteristics require the concurrence of the appropriate global function. Credit and market risks are measured and reported at subsidiary company level and aggregated for risk concentration analysis on a group-wide basis.
- Risk identification and monitoring: Systems and procedures are in place to identify, assess, control and monitor the material risk types facing the group as set out in the RMF. The group's risk measurement and reporting systems are designed to help ensure that material risks are captured with all the attributes necessary to support well-founded decisions, that those attributes are accurately assessed and that information is delivered in a timely manner for those risks to be successfully managed and mitigated.
- Changes in market conditions/practices: Processes are in place to identify new risks arising from changes in market conditions/ practices or customer behaviours, which could expose the group to heightened risk of loss or reputational damage. The group employs a top and emerging risks framework, which contains an aggregate of all current and forward-looking risks and enables it to take action that either prevents them materialising or limits their impact.
- Responsibility for risk management: All employees are responsible for identifying and managing risk within the scope of their role as part of the three lines of defence model. This is an activity-based model to delineate management accountabilities and responsibilities for risk management and the control environment. The second line of defence sets the policy and guidelines for managing specific areas, provides advice and guidance in relation to the risk, and challenges the first line of defence (the risk owners) on effective risk management.
- The Board has delegated to the Audit Committee oversight for the implementation of the group's policies and procedures for capturing and responding to whistleblower concerns, ensuring confidentiality, protection and fair treatment of whistleblowers, and receiving reports arising from the operation of those policies as well as ensuring arrangements are in place for independent investigation.
- Strategic plans: Strategic plans are prepared for global businesses, global functions and geographical regions within the framework of the HSBC Group's overall strategy. The bank also prepares and adopts an Annual Operating Plan, which is informed by detailed analysis of risk appetite, describing the types and quantum of risk that the bank is prepared to take in executing its strategy and sets out the key business initiatives and the likely financial effects of those initiatives.
- The effectiveness of the group's system of risk management and internal control is reviewed regularly by the Board, the Risk Committee and the Audit Committee.
- During 2020, the group continued to focus on operational resilience and invest in the non-financial risk infrastructure. There was a particular focus on material and emerging risks with significant progress made enhancing the end-to-end risk and control assessment process. The Risk Committee and the Audit Committee received confirmation that executive management has taken or is taking the necessary actions to remedy any failings or weaknesses identified through the operation of the group's framework of controls.

Internal control over financial reporting

The key risk management and internal control procedures over financial reporting include the following:

- **Entity level controls**: The primary mechanism through which comfort over risk management and internal control systems is achieved, is through assessments of the effectiveness of entity level controls ('ELCs'), and the reporting of risk and control issues on a regular basis through the various risk management and risk governance forums. ELCs are internal controls that have a pervasive influence over the entity as a whole. They include controls related to the control environment, for example the bank's values and ethics, the promotion of effective risk management and the overarching governance exercised by the Board and its non-executive committees. The design and operational effectiveness of ELCs are assessed annually as part of the assessment of the effectiveness of internal controls over financial reporting.
- **Process level transactional controls:** Key process level controls that mitigate risk of financial mis-statement are identified, recorded and monitored in accordance with the risk framework. This includes the identification and assessment of relevant control issues against which action plans are tracked through to remediation. Further details on the group's approach to risk management can be found on page 22. The Audit Committee has continued to receive regular updates on HSBC's ongoing activities for improving the effective oversight of end-to-end business processes and management continues to identify opportunities for enhancing key controls, such as through the use of automation technologies.
- **External Reporting Forum:** The External Reporting Forum reviews financial reporting disclosures made by the bank for any material errors, mis-statements or omissions. The integrity of disclosures is underpinned by structures and processes within the group's Finance and Risk functions that support rigorous analytical review of financial reporting and the maintenance of proper accounting records.
- **Disclosure Committee:** As indicated on page 91, the Disclosure Committee considers the external reporting obligations of the bank to ensure compliance with reporting obligations under the EU Market Abuse Regulations.
- **Financial reporting:** The group's financial reporting process is controlled using documented accounting policies and reporting formats, supported by detailed instructions and guidance on reporting requirements, issued to all reporting entities within the group in advance of each reporting period end. The submission of financial information from each reporting entity is supported by a certification by the responsible financial officer and analytical review procedures at subsidiary and group levels.
- **Subsidiary certifications:** Certifications are provided to the Audit Committee and the Risk Committees (full and half yearly) and to the Nomination, Remuneration and Governance Committee (annually) from the audit, risk and remuneration committees of key material subsidiary companies confirming amongst other things that:
  - Audit – the financial statements of the subsidiary have been prepared in accordance with group policies, present fairly the state of affairs of the subsidiary and are prepared on a going concern basis;
  - Risk – the Risk Committee of the subsidiary has carried out its oversight activities consistent with and in alignment to the RMF; and
  - Remuneration – the Remuneration Committee of the subsidiary has discharged its obligations in overseeing the implementation and operation of HSBC's Group Remuneration Policy.

Employees

Health and safety

We are committed to providing a healthy and safe working environment for everyone. We strive to ensure we adopt best health and safety management practices across the organisation and aim for standards that reflect our core values.

Chief operating officers have overall responsibility for ensuring that global policies, procedures and safeguards are put into practice locally, and that all legal requirements are met.

To put our commitment into practice, we delivered a range of programmes in 2020 to help us understand and manage effectively the risks we face and improve the buildings in which we operate:

- Based on expert medical advice, we created safe workplaces globally, designed to protect our employees, contractors and customers from the risk of Covid-19. We carried out around 1,700 Covid-19 related workplace enhancements globally, with measures involving: enhanced cleaning, training and awareness, public hygiene and track and trace.
- We updated our advice on working from home, providing more awareness and best practice on good ergonomics and well-being to be adopted during these unprecedented times.
- We delivered an improved health and safety training and awareness programme to 245,000 of our employees and contractors globally, ensuring roles and responsibilities were clear and understood.
- We competed the annual safety inspection on all of our buildings globally, subject to local Covid-19 restrictions, to ensure we were meeting our standards and continuously improving our safety performance.
- We continued to focus on enhancing the safety culture in our supply chain through our SAFER Together programme, covering the five key elements of best practice safety culture, including speaking up about safety, and recognising excellence. Our 2020 safety climate survey results showed a continued year on year increase in safety culture, and significantly above the industry average.
- Our Eat Well Live Well programme continued through educating and informing our colleagues on how to make healthy food and drink choices. We enhanced a programme to provide digital educational and information resources, including a suite of videos and recipe ideas. The programme was runner up in the 2020 Global Healthy Workplace Awards.
- We put in place effective storm preparation controls and processes to ensure the protection of our people and operations. In 2020 there were 41 named storms, that passed over 2,316 of our buildings, and resulted in no injuries or business impact.

Employee health and safety

	Footnotes	2020	2019	2018
Number of workplace fatalities		–	–	–
Number of major injuries to employees	1	2	3	1
All injury rate per 100,000 employees		35	130	87

1 *Fractures, dislocation, concussion, hospitalisation, unconsciousness.*

Diversity and inclusion

Our employees and the societies they represent and serve span many cultures, communities and continents. We believe this diversity makes us stronger, and we are dedicated to building a diverse and connected workforce where everyone feels a sense of belonging. In Europe, we have carried out actions to drive improvements in representation and sentiment across multiple diversity strands, strengthen our employee networks, and improve our diversity data. Our diversity focus goes beyond gender to include ethnicity, disability and LGBT+.

Key achievements

In Europe, we have launched the ethnicity inclusion campaign which aims to diversify our workforce ethnicity profile and have adapted it to local circumstances.

A podcast about ethnicity was recorded with the CEO of Europe and the Head of HR and shared with colleagues.

Exchange meetings to discuss ethnicity and multiculturalism were organised in several countries e.g. Bermuda and France.

We have again been recognised for the range of our work to support LGBT+ people as one of only 17 companies 'named as Stonewall Top Global Employer', and in Europe we have actively participated in the #24 hours of Pride through several virtual events in the UK, Poland, Greece, Germany, Malta, Luxembourg, France, Channel Islands, Ireland, Italy and Bermuda. In Italy we have also joined an external association which supports employers in implementing Diversity policies mostly on LGBT+ inclusion. In the UK we are headline sponsors of Birmingham Pride. In 2020, our LGBT+ ERG Pride was a finalist of the UK LGBT Awards.

We are working to increase Employee Resources Groups (ERG) representation across Europe. New chapters were created in 2020, like Balance (gender) in Germany, Pride (LGBT+) in Luxembourg and Embrace (Ethnicity) in Bermuda and South Africa.

Our ERGs are actively involved in supporting employees locally. Balance, our ERG dedicated to gender diversity, has also a European representation and for the second year have run a programme (Taste of the Top) to give exposure to female talent allowing them to cover a week of leave for very senior positions. In Italy, we are now a member of Valore D – Association to promote female talent at all levels. In Germany, more than 300 employees participated in the events to launch the Balance ERG.

Under the patronage of the President of Malta, we have partnered with other organisations to sponsor the Malta Businesswoman of the Year Awards which aims to promote and recognise outstanding female leaders, and empower women to reach their full potential.

Gender diversity statistics

Our overall female representation is improving and we are committed to building a strong pipeline of female talent to improve gender balance in senior leadership across Europe. Our target was 22.9% of women in senior leadership (Global Career Band 0-3) roles by the end of 2020. The outcome for 2020 was 22.4% of women in senior leadership roles.

Female representation by management level:

- All grades: 50%
- Clerical grades: 71%
- Junior management: 60%
- Management: 43%
- Senior management: 26%
- Executive management: 12%

Employment of people with a disability

We believe in providing equal opportunities for all employees. The employment of people with a disability is included in this commitment. The recruitment, training, career development and promotion of people with a disability are based on the aptitudes and abilities of the individual. Should employees become disabled during their employment with us, efforts are made to continue their employment and, if necessary, appropriate training and reasonable equipment and facilities are provided.

A number of countries have dedicated teams to ensure that barriers to work are removed for colleagues.

The new French and German headquarters have been designed to be fully accessible. We have supported our colleagues with disabilities through the lockdown; for instance, in France we have held individual calls and have made home office adjustments.

Learning and talent development

The development of our people continues to be core to the success of our organisation as we develop and implement practices that identify talent, and build broad employee capability to ensure an appropriate supply of high calibre individuals with the right values, skills and experience for current and future senior management positions.

During 2020 our ongoing drive to make HSBC University available to all in HSBC received significant impetuous given the pandemic and the operational impact this had on face-to-face training. Given the challenge we re-launched our leadership essentials curriculum in live online format and increased our digital learning channels so that our people could undertake an increasing range of personal development while working remotely.

Over 2,000* HSBC Europe participants attended one of HSBC University's flagship personal development programmes in 2020. The most popular programmes remained focused on developing skills to effectively lead functions and teams across HSBC, with increased focus on doing this in a virtual world. We also saw significant demand for new programmes that supported the need to effectively lead change in HSBC, identify and work with team members on matters of Mental Health and the importance of skills and knowledge that ensures that HSBC has a diverse and inclusive approach to hiring new personnel.

*As at end of November 2020

Employee relations

We consult with and, where appropriate, negotiate with employee representative bodies where we have them. We also aim to maintain well-developed communications and consultation programmes with all employee representative bodies and there have been no material disruptions to our operations from labour disputes during the past five years.

Disclosure of information to auditors

The directors are not aware that there is any relevant audit information (as defined in the Companies Act 2006) of which the bank's auditors are unaware and processes are in place to ensure that the bank's auditors are aware of any relevant audit information.

Auditors

PricewaterhouseCoopers LLP ('PwC') are the external auditors to the bank. PwC has expressed its willingness to continue in office and the Board recommends that PwC be re-appointed as the bank's auditors. A resolution proposing the re-appointment of PwC as the bank's auditors, and giving authority to the Audit Committee to determine its remuneration, will be submitted to the forthcoming AGM.

Branches

HSBC Bank plc currently has branches in nine jurisdictions. As part of the bank's contingency planning for Brexit, all of its former branches in the European Union were de-registered except for those in France and Luxembourg.

Disclosures required pursuant to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as updated by Companies (Miscellaneous Reporting) Regulations 2018 can be found on the following pages:

Engagement with employees (Sch.7 Para 11 and 11A 2008/2018 Regs), s172 Statement)	Pages 10 and 11
Engagement with suppliers, customers and others in a business relationship with the bank (Sch.7 Para 11B 2008 Regs)	Page 10
Policy concerning the employment of disabled persons (Sch.7 Para 10 2008 Regs)	Page 93
Financial Instruments (Sch.7 Para 6 2008 Regs)	Pages 32 to 70
Hedge accounting policy (Sch.7 Para 6 2008 Regs)	Note 14, Pages 151 to 156

Articles of Association, Conflicts of interest and indemnification of Directors

The bank's Articles of Association gives the Board authority to approve Directors' conflicts and potential conflicts of interest. The Board has adopted policies and procedures for the approval of Directors' conflicts or potential conflicts of interest. On appointment, new Directors are advised of the process for dealing with conflicts and a review of those conflicts that have been authorised, and the terms of those authorisations, is routinely undertaken by the Board. The Articles of Association provide that Directors and directors of associated companies are entitled to be indemnified out of the assets of the bank against claims from third parties in respect of certain liabilities. Such indemnity provisions have been in place during the financial year and remain in place but have not been utilised by the Directors. Additionally, all Directors have the benefit of directors' and officers' liability insurance.

Research and Development

In the ordinary course, the lines of business develop new products and services.

Events after the Balance Sheet Date

After 31 December 2020, the bank acquired the remaining 0.67% non-controlling interest in its subsidiary HSBC Trinkaus & Burkhardt AG, making it wholly-owned. This followed the bank's acquisition of an 18.6% non-controlling interest during 2020. Refer to Note 34 Events after the balance sheet date.

Statement on going concern

The Directors consider it appropriate to prepare the financial statements on the going concern basis. In making their going concern assessment, the Directors have considered a wide range of detailed information relating to present and potential conditions, including profitability, cash flows, capital requirements and capital resources.

Further information relevant to the assessment is provided in the Strategic Report and the Report of the Directors, in particular:

- a description of the group’s strategic direction;
- a summary of the group's financial performance and a review of performance by business;
- the group’s approach to capital management and its capital position; and
- the top and emerging risks facing the group, as appraised by the Directors, along with details of the group's approach to mitigating those risks and its approach to risk management in general.

In addition, the objectives, policies and processes for managing credit, liquidity and market risk are set out in the ‘Report of the Directors: Risk’.

The Directors’ Report comprising pages 22 to 96 was approved by the Board on 22 February 2021 and is signed on its behalf by.

By order of the Board

J Fleurant

Director

HSBC Bank plc

22 February 2021

Registered number 14259

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and company financial statements in accordance with international accounting standards in conformity with the Companies Act 2006. Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the directors to prepare the group and company financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, and additionally, the international financial reporting standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB'), including interpretations issued by the IFRS Interpretations Committee relating to 'Interest Rate Benchmark Reform – Phase 2', which amends IFRS 9, IAS 39 'Financial Instruments', IFRS 7 'Financial Instruments', IFRS 4 'Insurance Contracts' and IFRS 16 'Leases'.
Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether, for the group and company, international accounting standards in conformity with the requirements of the Companies Act 2006 and, for the group, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company's financial statements published on the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

Each of the directors, whose names and functions are listed in the Corporate Governance Report, confirm that, to the best of their knowledge:

- the group and company financial statements, which have been prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the group and loss of the company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces

By order of the Board

J Fleurant

Director

HSBC Bank plc

22 February 2021

Registered number 14259

Independent auditors’ report to the members of HSBC Bank plc

Report on the audit of the financial statements

Opinion

In our opinion, HSBC Bank plc’s group financial statements and company financial statements (the 'financial statements'):

- give a true and fair view of the state of the group’s and of the company’s affairs as at 31 December 2020 and of the group’s loss and the group’s and the company’s cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the HSBC Bank plc *Annual Report and Accounts 2020* (the 'Annual Report'), which comprise:

- the consolidated balance sheet as at 31 December 2020;
- the consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the HSBC Bank plc balance sheet as at 31 December 2020;
- the HSBC Bank plc statement of cash flows for the year then ended;
- the HSBC Bank plc statement of changes in equity for the year then ended; and
- the notes on the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 1.1(a) to the financial statements, the group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1.1(a) to the financial statements, the group, in addition to applying international accounting standards in conformity with the requirements of Companies Act 2006, has also applied international financial reporting standards ('IFRS's) as issued by the International Accounting Standards Board ('IASB').

In our opinion, the group financial statements have been properly prepared in accordance with IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors’ responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC’s Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC’s Ethical Standard were not provided to the group.

Other than those disclosed in note 6 on the financial statements, we have provided no non-audit services to the group in the period under audit.

Our audit approach

Overview

Audit materiality

- Overall group materiality: £222 million (2019: £221 million), based on 1% of Tier 1 capital.
- Overall company materiality: £142 million (2019: £146 million), based on 1% of Tier 1 capital.

Audit scope

We performed audits of the complete financial information of two components, namely the UK non-ring-fenced bank and HSBC Continental Europe.

For six further components, specific audit procedures were performed over selected significant account balances and financial statement note disclosures.

Key audit matters

The following areas were identified as key audit matters. These are discussed in further detail in the Appendix:

- Impact of Covid-19 (group and company)
- Expected credit loss ('ECL') provision for loans and advances (group and company)
- Valuation of financial instruments (group and company)
- The present value of in-force long-term insurance contracts ('PVIF') asset (group)
- Investments in subsidiaries (company)
- Information Technology ('IT') Access Management (group and company)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Financial Conduct Authority's ('FCA') regulations, the Prudential Regulation Authority's ('PRA') regulations, UK Listing Rules, Pensions legislation, Anti-Bribery and Corruption legislation, Anti-Money Laundering legislation and UK tax legislation. We considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce costs, creation of fictitious transactions to hide losses or to improve financial performance, and management bias in accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Review of correspondence with and reports to the regulators, including the PRA and FCA;
- Review of reporting to the Audit Committee and Risk Committee in respect of compliance and legal matters;
- Review of legal correspondence with legal advisors;
- Enquiries of management and review of internal audit reports in so far as they related to the financial statements;
- Obtaining legal confirmations from legal advisors relating to material litigation and compliance matters;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to valuation of certain complex level 3 financial instrument portfolios, expected credit loss provision for loans and advances, valuation of PVIF assets, and investments in subsidiaries (see related key audit matters below);
- Performing procedures to confirm existence of transactions including obtaining confirmations from third parties; and
- Identifying and testing journal entries meeting specific fraud criteria, including those posted with certain descriptions, posted and approved by the same individual, backdated journals or posted by infrequent and unexpected users.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The PVIF asset and impact of Covid-19 are new key audit matters this year. Goodwill and Tax judgements, which were key audit matters last year, are no longer included because of changes in risk assessment and relative materiality of these balances. Otherwise, the key audit matters below are consistent with last year.

The key audit matters are discussed further in the Appendix.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

HSBC Bank plc is structured into three divisions being Global Banking & Markets, Commercial Banking and Wealth and Personal Banking, which are supported by a Corporate Centre. The divisions operate across a number of operations, subsidiary entities and branches ('components') throughout Europe. Within the group's main consolidation and financial reporting system, the consolidated financial statements are an aggregation of the components. Each component submits their financial information to the group in the form of a consolidation pack.

In establishing the overall approach to the group and company audit, we scoped using the balances included in the consolidation pack. We determined the type of work that needed to be performed over the components by us, as the group engagement team, or auditors within PwC UK and from other PwC network firms operating under our instruction ('component auditors').

As a result of our scoping, for the group we determined that audits of the complete financial information of the UK non-ring-fenced bank ('UK NRFB') and HSBC Continental Europe were necessary, owing to their financial significance. We instructed component auditors, PwC UK and PwC France to perform the audits of these components. Our interactions with component auditors included regular communication throughout the audit, including the issuance of instructions, a review of working papers relating to the key audit matters and formal clearance meetings. The group audit engagement partner was also the partner on the audit of the UK NRFB significant component.

We then considered the significance of other components in relation to primary statement account balances and note disclosures. In doing this we also considered the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error). For six components, specific audit procedures were performed over selected significant account balances. For the remainder, the risk of material misstatement was mitigated through group audit procedures including testing of entity level controls and group and company level analytical review procedures.

Certain group-level account balances were audited by the group engagement team.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - group	Financial statements - company
Overall materiality	£222 million (2019: £221 million).	£142 million (2019: £142 million).
How we determined it	1% of Tier 1 capital.	1% of Tier 1 capital.
Rationale for benchmark applied	Tier 1 capital is used as a benchmark as it is considered to be a key driver of HSBC Bank plc's decision making process and has been a primary focus for regulators.	Tier 1 capital is used as a benchmark as it is considered to be a key driver of HSBC Bank plc's decision making process and has been a primary focus for regulators.

Tier 1 capital was also used as the benchmark in the prior year. The basis for determining materiality was re-evaluated and we considered other benchmarks, such as profit before tax. Tier 1 capital is a common benchmark for wholly owned banking subsidiaries, because of the focus on financial stability. Tier 1 capital was determined to continue to be an appropriate benchmark given the importance of this metric to the HSBC Bank plc decision making process and to principal users of the financial statements, including the ultimate holding company HSBC Holdings plc.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £166m for the group financial statements and £106m for the company financial statements. In determining the performance materiality, we considered a number of factors - the history of misstatements, our risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £10m to £119m. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £7m (group audit and company audit) (2019: £6m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Performing a risk assessment to identify factors that could impact the going concern basis of accounting, including the impact of Covid-19 on the operations and financial performance and position of the group.
- Understanding and evaluating the group's financial forecasts and the group's stress testing of liquidity and regulatory capital, including the severity of the stress scenarios that were used.
- Reading and evaluating the adequacy of the disclosures made in the financial statements in relation to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 31 March 2015 to audit the financial statements for the year ended 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement is six years, covering the years ended 31 December 2015 to 31 December 2020.

Claire Sandford

(Senior Statutory Auditor)

for and on behalf of **PricewaterhouseCoopers LLP**

Chartered Accountants and Statutory Auditors

London

22 February 2021

Appendix: Key audit matters

The key audit matters are discussed below together with an explanation of how the audit was tailored to address these specific areas.

Impact of Covid-19 (group and company)

Nature of the Key Audit Matter

The impact of the Covid-19 pandemic has resulted in unprecedented economic conditions and resulting government support programmes and regulatory interventions to support businesses and people. The Covid-19 pandemic has also changed the way that companies operate their businesses, with one of most substantial impacts being the transition to remote working.

A substantial proportion of the group's employees have been working remotely during 2020, with some consequential changes on their processes and the control environment, some of which were relevant for financial reporting purposes. Our audit team has also been working remotely for most of 2020, as have most of our teams auditing the components and operational centres.

The impact of the Covid-19 pandemic and resulting uncertainty has impacted a number of the estimates in the group's financial statements and in the company's financial statements. The impact on the most significant accounting judgements and our audit is set out in the following other key audit matters in this report:

- Expected credit losses - Impairment on loans and advances to customers
- Impairment of investment in subsidiaries

Matters discussed with the Audit Committee

We discussed our assessment of the impact of Covid-19 on the group's operations and control environment with the Audit Committee. We also explained how we planned to execute our audit with substantially all of our audit team working remotely.

How our audit addressed the Key Audit Matter

We engaged with the Audit Committee, Board and management in a manner consistent with our previous audits, albeit remotely using video and telephone calls. Substantially all of the information and audit evidence we needed for the audit was provided in electronic format. We shared information, including the audit evidence provided to us by the group, using share-screen functionality in video calls and our secure encrypted information sharing software. Where we would have previously inspected physical evidence, for example our stock counts of precious metals, these audit procedures were performed virtually using video technology.

We understood and assessed the transition of group employees to working remotely on the control environment relevant to financial reporting, and reflected this in our audit approach for new or changed processes and controls.

Where the group undertook new business activities as a result of Covid-19, for example, the government sponsored lending programmes, we assessed the audit risks and designed appropriate audit procedures.

We were not able to visit any of the audit teams for the significant components and operations centres during our 2020 audit. However, we engaged with and directed these teams in a manner consistent with our previous audits using video and telephone calls. This included 'virtual visits' to certain locations, in which we met with both the audit teams and local management. To ensure we were satisfied with the audits performed by the audit teams for the significant components, we evaluated and reviewed audit evidence by remotely reviewing electronic audit files or using share-screen functionality in video calls.

Relevant references in the Annual Report and Accounts 2020

Risks related to Covid-19, page 29; Audit Committee, page 90.

Expected credit losses - Impairment of loans and advances to customers (group and company)

Nature of the Key Audit Matter

Determining expected credit losses ('ECL') involves management judgement and is subject to a high degree of estimation uncertainty, both of which have significantly increased as a result of Covid-19.

Management makes various assumptions when estimating ECL. The significant assumptions that we focused on in our audit included those with greater levels of management judgement and for which variations had the most significant impact on ECL. Specifically, these included:

- forward looking economic scenarios and their likelihoods;
- customer risk ratings ('CRRs'), probability of defaults and significant increase in credit risk criteria;and
- the recoverability of credit impaired wholesale exposures.

The modelling methodologies that use these assumptions, as well as other data, to estimate ECL are complex and not standardised. The modelling methodologies are developed using historical experience, which can result in limitations in their reliability to appropriately estimate ECL. These limitations are often addressed with adjustments, which are inherently judgemental and subject to estimation uncertainty.

The impact of the Covid-19 pandemic has resulted in unprecedented economic conditions that vary across countries and industry sectors. Covid-19 related government support programmes and regulatory interventions have impacted economic factors such as GDP and unemployment, and consequently the extent and timing of customer defaults.

These factors have increased the uncertainty around judgements made in determining the severity and likelihood of macroeconomic variable ('MEV') forecasts across the different economic scenarios used in ECL models. Furthermore, these conditions are outside the bounds of historical experience used to develop the models and where models produce plausible results, resulting in significantly greater limitations in their reliability to estimate ECLs.

Management has made significant adjustments to ECL to address these limitations through management judgemental adjustments to modelled outcomes. The nature and extent of these limitations and the resulting changes to ECL varies across retail and wholesale portfolios across the group. In addition, certain models have been redeveloped during 2020.

The determination of CRRs is based on quantitative scorecards, with qualitative adjustments for relevant factors. The extent of qualitative adjustments has increased due to Covid-19. The uncertainty caused by Covid-19 also increases judgement involved in estimating expected cash flows and collateral valuations for specific impairments on credit impaired wholesale exposures.

Matters discussed with the Audit Committee

We held discussions with the Audit Committee covering governance and controls over ECL, with a significant focus on the impact of Covid-19. We also discussed a number of other areas, including:

- the severity and likelihood of MEV forecasts in economics scenarios, across countries for the impact of Covid-19;
- the determination and migration of customer risk ratings;
- assumptions around the recoverability of significant wholesale exposures;
- the identification and assessment of model limitations and resulting changes and adjustments to ECL, in particular for approaches adopted in response to Covid-19;
- models that were redeveloped during the year;
- model validation and monitoring; and
- the disclosures made to explain ECL, in particular the impact of Covid-19 on determining ECL and the resulting estimation uncertainty.

How our audit addressed the Key Audit Matter

We assessed the design of governance and controls over the estimation of ECLs, as well as testing how effectively they operated. We observed management's review and challenge governance forums for (1) the determination of MEV forecasts and their likelihood for different economic scenarios, and (2) the assessment of ECL for Wholesale portfolios ECL, including the assessment of model limitations and approval of any resulting adjustments to modelled outcomes or their replacement with ECLs based on management's judgements.

We also tested controls over:

- Model validation and monitoring;
- Credit reviews that determine CRRs for wholesale customers;
- the input of critical data into source systems and the flow and transformation of critical data between source systems to the impairment models;
- the calculation and approval of management judgemental adjustments to modelled outcomes.

We involved our economic experts in assessing the reasonableness of the severity and likelihood of MEV forecasts. These assessments considered the sensitivity of ECLs to variations in the severity and likelihood of MEVs for different economic scenarios.

We involved our modelling experts in assessing the appropriateness of modelling methodologies that were redeveloped during the year, and for a sample of those models, we independently reperformed the modelling for certain aspects of the ECL calculation. We also assessed the appropriateness of modelling methodologies that did not change during the year, giving specific consideration to Covid-19 and whether post model adjustments ('PMAs') were needed. In addition, we performed testing over:

- the compliance of ECL methodologies and assumptions with the requirements of IFRS9;
- a sample of critical data used in the year end ECL calculation and to estimate management judgemental adjustments;
- critical data, assumptions and discounted cash flows for a sample of credit impaired wholesale exposures;
- a sample of CRRs applied to wholesale exposures.

We evaluated and tested the Credit Risk disclosures made in the financial statements.

Relevant references in the Annual Report and Accounts 2020

Credit risk, page 32; Audit Committee, page 89.

Valuation of financial instruments (group and company)

Nature of the Key Audit Matter

The financial instruments held by the group range from those that are traded daily on active markets with quoted prices, to more complex and bespoke positions. The valuation of these financial instruments can require the use of complex valuation models and/or prices or inputs which are not readily observable in the market.

Where significant pricing inputs are unobservable, the financial instruments are classified as Level 3 ('L3'), per the IFRS 13 fair value hierarchy. Determining unobservable inputs in fair value measurement involves management judgement and is subject to a high degree of estimation uncertainty. There is also a risk that certain L3 portfolios are not valued appropriately due to the complexity of the trades, specifically where valuation modelling techniques result in significant limitations or where there is greater uncertainty around the choice of an appropriate pricing methodology.

Valuation of the following L3 portfolios was therefore classified as a significant risk for the audit:

- The most material L3 financial instruments which are dependent on unobservable inputs are the group's holding of private equity ('PE') investments held by the Global Banking and Markets and the Insurance businesses. Covid-19 has resulted in markets being more volatile and the level of judgement surrounding the valuation of these investments increases in times of heightened market volatility. Fair value of the group's PE investments is estimated using commonly accepted valuation methodologies, which are set out in the International Private Equity and Venture Capital Valuation Guidelines and includes the use of net asset value ('NAV') statements from fund managers, the price of recent investments, the use of market comparables or discounted cash flow models. The fair values of most PE investments held at 31 December 2020 are based on NAV statements provided by fund managers.
- Bermudan swaptions and asset backed securities held by the Global Markets business. These investments have a significant risk attached to the valuation methodology due to the complexity of the valuation models and lack of observable pricing inputs.
- The most material fair valuation adjustments also form part of our significant risk: Own Credit Spread ('OCS') adjustments for issued debt instruments held at fair value and Bid-offer. These have been identified as a significant risk due to their underlying modelling complexity as well as unobservability of the inputs and changes to methodology that were applied during the year.

Matters discussed with the Audit Committee

We discussed with the Audit Committee the appropriateness of the PE valuation approaches for PE investments and the governance and controls over determining fair values, in particular when markets are more volatile. We also discussed the results of our review of changes to fair valuation adjustment methodologies and the results of our substantive testing which included independent revaluation of a range of financial instruments, including a sample of Level 3 positions.

How our audit addressed the Key Audit Matter

For fair values based on NAV statements from fund managers, we inspected NAV statements and engaged our valuation experts to test management's assessment of the reliability of those valuations. For these valuations, we also:

- Compared fair value movements to movements in relevant market information, such as industry indices;
- Agreed NAV statements from fund managers to audited fund financial statements where they were available; and
- Performed back testing of fair values to any recent transactions.

For fair values based on complex valuation models and significant unobservable inputs, such as bermudan swaptions and asset backed securities, we performed the following:

- Tested the design and operating effectiveness of key controls supporting the identification and measurement of the valuation of financial instruments, including the independent price verification process.
- Engaged our valuation experts to perform independent revaluation of a sample of trades to determine if management's estimates fell within a reasonable range. The revaluation covered a range of product classes and was performed across Level 1, 2 and 3 of the group's IFRS 13 fair value hierarchy. The testing was increased for those Level 3 positions determined to be a significant risk.
- For OCS and bid-offer adjustments we engaged our valuation experts to assess the methodology changes applied in 2020 and underlying assumptions and compare with our knowledge of current industry practice. Controls over the calculation of these adjustments were also tested.

We also evaluated the adequacy and extent of disclosures made in the financial statements in relation to valuation of L3 financial instruments.

Relevant references in the Annual Report and Accounts 2020

Audit Committee, page 89; Note 11: Fair values of financial instruments carried at fair value, page 141.

Measurement of the present value of in-force long-term insurance contracts ('PVIF') (group)

Nature of the Key Audit Matter

The group has a present value of in-force long-term insurance contracts ('PVIF') asset of £647 million, of which £440 million relates to HSBC Assurance Vie, a subsidiary of HSBC Continental Europe.

The valuation of PVIF is determined using models to estimate the present value of profits expected to emerge from the book of in-force policies over the expected duration of the underlying policies. The determination of these balances requires the use of appropriate actuarial methodologies and assumptions. Changes in methodologies and assumptions can have a significant impact on the PVIF asset.

The valuation methodology requires a number of economic and demographic assumptions. The significant assumptions that we focused our audit on were those with greater levels of management judgement and for which variations had the most significant impact on the asset. Specifically, these included interest rates, lapse rates and expense rate assumptions.

Matters discussed with the Audit Committee

We discussed with the Audit Committee the methodologies and significant assumptions used by management to determine the value of the PVIF asset.

How our audit addressed the Key Audit Matter

We tested controls in place over governance, changes to significant assumptions and model methodology used to determine the PVIF asset.

With the support of our actuarial specialists, we assessed the appropriateness of the models, methodologies and assumptions used.

For economic assumptions, including interest rates, we:

- understood the methodology utilised in the derivation of economic assumptions;
- assessed the consistency between the derived economic assumptions with market information; and
- assessed the consistency of the approach taken to derive the assumptions with the group's policy.

For demographic assumptions, including lapse and expense rates, we:

- understood the underlying basis for those assumptions;
- assessed the consistency of the chosen assumptions with recent experience; and
- assessed the adherence of the choice of the assumption choices to the group's policy.

Relevant references in the Annual Report and Accounts 2020

Insurance manufacturing operations risk in 2020, page 83; Audit Committee, page 89; Note 20 Goodwill and intangible assets, page 161

Impairment of investment in subsidiaries (company)

Nature of the Key Audit Matter

The impact of the Covid-19 pandemic has resulted in unprecedented economic conditions, impacting the performance of the group in both 2020 and the outlook into 2021 and beyond.This is considered by management to be an indicator of impairment on the investment in subsidiaries.

An impairment test was performed by management on the company's two most material investments in subsidiaries, HSBC Continental Europe and HSBC Germany Holdings GmbH, using a value in use model to estimate the recoverable amount. The recoverable amount was higher than the carrying value for both these investments and therefore no impairment was recorded. The investment in HSBC Continental Europe and HSBC Germany Holdings GmbH was £4.3bn and £1.6bn at 31 December 2020, respectively. For all other investments in subsidiaries an impairment test was performed by management which considered the net assets compared to the carrying value of each subsidiary which resulted in no impairment being recognised.

The methodology in the Value-in-Use ('VIU') model is dependent on various assumptions, both short term and long term in nature. These assumptions, which are subject to estimation uncertainty, are derived from a combination of management's judgement, experts engaged by management and market data. The significant assumptions that we focused our audit on were those with greater levels of management judgement and for which variations had the most significant impact on the recoverable amount. Specifically, these included forecast cash flows for 2021 to 2025, regulatory capital requirements, long term growth rates and discount rates.

Matters discussed with the Audit Committee

We discussed the appropriateness of methodologies used and significant assumptions with the Audit Committee, giving consideration to the macroeconomic environment, as well as Covid-19 and the group's strategy. We considered reasonably possible alternatives for significant assumptions. We also discussed the disclosures made in relation to investment in subsidiaries, including the use of sensitivity analysis to explain estimation uncertainty and the conditions that would result in an impairment being recognised.

How our audit addressed the Key Audit Matter

We tested controls in place over the forecasted cash flow assumptions used to determine the recoverable amounts. We assessed the appropriateness of the methodology used, and the mathematical accuracy of the calculations, to estimate the recoverable amounts. In respect of the significant assumptions, our testing included the following:

- Challenging the achievability of management's forecast cash flows;
- Obtaining and evaluating evidence where available for critical data relating to significant assumptions, from a combination of historic experience and external market and other group financial information;
- Assessing whether the cash flows included in the model were in accordance with the relevant accounting standard;
- Assessing the sensitivity of the VIU to reasonable variations in significant assumptions, both individually and in aggregate; and
- Determining a reasonable range for the discount rate used within the model, with the assistance of our valuation experts, and comparing it to the discount rate used by management.

We evaluated and tested the disclosures made in the financial statements in relation to investment in subsidiaries.

Relevant references in the Annual Report and Accounts 2020

Audit Committee, page 89; Note 18: Investments in subsidiaries, page 158.

Information Technology ('IT') access management (group and company)

Nature of the Key Audit Matter

The group has operations across a number of countries supporting a wide range of products and services, resulting in an IT environment that is large, complex and increasingly reliant on third parties. The group's financial reporting processes rely upon a significant element of this IT environment, both within Finance and the business and operations more broadly.

Access management controls are an important part of the IT environment to ensure both access and changes made to systems and data are appropriate. Our audit approach planned to rely extensively on the effectiveness of IT access management controls.

As part of our audit work in prior periods, control deficiencies were identified in relation to IT access management for systems and data relevant to financial reporting. Management has an ongoing remediation programme to address these matters.

Matters discussed with the Audit Committee

The significance of IT access management to our audit was discussed at Audit Committee meetings during the year, as well as progress on management's remediation programme, control deficiencies identified and our related audit responses.

How our audit addressed the Key Audit Matter

IT access management controls were tested for systems and data relevant to financial reporting that we planned to rely upon as part of our audit. Specifically we tested controls over:

- Authorising new access requests;
- The timely removal of access rights;
- Periodic monitoring of the appropriateness of access rights to systems and data;
- Restricting highly privileged access to appropriate personnel;
- The accuracy of information about IT users to facilitate access management;
- Segregation of access across IT and business functions;
- Changes made to systems and data; and
- Understanding and assessing reliance on third parties, including Service Organisation controls reports.

We also independently assessed password policies and system configurations, and performed substantive audit procedures in relation to access right removal, privileged access, IT user information and segregation of duties.

We performed further testing where control deficiencies were identified, including:

- Where inappropriate access was identified, we understood and assessed the nature of the access, and where required, obtained additional evidence on the appropriateness of activities performed; and
- Identified and tested compensating business controls and performed other audit procedures where IT compensating controls were not sufficient to address the audit risk.

Relevant references in the Annual Report and Accounts 2020

Audit Committee, page 89; Internal control, page 91.

Financial statements

Notes on the financial statements

Consolidated income statement

for the year ended 31 December

	Notes*	2020 £m	2019 £m
Net interest income		**1,898**	1,483
– interest income[1,2]		**4,086**	5,504
– interest expense[3]		**(2,188)**	(4,021)
Net fee income	2	**1,400**	1,344
– fee income		**2,674**	2,590
– fee expense		**(1,274)**	(1,246)
Net income from financial instruments held for trading or managed on a fair value basis	3	**1,758**	2,055
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	3	**254**	1,288
Changes in fair value of designated debt and related derivatives	3	**17**	(8)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	3	**285**	547
Gains less losses from financial investments		**95**	38
Net insurance premium income	4	**1,559**	2,147
Other operating income		**417**	516
Total operating income		**7,683**	9,410
Net insurance claims and benefits paid and movement in liabilities to policyholders	4	**(1,783)**	(3,366)
Net operating income before change in expected credit losses and other credit impairment charges[4]		**5,900**	6,044
Change in expected credit losses and other credit impairment charges		**(808)**	(124)
Net operating income		**5,092**	5,920
Total operating expenses		**(6,705)**	(6,782)
– employee compensation and benefits	5	**(2,340)**	(2,225)
– general and administrative expenses		**(3,092)**	(3,034)
– depreciation and impairment of property, plant and equipment		**(372)**	(210)
– amortisation and impairment of intangible assets	20	**(901)**	(161)
– goodwill impairment	20	**—**	(1,152)
Operating loss		**(1,613)**	(862)
Share of loss in associates and joint ventures	17	**(1)**	(10)
Loss before tax		**(1,614)**	(872)
Tax credit/(expense)	7	**136**	(119)
Loss for the year		**(1,478)**	(991)
Loss attributable to shareholders of the parent company		**(1,488)**	(1,013)
Profit attributable to non-controlling interests		**10**	22

* *For Notes on the financial statements, see page 118.*

1 *Interest income includes £2,773m (2019: £4,027m) of interest recognised on financial assets measured at amortised cost; £657m (2019: £934m) of interest recognised on financial assets measured at fair value through other comprehensive income and £57m (2019: £41m) interest recognised on impaired financial assets.*

2 *Interest revenue calculated using the effective interest method comprises interest recognised on financial assets measured at either amortised cost or fair value through other comprehensive income.*

3 *Interest expense includes £1,299m (2019: £2,917m) of interest on financial liabilities, excluding interest on financial liabilities held for trading or designated or otherwise mandatorily measured at fair value.*

4 *Net operating income before change in expected credit losses and other credit impairment charges is also referred to as 'revenue'.*

Consolidated statement of comprehensive income

for the year ended 31 December

	2020 £m	2019 £m
Loss for the year	**(1,478)**	(991)
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	**213**	121
– fair value gains	**366**	238
– fair value gains transferred to the income statement on disposal	**(90)**	(39)
– expected credit (recoveries)/losses recognised in the income statement	**8**	(27)
– income taxes	**(71)**	(51)
Cash flow hedges	**118**	65
– fair value gains	**86**	214
– fair value losses/(gains) reclassified to the income statement	**72**	(127)
– income taxes	**(40)**	(22)
Exchange differences	**467**	(707)
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit asset/liability	**(8)**	12
– before income taxes	**(18)**	(14)
– income taxes	**10**	26
Equity instruments designated at fair value through other comprehensive income	**2**	2
– fair value gains	**2**	2
– income taxes	**—**	—
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	**67**	(251)
– fair value gains/(losses)	**93**	(386)
– income taxes	**(26)**	135
Other comprehensive income/(expense) for the year, net of tax	**859**	(758)
Total comprehensive loss for the year	**(619)**	(1,749)
Attributable to:		
– shareholders of the parent company	**(653)**	(1,745)
– non-controlling interests	**34**	(4)
Total comprehensive loss for the year	**(619)**	(1,749)

Consolidated balance sheet

at 31 December

	Notes*	2020 £m	2019 £m
Assets			
Cash and balances at central banks		**85,092**	51,816
Items in the course of collection from other banks		**243**	707
Trading assets	10	**86,976**	98,249
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	13	**16,220**	17,012
Derivatives	14	**201,210**	164,538
Loans and advances to banks		**12,646**	11,467
Loans and advances to customers		**101,491**	108,391
Reverse repurchase agreements – non-trading		**67,577**	85,756
Financial investments	15	**51,826**	46,464
Prepayments, accrued income and other assets	21	**55,565**	48,939
Current tax assets		**444**	725
Interests in associates and joint ventures	17	**497**	437
Goodwill and intangible assets	20	**766**	1,582
Deferred tax assets	7	**597**	408
Total assets		**681,150**	636,491
Liabilities and equity			
Liabilities			
Deposits by banks		**34,305**	23,991
Customer accounts		**195,184**	177,236
Repurchase agreements – non-trading		**34,903**	49,385
Items in the course of transmission to other banks		**290**	403
Trading liabilities	22	**44,229**	48,026
Financial liabilities designated at fair value	23	**40,792**	41,642
Derivatives	14	**199,232**	161,083
Debt securities in issue		**17,371**	25,039
Accruals, deferred income and other liabilities	24	**53,395**	50,315
Current tax liabilities		**139**	106
Liabilities under insurance contracts	4	**22,816**	21,509
Provisions	25	**861**	540
Deferred tax liabilities	7	**20**	22
Subordinated liabilities	26	**13,764**	13,182
Total liabilities		**657,301**	612,479
Equity			
Total shareholders' equity		**23,666**	23,503
– called up share capital	29	**797**	797
– other equity instruments	29	**3,722**	3,722
– other reserves		**(4,682)**	(5,465)
– retained earnings		**23,829**	24,449
Non-controlling interests		**183**	509
Total equity		**23,849**	24,012
Total liabilities and equity		**681,150**	636,491

* *For Notes on the financial statements, see page 118.*

The accompanying notes on pages 118 to 180, and the audited sections of the 'Report of the Directors' on pages 22 to 94 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 22 February 2021 and signed on its behalf by:

J Fleurant

Director

Consolidated statement of cash flows

for the year ended 31 December

	2020 £m	2019 £m
Loss before tax	**(1,614)**	(872)
Adjustments for non-cash items		
Depreciation, amortisation and impairment[1]	**1,273**	1,523
Net gain from investing activities	**(99)**	(59)
Share of losses in associates and joint ventures	**1**	10
Change in expected credit losses gross of recoveries and other credit impairment charges	**810**	130
Provisions including pensions	**424**	231
Share-based payment expense	**78**	88
Other non-cash items included in loss before tax	**135**	(19)
Elimination of exchange differences[2]	**(2,527)**	4,001
Changes in operating assets and liabilities	**35,418**	(1,840)
– change in net trading securities and derivatives	**8,070**	(1,310)
– change in loans and advances to banks and customers	**6,780**	3,441
– change in reverse repurchase agreements – non-trading	**16,084**	(7,293)
– change in financial assets designated and otherwise mandatorily measured at fair value	**735**	787
– change in other assets	**(7,513)**	(12,074)
– change in deposits by banks and customer accounts	**28,262**	(4,141)
– change in repurchase agreements – non-trading	**(14,482)**	2,803
– change in debt securities in issue	**(7,668)**	2,318
– change in financial liabilities designated at fair value	**(402)**	4,390
– change in other liabilities	**5,432**	9,539
– contributions paid to defined benefit plans	**(22)**	(13)
– tax paid	**142**	(287)
Net cash from operating activities	**33,899**	3,193
– purchase of financial investments	**(21,037)**	(26,200)
– proceeds from the sale and maturity of financial investments	**17,417**	24,304
– net cash flows from the purchase and sale of property, plant and equipment	**(70)**	(58)
– net investment in intangible assets	**(150)**	(385)
– net cash outflow from investment in associates and acquisition of businesses and subsidiaries	**(371)**	(49)
– net cash flow on disposal of subsidiaries, business, associates and joint ventures	**57**	—
Net cash from investing activities	**(4,154)**	(2,388)
– issue of ordinary share capital and other equity instruments	**—**	1,319
– redemption of preference shares and other equity instruments	**(318)**	—
– subordinated loan capital issued	**—**	6,736
– subordinated loan capital repaid[3]	**(18)**	(7,100)
– dividends to the parent company	**(263)**	(2,985)
– funds received from the parent company	**1,000**	—
– dividends paid to non-controlling interests	**—**	(17)
Net cash from financing activities	**401**	(2,047)
Net increase/(decrease) in cash and cash equivalents	**30,146**	(1,242)
Cash and cash equivalents at 1 Jan	**92,338**	97,058
Exchange difference in respect of cash and cash equivalents	**2,820**	(3,478)
Cash and cash equivalents at 31 Dec[4]	**125,304**	92,338
Cash and cash equivalents comprise of		
– cash and balances at central banks	**85,092**	51,816
– items in the course of collection from other banks	**243**	707
– loans and advances to banks of one month or less	**8,676**	6,889
– reverse repurchase agreement with banks of one month or less	**21,020**	23,116
– treasury bills, other bills and certificates of deposit less than three months	**685**	728
– cash collateral and net settlement accounts	**9,878**	9,485
– less: items in the course of transmission to other banks	**(290)**	(403)
Cash and cash equivalents at 31 Dec[4]	**125,304**	92,338

1 *Included are the impacts of £994m impairment and write-offs related principally to our businesses in the UK and HSBC Continental Europe in 2020 and £1.2bn goodwill impairment in 2019.*
2 *Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as details cannot be determined without unreasonable expense.*
3 *Subordinated liabilities changes during the year are attributable to repayment of £(18)m (2019: £(7,100)m) of securities. Non-cash changes during the year included foreign exchanges gains/(losses) £351m (2019: £(281)m) and fair value gains £69m (2019: £82m).*
4 *At 31 December 2020, £11,828m (2019: £10,533m) was not available for use by the group, of which £2,460m (2019: £1,427m) related to mandatory deposits at central banks.*

Interest received was £5,424m (2019: £7,569m), interest paid was £3,725m (2019: £5,804m) and dividends received were £423m (2019: £1,237m).

Consolidated statement of changes in equity

for the year ended 31 December

				Other reserves						
	Called up share capital and share premium	Other equity instruments	Retained earnings	Financial assets at FVOCI reserve	Cash flow hedging reserve	Foreign exchange reserve	Group reorganisation reserve (GRR)[5]	Total share-holders' equity	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2020	797	3,722	24,449	1,089	40	1,098	(7,692)	23,503	509	24,012
Loss for the year	–	–	(1,488)	–	–	–	–	(1,488)	10	(1,478)
Other comprehensive income/(expense) (net of tax)	–	–	56	216	118	445	–	835	24	859
– debt instruments at fair value through other comprehensive income	–	–	–	214	–	–	–	214	(1)	213
– equity instruments designated at fair value through other comprehensive income	–	–	–	2	–	–	–	2	–	2
– cash flow hedges	–	–	–	–	118	–	–	118	–	118
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	–	–	67	–	–	–	–	67	–	67
– remeasurement of defined benefit asset/liability	–	–	(11)	–	–	–	–	(11)	3	(8)
– exchange differences	–	–	–	–	–	445	–	445	22	467
Total comprehensive income/(loss) for the year	–	–	(1,432)	216	118	445	–	(653)	34	(619)
Capital securities issued during the period	–	–	–	–	–	–	–	–	–	–
Dividends to the parent company[2]	–	–	(263)	–	–	–	–	(263)	–	(263)
Net impact of equity-settled share-based payments	–	–	11	–	–	–	–	11	–	11
Capital contribution[3]	–	–	1,000	–	–	–	–	1,000	–	1,000
Change in business combinations and other movements[4]	–		64	4	–	–	–	68	(360)	(292)
At 31 Dec 2020	797	3,722	23,829	1,309	158	1,543	(7,692)	23,666	183	23,849

1 *At 31 December 2020, the cumulative amount of change in fair value attributable to changes in own credit risk of financial liabilities designated at fair value was a loss of £189m. The cumulative change on 31 December 2019 was a loss of £346m.*
2 *The dividends to the parent company include £51m on preference shares and £212m paid as coupons on additional tier 1 instruments.*
3 *HSBC UK Holdings Ltd. injected £1bn of CET1 capital into HSBC Bank plc during March 2020 to improve the capital base of the group, impacted by Covid-19. There was no new issuance of share capital.*
4 *Additional shares were acquired in HSBC Trinkaus & Burkhardt AG in May 2020, increasing the group's interest from 80.67% to 99.33%.*
5 *The Group reorganisation reserve ('GRR') is an accounting reserve resulting from the ring-fencing implementation. The GRR does not form part of regulatory capital.*

Consolidated statement of changes in equity (continued)

for the year ended 31 December

					Other reserves					
	Called up share capital and share premium	Other equity instruments	Retained earnings	Financial assets at FVOCI reserve	Cash flow hedging reserve	Foreign exchange reserve	Group reorganisation reserve (GRR)	Total shareholders' equity	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2019	797	2,403	28,649	969	(25)	1,777	(7,692)	26,878	531	27,409
Loss for the year	—	—	(1,013)	—	—	—	—	(1,013)	22	(991)
Other comprehensive income/(expense) (net of tax)	—	—	(238)	120	65	(679)	—	(732)	(26)	(758)
– debt instruments at fair value through other comprehensive income	—	—	—	118	—	—	—	118	3	121
– equity instruments designated at fair value through other comprehensive income	—	—	—	2	—	—	—	2	—	2
– cash flow hedges	—	—	—	—	65	—	—	65	—	65
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	—	—	(251)	—	—	—	—	(251)	—	(251)
– remeasurement of defined benefit asset/ liability	—	—	13	—	—	—	—	13	(1)	12
– exchange differences	—	—	—	—	—	(679)	—	(679)	(28)	(707)
Total comprehensive income/(loss) for the year	—	—	(1,251)	120	65	(679)	—	(1,745)	(4)	(1,749)
Capital securities issued during the period[2]	—	1,319	—	—	—	—	—	1,319	—	1,319
Dividends to the parent company[3]	—	—	(2,985)	—	—	—	—	(2,985)	(17)	(3,002)
Net impact of equity-settled share-based payments	—	—	16	—	—	—	—	16	—	16
Capital contribution	—	—		—	—	—	—	—	—	—
Change in business combinations and other movements	—		20	—	—	—	—	20	(1)	19
At 31 Dec 2019	797	3,722	24,449	1,089	40	1,098	(7,692)	23,503	509	24,012

1 *At 31 December 2019, the cumulative amount of change in fair value attributable to changes in own credit risk of financial liabilities designated at fair value was a loss of £346m.*

2 *HSBC Bank plc issued three additional tier 1 capital instruments to HSBC UK Holdings Ltd of £175m in January 2019, £713m in November 2019 and £431m in December 2019.*

3 *The dividends to the parent company includes a £2,787m dividend paid, £51m on preference shares and £147m paid as coupons on additional tier 1 instruments.*

HSBC Bank plc balance sheet

at 31 December

	Notes*	2020 £m	2019 £m
Assets			
Cash and balances at central banks		**48,777**	30,149
Items in the course of collection from other banks		**37**	44
Trading assets	10	**73,035**	83,285
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	13	**1,865**	3,129
Derivatives	14	**182,066**	152,496
Loans and advances to banks		**8,063**	9,522
Loans and advances to customers		**43,241**	49,926
Reverse repurchase agreements – non-trading		**50,137**	50,736
Financial investments	15	**30,969**	26,561
Prepayments, accrued income and other assets	21	**38,775**	37,322
Current tax assets		**388**	683
Investments in subsidiary undertakings	18	**6,458**	6,025
Goodwill and intangible assets	20	**31**	535
Deferred tax assets	7	**549**	327
Total assets		**484,391**	450,740
Liabilities and equity			
Liabilities			
Deposits by banks		**17,484**	16,356
Customer accounts		**119,974**	109,040
Repurchase agreements – non-trading		**26,996**	36,327
Items in the course of transmission to other banks		**14**	44
Trading liabilities	22	**26,673**	27,014
Financial liabilities designated at fair value	23	**24,687**	24,663
Derivatives	14	**181,032**	149,607
Debt securities in issue		**15,356**	15,038
Accruals, deferred income and other liabilities	24	**38,571**	40,165
Current tax liabilities		**9**	19
Provisions	25	**413**	308
Deferred tax liabilities	7	**3**	2
Subordinated liabilities	26	**13,360**	12,783
Total liabilities		**464,572**	431,366
Equity			
Called up share capital	29	**797**	797
Other equity instruments	29	**3,722**	3,722
Other reserves		**(4,799)**	(5,021)
Retained earnings		**20,099**	19,876
Total equity		**19,819**	19,374
Total liabilities and equity		**484,391**	450,740

* *For Notes on the financial statements, see page 118.*

Loss after tax for the year was £(644)m (2019: loss after tax £(3,064)m). 2019 loss includes the impairment of the bank's investment in HSBC Continental Europe (Refer Note 18). In Q1 2019, the activities of HSBC Bank plc's branches in Belgium, the Netherlands, Spain, Italy, Ireland, Luxembourg and Czech Republic were transferred to HSBC Continental Europe.

The accompanying notes on pages 118 to 180, and the audited sections of the 'Report of the Directors' on pages 22 to 94 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 22 February 2021 and signed on its behalf by:

J Fleurant

Director

HSBC Bank plc statement of cash flows

for the year ended 31 December

	2020 £m	2019 £m
Loss before tax	**(936)**	(3,070)
Adjustments for non-cash items		
Depreciation, amortisation and impairment[1]	**635**	265
Net (gain)/loss from investing activities[2]	**(67)**	3,110
Change in expected credit losses gross of recoveries and other credit impairment charges	**457**	1
Provisions including pensions	**154**	96
Share-based payment expense	**56**	64
Other non-cash items included in loss before tax	**8**	46
Elimination of exchange differences[3]	**108**	1,584
Changes in operating assets and liabilities	**27,197**	(19,282)
– change in net trading securities and derivatives	**11,580**	(4,801)
– change in loans and advances to banks and customers	**8,568**	(1,801)
– change in reverse repurchase agreements – non-trading	**5,890**	(1,004)
– change in financial assets designated and otherwise mandatorily measured at fair value	**1,264**	2,616
– change in other assets[4]	**(3,771)**	(9,073)
– change in deposits by banks and customer accounts	**12,062**	(7,365)
– change in repurchase agreements – non-trading	**(9,331)**	634
– change in debt securities in issue	**318**	(4,047)
– change in financial liabilities designated at fair value	**500**	1,544
– change in other liabilities	**(71)**	4,210
– contributions paid to defined benefit plans	**(22)**	(13)
– tax paid	**210**	(182)
Net cash from operating activities	**27,612**	(17,186)
– purchase of financial investments	**(13,882)**	(18,878)
– proceeds from the sale and maturity of financial investments	**11,791**	18,781
– net cash flows from the purchase and sale of property, plant and equipment	**(9)**	(24)
– net investment in intangible assets	**(98)**	(190)
– net cash flow on disposal of subsidiaries, business, associates and joint ventures	**—**	(17)
Net cash from investing activities	**(2,198)**	(328)
– issue of ordinary share capital and other equity instruments	**—**	1,319
– subordinated loan capital issued	**—**	6,740
– subordinated loan capital repaid[5]	**(313)**	(7,076)
– funds received from the parent company	**1,000**	—
– dividends to the parent company	**(263)**	(2,985)
Net cash from financing activities	**424**	(2,002)
Net increase/(decrease) in cash and cash equivalents	**25,838**	(19,516)
Cash and cash equivalents at 1 Jan	**51,235**	72,296
Exchange difference in respect of cash and cash equivalents	**532**	(1,545)
Cash and cash equivalents at 31 Dec	**77,605**	51,235
Cash and cash equivalents comprise of:		
– cash and balances at central banks	**48,777**	30,149
– items in the course of collection from other banks	**37**	44
– loans and advances to banks of one month or less	**5,338**	4,549
– reverse repurchase agreement with banks of one month or less	**14,558**	9,267
– treasury bills, other bills and certificates of deposit less than three months	**279**	346
– cash collateral and net settlement accounts	**8,630**	6,924
– less: items in the course of transmission to other banks	**(14)**	(44)
Cash and cash equivalents at 31 Dec	**77,605**	51,235

1 *Included the impact of £531m impairment related to our business in the UK in 2020.*
2 *2019 balances include the impairment of investment in HSBC Continental Europe subsidiary (refer Note 18).*
3 *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.*
4 *Includes additional investment in subsidiaries £443m (2019:£1,949m).*
5 *Subordinated liabilities changes during the year are attributable to repayment £(313)m (2019: £(7,076)m) of securities. Non-cash changes during the year included foreign exchanges gains(losses) £329m (2019: £(259)m) and fair value gains £69m (2019: £82m).*

Interest received was £3,211m (2019: £5,352m), interest paid was £2,539m (2019: £4,679m) and dividends received was £555m (2019: £1,197m).

HSBC Bank plc statement of changes in equity

for the year ended 31 December

				Other reserves				
	Called up share capital and share premium	Other equity instruments	Retained earnings	Financial assets at FVOCI reserve	Cash flow hedging reserve	Foreign exchange reserve	Group reorganisation reserve ('GRR')[5]	Total shareholders' equity
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2020	797	3,722	19,876	182	(32)	77	(5,248)	19,374
Loss for the year	–	–	(644)	–	–	–	–	(644)
Other comprehensive income/(expense) (net of tax)	–	–	107	170	87	(28)	–	336
– debt instruments at fair value through other comprehensive income	–	–	–	168	–	–	–	168
– equity instruments designated at fair value through other comprehensive income	–	–	–	2	–	–	–	2
– cash flow hedges	–	–	–	–	87	–	–	87
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	–	–	92	–	–	–	–	92
– remeasurement of defined benefit asset/ liability	–	–	15	–	–	–	–	15
– exchange differences	–	–	–	–	–	(28)	–	(28)
Total comprehensive income/(loss) for the period	–	–	(537)	170	87	(28)	–	(308)
Capital securities issued during the period	–	–	–	–	–	–	–	–
Dividends to the parent company[2]	–	–	(263)	–	–	–	–	(263)
Net impact of equity-settled share-based	–	–	11	–	–	–	–	11
Capital contribution[3]	–	–	1,000	–	–	–	–	1,000
Change in business combinations and other movements[4]	–	–	12	(1)	–	(6)	–	5
At 31 Dec 2020	797	3,722	20,099	351	55	43	(5,248)	19,819

1 *At 31 December 2020, the cumulative amount of change in fair value attributable to changes in own credit risk of financial liabilities designated at fair value was a loss of £76m. The cumulative change on 31 December 2019 was a loss of £227m.*
2 *The dividends to the parent company include £51m on preference shares and £212m paid as coupons on additional tier 1 instruments.*
3 *HSBC UK Holdings Ltd. injected £1bn of CET1 capital into HSBC Bank plc during March 2020 to improve the capital base of the group, impacted by Covid-19. There was no new issuance of share capital.*
4 *Additional shares were acquired in HSBC Trinkaus & Burkhardt AG in May 2020, increasing the group's interest from 80.67% to 99.33%.*
5 *The Group reorganisation reserve ('GRR') is an accounting reserve resulting from the ring-fencing implementation. The GRR does not form part of regulatory capital.*

HSBC Bank plc statement of changes in equity (continued)

for the year ended 31 December

	Called up share capital and share premium	Other equity instruments	Retained earnings	Other reserves: Financial assets at FVOCI reserve	Other reserves: Cash flow hedging reserve	Other reserves: Foreign exchange reserve	Other reserves: Group reorganisation reserve ('GRR')	Total shareholders' equity
	£m	£m	£m	£m	£m	£m	£m	£m
1 January 2019	797	2,403	26,033	77	(47)	80	(5,248)	24,095
Loss for the year	—	—	(3,064)	—	—	—	—	(3,064)
Other comprehensive income/(expense) (net of tax)	—	—	(122)	105	15	(3)	—	(5)
– debt instruments at fair value through other comprehensive income	—	—	—	105	—	—	—	105
– equity instruments designated at fair value through other comprehensive income	—	—	—	—	—	—	—	—
– cash flow hedges	—	—	—	—	15	—	—	15
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	—	—	(148)	—	—	—	—	(148)
– remeasurement of defined benefit asset/ liability	—	—	26	—	—	—	—	26
– exchange differences	—	—	—	—	—	(3)	—	(3)
Total comprehensive income/(loss) for the period	—	—	(3,186)	105	15	(3)	—	(3,069)
Capital securities issued during the period[2]	—	1,319	—	—	—	—	—	1,319
Dividends to the parent company[3]	—	—	(2,985)	—	—	—	—	(2,985)
Net impact of equity-settled share-based payments	—	—	—	—	—	—	—	—
Capital contribution	—	—	—	—	—	—	—	—
Change in business combinations and other movements	—	—	14	—	—	—	—	14
At 31 Dec 2019	797	3,722	19,876	182	(32)	77	(5,248)	19,374

1 *At 31 December 2019, the cumulative amount of change in fair value attributable to changes in own credit risk of financial liabilities designated at fair value was a loss of £227m.*
2 *HSBC Bank plc issued three additional tier 1 capital instruments to HSBC UK Holdings Ltd of £175m in January 2019, £713m in November 2019 and £431m in December 2019.*
3 *The dividends to the parent company includes a £2,787m dividend paid, £51m on preference shares and £147m paid as coupons on additional tier 1 instruments.*

Notes on the Financial Statements

1 Basis of preparation and significant accounting policies

1.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The consolidated financial statements of the group and the separate financial statements of HSBC Bank plc comply with international accounting standards in conformity with the requirements of the Companies Act 2006 and have also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. These financial statements are also prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB'), including interpretations issued by the IFRS Interpretations Committee, as there are no applicable differences from IFRSs as issued by the IASB for the periods presented. 'Interest Rate Benchmark Reform – Phase 2', which amends IFRS 9, IAS 39 'Financial Instruments', IFRS 7 'Financial Instruments,' IFRS 4 'Insurance Contracts' and IFRS 16 'Leases', was adopted for use in the UK and the EU in January 2021 and has been early adopted as set out below. Therefore, there were no unendorsed standards effective for the year ended 31 December 2020 affecting these consolidated and separate financial statements.

Standards adopted during the year ended 31 December 2020

Interest Rate Benchmark Reform – Phase 2

Interest Rate Benchmark Reform Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 issued in August 2020 represents the second phase of the IASB's project on the effects of interest rate benchmark reform, addressing issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of the reform.

Under these amendments, changes made to a financial instrument measured at other than fair value through profit or loss that are economically equivalent and required by interest rate benchmark reform, do not result in the derecognition or a change in the carrying amount of the financial instrument. Instead they require the effective interest rate to be updated to reflect the change in the interest rate benchmark. In addition, hedge accounting will not be discontinued solely because of the replacement of the interest rate benchmark if the hedge meets other hedge accounting criteria.

These amendments apply from 1 January 2021 with early adoption permitted. The group adopted the amendments from 1 January 2020 and made the additional disclosures as required by the amendments. Further information is included in Note 14 and in 'Financial instruments impacted by Ibor reform' on page 28.

Other changes

In addition, the group adopted a number of interpretations and amendments to standards, which had an insignificant effect on the consolidated financial statements of the group and the separate financial statements of HSBC Bank plc. Other than as noted above, accounting policies have been consistently applied.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB has not published any minor amendments effective from 1 January 2021 that are applicable to the group. However, the IASB has published a number of minor amendments to IFRSs that are effective from 1 January 2022 and 1 January 2023. The group expects they will have an insignificant effect, when adopted, on the consolidated financial statements of the group and the separate financial statements of HSBC Bank plc.

New IFRSs

IFRS 17 'Insurance Contracts'

IFRS 17 'Insurance Contracts' was issued in May 2017, with amendments to the standard issued in June 2020. The standard sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. Following the amendments, IFRS 17 is effective from 1 January 2023. The group is in the process of implementing IFRS 17. Industry practice and interpretation of the standard are still developing. Therefore, the likely numerical impact of its implementation remains uncertain. However, we have the following expectations as to the impact compared with the group's current accounting policy for insurance contracts, which is set out in policy 1.2(j) below:

- Under IFRS 17, there will be no PVIF asset recognised; rather the estimated future profit will be included in the measurement of the insurance contract liability as the contractual service margin ('CSM') and gradually recognised in revenue as services are provided over the duration of the insurance contract. The PVIF asset will be eliminated to equity on transition, together with other adjustments to assets and liabilities to reflect IFRS 17 measurement requirements and any consequential amendments to financial assets in the scope of IFRS 9.
- IFRS 17 requires increased use of current market values in the measurement of insurance liabilities. Depending on the measurement model, changes in market conditions for certain products (measured under the General Measurement Approach) are immediately recognised in profit or loss, while for other products (measured under the Variable Fee Approach) they will be included in the measurement of CSM.
- In accordance with IFRS 17, directly attributable costs will be included in the results of insurance services as profit is recognised over the duration of insurance contracts. Costs that are not directly attributable remain in operating expenses. This will result in a reduction in operating expenses compared with the current accounting policy.

(c) Foreign currencies

The functional currency of the bank is sterling, which is also the presentational currency of the consolidated financial statements of the group.

Transactions in foreign currencies are recorded at the rate of exchange on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date except non-monetary assets and liabilities measured at historical cost, which are translated using the rate of exchange at the initial transaction date. Exchange differences are included in other comprehensive income or in the income statement depending on where the gain or loss on the underlying item is recognised.

In the consolidated financial statements, the assets and liabilities of branches, subsidiaries, joint ventures and associates whose functional currency is not sterling are translated into the group's presentation currency at the rate of exchange at the balance sheet date, while their results are translated into sterling at the average rates of exchange for the reporting period. Exchange differences arising are recognised in other comprehensive income. On disposal of a foreign operation, exchange differences previously recognised in other comprehensive income are reclassified to the income statement.

(d) Presentation of information

Certain disclosures required by IFRSs have been included in the audited sections of this *Annual Report and Accounts 2020* as follows:

- disclosures concerning the nature and extent of risks relating to financial instruments and insurance contracts are included in the 'Report of the Directors: Risk' on pages 22 to 86;
- the 'Own funds' disclosure included in the 'Report of the Directors: Capital Risk in 2020' on page 73; and
- in publishing the parent company financial statements together with the group financial statements, the bank has taken advantage of the exemption in section 408(3) of the Companies Act 2006 not to present its individual income statement and related notes.

(e) Critical accounting estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items highlighted, as the 'critical accounting estimates and judgements' in section 1.2 below (including PVIF valuation for the first time), it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different estimates and judgements from those reached by management for the purposes of these financial statements. Management's selection of the group's accounting policies that contain critical estimates and judgements reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

(f) Segmental analysis

HSBC Bank plc's chief operating decision maker is the group Chief Executive, supported by the group Executive Committee, and operating segments are reported in a manner consistent with the internal reporting provided to the group Chief Executive and the group Executive Committee.

Measurement of segmental assets, liabilities, income and expenses is in accordance with the bank's accounting policies. Segmental income and expenses include transfers between segments and these transfers are conducted at arm's length. Shared costs are included in segments on the basis of the actual recharges made.

The types of products and services from which each reportable segment derives its revenue are discussed in the 'Strategic Report – Products and services' on page 6.

(g) 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. These considerations include stressed scenarios that reflect the increasing uncertainty that the global Covid-19 outbreak has had on the group's operations, as well as considering potential impacts from other top and emerging risks, and the related impact on profitability, capital and liquidity.

1.2 Summary of significant accounting policies

(a) Consolidation and related policies

Investments in subsidiaries

Where an entity is governed by voting rights, the group consolidates when it holds – directly or indirectly – the necessary voting rights to pass resolutions by the governing body. In all other cases, the assessment of control is more complex and requires judgement of other factors, including having exposure to variability of returns, power to direct relevant activities and whether power is held as agent or principal.

Business combinations are accounted for using the acquisition method. The amount of non-controlling interest is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The bank's investments in subsidiaries are stated at cost less impairment losses.

Critical accounting estimates and judgements

Investments in subsidiaries are tested for impairment when there is an indication that the investment may be impaired, which involves estimations of value in use reflecting management's best estimate of the future cash flows of the investment and the rates used to discount these cash flows, both of which are subject to uncertain factors as follows:

Judgements	Estimates
• The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. Where such circumstances are determined to exist, management re-tests for impairment more frequently than once a year when indicators of impairment exist. This ensures that the assumptions on which the cash flow forecasts are based continue to reflect current market conditions and management's best estimate of future business prospects	• The future cash flows of each investment are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data, but they reflect management's view of future business prospects at the time of the assessment • The rates used to discount future expected cash flows can have a significant effect on their valuation, and are based on the costs of capital assigned to the investment. The cost of capital percentage is generally derived from a capital asset pricing model, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate in the country concerned and a premium for the risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions beyond management's control • Key assumptions used in estimating impairment in subsidiaries are described in Note 18

Goodwill

Goodwill is allocated to cash-generating units ('CGUs') for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. The group's CGUs are based on global businesses. Impairment testing is performed once a year, or whenever there is an indication of impairment, by comparing the recoverable amount of a CGU with its carrying amount.

Goodwill is included in a disposal group if the disposal group is a CGU to which goodwill has been allocated or it is an operation within such a CGU. The amount of goodwill included in a disposal group is measured on the basis of the relative values of the operation disposed of and the portion of the CGU retained. Goodwill was written off in 2019 in all cash generating units, as a result of the impairment testing that year. Therefore, there is no goodwill remaining in the group.

Group sponsored structured entities

The group is considered to sponsor another entity if, in addition to ongoing involvement with the entity, it had a key role in establishing that entity or in bringing together relevant counterparties so the transaction that is the purpose of the entity could occur. The group is generally not considered a sponsor if the only involvement with the entity is merely administrative.

Interests in associates and joint arrangements

Joint arrangements are investments in which the group, together with one or more parties, has joint control. Depending on the group's rights and obligations, the joint arrangement is classified as either a joint operation or a joint venture. The group classifies investments in entities over which it has significant influence, and those that are neither subsidiaries nor joint arrangements, as associates.

The group recognises its share of the assets, liabilities and results in a joint operation. Investments in associates and interests in joint ventures are recognised using the equity method. The attributable share of the results and reserves of joint ventures and associates are included in the consolidated financial statements of the group based on either financial statements made up to 31 December or pro-rated amounts adjusted for any material transactions or events occurring between the date the financial statements are available and 31 December.

Investments in associates and joint ventures are assessed at each reporting date and tested for impairment when there is an indication that the investment may be impaired. Goodwill on acquisition of interests in joint ventures and associates is not tested separately for impairment, but is assessed as part of the carrying amount of the investment.

(b) Income and expense

Operating income

Interest income and expense

Interest income and expense for all financial instruments, excluding those classified as held for trading or designated at fair value, are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. However, as an exception to this, interest on debt instruments issued by the group for funding purposes that are designated under the fair value option to reduce an accounting mismatch and on derivatives managed in conjunction with those debt instruments is included in interest expense.

Interest on credit-impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Non-interest income and expense

The group generates fee income from services provided at a fixed price over time, such as account service and card fees, or when the group delivers a specific transaction at a point in time, such as broking services and import/export services. With the exception of certain fund management and performance fees, all other fees are generated at a fixed price. Fund management and performance fees can be variable depending on the size of the customer portfolio and HSBC's performance as fund manager. Variable fees are recognised when all uncertainties are resolved. Fee income is generally earned from short-term contracts with payment terms that do not include a significant financing component.

The group acts as principal in the majority of contracts with customers, with the exception of broking services. For most brokerage trades, the group acts as agent in the transaction and recognises broking income net of fees payable to other parties in the arrangement.

The group recognises fees earned on transaction-based arrangements at a point in time when it has fully provided the service to the customer. Where the contract requires services to be provided over time, income is recognised on a systematic basis over the life of the agreement. Where the group offers a package of services that contains multiple non-distinct performance obligations, such as those included in account service packages, the promised services are treated as a single performance obligation. If a package of services contains distinct performance obligations, such as those including both account and insurance services, the corresponding transaction price is allocated to each performance obligation based on the estimated stand-alone selling prices.

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

Net income/(expense) from financial instruments measured at fair value through profit or loss includes the following:

- 'Net income from financial instruments held for trading or managed on a fair value basis': This comprises net trading income, which includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading and other financial instruments managed on a fair value basis, together with the related interest income, expense and dividends, excluding the effect of changes in the credit risk of liabilities managed on a fair value basis. It also includes all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets and liabilities measured at fair value through profit or loss.
- 'Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss': This includes interest income, interest expense and dividend income in respect of financial assets and liabilities measured at fair value through profit or loss; and those derivatives managed in conjunction with the above that can be separately identifiable from other trading derivatives.
- 'Changes in fair value of designated debt instruments and related derivatives': Interest paid on the debt instruments and interest cash flows on related derivatives is presented in interest expense where doing so reduces and accounting mismatch.
- 'Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss': This includes interest on instruments that fail the solely payments of principal and interest ('SPPI') test, see (d) below.

The accounting policies for insurance premium income are disclosed in Note 1.2(j).

(c) Valuation of financial instruments

All financial instruments are initially recognised at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, the group recognises the difference as a trading gain or loss at inception (a 'day 1 gain or loss'). In all other cases, the entire day 1 gain or loss is deferred and recognised in the income statement over the life of the transaction either until the transaction matures or is closed out or the valuation inputs become observable.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where the group manages a group of financial assets and liabilities according to its net market or credit risk exposure, the fair value of the group of financial instruments is measured on a net basis but the underlying financial assets and liabilities are presented separately in the financial statements, unless they satisfy the IFRS offsetting criteria. Financial instruments are classified into one of three fair value hierarchy levels, described in Note 11, 'Fair values of financial instruments carried at fair value'.

Critical accounting estimates and judgements

The majority of valuation techniques employ only observable market data. However, certain financial instruments are classified on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them, the measurement of fair value is more judgemental:

Judgements	Estimates
• An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit or greater than 5% of the instrument's valuation is driven by unobservable inputs • 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used)	• Details on the group's level 3 financial instruments and the sensitivity of their valuation to the effect of applying reasonable possible alternative assumptions in determining their fair value are set out in Note 11

(d) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at amortised cost. Such financial assets include most loans and advances to banks and customers and some debt securities. In addition, most financial liabilities are measured at amortised cost. The group accounts for regular way amortised cost financial instruments using trade date accounting. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs. If the initial fair value is lower than the cash amount advanced, such as in the case of some leveraged finance and syndicated lending activities, the difference is deferred and recognised over the life of the loan through the recognition of interest income.

The group may commit to underwriting loans on fixed contractual terms for specified periods of time. When the loan arising from the lending commitment is expected to be held for trading, the commitment to lend is recorded as a derivative. When the group intends to hold the loan, the loan commitment is included in the impairment calculations set out below.

Non-trading reverse repurchase, repurchase and similar agreements

When debt securities are sold subject to a commitment to repurchase them at a predetermined price ('repos'), they remain on the balance sheet and a liability is recorded in respect of the consideration received. Securities purchased under commitments to resell ('reverse repos') are not recognised on the balance sheet and an asset is recorded in respect of the initial consideration paid. Non-trading repos and reverse repos are measured at amortised cost. The difference between the sale and repurchase price or between the purchase and resale price is treated as interest and recognised in net interest income over the life of the agreement.

Contracts that are economically equivalent to reverse repo or repo agreements (such as sales or purchases of debt securities entered into together with total return swaps with the same counterparty) are accounted for similarly to, and presented together with, reverse repo or repo agreements.

(e) Financial assets measured at fair value through other comprehensive income

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at fair value through other comprehensive income ('FVOCI'). These comprise primarily debt securities. They are recognised on the trade date when HSBC enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains less losses from financial instruments'. Financial assets measured at FVOCI are included in the impairment calculations set out below and impairment is recognised in profit or loss.

(f) Equity securities measured at fair value with fair value movements presented in other comprehensive income

The equity securities for which fair value movements are shown in other comprehensive income are business facilitation and other similar investments where HSBC holds the investments other than to generate a capital return. Gains or losses on the derecognition of these equity securities are not transferred to profit or loss. Otherwise, equity securities are measured at fair value through profit or loss (except for dividend income, which is recognised in profit or loss).

(g) Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

- the use of the designation removes or significantly reduces an accounting mismatch;
- a group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and
- the financial liability contains one or more non-closely related embedded derivatives.

Designated financial assets are recognised when HSBC enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred. Designated financial liabilities are recognised when HSBC enters into contracts with counterparties, which is generally on settlement date, and are normally derecognised when extinguished. Subsequent changes in fair values are recognised in the income statement in 'Net income from financial instruments held for trading or managed on a fair value basis' or 'Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss' except for the effect of changes in the liabilities' credit risk, which is presented in 'Other comprehensive income', unless that treatment would create or enlarge an accounting mismatch in profit or loss.

Under the above criterion, the main classes of financial instruments designated by HSBC are:

- Debt instruments for funding purposes that are designated to reduce an accounting mismatch: The interest and/or foreign exchange exposure on certain fixed-rate debt securities issued has been matched with the interest and/or foreign exchange exposure on certain swaps as part of a documented risk management strategy.
- Financial assets and financial liabilities under unit-linked and non-linked investment contracts: A contract under which HSBC does not accept significant insurance risk from another party is not classified as an insurance contract, other than investment contracts with discretionary participation features ('DPF'), but is accounted for as a financial liability. Customer liabilities under linked and certain non-linked investment contracts issued by insurance subsidiaries are determined based on the fair value of the assets held in the linked funds. If no fair value designation was made for the related assets, at least some of the assets would otherwise be measured at either fair value through other comprehensive income or amortised cost. The related financial assets and liabilities are managed and reported to management on a fair value basis. Designation at fair value of the financial assets and related liabilities allows changes in fair values to be recorded in the income statement and presented in the same line.
- Financial liabilities that contain both deposit and derivative components: These financial liabilities are managed and their performance evaluated on a fair value basis.

(h) Derivatives

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value through profit or loss, with changes in fair value generally recorded in the income statement. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. This includes embedded derivatives in financial liabilities, which are bifurcated from the host contract when they meet the definition of a derivative on a stand-alone basis. Where the derivatives are managed with debt securities issued by HSBC that are designated at fair value, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

Hedge accounting

When derivatives are not part of fair value designated relationships, if held for risk management purposes they are designated in hedge accounting relationships where the required criteria for documentation and hedge effectiveness are met. The group uses these derivatives or, where allowed, other non-derivative hedging instruments in fair value hedges, cash flow hedges or hedges of net investments in foreign operations as appropriate to the risk being hedged.

Fair value hedge

Fair value hedge accounting does not change the recording of gains and losses on derivatives and other hedging instruments, but results in recognising changes in the fair value of the hedged assets or liabilities attributable to the hedged risk that would not otherwise be recognised in the income statement. If a hedge relationship no longer meets the criteria for hedge accounting, hedge accounting is discontinued and the cumulative adjustment to the carrying amount of the hedged item is amortised to the income statement on a recalculated effective interest rate, unless the hedged item has been derecognised, in which case it is recognised in the income statement immediately.

Cash flow hedge

The effective portion of gains and losses on hedging instruments is recognised in other comprehensive income and the ineffective portion of the change in fair value of derivative hedging instruments that are part of a cash flow hedge relationship is recognised immediately in the income statement within 'Net trading income'. The accumulated gains and losses recognised in other comprehensive income are reclassified to the income statement in the same periods in which the hedged item affects profit or loss. When a hedge relationship is discontinued, or partially discontinued, any cumulative gain or loss recognised in other comprehensive income remains in equity until the forecast transaction is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the income statement.

Net investment hedge

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. The effective portion of gains and losses on the hedging instrument is recognised in other comprehensive income and other gains and losses are recognised immediately in the income statement. Gains and losses previously recognised in other comprehensive income are reclassified to the income statement on the disposal, or part disposal, of the foreign operation.

Derivatives that do not qualify for hedge accounting

Non-qualifying hedges are derivatives entered into as economic hedges of assets and liabilities for which hedge accounting was not applied.

(i) Impairment of amortised cost and FVOCI financial assets

Expected credit losses are recognised for loans and advances to banks and customers, non-trading reverse repurchase agreements, other financial assets held at amortised cost, debt instruments measured at FVOCI, and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months, or less, where the remaining life is less than 12 months, ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in 'stage 3'. Purchased or originated credit-impaired financial assets ('POCI') are treated differently as set out below.

Credit impaired (stage 3)

The group determines that a financial instrument is credit impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay, such as when a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit default to be defined based on 180 days past due. Therefore, the definitions of credit impaired and default are aligned as far as possible so that stage 3 represents all loans that are considered defaulted or otherwise credit impaired.

Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less ECL allowance.

Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Renegotiation

Loans are identified as renegotiated and classified as credit impaired when we modify the contractual payment terms due to significant credit distress of the borrower. Renegotiated loans remain classified as credit impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and retain the designation of renegotiated until maturity or derecognition.

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the terms of an existing agreement are modified such that the renegotiated loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances are considered to be POCI and will continue to be disclosed as renegotiated loans.

Other than originated credit-impaired loans, all other modified loans could be transferred out of stage 3 if they no longer exhibit any evidence of being credit impaired and, in the case of renegotiated loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, over the minimum observation period, and there are no other indicators of impairment. These loans could be transferred to stage 1 or 2 based on the mechanism as described below by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). Any amount written off as a result of the modification of contractual terms would not be reversed.

Loan modifications other than renegotiated loans

Loan modifications that are not identified as renegotiated are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that HSBC's rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided. Mandatory and general offer loan modifications that are not borrower-specific, for example market-wide customer relief programmes, have not been classified as renegotiated loans and generally have not resulted in derecognition, but their stage allocation is determined considering all available and supportable information under our ECL impairment policy.

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale. However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. In addition, wholesale loans that are individually assessed, which are typically corporate and commercial customers, and included on a watch or worry list, are included in stage 2.

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default ('PD'), which encompasses a wide range of information including the obligor's customer risk rating ('CRR'), macroeconomic condition forecasts and credit transition probabilities. For origination CRRs up to 3.3, significant increase in credit risk is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at reporting date. The quantitative measure of significance varies depending on the credit quality at origination as follows:

Origination CRR	Significance trigger – PD to increase by
0.1-1.2	15bps
2.1-3.3	30bps

For CRRs greater than 3.3 that are not impaired, a significant increase in credit risk is considered to have occurred when the origination PD has doubled. The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates.

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

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

Further information about the 23-grade scale used for CRR can be found on page 33.

For certain portfolios of debt securities where external market ratings are available and credit ratings are not used in credit risk management, the debt securities will be in stage 2 if their credit risk increases to the extent they are no longer considered investment grade. Investment grade is where the financial instrument has a low risk of incurring losses, the structure has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil their contractual cash flow obligations.

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

Unimpaired and without significant increase in credit risk (stage 1)

ECL resulting from default events that are possible within the next 12 months ('12-month ECL') are recognised for financial instruments that remain in stage 1.

Purchased or originated credit impaired

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

Movement between stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans that are not POCI will continue to be in stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period and there are no other indicators of impairment. For loans that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

Measurement of ECL

The assessment of credit risk and the estimation of ECL are unbiased and probability-weighted, and incorporate all available information that is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

In general, HSBC calculates ECL using three main components, a probability of default, a loss given default ('LGD') and the exposure at default ('EAD').

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

HSBC leverages the Basel II IRB framework where possible, with recalibration to meet the differing IFRS 9 requirements as set out in the following table:

Model	Regulatory capital	IFRS 9
PD	• Through the cycle (represents long-run average PD throughout a full economic cycle) • The definition of default includes a backstop of 90+ days past due, although this has been modified to 180+ days past due for some portfolios, particularly UK and US mortgages	• Point in time (based on current conditions, adjusted to take into account estimates of future conditions that will impact PD) • Default backstop of 90+ days past due for all portfolios
EAD	• Cannot be lower than current balance	• Amortisation captured for term products
LGD	• Downturn LGD (consistent losses expected to be suffered during a severe but plausible economic downturn) • Regulatory floors may apply to mitigate risk of underestimating downturn LGD due to lack of historical data • Discounted using cost of capital • All collection costs included	• Expected LGD (based on estimate of loss given default including the expected impact of future economic conditions such as changes in value of collateral) • No floors • Discounted using the original effective interest rate of the loan • Only costs associated with obtaining/selling collateral included
Other		• Discounted back from point of default to balance sheet date

While 12-month PDs are recalibrated from Basel II models where possible, the lifetime PDs are determined by projecting the 12-month PD using a term structure. For the wholesale methodology, the lifetime PD also takes into account credit migration, i.e. a customer migrating through the CRR bands over its life.

The ECL for wholesale stage 3 is determined on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on the credit risk officer's estimates as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on its estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral. The cash flows are discounted at a reasonable approximation of the original effective interest rate. For significant cases, cash flows under four different scenarios are probability-weighted by reference to the economic scenarios applied more generally by HSBC Group and the judgement of the credit risk officer in relation to the likelihood of the workout strategy succeeding or receivership being required. For less significant cases, the effect of different economic scenarios and work-out strategies is approximated and applied as an adjustment to the most likely outcome.

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which HSBC is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility.

However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit HSBC's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period HSBC remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.

Forward-looking economic inputs

HSBC applies multiple forward-looking global economic scenarios determined with reference to external forecast distributions representative of our view of forecast economic conditions. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. In certain economic environments, additional analysis may be necessary and may result in additional scenarios or adjustments, to reflect a range of possible economic outcomes sufficient for an unbiased estimate. The detailed methodology is disclosed in 'Measurement uncertainty and sensitivity analysis of ECL estimates' on page 42.

Critical accounting estimates and judgements

The calculation of the group's ECL under IFRS 9 requires the group to make a number of judgements, assumptions and estimates. The most significant are set out below:

Judgements	Estimates
• Defining what is considered to be a significant increase in credit risk • Selecting and calibrating the PD, LGD and EAD models, which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions • Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected loss • Making management judgemental adjustments to account for late breaking events, model and data limitations and deficiencies, and expert credit judgements	• The sections marked as audited on pages 42 to 46, 'Measurement uncertainty and sensitivity analysis of ECL estimates' set out the assumptions used in determining ECL and provide an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions

(j) Insurance contracts

A contract is classified as an insurance contract where the group accepts significant insurance risk from another party by agreeing to compensate that party on the occurrence of a specified uncertain future event. An insurance contract may also transfer financial risk, but is accounted for as an insurance contract if the insurance risk is significant. In addition, the group issues investment contracts with discretionary participation features ('DPF') which are also accounted for as insurance contracts as required by IFRS 4 'Insurance Contracts'.

Net insurance premium income

Premiums for life insurance contracts are accounted for when receivable, except in unit-linked insurance contracts where premiums are accounted for when liabilities are established.

Reinsurance premiums are accounted for in the same accounting period as the premiums for the direct insurance contracts to which they relate.

Net insurance claims and benefits paid and movements in liabilities to policyholders

Gross insurance claims for life insurance contracts reflect the total cost of claims arising during the year, including claim handling costs and any policyholder bonuses allocated in anticipation of a bonus declaration.

Maturity claims are recognised when due for payment. Surrenders are recognised when paid or at an earlier date on which, following notification, the policy ceases to be included within the calculation of the related insurance liabilities. Death claims are recognised when notified.

Reinsurance recoveries are accounted for in the same period as the related claim.

Liabilities under insurance contracts

Liabilities under non-linked life insurance contracts are calculated by each life insurance operation based on local actuarial principles. Liabilities under unit-linked life insurance contracts are at least equivalent to the surrender or transfer value, which is calculated by reference to the value of the relevant underlying funds or indices.

Future profit participation on insurance contracts with DPF

Where contracts provide discretionary profit participation benefits to policyholders, liabilities for these contracts include provisions for the future discretionary benefits to policyholders. These provisions reflect the actual performance of the investment portfolio to date and management's expectation of the future performance of the assets backing the contracts, as well as other experience factors such as mortality, lapses and operational efficiency, where appropriate. The benefits to policyholders may be determined by the contractual terms, regulation or past distribution policy.

Investment contracts with DPF

While investment contracts with DPF are financial instruments, they continue to be treated as insurance contracts as required by IFRS 4. The group therefore recognises the premiums for these contracts as revenue and recognises as an expense the resulting increase in the carrying amount of the liability.

In the case of net unrealised investment gains on these contracts, whose discretionary benefits principally reflect the actual performance of the investment portfolio, the corresponding increase in the liabilities is recognised in either the income statement or other comprehensive income, following the treatment of the unrealised gains on the relevant assets. In the case of net unrealised losses, a deferred participating asset is recognised only to the extent that its recoverability is highly probable. Movements in the liabilities arising from realised gains and losses on relevant assets are recognised in the income statement.

Present value of in-force long-term insurance business

The group recognises the value placed on insurance contracts, and investment contracts with DPF, that are classified as long-term and in-force at the balance sheet date, as an asset. The asset represents the present value of the equity holders' interest in the issuing insurance companies' profits expected to emerge from these contracts written at the balance sheet date. The present value of in-force long-term insurance business ('PVIF') is determined by discounting those expected future profits using appropriate assumptions in assessing factors such as future mortality, lapse rates and levels of expenses, and a risk discount rate that reflects the risk premium attributable to the respective contracts. The PVIF incorporates allowances for both non-market risk and the value of financial options and guarantees. The PVIF asset is presented gross of attributable tax in the balance sheet and movements in the PVIF asset are included in 'Other operating income' on a gross of tax basis.

Critical accounting estimates and judgements

The valuation of the PVIF is dependent on economic assumptions (e.g. future investment returns) and non-economic assumptions (e.g. related to policyholder behaviour or demographics).

Judgements	Estimates
• The PVIF asset represents the value of the equity holders' interest in the issuing insurance companies' profits expected to emerge from these contracts written at the balance sheet date. It is determined by discounting those expected future profits using appropriate assumptions in assessing factors such as future mortality, lapse rates and levels of expenses, and a risk discount rate that reflects the risk premium attributable to the respective contracts. The PVIF incorporates allowances for both non-market risk and the value of financial options and guarantees.	• The assumptions are reassessed at each reporting date and changes in the estimates which affect the value of PVIF, are reflected in the income statement. Sensitivities to market risk factors and non-economic risk factors are included in sections marked as audited on pages 85 and 86 respectively.

(k) Employee compensation and benefits

Share-based payments

The group enters into both equity-settled and cash-settled share-based payment arrangements with its employees as compensation for the provision of their services. The vesting period for these schemes may commence before the legal grant date if the employees have started to render services in respect of the award before the legal grant date, where there is a shared understanding of the terms and conditions of the arrangement. Expenses are recognised when the employee starts to render service to which the award relates.

Cancellations result from the failure to meet a non-vesting condition during the vesting period, and are treated as an acceleration of vesting recognised immediately in the income statement. Failure to meet a vesting condition by the employee is not treated as a cancellation, and the amount of expense recognised for the award is adjusted to reflect the number of awards expected to vest.

Post-employment benefit plans

The group operates a number of pension schemes including defined benefit, defined contribution and post-employment benefit schemes.

Payments to defined contribution schemes are charged as an expense as the employees render service.

Defined benefit pension obligations are calculated using the projected unit credit method. The net charge to the income statement mainly comprises the service cost and the net interest on the net defined benefit asset or liability, and is presented in operating expenses.

Remeasurements of the net defined benefit asset or liability, which comprise actuarial gains and losses, return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The net defined benefit asset or liability represents the present value of defined benefit obligations reduced by the fair value of plan assets, after applying the asset ceiling test, where the net defined benefit surplus is limited to the present value of available refunds and reductions in future contributions to the plan.

The cost of obligations arising from other post-employment plans are accounted for on the same basis as defined benefit pension plans.

(l) Tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is recognised in the same statement in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year and on any adjustment to tax payable in respect of previous years. The group provides for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities. Payments associated with any incremental base erosion and anti-abuse tax are reflected in tax expense in the period incurred.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet, and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax is calculated using the tax rates expected to apply in the periods as the assets will be realised or the liabilities settled.

Current and deferred tax are calculated based on tax rates and laws enacted, or substantively enacted, by the balance sheet date.

Critical accounting estimates and judgements

The recognition of deferred tax assets depends on judgements, particularly with regard to the UK deferred tax assets of HBSC Bank plc.

Judgements	Estimates
• Assessing the probability and sufficiency of future taxable profits, taking into account the future reversal of existing taxable temporary differences and tax planning strategies including corporate reorganisations	

(m) Provisions, contingent liabilities and guarantees

Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made.

Critical accounting estimates and judgements

The recognition and measurement of provisions requires the group to make a number of judgements, assumptions and estimates. The most significant are set out below:

Judgements	Estimates
• Determining whether a present obligation exists. Professional advice is taken on the assessment of litigation and similar obligations • Provisions for legal proceedings and regulatory matters typically require a higher degree of judgement than other types of provisions. When matters are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised, revising previous estimates as appropriate. At more advanced stages, it is typically easier to make estimates around a better defined set of possible outcomes	• Provisions for legal proceedings and regulatory matters remain very sensitive to the assumptions used in the estimate. There could be a wider range of possible outcomes for any pending legal proceedings, investigations or inquiries. As a result, it is often not practicable to quantify a range of possible outcomes for individual matters. It is also not practicable to meaningfully quantify ranges of potential outcomes in aggregate for these types of provisions because of the diverse nature and circumstances of such matters and the wide range of uncertainties involved

Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, and contingent liabilities related to legal proceedings or regulatory matters, are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Financial guarantee contracts

Liabilities under financial guarantee contracts that are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable.

The bank has issued financial guarantees and similar contracts to other group entities. The group elects to account for certain guarantees as insurance contracts in the bank's financial statements, in which case they are measured and recognised as insurance liabilities. This election is made on a contract by contract basis, and is irrevocable.

(n) Impairment of non-financial assets

Software under development is tested for impairment at least annually. Other non-financial assets are property, plant and equipment, intangible assets (excluding goodwill) and right-of-use assets. They are tested for impairment at the individual asset level when there is indication of impairment at that level, or at the CGU level for assets that do not have a recoverable amount at the individual asset level. In addition, impairment is also tested at the CGU level when there is indication of impairment at that level. For this purpose, CGUs are considered to be the principal operating legal entities divided by global business.

Impairment testing compares the carrying amount of the non-financial asset or CGU with its recoverable amount, which is the higher of the fair value less costs of disposal or the value in use. The carrying amount of a CGU comprises the carrying value of its assets and liabilities, including non-financial assets that are directly attributable to it and non-financial assets that can be allocated to it on a reasonable and consistent basis. Non-financial assets that cannot be allocated to an individual CGU are tested for impairment at an appropriate grouping of CGUs. The recoverable amount of the CGU is the higher of the fair value less costs of disposal of the CGU, which is determined by independent and qualified valuers where relevant, and the value in use, which is calculated based on appropriate inputs.

When the recoverable amount of a CGU is less than its carrying amount, an impairment loss is recognised in the income statement to the extent that the impairment can be allocated on a pro-rata basis to the non-financial assets by reducing their carrying amounts to the higher of their respective individual recoverable amount or nil. Impairment is not allocated to the financial assets in a CGU.

Impairment loss recognised in prior periods for non-financial assets is reversed when there has been a change in the estimate used to determine the recoverable amount. The impairment loss is reversed to the extent that the carrying amount of the non-financial assets would not exceed the amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised in prior periods.

2 Net fee income

Net fee income by global business

	2020				
	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	£m	£m	£m	£m	£m
Account services	39	89	111	—	239
Funds under management	207	27	190	—	424
Cards	24	13	7	—	44
Credit facilities	6	74	170	—	250
Broking income	45	40	284	—	369
Unit trusts	3	—	—	—	3
Imports/exports	—	14	27	—	41
Remittances	9	23	28	2	62
Underwriting	4	6	350	—	360
Global custody	19	12	189	—	220
Insurance agency commission	17	1	1	—	19
Other	230	108	837	(532)	643
Fee income	603	407	2,194	(530)	2,674
Less: fee expense	(245)	(51)	(1,504)	526	(1,274)
Net fee income	358	356	690	(4)	1,400

	2019				
	£m	£m	£m	£m	£m
Account services	49	91	194	—	334
Funds under management	213	24	190	—	427
Cards	24	18	5	—	47
Credit facilities	7	91	203	—	301
Broking income	43	26	220	—	289
Unit trusts	6	—	—	—	6
Imports/exports	—	14	37	—	51
Remittances	9	26	39	—	74
Underwriting	2	3	282	—	287
Global custody	15	9	94	—	118
Insurance agency commission	19	1	—	—	20
Other	238	88	869	(559)	636
Fee income	625	391	2,133	(559)	2,590
Less: fee expense	(243)	(41)	(1,507)	545	(1,246)
Net fee income	382	350	626	(14)	1,344

1 *A change in reportable segments was made in 2020. Comparatives data have been re-presented accordingly. For further guidance, refer to Note 9: Segmental Analysis on page 139.*

Net fee income includes £883m of fees earned on financial assets that are not at fair value through profit or loss (other than amounts included in determining the effective interest rate) (2019: £906m), £176m of fees payable on financial liabilities that are not at fair value through profit of loss (other than amounts included in determining the effective interest rate) (2019: £198m), £688m of fees earned on trust and other fiduciary activities (2019: £580m), and £68m of fees payable relating to trust and other fiduciary activities (2019: £53m).

3 Net income/(expense) from financial instruments measured at fair value through profit or loss

	2020	2019
	£m	£m
Net income/(expense) arising on:		
Net Trading activities	1,948	4,054
Other instruments managed on a fair value basis	(190)	(1,999)
Net income from financial instruments held for trading or managed on a fair value basis	1,758	2,055
Financial assets held to meet liabilities under insurance and investment contracts	290	1,364
Liabilities to customers under investment contracts	(36)	(76)
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	254	1,288
Derivatives managed in conjunction with the group's issued debt securities	112	124
Other changes in fair value	(95)	(132)
Changes in fair value of designated debt and related derivatives	17	(8)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	285	547
Year ended 31 Dec	2,314	3,882

4 Insurance business

Net insurance premium income

	Non-linked insurance	Linked life insurance	Investment contracts with DPF[1]	Total
	£m	£m	£m	£m
Gross insurance premium income	205	274	1,185	1,664
Reinsurers' share of gross insurance premium income	(100)	(5)	—	(105)
Year ended 31 Dec 2020	105	269	1,185	1,559
Gross insurance premium income	231	245	1,772	2,248
Reinsurers' share of gross insurance premium income	(98)	(3)	—	(101)
Year ended 31 Dec 2019	133	242	1,772	2,147

1 *Discretionary participation features.*

Net insurance claims and benefits paid and movement in liabilities to policyholders

	Non-linked insurance	Linked life insurance	Investment contracts with DPF[1]	Total
	£m	£m	£m	£m
Gross claims and benefits paid and movement in liabilities	143	300	1,404	1,847
– claims, benefits and surrenders paid	102	93	1,578	1,773
– movement in liabilities	41	207	(174)	74
Reinsurers' share of claims and benefits paid and movement in liabilities	(64)	—	—	(64)
– claims, benefits and surrenders paid	(62)	(3)	—	(65)
– movement in liabilities	(2)	3	—	1
Year ended 31 Dec 2020	79	300	1,404	1,783
Gross claims and benefits paid and movement in liabilities	105	363	2,957	3,425
– claims, benefits and surrenders paid	136	96	1,490	1,722
– movement in liabilities	(31)	267	1,467	1,703
Reinsurers' share of claims and benefits paid and movement in liabilities	(56)	(3)	—	(59)
– claims, benefits and surrenders paid	(61)	(3)	—	(64)
– movement in liabilities	5	—	—	5
Year ended 31 Dec 2019	49	360	2,957	3,366

1 *Discretionary participation features.*

Liabilities under insurance contracts

	Non-linked insurance	Linked life insurance	Investment contracts with DPF[1]	Total
	£m	£m	£m	£m
Gross liabilities under insurance contracts at 1 Jan 2020	**576**	**1,295**	**19,638**	**21,509**
Claims and benefits paid	**(102)**	**(93)**	**(1,578)**	**(1,773)**
Increase in liabilities to policyholders	**143**	**300**	**1,404**	**1,847**
Exchange differences and other movements[2]	**(23)**	**10**	**1,246**	**1,233**
Gross liabilities under insurance contracts at 31 Dec 2020	**594**	**1,512**	**20,710**	**22,816**
Reinsurers' share of liabilities under insurance contracts	**(118)**	**(47)**	**—**	**(165)**
Net liabilities under insurance contracts at 31 Dec 2020	**476**	**1,465**	**20,710**	**22,651**
Gross liabilities under insurance contracts at 1 Jan 2019	616	1,042	18,999	20,657
Claims and benefits paid	(119)	(96)	(1,474)	(1,689)
Increase in liabilities to policyholders	(30)	267	1,483	1,720
Exchange differences and other movements	109	82	630	821
Gross liabilities under insurance contracts at 31 Dec 2019	576	1,295	19,638	21,509
Reinsurers' share of liabilities under insurance contracts	(113)	(50)	—	(163)
Net liabilities under insurance contracts at 31 Dec 2019	463	1,245	19,638	21,346

1 *Discretionary participation features.*
2 *'Exchange differences and other movements' includes movements in liabilities arising from net unrealised investment gains recognised in other comprehensive income.*

The key factors contributing to the movement in liabilities to policyholders included movement in the market value of assets supporting policyholder liabilities, death claims, surrenders, lapses, new business, the declaration of bonuses and other amounts attributable to policyholders.

5 Employee compensation and benefits

	2020	2019
	£m	£m
Wages and salaries	**1,917**	1,752
Social security costs	**367**	383
Post-employment benefits[1]	**56**	90
Year ended 31 Dec	**2,340**	2,225

1 *Includes £36m (2019: £48m) in employer contributions to the defined contribution pension plans.*

Average number of persons employed by the group during the year

	2020	2019
Wealth and Personal Banking	**6,807**	5,597
Commercial Banking	**3,396**	2,507
Global Banking and Markets	**7,605**	4,844
Corporate Centre	**58**	4,806
Year ended 31 Dec[1,2]	**17,866**	17,754

1 *A change in reportable segments was made in 2020. Comparatives data have been re-presented accordingly. For further guidance, refer to Note 9: Segmental Analysis on page 139.*
2 *For year 2020, average numbers of FTE in corporate centre are allocated in respective businesses to align our approach with the Group. The FTE allocation is on the basis of amounts charged to the respective global business.*

Share-based payments

'Wages and salaries' includes the effect of share-based payments arrangements, of which £76m were equity settled (2019: £86m), as follows:

	2020	2019
	£m	£m
Restricted share awards	**77**	86
Savings-related and other share award option plans	**2**	2
Year ended 31 Dec	**79**	88

HSBC share awards

Award	Policy
Deferred share awards (including annual incentive awards, LTI awards delivered shares) and Group Performance Share Plan ('GPSP')	• An assessment of performance over the relevant period ending on 31 December is used to determine the amount of the award to be granted. • Deferred awards generally require employees to remain in employment over the vesting period and are generally not subject to performance conditions after the grant date. An exception to these are the LTI awards, which are subject to performance conditions. • Deferred share awards generally vest over a period of three, five or seven years. • Vested shares may be subject to a retention requirement post-vesting. GPSP awards are retained until cessation of employment. • Awards are subject to a malus provision prior to vesting. • Awards granted to Material Risk Takers from 2015 onwards are subject to clawback post-vesting.
International Employee Share Purchase Plan ('ShareMatch')	• The plan was first introduced in Hong Kong in 2013 and now includes employees based in 27 jurisdictions. • Shares are purchased in the market each quarter up to a maximum value of £750, or the equivalent in local currency. • Matching awards are added at a ratio of one free share for every three purchased. • Matching awards vest subject to continued employment and the retention of the purchased shares for a maximum period of two years and nine months.

Movement on HSBC share awards

	2020 Number (000s)	2019 Number (000s)
Restricted share awards outstanding at 1 Jan	**24,578**	23,395
Additions during the year[1]	**16,823**	19,358
Released in the year[1]	**(16,024)**	(17,742)
Forfeited in the year	**(1,010)**	(433)
Restricted share awards outstanding at 31 Dec	**24,367**	24,578
Weighted average fair value of awards granted (£)	**5.58**	5.99

1 Includes a number of share option plans transferred from or to other subsidiaries of HSBC Holdings plc.

HSBC share option plans

Main plans	Policy
Savings-related share option plans ('Sharesave')	• From 2014, eligible employees for the UK plan can save up to £500 per month with the option to use the savings to acquire shares. • These are generally exercisable within six months following either the third or fifth anniversary of the commencement of a three-year or five-year contract, respectively. • The exercise price is set at a 20% (2019: 20%) discount to the market value immediately preceding the date of invitation.

Calculation of fair values

The fair values of share options are calculated using a Black-Scholes model. The fair value of a share award is based on the share price at the date of the grant.

Movement on HSBC share option plans

	Savings-related share option plans	
	Number (000s)	WAEP[1] £
Outstanding at 1 Jan 2020	**4,245**	**4.78**
Granted during the year[2]	**5,909**	**2.56**
Exercised during the year	**(107)**	**4.44**
Expired during the year	**(78)**	**4.65**
Forfeited during the year	**(2,763)**	**4.79**
Outstanding at 31 Dec 2020	**7,206**	**2.96**
Weighted average remaining contractual life (years)	**3.64**	
Outstanding at 1 Jan 2019	4,008	4.88
Granted during the year[2]	2,078	4.68
Exercised during the year	(801)	4.32
Expired during the year	(35)	4.17
Forfeited during the year	(1,005)	5.43
Outstanding at 31 Dec 2019	4,245	4.78
Weighted average remaining contractual life (years)	2.76	

1 Weighted average exercise price.
2 Includes a number of share option plans transferred from or to other subsidiaries of HSBC Holdings plc.

Post-employment benefit plans

We operate a number of pension plans throughout Europe for our employees. Some are defined benefit plans, of which HSBC Trinkaus & Burkhardt Pension Scheme is the most prominent within the group. The pension risk section on page 72 contains details about policies and practices associated with the pensions plans.

The group's balance sheet includes the net surplus or deficit, being the difference between the fair value of plan assets and the discounted value of scheme liabilities at the balance sheet date for each plan. Surpluses are only recognised to the extent that they are recoverable through reduced contributions in the future, or through potential future refunds from the schemes. In assessing whether a surplus is recoverable, the group has considered its current right to obtain a future refund or a reduction in future contributions together with the rights of third parties such as trustees.

HSBC Trinkaus & Burkhardt Pension Scheme

The plan is a final salary scheme and is calculated based on the employee length of service multiplied by a predefined benefit accrual and earnings. The pension is paid when the benefit falls due and is a specified pension payment, lump-sum or combination thereof. The plan is overseen by an independent corporate trustee, who has a fiduciary responsibility for the operation of the plan. Its assets are held separately from the assets of the group.

The strategic aim of the investment is to achieve, as continuously as possible, an increase in value as possible over time. For this purpose, the fund invests mainly in government bonds, corporate bonds, investment funds and equities. It invests predominantly in developed regions. Overall, emphasis is placed on having a high degree of diversification.

The latest funding valuation of the plan at 31 December 2020 was carried out by Tim Voetmann and Hans-Peter Kieselmann, at Willis Towers Watson GmbH, who are Fellows of the German Association of Actuaries (DAV), using the projected unit credit method. The next funding valuation will have an effective date of 31 December 2021.

Net assets/(liabilities) recognised on the balance sheet in respect of defined benefit plans

	Fair value of plan assets	Present value of defined benefit obligations	Effect of limit on plan surpluses	Total
	£m	£m	£m	£m
Defined benefit pension plans	**693**	**(876)**	**—**	**(183)**
Defined benefit healthcare plans	**—**	**(75)**	**—**	**(75)**
At 31 Dec 2020	**693**	**(951)**	**—**	**(258)**
Total employee benefit liabilities (within 'Accruals, deferred income and other liabilities')				**(288)**
Total employee benefit assets (within 'Prepayments, accrued income and other assets')				**30**
Defined benefit pension plans	580	(759)	—	(179)
Defined benefit healthcare plans	—	(74)	—	(74)
At 31 Dec 2019	580	(833)	—	(253)
Total employee benefit liabilities (within 'Accruals, deferred income and other liabilities')				(275)
Total employee benefit assets (within 'Prepayments, accrued income and other assets')				22

Defined benefit pension plans

Net asset/(liability) under defined benefit pension plans

	Fair value of plan assets		Present value of defined benefit obligations		Net defined benefit asset/(liability)	
	HSBC Trinkaus & Burkhardt Pension Plan[2]	Other plans	HSBC Trinkaus & Burkhardt Pension Plan[2]	Other plans	HSBC Trinkaus & Burkhardt Pension Plan[2]	Other plans
	£m	£m	£m	£m	£m	£m
At 1 Jan 2020	**405**	**175**	**(434)**	**(325)**	**(29)**	**(150)**
Service cost	**—**	**—**	**(12)**	**(1)**	**(12)**	**(1)**
– current service cost			**(14)**	**(10)**	**(14)**	**(10)**
– past service cost and gains from settlements	**—**	**—**	**2**	**9**	**2**	**9**
Net interest income/(cost) on the net defined benefit asset/(liability)	**3**	**16**	**(4)**	**(16)**	**(1)**	**—**
Remeasurement effects recognised in other comprehensive income	**(3)**	**84**	**(20)**	**(79)**	**(23)**	**5**
– return on plan assets (excluding interest income)	**(3)**	**26**	**—**	**—**	**(3)**	**26**
– actuarial gains/(losses)	**—**	**—**	**(21)**	**(27)**	**(21)**	**(27)**
– other changes	**—**	**58**	**1**	**(52)**	**1**	**6**
Exchange differences	**23**	**—**	**(24)**	**(9)**	**(1)**	**(9)**
Benefits paid	**—**	**(39)**	**10**	**46**	**10**	**7**
Other movements[1]	**7**	**22**	**(5)**	**(3)**	**2**	**19**
At 31 Dec 2020	**435**	**258**	**(489)**	**(387)**	**(54)**	**(129)**
At 1 Jan 2019	329	167	(417)	(306)	(88)	(139)
Service cost	—	—	(21)	(15)	(21)	(15)
– current service cost			(21)	(9)	(21)	(9)
– past service cost and gains from settlements	—	—	—	(6)	—	(6)
Net interest income/(cost) on the net defined benefit asset/(liability)	9	3	(6)	(5)	3	(2)
Remeasurement effects recognised in other comprehensive income	18	4	(14)	(27)	4	(23)
– return on plan assets (excluding interest income)	18	4	—	—	18	4
– actuarial gains/(losses)	—	—	(14)	(27)	(14)	(27)
– other changes	—	—	—	—	—	—
Exchange differences	(20)	(8)	22	18	2	10
Benefits paid	—	(4)	9	12	9	8
Other movements[1]	69	13	(7)	(2)	62	11
At 31 Dec 2019	405	175	(434)	(325)	(29)	(150)

1 Other movements include contributions by the group, contributions by employees, administrative costs and tax paid by plan.
2 The HSBC Trinkaus & Burkhardt Pension Plan and its comparatives have been disclosed as it is considered to be a prominent plan within the group.

HSBC Trinkaus & Burkhardt AG does not expect to make contributions to the HSBC Trinkaus & Burkhardt Pension Plan during 2021. Benefits expected to be paid from the HSBC Trinkaus & Burkhardt Pension Plan to retirees over each of the next five years, and in aggregate for the five years thereafter, are as follows:

Benefits expected to be paid from plans

	2021	2022	2023	2024	2025	2026-2030
	£m	£m	£m	£m	£m	£m
HSBC Trinkaus & Burkhardt Pension Plan[1]	**10**	**10**	**9**	**10**	**12**	**62**

1 The duration of the defined benefit obligation is 18.2 years for the HSBC Trinkaus & Burkhardt Pension Plan under the disclosure assumptions adopted (2019: 18.1 years).

Fair value of plan assets by asset classes

	31 Dec 2020				31 Dec 2019			
	Value	Quoted market price in active market	No quoted market price in active market	Thereof HSBC	Value	Quoted market price in active market	No quoted market price in active market	Thereof HSBC
	£m	£m	£m	£m	£m	£m	£m	£m
HSBC Trinkaus & Burkhardt Pension Plan								
Fair value of plan assets	**435**	**418**	**17**	**—**	405	389	16	146
– equities	**19**	**19**	**—**	**—**	26	26	—	—
– bonds	**109**	**109**	**—**	**—**	97	97	—	—
– other	**307**	**290**	**17**	**—**	282	266	16	146

Post-employment defined benefit plans' principal actuarial financial assumptions

The group determines the discount rates to be applied to its obligations in consultation with the plans' local actuaries, on the basis of current average yields of high quality (AA-rated or equivalent) debt instruments with maturities consistent with those of the defined benefit obligations.

Key actuarial assumptions

	Discount rate	Inflation rate	Rate of increase for pensions	Rate of pay increase
	%	%	%	%
HSBC Trinkaus & Burkhardt Pension Plan				
At 31 Dec 2020	**0.70**	**1.75**	**1.50**	**2.50**
At 31 Dec 2019	1.05	1.75	1.50	2.50

Mortality tables and average life expectancy at age 65

	Mortality table	Life expectancy at age 65 for a male member currently:		Life expectancy at age 65 for a female member currently:	
		Aged 65	Aged 45	Aged 65	Aged 45
HSBC Trinkaus & Burkhardt Pension Plan					
At 31 Dec 2020	**RT 2018G[1]**	**20.3**	**23.1**	**23.8**	**26.0**
At 31 Dec 2019	RT 2018G	20.2	23.0	23.7	25.9

1 *Heubeck tables: RT 2018G. It is generally accepted and used mortality tables for occupational pension plans in Germany taking into account future mortality improvements and lighter mortality for higher-paid pensioners.*

The effect of changes in key assumptions

	HSBC Trinkaus & Burkhardt Pension Plan Obligation			
	Financial impact of increase		Financial impact of decrease	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Discount rate – increase/decrease of 0.25%	**(15)**	(13)	**16**	14
Inflation rate – increase/decrease of 0.25%	**16**	9	**(12)**	(9)
Pension payments and deferred pensions – increase/decrease of 0.25%	**10**	9	**(10)**	(9)
Pay – increase/decrease of 0.25%	**4**	4	**(4)**	(3)
Change in mortality – increase of 1 year	**19**	14	**N/A**	N/A

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this in unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit asset recognised in the balance sheet. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

Directors' emoluments

The aggregate emoluments of the Directors of the bank, computed in accordance with the Companies Act 2006 as amended by statutory instrument 2008 No.410, were:

	2020	2019
	£000	£000
Fees[1]	**1,256**	1,136
Salaries and other emoluments[2, 5]	**2,321**	1,958
Annual incentives[3]	**576**	472
Long-term incentives[4]	**727**	160
Year ended 31 Dec	**4,880**	3,726

1 *Fees paid to non-executive Directors.*
2 *Salaries and other emoluments include Fixed Pay Allowances.*
3 *Discretionary annual incentives for executive Directors are based on a combination of individual and corporate performance, and are determined by the Remuneration Committee of the bank's parent company, HSBC Holdings plc. Incentive awards made to executive directors are delivered in the form of cash and HSBC Holdings plc shares. The total amount shown is comprised of £288,050 (2019: £235,752) in cash and £288,050 (2019: £235,752) in Restricted Shares, which is the upfront portion of the annual incentive granted in respect of performance year 2020.*
4 *The amount shown is comprised of £428,822 (2019: £48,002) in deferred cash, £289,261 (2019: £64,097) in deferred Restricted Shares, and £8,826 (2019: £48,050) in shares under the Group Performance Share Plan ('GPSP'). These amounts relate to the portion of the awards that will vest following the substantial completion of the vesting condition attached to these awards in 2020. The total vesting period of deferred cash and share awards is no less than three years, with 33% of the award vesting on each of the first and second anniversaries of the date of the award, and the balance vesting on the third anniversary of the date of the award. The deferred share awards are subject to at least a six-month retention period upon vesting. GPSP awards are subject to a five-year vesting period and a retention requirement until cessation of employment upon vesting. Details of the Plans are contained within the Directors' Remuneration Report of HSBC Holdings plc. The cost of any awards subject to service conditions under the HSBC Share Plan 2011 are recognised through an annual charge based on the fair value of the awards, apportioned over the period of service to which the award relates.*
5 *In addition to the amounts set out above, a payment was also made to a Director relating to the compensation for loss of employment. As the payment related to a longer period of employment with the Group (and not specifically to the Directorship) it is not included in the tables. However, the amount paid that related (on a time apportioned basis) to the period of Directorship is £93,097.*

No Director exercised share options over HSBC Holdings plc ordinary shares during the year.

Retirement benefits are accruing to one Director under a money purchase scheme in respect of Directors' qualifying services (2019: one Director).

In addition, there were payments during 2020 under unfunded retirement benefit agreements to former Directors of £785,548 (2019: £815,772), The provision at 31 December 2020 in respect of unfunded pension obligations to former Directors amounted to £10,245,741 (2019: £10,737,186).

Of these aggregate figures, the following amounts are attributable to the highest paid Director:

	2020	2019
	£000	£000
Salaries and other emoluments	**1,392**	1,190
Annual incentives[1]	**417**	260
Long-term incentives[2]	**677**	105
Year ended 31 Dec	**2,486**	1,555

1 *Awards made to the highest paid Director are delivered in the form of cash and HSBC Holdings plc shares. The amount shown is comprised of £208,736 (2019: £130,000) in cash and £208,736 (2019: £130,000) in Restricted Shares.*
2 *The amount shown is comprised of £402,567 (2019: £28,429) in deferred cash, £274,104 (2019: £28,459) in deferred Restricted Shares. These amounts relate to a portion of the awards that will vest following the substantial completion of the vesting condition attached to these awards in 2020. The total vesting period of deferred cash and share awards is no less than three years, with 33% of the award vesting on each of the first and second anniversaries of the date of the award, and the balance vesting on the third anniversary of the date of the award. The share awards are subject to a six-month retention period upon vesting.*

Pension contributions totalling £19,298 were made by the bank in respect of services by the highest paid Director during the year (2019: £nil).

6 Auditors' remuneration

	2020	2019
	£m	£m
Audit fees payable to PwC	**11.3**	10.5
Other audit fees payable	**0.4**	0.4
Year ended 31 Dec	**11.7**	10.9

Fees payable by the group to PwC

	2020	2019
	£m	£m
Fees for HSBC Bank plc's statutory audit[1]	**5.3**	5.5
Fees for other services provided to the group	**13.1**	11.6
– audit of the group's subsidiaries[2]	**6.0**	5.0
– audit-related assurance services[3]	**4.2**	2.7
– other assurance services[4]	**2.9**	3.9
Year ended 31 Dec	**18.4**	17.1

1 *Fees payable to PwC for the statutory audit of the consolidated financial statements of the group and the separate financial statements of HSBC Bank plc. They exclude amounts payable for the statutory audit of the bank's subsidiaries which have been included in 'Fees for other services provided to the group'.*
2 *Including fees payable to PwC for the statutory audit of the bank's subsidiaries.*
3 *Including services for assurance and other services that relate to statutory and regulatory filings, including comfort letters and interim reviews.*
4 *Including other permitted services relating to advisory, corporate finance transactions, etc.*

Fees payable for non-audit services for HSBC Bank plc are not disclosed separately because such fees are disclosed on a consolidated basis for the group.

7 Tax

Tax expense

	2020	2019
	£m	£m
Current tax	**195**	(103)
– for this year	**186**	(75)
– adjustments in respect of prior years	**9**	(28)
Deferred tax	**(331)**	222
– origination and reversal of temporary differences	**(350)**	48
– effect of changes in tax rates	**(15)**	—
– adjustments in respect of prior years	**34**	174
Year ended 31 Dec[1]	**(136)**	119

1 *In addition to amounts recorded in the income statement, a tax charge of £135m (2019: credit of £100m) was recorded directly to equity.*

The group's profits are taxed at different rates depending on the country in which the profits arise. The key applicable corporate tax rates in 2020 include the UK and France. The UK tax rate applying to HSBC Bank plc and its banking subsidiaries was 27% (2019: 27%), comprising 19% corporation tax plus 8% surcharge on UK banking profits. The applicable tax rate in France was 32% (2019: 34%). The applicable tax rate in France reduced to 28% on 1 January 2021 and will reduce to 26% from 1 January 2022. Other overseas subsidiaries and overseas branches provided for taxation at the appropriate rates in the countries in which they operate.

Tax reconciliation

The tax charged to the income statement differs from the tax expense that would apply if all profits had been taxed at the UK corporation tax rate as follows:

	2020		2019	
	£m	%	£m	%
Loss before tax	(1,614)		(872)	
Tax expense				
UK corporation tax at 19.00% (2019: 19.00%)	(307)	19.0	(166)	19.0
Items increasing the tax charge in 2020:				
Movements in unrecognised deferred tax	321	(19.9)	—	—
Impact of taxing overseas profits at different rates	49	(3.0)	(5)	0.5
Adjustment in respect of prior years	45	(2.8)	146	(16.6)
Permanent disallowables	36	(2.2)	37	(4.3)
Non-deductible customer compensation expense	2	(0.1)	(6)	0.6
Impairment of goodwill	—	—	219	(25.1)
Items decreasing the tax charge in 2020:				
8% surcharge on UK banking profits	(100)	6.2	(34)	3.9
Local taxes and overseas withholding taxes	(75)	4.6	16	(1.8)
Non-taxable income and gains subject to tax at a lower rate	(55)	3.4	(94)	10.8
Other	(26)	1.6	22	(2.4)
Change in tax rates	(26)	1.6	(16)	1.8
Year ended 31 Dec	(136)	8.4	119	(13.6)

The effective tax rate for the year was 8.4% (2019: (13.6)%), reflecting a tax credit arising on a loss before tax. The largest adjusting item in 2020 is the movement in unrecognised deferred tax of £321m, which mainly relates to the write-off and ongoing non-recognition of a net deferred tax asset in France. Management does not consider there to be sufficient evidence of future taxable profits to support recognition of this net deferred tax asset. The effective tax rate for 2019 was distorted by non-recurring, non-deductible goodwill impairments.

Accounting for taxes involves some estimation because the tax law is uncertain and the application requires a degree of judgement, which authorities may dispute. Liabilities are recognised based on best estimates of the probable outcome, taking into account external advice where appropriate. We do not expect significant liabilities to arise in excess of the amounts provided. The current tax asset includes an estimate of tax recoverable from HMRC with regards to past dividends received from EU resident companies. The ultimate resolution of this matter involves litigation for which the outcome is uncertain.

Movement of deferred tax assets and liabilities

The group	Retirement benefits	Loan impairment provisions	Property, plant and equipment	FVOCI investments	Goodwill and intangibles	Relief for tax losses	Other[1, 2]	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Assets	82	41	172	—	142	82	2	521
Liabilities	—	(6)	(6)	(123)	—	—	—	(135)
At 1 Jan 2020	82	35	166	(123)	142	82	2	386
Income statement	(37)	22	(1)	(3)	15	351	(16)	331
Other comprehensive income	18	—	—	(40)	—	(15)	(103)	(140)
At 31 Dec 2020	63	57	165	(166)	157	418	(117)	577
Assets[3]	63	66	171	—	157	418	—	875
Liabilities[3]	—	(9)	(6)	(166)	—	—	(117)	(298)
Assets	92	32	281	—	174	42	—	621
Liabilities	—	(4)	(9)	(73)	—	—	(24)	(110)
At 1 Jan 2019	92	28	272	(73)	174	42	(24)	511
Income statement	(30)	7	(106)	—	(32)	41	(102)	(222)
Other comprehensive income	20	—	—	(50)	—	(1)	128	97
At 31 Dec 2019	82	35	166	(123)	142	82	2	386
Assets[3]	82	41	172	—	142	82	2	521
Liabilities[3]	—	(6)	(6)	(123)	—	—	—	(135)

1 *Other deferred tax assets and liabilities relate to share-based payments and cash flow hedges. Deferred tax recognised in respect of losses is shown separately in 2020. Comparatives are restated.*

2 *The deferred tax asset recognised in respect of losses mainly relates to the UK and US State tax losses of the New York branch of HSBC Bank plc; both are supported by future profit forecasts.*

3 *After netting off balances within countries, the balances as disclosed in the accounts are as follows: deferred tax assets £597m (2019: £408m); and deferred tax liabilities £20m (2019: £22m).*

Management has assessed the likely availability of future taxable profits against which to recover the deferred tax assets of the Company and the Group, taking into consideration the reversal of existing taxable temporary differences, past business performance and forecasts of future business performance. Management is satisfied that although the Company and Group recorded a UK tax loss in the year which could not be recovered against profits of other entities within HSBC's UK tax group the aforementioned evidence is sufficient to support recognition of all UK deferred tax assets. Deferred tax assets in the UK are supported by future profit forecasts for the whole of HSBC's UK tax group. This includes a number of companies which are not part of the HSBC Bank plc group, in particular HSBC UK Bank plc and its subsidiaries.

Movement of deferred tax assets and liabilities

The bank	Retirement benefits £m	Property, plant and equipment £m	Goodwill and intangibles £m	Relief for tax losses £m	Other[1,2] £m	Total £m
Assets[2]	**23**	**151**	**145**	**53**	**—**	**372**
Liabilities[2]	**—**	**—**	**—**	**—**	**(47)**	**(47)**
At 1 Jan 2020	**23**	**151**	**145**	**53**	**(47)**	**325**
Income statement	**(10)**	**11**	**11**	**377**	**(41)**	**348**
Other comprehensive income	**3**	**—**	**—**	**(14)**	**(116)**	**(127)**
At 31 Dec 2020	**16**	**162**	**156**	**416**	**(204)**	**546**
Assets[3]	**16**	**162**	**156**	**416**	**—**	**750**
Liabilities[3]	**—**	**—**	**—**	**—**	**(204)**	**(204)**
Assets	22	257	177	40	—	496
Liabilities	—	(2)	—	—	(49)	(51)
At 1 Jan 2019	22	255	177	40	(49)	445
Income statement	(25)	(104)	(32)	13	(74)	(222)
Other comprehensive income	26	—	—	—	76	102
At 31 Dec 2019	23	151	145	53	(47)	325
Assets[3]	23	151	145	53	—	372
Liabilities[3]	—	—	—	—	(47)	(47)

1 *Deferred tax recognised in respect of losses is shown separately in 2020. Comparatives are restated.*
2 *Other deferred tax assets and liabilities relate to fair value of own debt, loan impairment allowances, share-based payments and cash flow hedges.*
3 *The deferred tax asset recognised in respect of losses mainly relates to US State tax losses of the New York branch of HSBC Bank plc and losses in the UK; both are supported by future profit forecasts.*
4 *After netting off balances within countries, the balances as disclosed in the accounts are as follows: deferred tax assets £549m (2019: £327m) and deferred tax liabilities £3m (2019: £2m).*

Unrecognised deferred tax

The group

The amount of temporary differences, unused tax losses and tax credits for which no deferred tax asset is recognised in the balance sheet was £1,238m (2019: £695m). These amounts consist of unused tax losses, tax credits and temporary differences arising in the New York branch of HSBC Bank plc of £925m (2019: £675m) and in France of £294m (2019: £nil). Of the unrecognised losses, £88m expire within 10 years (2019: £234m), and the remainder expire after 10 years.

The bank

The amount of temporary differences, unused tax losses and tax credits for which no deferred tax asset is recognised in the balance sheet was £925m (2019: £675m). These amounts include unused tax losses, tax credits and temporary differences arising in the New York branch of HSBC Bank plc of £925m (2019: £675m). Of the unrecognised losses, £88m expire within 10 years (2019: £234m), and the remainder expire after 10 years.

There are no unrecognised deferred tax liabilities arising from the group's investments in subsidiaries and branches.

8 Dividends

Dividends to the parent company

	2020		2019	
	£ per share	£m	£ per share	£m
Dividends paid on ordinary shares				
In respect of previous year:				
– second interim dividend	**—**	**—**	0.51	406
– first special dividend	**—**	**—**	0.85	674
In respect of current year:				
– first special dividend	**—**	**—**	1.60	1,277
– second special dividend	**—**	**—**	0.54	430
Total	**—**	**—**	3.50	2,787
Dividends on preference shares classified as equity				
Dividend on HSBC Bank plc non-cumulative third dollar preference shares	**1.47**	**51**	1.47	51
Total	**1.47**	**51**	1.47	51
Total coupons on capital securities classified as equity		**212**		147
Dividends to parent		**263**		2,985

No dividend was declared on the ordinary share capital in respect of 2020 (2019: £1,707m).

Total coupons on capital securities classified as equity

	First call date	2020 £m	2019 £m
Undated Subordinated additional Tier 1 instruments			
– €1,900m	Dec 2020	**103**	97
– €235m	Jan 2022	**11**	12
– €300m	Mar 2023	**10**	10
– £555m	Mar 2023	**28**	28
– £500m	Nov 2024	**24**	—
– €250m	Nov 2024	**8**	—
– £431m	Dec 2024	**20**	—
– €200m	Jan 2025	**8**	—
		212	147

9 Segmental analysis

Basis of preparation

The Chief Executive, supported by the rest of the Executive Committee, is considered the Chief Operating Decision Maker ('CODM') for the purposes of identifying the group's reportable segments. 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 a reconciliation between reported and adjusted results as required by IFRSs.

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 functions to the extent that they can be meaningfully attributed to businesses and countries. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity. Costs that are not allocated to 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 for the businesses are presented in Corporate Centre.

Change in reportable segments

Effective from the second quarter of 2020, we made the following realignments within our internal reporting to the Executive Committee and CODM:

- We simplified our matrix organisational structure by combining Global Private Banking and Retail Banking and Wealth Management to form Wealth and Personal Banking.
- We reallocated our reporting of Balance Sheet Management from Corporate Centre to the global businesses.

Comparative data have been re-presented accordingly.

Our businesses

HSBC provides a comprehensive range of banking and related financial services to its customers in its three global businesses. The products and services offered to customers are organised by these global businesses. Global businesses are our reportable segments under IFRS 8 'Operating Segments'.

Our operating model consists of three businesses and a Corporate Centre, all supported by HSBC Operations, HSBC Services and Technology, and 11 functions, of which risk, finance, compliance, legal, marketing and human resources are included.

By operating segment:

Adjusted profit before tax

	2020				
	WPB	CMB	GBM	Corporate Centre	Total
	£m	£m	£m	£m	£m
Net operating income/(expense) before change in expected credit losses and other credit impairment charges[1]	**1,035**	**1,133**	**3,973**	**(144)**	**5,997**
– external	**1,061**	**1,193**	**4,468**	**(725)**	**5,997**
– inter-segment	**(26)**	**(60)**	**(495)**	**581**	**—**
– *of which: net interest income/(expense)*	***664***	***686***	***601***	***(53)***	***1,898***
Change in expected credit losses and other credit impairment charges	**(39)**	**(322)**	**(451)**	**4**	**(808)**
Net operating income/(expense)	**996**	**811**	**3,522**	**(140)**	**5,189**
Total operating expenses	**(1,128)**	**(659)**	**(3,499)**	**(86)**	**(5,372)**
Operating profit/(loss)	**(132)**	**152**	**23**	**(226)**	**(183)**
Share of loss in associates and joint ventures	**—**	**—**	**—**	**(1)**	**(1)**
Adjusted profit/(loss) before tax	**(132)**	**152**	**23**	**(227)**	**(184)**
	%	**%**	**%**		**%**
Adjusted cost efficiency ratio	**109.0**	**58.2**	**88.1**		**89.6**

	2019				
Net operating income/(expense) before change in expected credit losses and other credit impairment charges[1]	1,357	1,212	3,773	(273)	6,069
– external	1,392	1,260	4,244	(827)	6,069
– inter-segment	(35)	(48)	(471)	554	—
– *of which: net interest income/(expense)*	*746*	*761*	*770*	*(794)*	*1,483*
Change in expected credit losses and other credit impairment charges	(3)	(109)	(41)	29	(124)
Net operating income/(expense)	1,354	1,103	3,732	(244)	5,945
Total operating expenses	(1,077)	(646)	(3,531)	(78)	(5,332)
Operating profit/(loss)	277	457	201	(322)	613
Share of profit in associates and joint ventures	—	—	—	(10)	(10)
Adjusted profit/(loss) before tax	277	457	201	(332)	603
	%	%	%		%
Adjusted cost efficiency ratio	79.4	53.3	93.6		87.9

1 Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.
2 A change in reportable segments was made in 2020. Comparative data have been re-presented accordingly.

External net operating income is attributed to countries on the basis of the location of the branch responsible for reporting the results or advancing the funds:

	2020	2019
	£m	£m
External net operating income by country[1]	**5,900**	6,044
– United Kingdom	**2,914**	2,987
– France	**1,528**	1,653
– Germany	**814**	710
– Other countries	**644**	694

Adjusted results reconciliation

	2020			2019		
	Adjusted	Significant items	Reported	Adjusted	Significant items	Reported
	£m	£m	£m	£m	£m	£m
Revenue[1]	**5,997**	**(97)**	**5,900**	6,069	(25)	6,044
ECL	**(808)**	**—**	**(808)**	(124)	—	(124)
Operating expenses	**(5,372)**	**(1,333)**	**(6,705)**	(5,332)	(1,450)	(6,782)
Share of (loss)/profit in associates and joint ventures	**(1)**	**—**	**(1)**	(10)	—	(10)
(Loss)/profit before tax	**(184)**	**(1,430)**	**(1,614)**	603	(1,475)	(872)

1 Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.

Adjusted profit reconciliation

	2020 £m	2019 £m
Year ended 31 Dec		
Adjusted profit before tax	**(184)**	603
Significant items	**(1,430)**	(1,475)
– UK customer redress programmes	**—**	(1)
– debit valuation adjustment on derivative contracts	**(2)**	(27)
– fair value movement on non-qualifying hedges	**(1)**	3
– cost of structural reform	**—**	(87)
– restructuring and other related costs	**(773)**	(204)
– settlements and provisions in connection with legal and regulatory matters	**(9)**	(7)
– impairment of goodwill	**—**	(1,152)
– impairment of other intangible assets	**(645)**	—
Reported (loss)/profit before tax	**(1,614)**	(872)

Balance sheet by business

	WPB £m	CMB £m	GBM £m	Corporate Centre £m	Total £m
31 Dec 2020					
Loans and advances to customers	**28,638**	**25,809**	**46,867**	**177**	**101,491**
Customer accounts	**41,258**	**48,368**	**105,346**	**212**	**195,184**
31 Dec 2019[1]					
Loans and advances to customers	26,910	27,241	54,063	177	108,391
Customer accounts	39,421	38,332	99,224	259	177,236

1 *A change in reportable segments was made in 2020. Comparative data have been re-presented accordingly.*

10 Trading assets

	The group		The bank	
	2020 £m	2019 £m	2020 £m	2019 £m
Treasury and other eligible bills	**3,273**	1,991	**2,507**	780
Debt securities	**31,399**	40,481	**20,035**	28,330
Equity securities	**36,775**	38,292	**35,810**	36,696
Trading securities	**71,447**	80,764	**58,352**	65,806
Loans and advances to banks[1]	**5,058**	6,371	**4,207**	5,611
Loans and advances to customers[1]	**10,471**	11,114	**10,476**	11,868
At 31 Dec	**86,976**	98,249	**73,035**	83,285

1 *Loans and advances to banks and customers include reverse repos, stock borrowing and other amounts.*

11 Fair values of financial instruments carried at fair value

Control framework

Fair values are subject to a control framework designed to ensure that they are either determined or validated by a function independent of the risk taker.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets, the group will source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable. The factors that are considered in this regard are, *inter alia*:

- the extent to which prices may be expected to represent genuine traded or tradable prices;
- the degree of similarity between financial instruments;
- the degree of consistency between different sources;
- the process followed by the pricing provider to derive the data;
- the elapsed time between the date to which the market data relates and the balance sheet date; and
- the manner in which the data was sourced.

For fair values determined using valuation models, the control framework may include, as applicable, development or validation by independent support functions of: (i) the logic within valuation models; (ii) the inputs to these models; (iii) any adjustments required outside the valuation models; and (iv) where possible, model outputs. Valuation models are subject to a process of due diligence and calibration before becoming operational and are calibrated against external market data on an ongoing basis.

Financial liabilities measured at fair value

In certain circumstances, the group records its own debt in issue at fair value, based on quoted prices in an active market for the specific instrument. When quoted market prices are unavailable, the own debt in issue is valued using valuation techniques, the inputs for which are based either on quoted prices in an inactive market for the instrument or are estimated by comparison with quoted prices in an active market for similar instruments. In both cases, the fair value includes the effect of applying the credit spread that is appropriate to the group's liabilities.

Structured notes issued and certain other hybrid instruments are included within trading liabilities and are measured at fair value. The spread applied to these instruments is derived from the spreads at which the group issues structured notes.

Fair value hierarchy

Fair values of financial assets and liabilities are determined according to the following hierarchy:

- Level 1 – valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets that HSBC can access at the measurement date.
- Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

Financial instruments carried at fair value and bases of valuation

	2020				2019[1]			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
The group	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m
Recurring fair value measurements at 31 Dec								
Assets								
Trading assets	**60,890**	**24,475**	**1,611**	**86,976**	69,292	25,754	3,203	98,249
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**5,658**	**7,095**	**3,467**	**16,220**	4,972	8,303	3,737	17,012
Derivatives	**1,668**	**197,568**	**1,974**	**201,210**	869	162,032	1,637	164,538
Financial investments	**38,347**	**11,829**	**1,635**	**51,811**	32,729	12,168	1,554	46,451
Liabilities								
Trading liabilities	**29,847**	**14,264**	**118**	**44,229**	37,195	10,791	40	48,026
Financial liabilities designated at fair value	**928**	**38,714**	**1,150**	**40,792**	7,222	33,477	943	41,642
Derivatives	**1,058**	**195,078**	**3,096**	**199,232**	672	158,730	1,681	161,083
The bank								
Recurring fair value measurements at 31 Dec								
Assets								
Trading assets	**49,650**	**21,802**	**1,583**	**73,035**	56,229	23,858	3,198	83,285
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**327**	**1,227**	**311**	**1,865**	279	2,326	524	3,129
Derivatives	**1,168**	**178,866**	**2,032**	**182,066**	685	150,152	1,659	152,496
Financial investments	**27,011**	**1,603**	**141**	**28,755**	25,023	1,480	58	26,561
Liabilities								
Trading liabilities	**13,681**	**12,889**	**103**	**26,673**	17,393	9,594	27	27,014
Financial liabilities designated at fair value	**—**	**24,036**	**651**	**24,687**	—	23,980	683	24,663
Derivatives	**960**	**176,785**	**3,287**	**181,032**	533	147,145	1,929	149,607

1 Balances from 2019 have been re-presented to disclose a consistent application of the levelling methodology primarily for private debt and equity and real-estate investments during the period. The result of this is a total of £13.6bn moving from Level 1, and £11.4bn and £2.2bn into Levels 2 and 3 respectively. The change has impacted the disclosure for 'Financial investments' and 'Financial assets designated and otherwise mandatorily measured at fair value'.

Transfers between Level 1 and Level 2 fair values

	Assets				Liabilities		
	Financial investments	**Trading assets**	**Designated and otherwise mandatorily measured at fair value through profit or loss[2]**	**Derivatives**	**Trading liabilities**	**Designated at fair value**	**Derivatives**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 31 Dec 2020							
Transfers from Level 1 to Level 2	**200**	**915**	**—**	**—**	**77**	**6,013**	**—**
Transfers from Level 2 to Level 1	**1,557**	**1,557**	**71**	**—**	**304**	**—**	**——**
At 31 Dec 2019[1]							
Transfers from Level 1 to Level 2	2,055	1,336	—	18	194	—	—
Transfers from Level 2 to Level 1	546	552	141	85	106	—	90

1 Balances from 2019 have been re-presented to disclose a consistent application of the levelling methodology.

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 normally attributable to observability of valuation inputs and price transparency. In the current year the majority of the transfer relates to the reclassification of certain positions where improved data is now available.

Fair value adjustments

Fair value adjustments are adopted when the group determines there are additional factors considered by market participants that are not incorporated within the valuation model. Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement, such as when models are enhanced and fair value adjustments may no longer be required.

Global Banking and Markets fair value adjustments

	2020		2019	
	GBM	Corporate Centre	GBM	Corporate Centre
	£m	£m	£m	£m
Type of adjustment				
Risk-related	**647**	**16**	663	12
– bid-offer	**252**	**—**	244	—
– uncertainty	**60**	**1**	58	—
– credit valuation adjustment	**211**	**15**	192	12
– debt valuation adjustment	**(40)**	**—**	(41)	—
– funding fair value adjustment	**151**	**—**	191	—
– other	**13**	**—**	19	—
Model-related	**47**	**—**	47	—
– model limitation	**44**	**—**	45	—
– other	**3**	**—**	2	—
Inception profit (Day 1 P&L reserves)	**60**	**—**	42	—
At 31 Dec	**754**	**16**	752	12

Bid-offer

IFRS 13 'Fair value measurement' requires use of the price within the bid-offer spread that is most representative of fair value. Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the extent to which bid-offer costs would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of or unwinding the position.

Uncertainty

Certain model inputs may be less readily determinable from market data, and/or the choice of model itself may be more subjective. In these circumstances, an adjustment may be necessary to reflect the likelihood that market participants would adopt more conservative values for uncertain parameters and/or model assumptions than those used in the valuation model.

Credit and debit valuation adjustments

The CVA is an adjustment to the valuation of over-the-counter ('OTC') derivative contracts to reflect the possibility that the counterparty may default, and that the group may not receive the full market value of the transactions.

The DVA is an adjustment to the valuation of OTC derivative contracts to reflect the possibility that HSBC may default, and that it may not pay the full market value of the transactions.

HSBC calculates a separate CVA and DVA for each legal entity, and for each counterparty to which the entity has exposure. With the exception of central clearing parties, all third-party counterparties are included in the CVA and DVA calculations, and these adjustments are not netted across Group's entities.

HSBC calculates the CVA by applying the probability of default ('PD') of the counterparty, conditional on the non-default of HSBC, to HSBC's expected positive exposure to the counterparty and multiplying the result by the loss expected in the event of default.

Conversely, HSBC calculates the DVA by applying the PD of HSBC, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to HSBC and multiplying the result by the proportional loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

For most products, HSBC uses a simulation methodology, which incorporates a range of potential exposures over the life of the portfolio, to calculate the expected positive exposure to a counterparty. The simulation methodology includes credit mitigants, such as counterparty netting agreements and collateral agreements with the counterparty.

The methodologies do not, in general, account for 'wrong-way risk', which arises when the underlying value of the derivative prior to any CVA is positively correlated to the PD of the counterparty. When there is significant wrong-way risk, a trade-specific approach is applied to reflect this risk in the valuation.

Funding fair value adjustment

The FFVA is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. The expected future funding exposure is calculated by a simulation methodology, where available, and is adjusted for events that may terminate the exposure, such as the default of HSBC or the counterparty. The FFVA and DVA are calculated independently.

Model limitation

Models used for portfolio valuation purposes may be based upon a simplified set of assumptions that do not capture all current and future material market characteristics. In these circumstances, model limitation adjustments are adopted.

Inception profit (Day 1 P&L reserves)

Inception profit adjustments are adopted when the fair value estimated by a valuation model is based on one or more significant unobservable inputs. The accounting for inception profit adjustments is discussed in Note 1.

Fair value valuation bases

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

	Assets					Liabilities			
	Financial Investments	Held for trading	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Total	Held for trading	Designated at fair value	Derivatives	Total
The group	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Private equity including strategic investments	**75**	**3**	**3,153**	**—**	**3,231**	**3**	**—**	**—**	**3**
Asset-backed securities	**847**	**372**	**18**	**—**	**1,237**	**—**	**—**	**—**	**—**
Structured notes	**—**	**—**	**—**	**—**	**—**	**21**	**1,147**	**—**	**1,168**
Derivatives	**—**	**—**	**—**	**1,974**	**1,974**	**—**	**—**	**3,095**	**3,095**
Other portfolios	**713**	**1,236**	**296**	**—**	**2,245**	**94**	**3**	**1**	**98**
At 31 Dec 2020	**1,635**	**1,611**	**3,467**	**1,974**	**8,687**	**118**	**1,150**	**3,096**	**4,364**
Private equity including strategic investments	66	3	3,300	—	3,369	3	—	—	3
Asset-backed securities	578	694	21	—	1,293	—	—	—	—
Structured notes	—	2	—	—	2	35	943	—	978
Derivatives	—	—	—	1,637	1,637	—	—	1,677	1,677
Other portfolios	910	2,504	416	—	3,830	2	—	4	6
At 31 Dec 2019 [1]	1,554	3,203	3,737	1,637	10,131	40	943	1,681	2,664

1 *Balances from 2019 have been re-presented to disclose a consistent application of the levelling methodology. The result of this is an increase of £2.2bn of assets in Level 3; private equity including strategic investments increased by £1.2bn and other portfolios by £1bn.*

The bank									
Private equity including strategic investments	**56**	**—**	**300**	**—**	**356**	**—**	**—**	**—**	**—**
Asset-backed securities	**85**	**372**	**—**	**—**	**457**	**—**	**—**	**—**	**—**
Structured notes	**—**	**—**	**—**	**—**	**—**	**9**	**651**	**—**	**660**
Derivatives	**—**	**—**	**—**	**2,032**	**2,032**	**—**	**—**	**3,286**	**3,286**
Other portfolios	**—**	**1,211**	**11**	**—**	**1,222**	**94**	**—**	**1**	**95**
At 31 Dec 2020	**141**	**1,583**	**311**	**2,032**	**4,067**	**103**	**651**	**3,287**	**4,041**
Private equity including strategic investments	54	—	524	—	578	—	—	—	—
Asset-backed securities	4	693	—	—	697	—	—	—	—
Structured notes	—	1	—	—	1	25	683	—	708
Derivatives	—	—	—	1,659	1,659	—	—	1,919	1,919
Other portfolios	—	2,504	—	—	2,504	2	—	10	12
At 31 Dec 2019	58	3,198	524	1,659	5,439	27	683	1,929	2,639

Level 3 instruments are present in both ongoing and legacy businesses. Loans held for securitisation, certain derivatives and predominantly all Level 3 Asset-backed securities are legacy positions. HSBC has the capability to hold these positions.

Private equity including strategic investments

The investment's fair value is estimated: on the basis of an analysis of the investee's financial position and results, risk profile, prospects and other factors; by reference to market valuations for similar entities quoted in an active market; the price at which similar companies have changed ownership; or from published net asset values ('NAVs') received. If necessary, adjustments are made to the NAV of funds to obtain the best estimate of fair value.

Asset-backed securities

While quoted market prices are generally used to determine the fair value of these securities, valuation models are used to substantiate the reliability of the limited market data available and to identify whether any adjustments to quoted market prices are required. For certain ABSs, such as residential mortgage-backed securities, the valuation uses an industry standard model with assumptions relating to prepayment speeds, default rates and loss severity based on collateral type, and performance, as appropriate. The valuations output is benchmarked for consistency against observable data for securities of a similar nature.

Structured notes

The fair value of Level 3 structured notes is derived from the fair value of the underlying debt security, and the fair value of the embedded derivative is determined as described in the paragraph below on derivatives. These structured notes comprise principally equity-linked notes, issued by HSBC, which provide the counterparty with a return linked to the performance of equity securities and other portfolios. Examples of the unobservable parameters include long-dated equity volatilities and correlations between equity prices, and interest and foreign exchange rates.

Derivatives

OTC derivative valuation models calculate the present value of expected future cash flows, based upon 'no-arbitrage' principles. For many vanilla derivative products, the modelling approaches used are standard across the industry. For more complex derivative products, there may be some differences in market practice. Inputs to valuation models are determined from observable market data, wherever possible, including prices available from exchanges, dealers, brokers or providers of consensus pricing. Certain inputs may not be observable in the market directly, but can be determined from observable prices through model calibration procedures or estimated from historical data or other sources.

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

Movement in Level 3 financial instruments

	Assets				Liabilities		
	Financial Investments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading liabilities	Designated at fair value	Derivatives
The group	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 Jan 2020[1]	**1,554**	**3,203**	**3,737**	**1,637**	**40**	**943**	**1,681**
Total gains/(losses) recognised in profit or loss	**14**	**3**	**95**	**1,582**	**237**	**87**	**2,644**
– net income from financial instruments held for trading or managed on a fair value basis	**—**	**3**	**—**	**1,582**	**237**	**—**	**2,644**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**—**	**—**	**95**	**—**	**—**	**87**	**—**
– gains less losses from financial investments at fair value through other comprehensive income	**14**	**—**	**—**	**—**	**—**	**—**	**—**
Total gains/(losses) recognised in other comprehensive income ('OCI')	**21**	**56**	**(12)**	**33**	**1**	**23**	**7**
– financial investments: fair value gains/(losses)	**58**	**–**	**2**	**—**	**—**	**—**	**—**
– exchange differences	**(37)**	**56**	**(14)**	**33**	**1**	**23**	**7**
Purchases	**294**	**442**	**1,061**	**—**	**53**	**—**	**—**
New issuances	**—**	**—**	**—**	**—**	**5**	**575**	**—**
Sales	**(525)**	**(791)**	**(1,435)**	**—**	**(198)**	**—**	**—**
Settlements	**(116)**	**(868)**	**(79)**	**(1,138)**	**(20)**	**(525)**	**(1,080)**
Transfers out	**(61)**	**(1,336)**	**(61)**	**(358)**	**(7)**	**(265)**	**(437)**
Transfers in	**454**	**902**	**161**	**218**	**7**	**312**	**281**
At 31 Dec 2020	**1,635**	**1,611**	**3,467**	**1,974**	**118**	**1,150**	**3,096**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2020	**—**	**(24)**	**43**	**505**	**(1)**	**(73)**	**1,171**
– trading income/(expense) excluding net interest income	**—**	**(24)**		**505**	**(1)**		**1,171**
– net income/(expense) from other financial instruments designated at fair value			**43**			**(73)**	
At 1 Jan 2019	1,392	3,552	3,282	2,080	46	990	1,463
Total gains/(losses) recognised in profit or loss	4	(104)	264	189	(3)	111	587
– net income from financial instruments held for trading or managed on a fair value basis	—	(104)	—	189	(3)	—	587
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	4	—	264	—	—	111	—
– gains less losses from financial investments at fair value through other comprehensive income	—	—	—	—	—	—	—
Total gains/(losses) recognised in other comprehensive income ('OCI')	13	(50)	(108)	(23)	(1)	(16)	(7)
– financial investments: fair value gains/(losses)	32	—	—	—	—	—	—
– exchange differences	(19)	(50)	(108)	(23)	(1)	(16)	(7)
Purchases	323	1,468	739	—	5	123	—
New issuances	—	120	—	—	4	686	—
Sales	(43)	(499)	(178)	—	(7)	(149)	—
Settlements	(123)	(598)	(252)	(98)	(5)	(450)	(51)
Transfers out	(180)	(1,029)	(10)	(610)	(8)	(366)	(372)
Transfers in	168	343	—	99	9	14	61
At 31 Dec 2019[1]	1,554	3,203	3,737	1,637	40	943	1,681
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2019	—	(17)	159	127	—	8	239
– trading income/(expense) excluding net interest income	—	(17)	—	127	—	—	239
– net income from other financial instruments designated at fair value	—	—	159	—	—	8	—

1 *Balances from 2019 have been re-presented to disclose a consistent application of the levelling methodology. The result of this is an increase of £2.2bn of assets in Level 3; financial investments increased by £0.9bn and Financial assets designated and otherwise mandatorily measured at fair value by £1.3bn.*

Movement in Level 3 financial instruments (continued)

	Assets				Liabilities		
	Financial Investments	Trading Assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading Liabilities	Designated at fair value	Derivatives
The bank	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 Jan 2020	**58**	**3,198**	**524**	**1,659**	**27**	**683**	**1,929**
Total gains/(losses) recognised in profit or loss	**2**	**5**	**44**	**2,076**	**235**	**(22)**	**2,749**
– net income from financial instruments held for trading or managed on a fair value basis	**—**	**5**	**—**	**2,076**	**235**	**—**	**2,749**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**—**	**—**	**44**	**—**	**—**	**(22)**	**—**
– gains less losses from financial investments at fair value through other comprehensive income	**2**	**—**	**—**	**—**	**—**	**—**	**—**
Total gains/(losses) recognised in other comprehensive income ('OCI')[2]	**(4)**	**55**	**5**	**2**	**—**	**—**	**—**
– exchange differences	**(4)**	**55**	**5**	**2**	**—**	**—**	**—**
Purchases	**—**	**403**	**282**	**—**	**52**	**—**	**—**
New issuances	**—**	**–**	**—**	**—**	**—**	**558**	**—**
Sales	**—**	**(749)**	**(542)**	**—**	**(198)**	**—**	**—**
Settlements	**(6)**	**(849)**	**—**	**(1,551)**	**(13)**	**(536)**	**(1,254)**
Transfers out	**—**	**(1,336)**	**(2)**	**(385)**	**(7)**	**(167)**	**(524)**
Transfers in	**91**	**856**	**—**	**231**	**7**	**135**	**387**
At 31 Dec 2020	**141**	**1,583**	**311**	**2,032**	**103**	**651**	**3,287**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2020	**—**	**(24)**	**10**	**523**	**(1)**	**(10)**	**1,287**
– trading income/(expense) excluding net interest income	**—**	**(24)**		**523**	**(1)**		**1,287**
– net income/(expense) from other financial instruments designated at fair value			**10**			**(10)**	
At 1 Jan 2019	72	3,586	670	2,133	19	728	1,719
Entity transfer out of the bank[1]	—	—	—	—	—	—	(40)
Total gains/(losses) recognised in profit or loss	—	(102)	92	188	3	105	679
– net income from financial instruments held for trading or managed on a fair value basis	—	(102)	—	188	3	—	679
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	92	—	—	105	—
– gains less losses from financial investments at fair value through other comprehensive income	—	—	—	—	—	—	—
Total gains/(losses) recognised in other comprehensive income ('OCI')[2]	—	(49)	(24)	—	—	—	—
– exchange differences	—	(49)	(24)	—	—	—	—
Purchases	—	1,466	10	—	—	—	—
New issuances	—	120	—	—	—	650	—
Sales	(3)	(499)	(2)	—	—	—	—
Settlements	(9)	(638)	(222)	(141)	5	(470)	(113)
Transfers out	(54)	(1,029)	—	(612)	(7)	(330)	(397)
Transfers in	52	343	—	91	7	—	81
At 31 Dec 2019	58	3,198	524	1,659	27	683	1,929
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2019	—	(18)	—	38	—	23	(285)
– trading income/(expense) excluding net interest income	—	(18)	—	38	—	—	(285)
– net income from other financial instruments designated at fair value	—	—	—	—	—	23	—

1 *Position transferred in the first quarter to the Spanish branch of HSBC Continental Europe (former HSBC France).*
2 *Included in 'financial investments: fair value gains/(losses)' in the current year and 'exchange differences' in the consolidated statement of comprehensive income.*

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions

	2020				2019[2]			
	Reflected in profit or loss		Reflected in OCI		Reflected in profit or loss		Reflected in OCI	
	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes
The group	£m	£m	£m	£m	£m	£m	£m	£m
Derivatives, trading assets and trading liabilities[1]	161	(145)	–	–	140	(131)	–	–
Designated and otherwise mandatorily measured at fair value through profit or loss	226	(226)	–	–	288	(211)	–	–
Financial investments	26	(26)	49	(49)	17	(17)	52	(55)
At 31 Dec	413	(397)	49	(49)	445	(359)	52	(55)
The bank								
Derivatives, trading assets and trading liabilities[1]	170	(154)	–	–	122	(113)	–	–
Designated and otherwise mandatorily measured at fair value through profit or loss	54	(54)	–	–	57	(55)	–	–
Financial investments	–	–	10	(10)	–	–	6	(6)
At 31 Dec	224	(208)	10	(10)	179	(168)	6	(6)

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

2 *Balances from 2019 have been re-presented to disclose a consistent application of the levelling methodology. The result of this is an increase in 'Financial investments reflected through OCI' and 'Financial assets designated and mandatorily measured at fair value reflected in profit or loss' of £35m and £75m respectively.*

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

	2020				2019[1]			
	Reflected in profit or loss		Reflected in OCI		Reflected in profit or loss		Reflected in OCI	
	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes
	£m	£m	£m	£m	£m	£m	£m	£m
Private equity including strategic investments	193	(195)	7	(7)	272	(195)	7	(7)
Asset-backed securities	64	(40)	5	(4)	48	(25)	1	–
Structured notes	23	(23)	–	–	6	(6)	–	–
Derivatives	73	(70)	–	–	62	(63)	–	–
Other portfolios	60	(69)	37	(38)	57	(70)	44	(48)
At Total	413	(397)	49	(49)	445	(359)	52	(55)

1 *Balances from 2019 have been re-presented to disclose a consistent application of the levelling methodology. The result of this is an increase in financial investments reflected through OCI of £35m due to other portfolios £44m, Private equity including strategic investments £7m and Asset-backed securities £(16)m and increase in Financial assets designated and mandatorily measured at fair value reflected in profit or loss of £75m due to Private equity including strategic investments £53m, Asset-backed securities £16m and other portfolios £6m.*

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

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

Key unobservable inputs to Level 3 financial instruments

Quantitative information about significant unobservable inputs in Level 3 valuations

	Fair value				2020		2019	
	Assets	Liabilities	Valuation techniques	Key unobservable inputs	Full range of inputs		Full range of inputs	
	£m	£m			Lower	Higher	Lower	Higher
Private equity including strategic investments	3,231	3	See below	See below	N/A	N/A	N/A	N/A
Asset-backed securities	1,237	–						
– CLO/CDO[1]	33	–	Market proxy	Bid quotes	–	100	–	100
– Other ABSs	1,204	–	Market proxy	Bid quotes	–	100	–	99
Structured notes	–	1,168						
– equity-linked notes	–	700	Model – Option model	Equity Volatility	0%	115%	5%	90%
				Correlation	(4)%	79%	31%	91%
– fund-linked notes	–	84	Model – Option model	Fund Volatility	0%	21%	5%	21%
– FX-linked notes	–	9	Model – Option model	FX Volatility	0%	23%	4%	23%
– other	–	375						
Derivatives	1,974	3,095						
– Interest rate derivatives:								
securitisation swaps	209	518	Model – Discounted cash flow	Constant Prepayment Rate	6%	6%	6%	7%
long-dated swaptions	387	271	Model – Option model	IR Volatility	6%	28%	8%	22%
other	356	280						
– FX derivatives:								
FX options	410	411	Model – Option model	FX Volatility	0%	43%	0%	25%
– Equity derivatives:								
long-dated single stock options	326	515	Model – Option model	Equity Volatility	7%	70%	4%	89%
other[2]	229	1,044						
– Credit derivatives:								
other	57	56						
Other portfolios	2,245	98						
– structured certificates	–	–	Model – Discounted cash flow	Credit Volatility	–%	–%	4%	4%
– other[3]	2,245	98						
At 31 Dec	8,687	4,364						

1 *Collateralised loan obligation/collateralised debt obligation.*
2 *Other Equity Derivatives consists mainly of Swaps and OTC Options.*
3 *Other consists of various instruments including investment in funds, repurchase agreement and bonds.*

Private equity including strategic investments

Given the bespoke nature of the analysis in respect of each holding, it is not practical to quote a range of key unobservable inputs.

Prepayment rates

Prepayment rates are a measure of the anticipated future speed at which a loan portfolio will be repaid in advance of the due date. They vary according to the nature of the loan portfolio and expectations of future market conditions, and may be estimated using a variety of evidence, such as prepayment rates implied from proxy observable security prices, current or historical prepayment rates and macroeconomic modelling.

Market proxy

Market proxy pricing may be used for an instrument when specific market pricing is not available, but there is evidence from instruments with common characteristics. In some cases, it might be possible to identify a specific proxy, but more generally evidence across a wider range of instruments will be used to understand the factors that influence current market pricing and the manner of that influence.

Volatility

Volatility is a measure of the anticipated future variability of a market price. It varies by underlying reference market price, and by strike and maturity of the option.

Certain volatilities, typically those of a longer-dated nature, are unobservable and estimated from observable data. The range of unobservable volatilities reflects the wide variation in volatility inputs by reference market price. The core range is significantly narrower than the full range because these examples with extreme volatilities occur relatively rarely within the HSBC portfolio.

Correlation

Correlation is a measure of the inter-relationship between two market prices, and is expressed as a number between minus one and one. It is used to value more complex instruments where the payout is dependent upon more than one market price. There is a wide range of instruments for which correlation is an input, and consequently a wide range of both same-asset correlations and cross-asset correlations is used. In general, the range of same-asset correlations will be narrower than the range of cross-asset correlations.

Unobservable correlations may be estimated based upon a range of evidence, including consensus pricing services, HSBC trade prices, proxy correlations and examination of historical price relationships. The range of unobservable correlations quoted in the table reflects the wide variation in correlation inputs by market price pair.

Credit spread

Credit spread is the premium over a benchmark interest rate required by the market to accept lower credit quality. In a discounted cash flow model, the credit spread increases the discount factors applied to future cash flows, thereby reducing the value of an asset. Credit spreads may be implied from market prices and may not be observable in more illiquid markets.

Inter-relationships between key unobservable inputs

Key unobservable inputs to Level 3 financial instruments may not be independent of each other. As described above, market variables may be correlated. This correlation typically reflects the manner in which different markets tend to react to macroeconomic or other events. Furthermore, the effect of changing market variables on the HSBC portfolio will depend on HSBC's net risk position in respect of each variable.

12 Fair values of financial instruments not carried at fair value

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

		Fair value			
	Carrying amount	Quoted market price Level 1	Observable inputs Level 2	Significant unobservable inputs Level 3	Total
The group	**£m**	**£m**	**£m**	**£m**	**£m**
At 31 Dec 2020					
Assets					
Loans and advances to banks	**12,646**	**—**	**12,649**	**—**	**12,649**
Loans and advances to customers	**101,491**	**—**	**—**	**101,584**	**101,584**
Reverse repurchase agreements – non-trading	**67,577**	**—**	**67,577**	**—**	**67,577**
Financial investments – at amortised cost	**15**	**—**	**7**	**7**	**14**
Liabilities					
Deposits by banks	**34,305**	**—**	**34,249**	**—**	**34,249**
Customer accounts	**195,184**	**—**	**195,076**	**104**	**195,180**
Repurchase agreements – non-trading	**34,903**	**—**	**34,903**	**—**	**34,903**
Debt securities in issue	**17,371**	**—**	**17,094**	**273**	**17,367**
Subordinated liabilities	**13,764**	**—**	**14,638**	**—**	**14,638**
At 31 Dec 2019					
Assets					
Loans and advances to banks	11,467	—	11,459	18	11,477
Loans and advances to customers	108,391	—	—	108,526	108,526
Reverse repurchase agreements – non-trading	85,756	—	85,756	—	85,756
Financial investments – at amortised cost	13	—	6	7	13
Liabilities					
Deposits by banks	23,991	—	23,978	—	23,978
Customer accounts	177,236	—	177,170	113	177,283
Repurchase agreements – non-trading	49,385	—	49,385	—	49,385
Debt securities in issue	25,039	—	25,039	—	25,039
Subordinated liabilities	13,182	—	13,638	—	13,638

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

		Fair value			
	Carrying amount	Quoted market price Level 1	Observable inputs Level 2	Significant unobservable inputs Level 3	Total
The bank	**£m**	**£m**	**£m**	**£m**	**£m**
At 31 Dec 2020					
Assets					
Loans and advances to banks	**8,063**	**—**	**8,064**	**—**	**8,064**
Loans and advances to customers	**43,241**	**—**	**—**	**43,222**	**43,222**
Reverse repurchase agreements – non-trading	**50,137**	**—**	**50,137**	**—**	**50,137**
Financial investments – at amortised cost[1]	**2,214**	**—**	**2,246**	**—**	**2,246**
Liabilities					
Deposits by banks	**17,484**	**—**	**17,483**	**—**	**17,483**
Customer accounts	**119,974**	**—**	**119,974**	**—**	**119,974**
Repurchase agreements – non-trading	**26,996**	**—**	**26,996**	**—**	**26,996**
Debt securities in issue	**15,356**	**—**	**15,356**	**—**	**15,356**
Subordinated liabilities	**13,360**	**—**	**14,160**	**—**	**14,160**
At 31 Dec 2019					
Assets					
Loans and advances to banks	9,522	—	9,518	4	9,522
Loans and advances to customers	49,926	—	—	50,380	50,380
Reverse repurchase agreements – non-trading	50,736	—	50,737	—	50,737
Financial investments – at amortised cost	—	—	—	—	—
Liabilities					
Deposits by banks	16,356	—	16,356	—	16,356
Customer accounts	109,040	—	109,039	—	109,039
Repurchase agreements – non-trading	36,327	—	36,327	—	36,327
Debt securities in issue	15,038	—	15,038	—	15,038
Subordinated liabilities	12,783	—	13,359	—	13,359

1 *It relates to Senior Non-Preferred debt issued by HSBC Continental Europe to comply with Single Resolution Board requirements on Minimum Required Eligible Liabilities.*

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

Valuation

Fair value is an estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It does not reflect the economic benefits and costs that HSBC expects to flow from an instrument's cash flow over its expected future life. Our valuation methodologies and assumptions in determining fair values for which no observable market prices are available may differ from those of other companies.

Loans and advances to banks and customers

To determine the fair value of loans and advances to banks and customers, loans are segregated, as far as possible, into portfolios of similar characteristics. Fair values are based on observable market transactions, when available. When they are unavailable, fair values are estimated using valuation models incorporating a range of input assumptions. These assumptions may include: value estimates from third-party brokers reflecting over-the-counter trading activity; forward-looking discounted cash flow models, taking account of expected customer prepayment rates, using assumptions that HSBC believes are consistent with those that would be used by market participants in valuing such loans; new business rates estimates for similar loans; and trading inputs from other market participants including observed primary and secondary trades. From time to time, we may engage a third-party valuation specialist to measure the fair value of a pool of loans.

The fair value of loans reflects expected credit losses at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans, and the fair value effect of repricing between origination and the balance sheet date. For credit impaired loans, fair value is estimated by discounting the future cash flows over the time period they are expected to be recovered.

Financial investments

The fair values of listed financial investments are determined using bid market prices. The fair values of unlisted financial investments are determined using valuation techniques that incorporate the prices and future earnings streams of equivalent quoted securities.

Deposits by banks and customer accounts

The fair values of on-demand deposits are approximated by their carrying value. For deposits with longer-term maturities, fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities.

Debt securities in issue and subordinated liabilities

Fair values are determined using quoted market prices at the balance sheet date where available, or by reference to quoted market prices for similar instruments. When quoted market prices are unavailable, these instruments are valued using valuation techniques, the inputs for which are derived from observable market data and, where relevant, from assumptions in respect of unobservable inputs.

Repurchase and reverse repurchase agreements – non-trading

Fair values approximate carrying amounts as balances are generally short dated.

13 Financial assets designated and otherwise mandatorily measured at fair value through profit or loss

	The group		The bank	
	2020	2019	**2020**	2019
	Designated at fair value and otherwise mandatorily measured at fair value	Designated at fair value and otherwise mandatorily measured at fair value	**Designated at fair value and otherwise mandatorily measured at fair value**	Designated at fair value and otherwise mandatorily measured at fair value
	£m	£m	**£m**	£m
Securities	**14,620**	14,313	**398**	716
– debt securities	**2,918**	2,867	**116**	86
– equity securities	**11,702**	11,446	**282**	630
Loans and advances to banks and customers	**1,285**	2,456	**1,152**	2,170
Other	**315**	243	**315**	243
At 31 Dec	**16,220**	17,012	**1,865**	3,129

14 Derivatives

Notional contract amounts and fair values of derivatives by product contract type

	Notional contract amount		Fair value – Assets			Fair value – Liabilities		
	Trading	Hedging	Trading	Hedging	Total	Trading	Hedging	Total
The group	£m	£m	£m	£m	£m	£m	£m	£m
Foreign exchange	**4,378,792**	**5,297**	**60,341**	**191**	**60,532**	**(59,990)**	**(41)**	**(60,031)**
Interest rate	**8,922,892**	**40,258**	**155,752**	**619**	**156,371**	**(151,623)**	**(488)**	**(152,111)**
Equities	**481,638**	**—**	**10,857**	**—**	**10,857**	**(12,598)**	**—**	**(12,598)**
Credit	**198,306**	**—**	**1,874**	**—**	**1,874**	**(2,672)**	**—**	**(2,672)**
Commodity and other	**82,130**	**—**	**1,572**	**—**	**1,572**	**(1,816)**	**—**	**(1,816)**
Offset (Note 28)					**(29,996)**			**29,996**
At 31 Dec 2020	**14,063,758**	**45,555**	**230,396**	**810**	**201,210**	**(228,699)**	**(529)**	**(199,232)**
Foreign exchange	4,671,667	5,377	48,994	240	49,234	(48,556)	(102)	(48,658)
Interest rate	9,192,428	39,928	120,867	476	121,343	(115,308)	(482)	(115,790)
Equities	816,306	—	7,397	—	7,397	(9,437)	—	(9,437)
Credit	247,107	—	3,684	—	3,684	(4,322)	—	(4,322)
Commodity and other	61,974	—	974	—	974	(970)	—	(970)
Offset (Note 28)					(18,094)			18,094
At 31 Dec 2019	14,989,482	45,305	181,916	716	164,538	(178,593)	(584)	(161,083)

The notional contract amounts of derivatives held for trading purposes and derivatives designated in hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Derivative asset and liability fair values increased during 2020, driven by yield curve movements and changes in foreign exchange rates.

	Notional contract amount		Fair value – Assets			Fair value – Liabilities		
	Trading	Hedging	Trading	Hedging	Total	Trading	Hedging	Total
The bank	£m	£m	£m	£m	£m	£m	£m	£m
Foreign exchange	**4,329,503**	**5,059**	**58,925**	**178**	**59,103**	**(58,831)**	**(41)**	**(58,872)**
Interest rate	**7,019,211**	**25,135**	**132,021**	**691**	**132,712**	**(128,249)**	**(388)**	**(128,637)**
Equities	**467,114**	**—**	**10,441**	**—**	**10,441**	**(12,697)**	**—**	**(12,697)**
Credit	**195,578**	**—**	**1,849**	**—**	**1,849**	**(2,621)**	**—**	**(2,621)**
Commodity and other	**81,513**	**—**	**1,561**	**—**	**1,561**	**(1,805)**	**—**	**(1,805)**
Offset					**(23,600)**			**23,600**
At 31 Dec 2020	**12,092,919**	**30,194**	**204,797**	**869**	**182,066**	**(204,203)**	**(429)**	**(181,032)**
Foreign exchange	4,642,626	5,366	48,485	240	48,725	(48,293)	(101)	(48,394)
Interest rate	7,258,834	24,350	105,187	543	105,730	(100,001)	(393)	(100,394)
Equities	802,676	—	7,270	—	7,270	(9,433)	—	(9,433)
Credit	240,813	—	3,600	—	3,600	(4,219)	—	(4,219)
Commodity and other	62,013	—	975	—	975	(971)	—	(971)
Offset					(13,804)			13,804
At 31 Dec 2019	13,006,962	29,716	165,517	783	152,496	(162,917)	(494)	(149,607)

Use of derivatives

We undertake derivatives activity for three primary purposes: to create risk management solutions for clients, to manage the portfolio risks arising from client business, and to manage and hedge our own risks.

Trading derivatives

Most of the group's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities include market-making and risk management. Market-making entails quoting bid and offer prices to other market participants for the purpose of generating revenues based on spread and volume. Risk management activity is undertaken to manage the risk arising from client transactions, with the principal purpose of retaining client margin. Other derivatives classified as held for trading include non-qualifying hedging derivatives.

Substantially all of the group's derivatives entered into with subsidiaries are managed in conjunction with financial liabilities designated at fair value.

Derivatives valued using models with unobservable inputs

The difference between the fair value at initial recognition (the transaction price) and the value that would have been derived had the valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is in the following table:

Unamortised balance of derivatives valued using models with significant unobservable inputs

	The group		The bank	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Unamortised balance at 1 Jan	**42**	58	**40**	55
Deferral on new transactions	**105**	70	**103**	70
Recognised in the income statement during the year:	**(88)**	(85)	**(87)**	(85)
– amortisation	**(57)**	(43)	**(57)**	(43)
– subsequent to unobservable inputs becoming observable	**(2)**	–	**(2)**	–
– maturity, termination or offsetting derivative	**(28)**	(42)	**(28)**	(42)
– risk hedged	**(1)**	–	**–**	–
Exchange differences and other	**1**	(1)	**–**	–
Unamortised balance at 31 Dec[1]	**60**	42	**56**	40

1 *This amount is yet to be recognised in the consolidated income statement.*

Hedge accounting derivatives

The group applies hedge accounting to manage the following risks: interest rate and foreign exchange. The Report of the Directors – Risk presents more details on how these risks arise and how they are managed by the group.

Fair value hedges

The group enters into fixed-for-floating-interest-rate swaps to manage the exposure to changes in fair value due to movements in market interest rates on certain fixed rate financial instruments which are not measured at fair value through profit or loss, including debt securities held and issued.

Hedging instrument by hedged risk

	Hedging instrument				
		Carrying amount			
The group	**Notional amount[1]**	**Assets**	**Liabilities**	**Balance sheet presentation**	**Change in fair value[2]**
Hedged risk	**£m**	**£m**	**£m**		**£m**
Interest rate[3]	**29,737**	**617**	**(488)**	**Derivatives**	**(364)**
At 31 Dec 2020	**29,737**	**617**	**(488)**		**(364)**
Interest rate[3]	30,154	473	(479)	Derivatives	(173)
At 31 Dec 2019	30,154	473	(479)		(173)

1 *The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.*
2 *Used in effectiveness testing; comprising the full fair value change of the hedging instrument not excluding any component.*
3 *The hedged risk 'interest rate' includes inflation risk.*

Hedged item by hedged risk

	Hedged item						Ineffectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount[2]					
The group	**Assets**	**Liabilities**	**Assets**	**Liabilities**		**Change in fair value[1]**	**Recognised in profit and loss**	
Hedged risk	**£m**	**£m**	**£m**	**£m**	**Balance sheet presentation**	**£m**	**£m**	**Profit and loss presentation**
Interest rate[3]	**20,295**	**–**	**588**	**–**	**Financial assets at fair value through other comprehensive income**	**409**	**(14)**	**Net income from financial instruments held for trading or managed on a fair value basis**
	4	**–**	**2**	**–**	**Loans and advances to banks**	**2**		
	1,327	**–**	**23**	**–**	**Loans and advances to customers**	**15**		
	–	**576**	**–**	**108**	**Debt securities in issue**	**4**		
	–	**6,483**	**–**	**248**	**Subordinated liabilities and deposits by banks[4]**	**(80)**		
At 31 Dec 2020	**21,626**	**7,059**	**613**	**356**		**350**	**(14)**	

Hedged item by hedged risk (continued)

The group	Hedged item						Ineffectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount[2]					
	Assets	Liabilities	Assets	Liabilities		Change in fair value[1]	Recognised in profit and loss	Profit and loss presentation
Hedged risk	£m	£m	£m	£m	Balance sheet presentation	£m	£m	
	15,528	—	312	—	Financial assets at fair value through other comprehensive income	330		
	2	—	2	—	Loans and advances to banks	2		
Interest rate[3]	926	—	5	—	Loans and advances to customers	15	(1)	Net income from financial instruments held for trading or managed on a fair value basis
	—	821	—	102	Debt securities in issue	(9)		
	—	8,393	—	28	Subordinated liabilities and deposits by banks[4]	(165)		
At 31 Dec 2019	16,456	9,214	319	130		173	(1)	

1 *Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.*
2 *The accumulated amounts of fair value adjustments remaining in the statement of financial position for hedged items that have ceased to be adjusted for hedging gains and losses were £29m (2019: £(14)m) for 'Financial assets at fair value through other comprehensive income', is £nil (2019: £157m) for 'Deposits by banks' and £24m (2019: £26m) for 'Debt securities in issue'.*
3 *The hedged risk 'interest rate' includes inflation risk.*
4 *The notional amount of non-dynamic fair value hedges was £6,178m (2019: £8,177m) of which the weighted-average maturity is August 2024 and the weighted average swap rate is 0.82% (2019: 0.58%). £6,178m (2019: £5,970m) of these hedges are internal to HSBC Group and composed by internal funding between HSBC Holdings and the group.*

Hedging instrument by hedged risk

	Hedging instrument				
		Carrying amount			
The bank	**Notional amount[1]**	**Assets**	**Liabilities**	**Balance sheet presentation**	**Change in fair value[2]**
Hedged risk	**£m**	**£m**	**£m**		**£m**
Interest rate[3]	**20,725**	**689**	**(387)**	**Derivatives**	**(280)**
At 31 Dec 2020	**20,725**	**689**	**(387)**		**(280)**
Hedged risk	£m	£m	£m	£m	£m
Interest rate[3]	18,906	540	(392)	Derivatives	(110)
At 31 Dec 2019	18.906	540	(392)		(110)

1 *The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.*
2 *Used in effectiveness testing; comprising the full fair value change of the hedging instrument not excluding any component.*
3 *The hedged risk 'interest rate' includes inflation risk.*

Hedged item by hedged risk

The bank	**Hedged item**						**Ineffectiveness**	
	Carrying amount		**Accumulated fair value hedge adjustments included in carrying amount[2]**					
	Assets	**Liabilities**	**Assets**	**Liabilities**		**Change in fair value[1]**	**Recognised in profit and loss**	**Profit and loss presentation**
Hedged risk	**£m**	**£m**	**£m**	**£m**	**Balance sheet presentation**	**£m**	**£m**	
	13,711	**—**	**438**	**—**	**Financial assets at fair value through other comprehensive income**	**344**		
Interest rate[3]	**37**	**—**	**—**	**—**	**Loans and advances to customers**	**—**	**(17)**	**Net income from financial instruments held for trading or managed on a fair value basis**
	—	**576**	**—**	**108**	**Debt securities in issue**	**4**		
	—	**6,449**	**—**	**248**	**Subordinated liabilities and deposits by banks[4]**	**(85)**		
At 31 Dec 2020	**13,748**	**7,025**	**438**	**356**		**263**	**(17)**	

Hedged item by hedged risk (continued)

	Hedged item						Ineffectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount[2]			Change in fair value[1]	Recognised in profit and loss	
The bank	Assets	Liabilities	Assets	Liabilities				
Hedged risk	£m	£m	£m	£m	Balance sheet presentation	£m	£m	Profit and loss presentation
Interest rate[3]	11,881	—	214	—	Financial assets at fair value through other comprehensive income	282	(3)	Net income from financial instruments held for trading or managed on a fair value basis
	60	—	(1)	—	Loans and advances to customers	(1)		
	—	545	—	102	Debt securities in issue	(9)		
	—	6,149	—	—	Subordinated liabilities and deposits by banks[4]	(165)		
At 31 Dec 2019	11,941	6,694	213	102		107	(3)	

1 *Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.*
2 *The accumulated amounts of fair value adjustments remaining in the statement of financial position for hedged items that have ceased to be adjusted for hedging gains and losses were £29m (2019: £(14)m) for 'Financial assets at fair value through other comprehensive income', £nil (2019: £157m) for 'Deposits by banks' and £24m (2019: £26m) for 'Debt securities in issue'.*
3 *The hedged risk 'interest rate' includes inflation risk.*
4 *The notional amount of non-dynamic fair value hedges was £6,178m (2019: £5,970m), of which the weighted-average maturity is August 2024 and the weighted average swap rate is 0.82% (2019: 0.85%) . Those hedges are internal to HSBC Group and composed by internal funding between HSBC Holdings and the group.*

Cash flow hedges

The group's cash flow hedging instruments consist principally of interest rate swaps and cross-currency swaps that are used to manage the variability in future interest cash flows of non-trading financial assets and liabilities, arising due to changes in market interest rates and foreign-currency basis.

The group applies macro cash flow hedging for interest-rate risk exposures on portfolios of replenishing current and forecasted issuances of non-trading assets and liabilities that bear interest at variable rates, including rolling such instruments. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their contractual terms and other relevant factors, including estimates of prepayments and defaults. The aggregate cash flows representing both principal balances and interest cash flows across all portfolios are used to determine the effectiveness and ineffectiveness. Macro cash flow hedges are considered to be dynamic hedges.

The group also hedges the variability in future cash-flows on foreign-denominated financial assets and liabilities arising due to changes in foreign exchange market rates with cross-currency swaps; these are considered dynamic hedges.

Hedging instrument by hedged risk

	Hedging instrument					Hedged item	Ineffectiveness	
		Carrying amount						
	Notional amount[1]	Assets	Liabilities	Balance sheet presentation	Change in fair value[2]	Change in fair value[3]	Recognised in profit and loss	
Hedged risk	£m	£m	£m		£m	£m	£m	Profit and loss presentation
Foreign exchange	**5,286**	**191**	**(41)**	**Derivatives**	**(30)**	**(30)**	**—**	**Net income from financial instruments held for trading or managed on a fair value basis**
Interest rate	**10,521**	**2**	**—**		**117**	**115**	**2**	
At 31 Dec 2020	**15,807**	**193**	**(41)**		**87**	**85**	**2**	
Foreign exchange	5,366	240	(101)	Derivatives	123	123	—	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	9,774	3	(1)		92	92	—	
At 31 Dec 2019	15,140	243	(102)		215	215	—	

1 *The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.*
2 *Used in effectiveness testing; comprising the full fair value change of the hedging instrument not excluding any component.*
3 *Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.*

Sources of hedge ineffectiveness may arise from basis risk including, but not limited to timing differences between the hedged items and hedging instruments, and hedges using instruments with a non-zero fair value.

Reconciliation of equity and analysis of other comprehensive income by risk type

	Interest rate	Foreign exchange
	£m	£m
Cash flow hedging reserve at 1 Jan 2020	**76**	**(36)**
Fair value losses	**115**	**(29)**
Fair value losses reclassified from cash flow hedge reserve to income statement in respect of:		
– hedged items that have affected profit or loss	**(4)**	**76**
Income taxes	**(40)**	**—**
Cash flow hedging reserve at 31 Dec 2020	**147**	**11**
Cash flow hedging reserve at 1 Jan 2019	(24)	(1)
Fair value losses	92	123
Fair value losses reclassified from cash flow hedge reserve to income statement in respect of:		
– hedged items that have affected profit or loss	30	(158)
Income taxes	(22)	—
Cash flow hedging reserve at 31 Dec 2019	76	(36)

Interest rate benchmark reform: amendments to IFRS 9 and IAS 39 'Financial Instruments'

The first set of amendments ('Phase 1') to IFRS 9 and IAS 39, published in September 2019 and endorsed in January 2020, primarily allows the assumption that interbank offered rates ('Ibors') are to continue unaltered for the purposes of forecasting hedged cash flows until such time as the uncertainty of transitioning to near risk free rates ('RFRs') is resolved. The second set of amendments ('Phase 2'), issued in August 2020 and endorsed in January 2021, allows the modification of hedge documentation to reflect the components of hedge relationships that have transitioned to RFRs on an economically equivalent basis as a direct result of the Ibor transition.

While, the application of Phase 1 amendments is mandatory for accounting periods starting on or after 1 January 2020, the Group chose to early adopt the Phase 2 amendments from the beginning of 2020. Significant judgement will be required in determining when Ibor transition uncertainty is resolved and therefore decide when Phase 1 amendments cease to apply and when some of the Phase 2 amendments can be applied.

The notional of the derivatives impacted by the Ibors reform but which are not used in designated hedge accounting relationship is disclosed on page 29 in the section 'Financial Instruments impacted by the Ibor reform'.

The group has cash flow and fair value hedge accounting relationships that are exposed to different Ibors, predominantly US Dollar Libor, Sterling Libor, and Euribor as well as overnight rates subject to the market-wide benchmarks reform, such as the European overnight Index Average rate ('Eonia'). Existing financial instruments (such as derivatives, loans and bonds) designated in relationships referencing these benchmarks are expected to transition to new RFRs in different ways and at different times. External progress on the transition to RFRs is being monitored, with the objective of ensuring a smooth transition for the group's hedge accounting relationships. The specific issues arising will vary with the details of each hedging relationship, but may arise due to the transition of existing products included in the designation, a change in expected volumes of products to be issued, a change in contractual terms of new products issued, or a combination of these factors. Some hedges may need to be de-designated and new relationships entered into, while others may survive the market-wide benchmarks reform.

The hedge accounting relationships that are affected by Phase 1 and Phase 2 amendments are presented in the Balance Sheet as 'Financial assets designated and otherwise mandatorily measured at fair value through other comprehensive income', 'Loans and advances to customers', 'Debt securities in issue', and 'Deposits by banks'.

The notional amounts of Interest Rate derivatives designated in hedge accounting relationships represent the extent of the risk exposure managed by the group that is expected to be directly affected by market-wide Ibor reform and in scope of Phase 1 and Phase 2 amendments. The cross-currency swaps designated in hedge accounting relationships and affected by Ibor reform are not significant and have not been presented below.

Hedging instrument impacted by Ibor Reform

	Hedging instrument						
	Impacted by Ibor Reform					NOT Impacted by Ibor Reform	Notional Amount[1]
	EUR	GBP	USD	Other	Total		
The group	£m	£m	£m	£m	£m	£m	£m
Fair Value Hedges	**12,822**	**1,855**	**1,908**	**60**	**16,645**	**13,092**	**29,737**
Cash Flow Hedges	**6,111**	**1,552**	**183**	**—**	**7,846**	**2,675**	**10,521**
At 31 Dec 2020	**18,933**	**3,407**	**2,091**	**60**	**24,491**	**15,767**	**40,258**
The bank	£m	£m	£m	£m	£m	£m	£m
Fair Value Hedges	**6,275**	**1,833**	**1,556**	**61**	**9,725**	**11,000**	**20,725**
Cash Flow Hedges	**—**	**1,552**	**183**	**—**	**1,735**	**2,675**	**4,410**
At 31 Dec 2020	**6,275**	**3,385**	**1,739**	**61**	**11,460**	**13,675**	**25,135**

Hedging instrument impacted by Ibor Reform (continued)

	Hedging instrument						
	Impacted by Ibor Reform					NOT Impacted by Ibor Reform	Notional Amount[1]
	EUR	GBP	USD	Other	Total		
The group	£m	£m	£m	£m	£m	£m	£m
Fair Value Hedges	16,180	1,916	2,350	45	20,491	9,663	30,154
Cash Flow Hedges	4,330	2,777	867	—	7,974	1,800	9,774
At 31 Dec 2019	20,510	4,693	3,217	45	28,465	11,463	39,928
The bank	£m	£m	£m	£m	£m	£m	£m
Fair Value Hedges	5,771	1,891	1,889	29	9,580	9,326	18,906
Cash Flow Hedges	—	2,777	867	—	3,644	1,800	5,444
At 31 Dec 2019	5,771	4,668	2,756	29	13,224	11,126	24,350

1 *The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.*

During 2019, the main market event in scope of Ibor reform was the change to the calculation of the Eonia to be calculated as the Euro Short Term rate ('€STR') plus a fixed spread of 8.5 basis points. This event had no material impact to the valuation of components of designated hedge accounting relationships and there were no discontinuations of existing designated relationships. The main market events in scope of Ibor reform during 2020 were the changes applied by central clearing counterparties to remunerating EURO and US dollar collateral. While there was a minimal valuation impact to the derivatives in scope that are used for hedge accounting, these changes had no discontinuation impact to any of the designated relationships affected.

15 Financial investments

Carrying amount of financial investments

	The group		The bank	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Financial investments measured at fair value through other comprehensive income	**51,811**	46,451	**28,755**	26,561
– treasury and other eligible bills	**3,286**	3,091	**2,194**	2,237
– debt securities	**48,363**	43,204	**26,505**	24,269
– equity securities	**98**	91	**56**	55
– other instruments[1]	**64**	65	**—**	—
Debt instruments measured at amortised cost	**15**	13	**2,214**	—
– treasury and other eligible bills	**5**	5	**—**	—
– debt securities[2]	**10**	8	**2,214**	—
At 31 Dec	**51,826**	46,464	**30,969**	26,561

1 *'Other instruments' are comprised of loans and advances.*
2 *The £2.2bn of debt securities in the bank relates to Senior Non-Preferred debt issued by HSBC Continental Europe to comply with Single Resolution Board requirements on Minimum Required Eligible Liabilities.*

Equity instruments measured at fair value through other comprehensive income

	Instruments held at year end	
	Fair value	**Dividends recognised**
Type of equity instruments	**£m**	**£m**
Business facilitation	**79**	**1**
Investments required by central institutions	**18**	**—**
Others	**1**	**—**
At 31 Dec 2020	**98**	**1**
Business facilitation	75	1
Investments required by central institutions	11	—
Others	5	—
At 31 Dec 2019	91	1

16 Assets pledged, collateral received and assets transferred

Assets pledged

Financial assets pledged as collateral

	The group		The bank	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Treasury bills and other eligible securities	**2,382**	1,162	**1,543**	—
Loans and advances to customers	**20,597**	13,997	**—**	—
Debt securities	**24,069**	25,491	**14,432**	19,586
Equity securities	**21,304**	20,669	**21,604**	20,610
Other	**39,319**	33,541	**28,142**	25,671
Assets pledged at 31 Dec	**107,671**	94,860	**65,721**	65,867

Financial assets pledged as collateral which the counterparty has the right to sell or repledge

	The group		The bank	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Trading assets	**40,000**	41,734	**32,409**	35,767
Financial investments	**3,009**	347	**2,684**	328
At 31 Dec	**43,009**	42,081	**35,093**	36,095

Assets pledged as collateral includes all assets categorised as encumbered in the disclosure on page 76.

The amount of assets pledged to secure liabilities may be greater than the book value of assets utilised as collateral. For example, in the case of securitisations and covered bonds, the amount of liabilities issued, plus mandatory over-collateralisation, is less than the book value of the pool of assets available for use as collateral. This is also the case where assets are placed with a custodian or a settlement agent that has a floating charge over all the assets placed to secure any liabilities under settlement accounts.

These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and borrowing, repurchase agreements and derivative margining. The group places both cash and non-cash collateral in relation to derivative transactions.

Collateral received

The fair value of assets accepted as collateral, relating primarily to standard securities lending, reverse repurchase agreements and derivative margining, that the group is permitted to sell or repledge in the absence of default was £213,690m (2019: £239,032m) (the bank: 2020: £169,797m; 2019: £191,372m). The fair value of any such collateral sold or repledged was £154,486m (2019: £179,442m) (the bank: 2020: £117,505m; 2019: £140,786m).

The group is obliged to return equivalent securities. These transactions are conducted under terms that are usual and customary to standard securities lending, reverse repurchase agreements and derivative margining.

Assets transferred

The assets pledged include transfers to third parties that do not qualify for derecognition, notably secured borrowings such as debt securities held by counterparties as collateral under repurchase agreements and equity securities lent under securities lending agreements, as well as swaps of equity and debt securities. For secured borrowings, the transferred asset collateral continues to be recognised in full and a related liability, reflecting the group's obligation to repurchase the assets for a fixed price at a future date is also recognised on the balance sheet. Where securities are swapped, the transferred asset continues to be recognised in full. There is no associated liability as the non-cash collateral received is not recognised on the balance sheet. The group is unable to use, sell or pledge the transferred assets for the duration of these transactions, and remains exposed to interest rate risk and credit risk on these pledged assets. The counterparty's recourse is not limited to the transferred assets.

Transferred financial assets not qualifying for full derecognition and associated financial liabilities

	Carrying amount of:	
	Transferred assets	**Associated liabilities**
The group	**£m**	**£m**
At 31 Dec 2020		
Repurchase agreements	**14,232**	**14,264**
Securities lending agreements	**28,777**	**87**
At 31 Dec 2019		
Repurchase agreements	15,262	15,252
Securities lending agreements	26,821	4,329

Transferred financial assets not qualifying for full derecognition and associated financial liabilities

	Carrying amount of:	
	Transferred assets	Associated liabilities
The bank	£m	£m
At 31 Dec 2020		
Repurchase agreements	**5,315**	**5,315**
Securities lending agreements	**29,778**	**82**
At 31 Dec 2019		
Repurchase agreements	8,922	8,922
Securities lending agreements	27,174	4,293

17 Interests in associates and joint ventures

Principal associates of the group and the bank

Business Growth Fund Group plc ('BGF') is a principal associate of the group. BGF is an independent company, established in 2011 to provide investment to growing small to medium-sized British businesses. BGF is backed by five of the UK's main banking groups: Barclays, HSBC, Lloyds, RBS and Standard Chartered. At 31 December 2020, the group had a 24.58% interest in the equity capital of BGF. Share of profit/(loss) in BGF is £5m (2019: £(8)m) and carrying amount of interest in BGF is £471m (2019: £426m).

Interests in joint ventures

A list of all associates is set out on page 179.

18 Investments in subsidiaries

Main subsidiaries of HSBC Bank plc

	At 31 Dec 2020		
	Country of incorporation or registration	HSBC Bank plc's interest in equity capital	Share class
		%	
HSBC Investment Bank Holdings Limited	**England and Wales**	**100.00**	**£1 Ordinary**
HSBC Asset Finance (UK) Limited	**England and Wales**	**100.00**	**£1 Ordinary**
HSBC Life (UK) Limited	**England and Wales**	**100.00**	**£1 Ordinary**
HSBC Continental Europe[1]	**France**	**99.99**	**€5 Actions**
HSBC Trinkaus & Burkhardt AG	**Germany**	**99.33**	**Stückaktien no par value**
HSBC Bank Malta p.l.c	**Malta**	**70.03**	**€0.30 Ordinary**

1 HSBC France changed its name on 1 December 2020 to become HSBC Continental Europe.

All the above prepare their financial statements up to 31 December. Details of all group subsidiaries, as required under Section 409 of the Companies Act 2006, are set out in Note 36. The principal countries of operation are the same as the countries of incorporation.

Impairment testing of investments in subsidiaries

At each reporting period end, HSBC Bank plc reviews investments in subsidiaries for indicators of impairment. An impairment is recognised when the carrying amount exceeds the recoverable amount for that investment.

The recoverable amount is the higher of the investment's fair value less costs of disposal and its value in use. The value in use is calculated by discounting management's cash flow projections for the investment.

- The cash flow projections for each investment are based on the latest approved plans, which includes capital repayment projections and a long-term growth rate is used to extrapolate the cash flows in perpetuity.
- The growth rate reflects inflation for the country within which the investment operates and is based on the long-term average growth rates.
- The rate used to discount the cash flows is based on the cost of capital assigned to each investment, which is derived using a capital asset pricing model ('CAPM'). CAPM depends on a number of inputs reflecting financial and economic variables, including the risk-free rate and a premium to reflect the inherent risk of the business being evaluated. These variables are based on the market's assessment of the economic variables and management's judgement. The discount rates for each investment are refined to reflect the rates of inflation for the countries within which the investment operates. In addition, for the purposes of testing investments for impairment, management supplements this process by comparing the discount rates derived using the internally generated CAPM, with cost of capital rates produced by external sources for businesses operating in similar markets.

An impairment of £3.2bn was recognised as a result of the impairment test performed in 2019 based on a discount rate of 9.25% and a growth rate of 1.54%, this related to an investment in HSBC Continental Europe. In 2020, an impairment test was performed and concluded that no further impairment is required to our investment in HSBC Continental Europe.

Impairment test results

Investments	Carrying amount	Value in use	Discount rate	Long-term growth rate	Headroom
At 31 Dec	**£m**	**£m**	**%**	**%**	**£m**
HSBC Continental Europe	**4,331**	**4,649**	**9.65**	**1.51**	**318**

Sensitivities of key assumptions in calculating VIU

At 31 December 2020, the investment in HSBC Continental Europe (formally HSBC France) was sensitive to reasonably possible changes in the key assumptions supporting the recoverable amount.

In making an estimate of reasonably possible changes to assumptions, management considers the available evidence in respect of each input to the model. These include the external range of observable discount rates, historical performance against forecast, and risks attaching to the key assumptions underlying cash flow projections.

The following table presents a summary of the key assumptions underlying the most sensitive inputs to the model for HSBC Continental Europe, the key risks attaching to each, and details of a reasonably possible change to assumptions where, in the opinion of management, these could result in an impairment.

Reasonably possible changes in key assumptions

	Input	Key assumptions	Associated risks	Reasonably possible change
Investment				
HSBC Continental Europe	Cash flow projections	• Level of interest rates and yield curves. • Competitors' positions within the market. • Level and change in unemployment rates.	• Uncertain regulatory environment. • Customer remediation and regulatory actions.	• Cash flow projections decrease by 10%.
	Discount rate	• Discount rate used is a reasonable estimate of a suitable market rate for the profile of the business.	• External evidence arises to suggest that the rate used is not appropriate to the business.	• Discount rate increases by 1%.
	Long-term growth rates	• Business growth will reflect inflation rates of the country the subsidiary conducts business in the long term.	• Growth does not match inflation or there is a fall in inflation forecasts.	• Real inflation does not occur or is not reflected in performance.

Sensitivity of VIU to reasonably possible changes in key assumptions and changes to current assumptions to achieve nil headroom

			Increase/(decrease)		
Investments	**Carrying amount**	**Value in use**	**Discount rate**	**Cash flows**	**Long-term growth rate**
At 31 Dec	**£m**	**£m**	**bps**	**%**	**bps**
HSBC Continental Europe	**4,331**	**4,649**	**64**	**(7.83)**	**(87)**

19 Structured entities

The group is mainly involved with both consolidated and unconsolidated structured entities through the securitisation of financial assets, conduits and investment funds, established either by the group or a third party.

Consolidated structured entities

Total assets of the group's consolidated structured entities, split by entity type

	Conduits	Securitisations	Group managed funds	Other	Total
	£m	£m	£m	£m	£m
At 31 Dec 2020	**5,023**	**423**	**2,166**	**2,798**	**10,410**
At 31 Dec 2019	6,541	471	3,183	2,789	12,984

Conduits

The group has established and manages two types of conduits: securities investment conduits ('SICs') and multi-seller conduits.

Securities investment conduits

The SICs purchase highly rated ABSs to facilitate tailored investment opportunities.

- At 31 December 2020, Solitaire, the group's principal SIC held £1.4bn of ABSs (2019: £1.6bn). It is currently funded entirely by commercial paper ('CP') issued to the group. At 31 December 2020, the group held £1.6bn of CP (2019: £2.4bn).

Multi-seller conduits

The group's multi-seller conduit was established to provide access to flexible market-based sources of finance for its clients. Currently, the group bears risk equal to transaction-specific facility offered to the multi-seller conduits, amounting to £6.5bn at 31 December 2020 (2019: £8.6bn). First loss protection is provided by the originator of the assets, and not by the group, through transaction-specific credit enhancements. A layer of secondary loss protection is provided by the group in the form of programme-wide enhancement facilities.

Securitisations

The group uses structured entities to securitise customer loans and advances it originates in order to diversify the sources of funding for asset origination and capital efficiency purposes. The loans and advances are transferred by the group to the structured entities for cash or synthetically through credit default swaps, and the structured entities issue debt securities to investors.

Group managed funds

The group has established a number of money market and non-money market funds. Where it is deemed to be acting as principal rather than agent in its role as investment manager, the group controls these funds.

Other

The group has entered into a number of transactions in the normal course of business, which include asset and structured finance transactions where it has control of the structured entity. In addition, the group is deemed to control a number of third-party managed funds through its involvement as a principal in the funds.

Unconsolidated structured entities

The term 'unconsolidated structured entities' refers to all structured entities not controlled by the group. The group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions and for specific investment opportunities.

Nature and risks associated with the group's interests in unconsolidated structured entities

	Securitisa-tions	Group managed funds	Non-group managed funds	Other	Total
Total asset values of the entities (£m)					
0 – 400	**5**	**92**	**1,312**	**16**	**1,425**
400 – 1,500	**—**	**14**	**691**	**—**	**705**
1,500 – 4,000	**—**	**1**	**378**	**—**	**379**
4,000 – 20,000	**—**	**—**	**293**	**—**	**293**
20,000+	**—**	**—**	**43**	**—**	**43**
Number of entities at 31 Dec 2020	**5**	**107**	**2,717**	**16**	**2,845**
	£m	**£m**	**£m**	**£m**	**£m**
Total assets in relation to the group's interests in the unconsolidated structured entities	**686**	**1,461**	**8,408**	**346**	**10,901**
– trading assets	**—**	**—**	**2,367**	**—**	**2,367**
– financial assets designated and otherwise mandatorily measured at fair value	**—**	**1,454**	**5,642**	**—**	**7,096**
– loans and advances to customers	**686**	**—**	**—**	**346**	**1,032**
– financial investments	**—**	**7**	**399**	**—**	**406**
Total liabilities in relation to the group's interests in the unconsolidated structured entities	**—**	**—**	**1**	**—**	**1**
Other off-balance sheet commitments	**40**	**1**	**1,450**	**—**	**1,491**
The group's maximum exposure at 31 Dec 2020	**726**	**1,462**	**9,857**	**346**	**12,391**
Total asset values of the entities (£m)					
0 – 400	4	88	712	24	828
400 – 1,500	3	15	619	4	641
1,500 – 4,000	—	1	345	—	346
4,000 – 20,000	—	—	253	—	253
20,000+	—	—	36	2	38
Number of entities at 31 Dec 2019	7	104	1,965	30	2,106
	£m	£m	£m	£m	£m
Total assets in relation to the group's interests in the unconsolidated structured entities	1,296	2,143	8,526	1,481	13,446
– trading assets	—	—	2,687	952	3,639
– financial assets designated at fair value	—	2,139	5,180	10	7,329
– loans and advances to customers	1,296	—	290	497	2,083
– financial investments	—	4	369	22	395
Total liabilities in relation to group's interests in the unconsolidated structured entities	—	—	5	—	5
Other off-balance sheet commitments	156	—	1,552	—	1,708
The group's maximum exposure at 31 Dec 2019	1,452	2,143	10,073	1,481	15,149

The maximum exposure to loss from the group's interests in unconsolidated structured entities represents the maximum loss it could incur as a result of its involvement with these entities regardless of the probability of the loss being incurred.

- For commitments, guarantees and written credit default swaps, the maximum exposure to loss is the notional amount of potential future losses.
- For retained and purchased investments and loans to unconsolidated structured entities, the maximum exposure to loss is the carrying value of these interests at the balance sheet reporting date.

The maximum exposure to loss is stated gross of the effects of hedging and collateral arrangements entered into to mitigate the group's exposure to loss.

Securitisations

The group has interests in unconsolidated securitisation vehicles through holding notes issued by these entities. In addition, the group has investments in ABSs issued by third-party structured entities.

Group managed funds

The group establishes and manages money market funds and non-money market investment funds to provide customers with investment opportunities. The group, as fund manager, may be entitled to receive management and performance fees based on the assets under management. The group may also retain units in these funds.

Non-group managed funds

The group purchases and holds units of third-party managed funds in order to facilitate business and meet customer needs.

Other

The group has established structured entities in the normal course of business, such as structured credit transactions for customers, to provide finance to public and private sector infrastructure projects, and for asset and structured finance transactions.

In addition to the interests disclosed above, the group enters into derivative contracts, reverse repos and stock borrowing transactions with structured entities. These interests arise in the normal course of business for the facilitation of third-party transactions and risk management solutions.

Group sponsored structured entities

The amount of assets transferred to and income received from such sponsored entities during 2020 and 2019 was not significant.

20 Goodwill and intangible assets

	The group		The bank	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Goodwill	**—**	—	**19**	23
Present value of in-force long-term insurance business	**647**	715	**—**	—
Other intangible assets[1]	**119**	867	**12**	512
At 31 Dec	**766**	1,582	**31**	535

1 *Included within the group's other intangible assets is internally generated software with a net carrying value of £115m (2019: £776m). During the year, capitalisation of internally generated software was £150m (2019: £355m) and amortisation was £94m (2019: £137m). In 2020, purchased software assets of £73m were reclassified as internally generated software due to high efforts of customisation.*

Other intangible assets

Impairment testing

We considered the pervasive macroeconomic deterioration caused by the outbreak of Covid-19, along with the impact of forecast profitability in some businesses, to be indicators of capitalised software impairment during the period. The impairment tests were performed by comparing the net carrying amount of capitalised software assets with their recoverable amounts. Recoverable amounts were determined by calculating an estimated VIU or fair value, as appropriate, for each underlying business that carries software assets. Our cash flow forecasts were updated for changes in the external outlook, although economic and geopolitical risks increase the inherent estimation uncertainty.

We recognised £802m of capitalised software impairment and write-off related principally to our businesses in the UK and France. This impairment reflected underperformance and deterioration in the future forecasts of these businesses, substantially relating to prior periods. Global business split of the impairments recognised is as below.

	Impairments on intangible assets
	2020
Global business	**£m**
WPB	**39**
CMB	**34**
GB&M	**462**
Corporate Centre	**267**
Total	**802**

Key assumptions in VIU calculation

We used a number of assumptions in our VIU calculation, in accordance with the requirements of IAS 36:

- Management's judgement in estimating future cash flows: We considered past business performance, the scale of the current impact from the Covid-19 outbreak on our operations, current market conditions and our macroeconomic outlook to estimate future earnings. As required by IFRSs, estimates of future cash flows exclude estimated cash inflows or outflows that are expected to arise from restructuring initiatives before an entity has a constructive obligation to carry out the plan, and would therefore have recognised a provision for restructuring costs. For some businesses, this means that the benefit of certain strategic actions are not included in this impairment assessment, including capital releases.
- Long-term growth rates: The long-term growth rate is used to extrapolate the cash flows in perpetuity because of the long-term perspective of the businesses within the group.
- Discount rates: Rates are based on a CAPM calculation considering market data for the businesses and geographies in which the group operates. Discount rates ranged from 8.5% to 9.7% to our businesses.

Future software capitalisation

We will continue to invest in digital capabilities to meet our strategic objectives. However, software capitalisation within businesses where impairment was identified will not resume until the performance outlook for each business indicates future profits are sufficient to support capitalisation. The cost of additional software investment in these businesses will be recognised as an operating expense until such time.

Present value of in-force long-term insurance business

When calculating the present value of in-force long-term ('PVIF') insurance business, expected cash flows are projected after adjusting for a variety of assumptions made by each insurance operation to reflect local market conditions and management's judgement of future trends and uncertainty in the underlying assumptions is reflected by applying margins (as opposed to a cost of capital methodology) including valuing the cost of policyholder options and guarantees using stochastic techniques.

Actuarial Control Committees of each key insurance entity meet on a quarterly basis to review and approve PVIF assumptions. All changes to non-economic assumptions, economic assumptions that are not observable and model methodology must be approved by the Actuarial Control Committee.

Movements in PVIF

	2020	2019
	£m	£m
PVIF at 1 Jan	**715**	651
Change in PVIF of long-term insurance business	**(95)**	89
– value of new business written during the year	**43**	46
– expected return[1]	**(74)**	(68)
– assumption changes and experience variances[2] (see below)	**(73)**	114
– other adjustments	**9**	(3)
Exchange differences	**27**	(25)
PVIF at 31 Dec	**647**	715

1 *'Expected return' represents the unwinding of the discount rate and reversal of expected cash flows for the period.*
2 *Represents the effect of changes in assumptions on expected future profits and the difference between assumptions used in the previous PVIF calculation and actual experience observed during the year to the extent that this affects future profits. The loss of £(73)m (2019: gain of £114m) was driven mainly due to lower interest rates partly offset by positive impact from modelling changes.*

Key assumptions used in the computation of PVIF for main life insurance operations

Economic assumptions are set in a way that is consistent with observable market values. The valuation of PVIF is sensitive to observed market movements and the impact of such changes is included in the sensitivities presented below.

	2020		2019	
	UK	France[1]	UK	France[1]
	%	%	%	%
Weighted average risk-free rate	**0.29**	**0.34**	0.72	0.44
Weighted average risk discount rate	**0.29**	**1.34**	1.22	1.27
Expense inflation	**2.80**	**1.60**	3.04	1.70

1 *For 2020, the calculation of France's PVIF assumes a risk discount rate of 1.34% (2019: 1.27%) plus a risk margin of £159m (2019: £98m).*

Sensitivity to changes in economic assumptions

The group sets the risk discount rate applied to the PVIF calculation by starting from a risk-free rate curve and adding explicit allowances for risks not reflected in the best estimate cash flow modelling. Where the insurance operations provide options and guarantees to policyholders, the cost of these options and guarantees is accounted for as a deduction from the present value of in-force 'PVIF' asset, unless the cost of such guarantees is already allowed for as an explicit addition to liabilities under insurance contracts. See page 85 for further details of these guarantees and the impact of changes in economic assumptions on our insurance manufacturing subsidiaries.

Sensitivity to changes in non-economic assumptions

Policyholder liabilities and PVIF are determined by reference to non-economic assumptions including mortality and/or morbidity, lapse rates and expense rates. See page 86 for further details on the impact of changes in non-economic assumptions on our insurance manufacturing operations.

21 Prepayments, accrued income and other assets

	The group		The bank	
	2020	2019	2020	2019
	£m	£m	£m	£m
Prepayments and accrued income	**1,308**	1,604	**537**	873
Settlement accounts	**7,138**	6,611	**5,153**	6,066
Cash collateral and margin receivables	**39,702**	33,643	**28,142**	25,671
Assets held for sale	**90**	13	**—**	—
Bullion	**3,597**	2,921	**3,593**	2,919
Endorsements and acceptances	**97**	82	**69**	42
Reinsurers' share of liabilities under insurance contracts (Note 4)	**165**	163	**—**	—
Employee benefit assets (Note 5)	**30**	22	**29**	22
Right-of-use assets	**390**	643	**59**	416
Property, plant and equipment	**899**	1,091	**12**	105
Other accounts	**2,149**	2,146	**1,181**	1,208
At 31 Dec	**55,565**	48,939	**38,775**	37,322

Prepayments, accrued income and other assets include £50,027m (2019: £43,656m) of financial assets, the majority of which are measured at amortised cost.

Impairment testing

During 2020, we considered the pervasive macroeconomic deterioration caused by the outbreak of Covid-19, along with the impact on forecast profitability, to be an indicator of impairment. Impairment testing was performed, identifying the Value in Use ('VIU') of the Cash generating units ('CGU') to be below their net carrying value in France and the UK.

As a result, £193m of tangible asset were impaired, primarily Right of Use ('ROU') assets for leased office, commercial and retail branches and fixtures and fittings. The impairments reflect recent losses and deterioration in the future forecasts, substantially relating to prior periods. Refer to Note 20 Goodwill and intangible assets and Note 1.2(n) Summary of significant accounting policies - Impairment of non-financial assets.

Assets held for sale

	The group	
	2020	2019
	£m	£m
Property, plant and equipment[1]	**86**	13
Assets of disposal groups held for sale	**4**	—
Assets classified as held for sale at 31 Dec	**90**	13

1 *Includes HSBC Trinkaus & Burkhardt AG's one property as held for sale.*

22 Trading liabilities

	The group		The bank	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Deposits by banks[1]	**4,324**	3,148	**4,303**	3,095
Customer accounts[1]	**7,744**	5,102	**7,528**	4,898
Other debt securities in issue	**1,156**	1,042	**21**	102
Other liabilities – net short positions in securities	**31,005**	38,734	**14,821**	18,919
At 31 Dec	**44,229**	48,026	**26,673**	27,014

1 *'Deposits by banks' and 'Customer accounts' include repos, stock lending and other amounts.*

23 Financial liabilities designated at fair value

	The group		The bank	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Deposits by banks and customer accounts	**3,273**	150	**3,204**	78
Liabilities to customers under investment contracts	**944**	862	**—**	—
Debt securities in issue	**34,228**	38,044	**19,136**	22,000
Subordinated liabilities (Note 26)	**2,347**	2,268	**2,347**	2,585
Preferred securities (Note 26)	**—**	318	**—**	—
At 31 Dec	**40,792**	41,642	**24,687**	24,663

The group

The carrying amount of financial liabilities designated at fair value was £3,351m higher than the contractual amount at maturity (2019: £1,771m higher). The cumulative amount of change in fair value attributable to changes in credit risk was a loss of £189m (2019: loss of £346m).

The bank

The carrying amount of financial liabilities designated at fair value was £2,525m higher than the contractual amount at maturity (2019: £1,238m higher). The cumulative amount of change in fair value attributable to changes in credit risk was a loss of £76m (2019: loss of £227m).

24 Accruals, deferred income and other liabilities

	The group		The bank	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Accruals and deferred income	**1,566**	2,033	**826**	1,046
Settlement accounts	**4,900**	5,295	**4,451**	4,655
Cash collateral and margin payables	**42,273**	38,261	**31,810**	32,297
Endorsements and acceptances	**89**	74	**70**	42
Employee benefit liabilities (Note 5)	**288**	275	**75**	85
Amount due to investors in funds consolidated by the group	**1,051**	928	**—**	—
Share-based payment liability to HSBC Holdings	**104**	126	**76**	103
Lease liabilities	**558**	783	**82**	504
Other liabilities	**2,566**	2,540	**1,181**	1,433
At 31 Dec	**53,395**	50,315	**38,571**	40,165

For the group, accruals, deferred income and other liabilities include £52,754m (2019: £48,907m), and for the bank £38,291m (2019: £39,379m) of financial liabilities, the majority of which are measured at amortised cost.

25 Provisions

The group	Restructuring costs	Legal proceedings and regulatory matters	Customer remediation	Other provisions	Total
	£m	£m	£m	£m	£m
Provisions (excluding contractual commitments)					
At 1 Jan 2020	**94**	**211**	**29**	**104**	**438**
Additions	**315**	**68**	**5**	**66**	**454**
Amounts utilised	**(80)**	**(51)**	**(4)**	**(39)**	**(174)**
Unused amounts reversed	**(18)**	**(2)**	**(4)**	**(28)**	**(52)**
Exchange and other movements	**(2)**	**11**	**(1)**	**—**	**8**
At 31 Dec 2020	**309**	**237**	**25**	**103**	**674**
Contractual commitments[1]					
At 1 Jan 2020					**102**
Net change in expected credit loss provision and other movements					**85**
At 31 Dec 2020					**187**
Total Provisions					
At 31 Dec 2019					**540**
At 31 Dec 2020					**861**
Provisions (excluding contractual commitments)					
At 1 Jan 2019	31	231	35	121	418
Additions	113	37	10	87	247
Amounts utilised	(42)	(38)	(7)	(32)	(119)
Unused amounts reversed	(1)	(5)	(9)	(40)	(55)
Exchange and other movements	(7)	(14)	—	(32)	(53)
At 31 Dec 2019	94	211	29	104	438
Contractual commitments[1]					
At 1 Jan 2019					120
Net change in expected credit loss provision and other movements					(18)
At 31 Dec 2019					102
Total Provisions					
At 31 Dec 2018					538
At 31 Dec 2019					540

1 *The contractual commitments includes provision for off-balance sheet loan commitments and guarantees, for which expected credit losses are provided under IFRS 9. Further analysis of the movement in the expected credit loss is disclosed within the 'Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees' table on page 47.*

The bank	Restructuring costs	Legal proceedings and regulatory matters	Customer remediation	Other provisions	Total
	£m	£m	£m	£m	£m
Provisions (excluding contractual commitments)					
At 1 Jan 2020	**41**	**173**	**20**	**36**	**270**
Additions	**56**	**63**	**2**	**39**	**160**
Amounts utilised	**(45)**	**(47)**	**(3)**	**(8)**	**(103)**
Unused amounts reversed	**(6)**	**—**	**(1)**	**(15)**	**(22)**
Unwinding of discounts	**—**	**—**	**—**	**—**	**—**
Exchange and other movements	**(7)**	**9**	**(1)**	**—**	**1**
At 31 Dec 2020	**39**	**198**	**17**	**52**	**306**
Contractual commitments[1]					
At 1 Jan 2020					**38**
Net change in expected credit loss provision and other movements					**69**
At 31 Dec 2020					**107**
Total Provisions					
At 31 Dec 2019					**308**
At 31 Dec 2020					**413**

The bank	Restructuring costs £m	Legal proceedings and regulatory matters £m	Customer remediation £m	Other provisions £m	Total £m
Provisions (excluding contractual commitments)					
At 1 Jan 2019	—	214	24	70	308
Additions	69	5	8	37	119
Amounts utilised	(27)	(33)	(6)	(11)	(77)
Unused amounts reversed	(1)	(4)	(6)	(27)	(38)
Exchange and other movements	—	(9)	—	(33)	(42)
At 31 Dec 2019	41	173	20	36	270
Contractual commitments[1]					
At 1 Jan 2019					92
Net change in expected credit loss provision and other movements					(54)
At 31 Dec 2019					38
Total Provisions					
At 31 Dec 2018					400
At 31 Dec 2019					308

1 *The contractual commitments provision includes off-balance sheet loan commitments and guarantees, for which expected credit losses are provided under IFRS 9. Further analysis of the movement in the expected credit loss is disclosed within the 'Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees' table on page 47.*

Restructuring costs

These provisions comprise the estimated cost of restructuring, including redundancy costs where an obligation exists. Additions made during the year relate to formal restructuring plans made within the group. The majority of the restructuring costs recognised for 2020 relate to the transformation programme initiated by HSBC Continental Europe.

Legal proceedings and regulatory matters

Further details of legal proceedings and regulatory matters are set out in Note 32. 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.

26 Subordinated liabilities

Subordinated liabilities

	The group		The bank	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
At amortised cost	**13,764**	13,182	**13,360**	12,783
– subordinated liabilities	**13,064**	12,482	**13,360**	12,783
– preferred securities	**700**	700	**—**	—
Designated at fair value (Note 23)	**2,347**	2,586	**2,347**	2,585
– subordinated liabilities	**2,347**	2,268	**2,347**	2,585
– preferred securities	**—**	318	**—**	—
At 31 Dec	**16,111**	15,768	**15,707**	15,368

Subordinated liabilities rank behind senior obligations and consist of capital instruments and other instruments. Capital instruments generally count towards the capital base of the group and may be called and redeemed by the group subject to prior notification to the PRA and, where relevant, the consent of the local banking regulator. If not redeemed at the first call date, coupons payable may step up or become floating rate based on interbank rates. On capital instruments other than floating rate notes, interest is payable at fixed rates of up to 7.65%.

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 due to the inclusion of issuance costs, regulatory amortisation and regulatory eligibility limits.

Subordinated liabilities of the group

		Carrying amount	
		2020	2019
		£m	£m
Capital instruments			
Additional tier 1 instruments guaranteed by the bank			
£300m	5.862% Non-cumulative Step-up Perpetual Preferred Securities[1]	**—**	318
£700m	5.844% Non-cumulative Step-up Perpetual Preferred Securities[2]	**700**	700
Tier 2 instruments			
$450m	Subordinated Floating Rate Notes 2021	**330**	340
$750m	3.43% Subordinated Loan 2022	**569**	582
$2,000m	3.5404% Subordinated Loan 2023	**1,534**	1,513
£300m	6.5% Subordinated Notes 2023	**300**	300
€1,500m	Floating Rate Subordinated Loan 2023	**1,347**	1,273
€2,000m	1.125% Subordinated Loan 2024	**1,856**	1,698
€1,500m	Floating Rate Subordinated Loan 2024	**1,347**	1,273
€2,000m	1.728% Subordinated Loan 2024	**1,836**	1,698
$300m	7.65% Subordinated Notes 2025	**220**	227
$750m	4.168% Subordinated Loan 2027	**633**	609
€1,250m	1.4648% Subordinated Loan 2027	**1,200**	1,061
€300m	Floating Rate Subordinated Loan 2027	**269**	255
£200m	Floating Rate Subordinated Loan 2028	**200**	200
€300m	Floating Rate Subordinated Loan 2028	**269**	255
€260m	Floating Rate Subordinated Loan 2029	**233**	221
£350m	5.375% Callable Subordinated Step-up Notes 2030[3]	**427**	415
£500m	5.375% Subordinated Notes 2033	**719**	662
£225m	6.25% Subordinated Notes 2041	**224**	224
£600m	4.75% Subordinated Notes 2046	**594**	594
$750m	Undated Floating Rate Primary Capital Notes	**549**	567
$500m	Undated Floating Rate Primary Capital Notes	**366**	378
$300m	Undated Floating Rate Primary Capital Notes (Series 3)	**220**	227
Other Tier 2 instruments each less than £100m		**169**	178
At 31 Dec		**16,111**	15,768

1 *In April 2020, the group repaid the 5.862% Non-cumulative Step-up Perpetual Preferred Securities.*
2 *In November 2031, the distribution rate changes to six month sterling Libor plus 1.76%.*
3 *In November 2025, the interest rate changes to three month sterling Libor plus 1.50%.*

Footnotes 2 and 3 both relate to instruments that are redeemable at the option of the issuer on the date of the change in the distribution or interest rate, and on subsequent rate reset and payment dates in some cases, subject to prior consent of the PRA.

27 Maturity analysis of assets, liabilities and off-balance sheet commitments

Contractual maturity of financial liabilities

The balances in the table below do not agree directly with those in our consolidated balance sheet as the table incorporates, on an undiscounted basis, all cash flows relating to principal and future coupon payments (except for trading liabilities and derivatives not treated as hedging derivatives).

Undiscounted cash flows payable in relation to hedging derivative liabilities are classified according to their contractual maturities. Trading liabilities and derivatives not treated as hedging derivatives are included in the 'Due not more than 1 month' time bucket and not by contractual maturity.

In addition, loans and other credit-related commitments, and financial guarantees are generally not recognised on our balance sheet. The undiscounted cash flows potentially payable under loan and other credit-related commitments and financial guarantees are classified on the basis of the earliest date they can be called.

Cash flows payable under financial liabilities by remaining contractual maturities

The group	Due not more than 1 month £m	Due over 1 month but not more than 3 months £m	Due between 3 and 12 months £m	Due between 1 and 5 years £m	Due after 5 years £m	Total £m
Deposits by banks	**20,627**	**732**	**299**	**12,101**	**463**	**34,222**
Customer accounts	**186,178**	**5,769**	**2,936**	**231**	**109**	**195,223**
Repurchase agreements – non-trading	**31,635**	**1,772**	**1,504**	**12**	**—**	**34,923**
Trading liabilities	**44,229**	**—**	**—**	**—**	**—**	**44,229**
Financial liabilities designated at fair value	**9,602**	**1,051**	**4,989**	**12,914**	**11,740**	**40,296**
Derivatives	**198,758**	**54**	**125**	**483**	**408**	**199,828**
Debt securities in issue	**1,862**	**3,244**	**10,554**	**1,280**	**588**	**17,528**
Subordinated liabilities	**94**	**397**	**231**	**9,357**	**5,503**	**15,582**
Other financial liabilities	**50,107**	**349**	**444**	**384**	**1,178**	**52,462**
	543,092	**13,368**	**21,082**	**36,762**	**19,989**	**634,293**
Loan and other credit-related commitments	**147,303**	**—**	**—**	**—**	**—**	**147,303**
Financial guarantees[1]	**3,969**	**—**	**—**	**—**	**—**	**3,969**
At 31 Dec 2020	**694,364**	**13,368**	**21,082**	**36,762**	**19,989**	**785,565**
Deposits by banks	16,817	2,416	2,652	1,499	820	24,204
Customer accounts	167,623	5,299	4,090	304	112	177,428
Repurchase agreements – non-trading	45,379	1,728	2,068	277	—	49,452
Trading liabilities	48,026	—	—	—	—	48,026
Financial liabilities designated at fair value	5,725	395	5,027	16,546	16,490	44,183
Derivatives	160,536	41	133	382	402	161,494
Debt securities in issue	2,561	5,115	15,282	1,501	733	25,192
Subordinated liabilities	88	—	278	9,036	5,726	15,128
Other financial liabilities	46,153	456	1,507	596	1,321	50,033
	492,908	15,450	31,037	30,141	25,604	595,140
Loan and other credit-related commitments	128,905	—	—	—	—	128,905
Financial guarantees[1]	4,318	—	—	—	—	4,318
At 31 Dec 2019	626,131	15,450	31,037	30,141	25,604	728,363

The bank	Due not more than 1 month £m	Due over 1 month but not more than 3 months £m	Due between 3 and 12 months £m	Due between 1 and 5 years £m	Due after 5 years £m	Total £m
Deposits by banks	**16,376**	**707**	**205**	**204**	**—**	**17,492**
Customer accounts	**115,204**	**3,485**	**1,287**	**3**	**—**	**119,979**
Repurchase agreements – non-trading	**24,398**	**1,105**	**1,500**	**12**	**—**	**27,015**
Trading liabilities	**26,673**	**—**	**—**	**—**	**—**	**26,673**
Financial liabilities designated at fair value	**9,414**	**1,007**	**2,962**	**4,497**	**5,515**	**23,395**
Derivatives	**180,608**	**52**	**125**	**444**	**391**	**181,620**
Debt securities in issue	**1,060**	**3,238**	**9,629**	**1,046**	**417**	**15,390**
Subordinated liabilities	**14**	**397**	**191**	**9,086**	**5,478**	**15,166**
Other financial liabilities	**37,510**	**248**	**146**	**53**	**14**	**37,971**
	411,257	**10,239**	**16,045**	**15,345**	**11,815**	**464,701**
Loan and other credit-related commitments	**46,340**	**—**	**—**	**—**	**—**	**46,340**
Financial guarantees[1]	**1,510**	**—**	**—**	**—**	**—**	**1,510**
At 31 Dec 2020	**459,107**	**10,239**	**16,045**	**15,345**	**11,815**	**512,551**
Deposits by banks	13,322	2,033	484	528	66	16,433
Customer accounts	103,697	3,272	2,042	51	—	109,062
Repurchase agreements – non-trading	32,507	1,549	2,065	277	—	36,398
Trading liabilities	27,014	—	—	—	—	27,014
Financial liabilities designated at fair value	4,742	382	3,378	8,146	9,236	25,884
Derivatives	149,124	41	133	343	393	150,034
Debt securities in issue	787	4,750	7,743	1,489	406	15,175
Subordinated liabilities	88	—	219	9,141	5,870	15,318
Other financial liabilities	39,227	394	255	303	170	40,349
	370,508	12,421	16,319	20,278	16,141	435,667
Loan and other credit-related commitments	44,087	—	—	—	—	44,087
Financial guarantees[1]	3,695	—	—	—	—	3,695
At 31 Dec 2019	418,290	12,421	16,319	20,278	16,141	483,449

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

Maturity analysis of financial assets and financial liabilities

The following table provides an analysis of financial assets and liabilities by residual contractual maturity at the balance sheet date. These balances are included in the maturity analysis as follows:

- Financial assets and liabilities with no contractual maturity (such as equity securities) are included in the 'Due after more than 1 year' time bucket. Undated or perpetual instruments are classified based on the contractual notice period, which the counterparty of the instrument is entitled to give. Where there is no contractual notice period, undated or perpetual contracts are included in the 'Due after more than 1 year' time bucket.

- Financial instruments included within assets and liabilities of disposal groups held for sale are classified on the basis of the contractual maturity of the underlying instruments and not on the basis of the disposal transaction.
- Liabilities under investment contracts are classified in accordance with their contractual maturity. Undated investment contracts are included in the 'Due after more than 1 year' time bucket, however, such contracts are subject to surrender and transfer options by the policyholders.

Targeted Long-Term Refinancing Operation ('TLTRO')

In June 2020, HSBC Continental Europe repaid €2.6bn in TLTRO II funding and issued €10.6bn in TLTRO III funding. Borrowing rates for TLTRO III are at below-market rates as they are issued at, or below, the deposit facility rate. Borrowing rates in these operations can be as low as 50 basis points below the average interest rate on the deposit facility rate over the period 24 June 2020 to 23 June 2022, capped at -1%, and as low as the interest rate on the deposit facility during the rest of the life of the respective TLTRO III, if the entity's benchmark lending is maintained at a prescribed level over specific periods. During 2020, HSBC Continental Europe judged there to be reasonable assurance that the conditions attached to TLTRO III will be complied with and that the below-market rate foreseen in the first twelve months will be received. As such, TLTRO funding has been accounted for as a government grant. The below-market rate attached to lending to support the real economy is recognised in net interest income during the period.

Maturity analysis of financial assets and financial liabilities

	2020			2019		
	Due within 1 year	Due after more than 1 year	Total	Due within 1 year	Due after more than 1 year	Total
The group	£m	£m	£m	£m	£m	£m
Assets						
Financial assets designated or otherwise mandatorily measured at fair value	**1,631**	**14,589**	**16,220**	2,651	14,361	17,012
Loans and advances to banks	**10,186**	**2,460**	**12,646**	8,849	2,618	11,467
Loans and advances to customers	**47,863**	**53,628**	**101,491**	52,408	55,983	108,391
Reverse repurchase agreement – non-trading	**65,157**	**2,420**	**67,577**	84,047	1,709	85,756
Financial investments	**8,984**	**42,842**	**51,826**	7,113	39,351	46,464
Other financial assets	**49,744**	**274**	**50,018**	43,281	367	43,648
At 31 Dec	**183,565**	**116,213**	**299,778**	198,349	114,389	312,738
Liabilities						
Deposits by banks	**21,627**	**12,678**	**34,305**	21,704	2,287	23,991
Customer accounts	**194,872**	**312**	**195,184**	176,855	381	177,236
Repurchase agreements – non-trading	**34,891**	**12**	**34,903**	49,116	269	49,385
Financial liabilities designated at fair value	**17,109**	**23,683**	**40,792**	11,826	29,816	41,642
Debt securities in issue	**15,620**	**1,751**	**17,371**	22,843	2,196	25,039
Other financial liabilities	**50,955**	**1,704**	**52,659**	47,723	1,841	49,564
Subordinated liabilities	**445**	**13,319**	**13,764**	93	13,089	13,182
At 31 Dec	**335,519**	**53,459**	**388,978**	330,160	49,879	380,039
The bank						
Assets						
Financial assets designated or otherwise mandatorily measured at fair value	**1,455**	**410**	**1,865**	2,413	716	3,129
Loans and advances to banks	**6,081**	**1,982**	**8,063**	5,352	4,171	9,523
Loans and advances to customers	**31,051**	**12,190**	**43,241**	35,076	14,850	49,926
Reverse repurchase agreement – non-trading	**48,175**	**1,962**	**50,137**	49,460	1,276	50,736
Financial investments	**5,617**	**25,352**	**30,969**	4,269	22,292	26,561
Other financial assets	**34,753**	**1**	**34,754**	33,483	1	33,484
At 31 Dec	**127,132**	**41,897**	**169,029**	130,053	43,306	173,359
Liabilities						
Deposits by banks	**17,284**	**200**	**17,484**	15,804	552	16,356
Customer accounts	**119,971**	**3**	**119,974**	108,990	50	109,040
Repurchase agreements – non-trading	**26,984**	**12**	**26,996**	36,058	269	36,327
Financial liabilities designated at fair value	**14,859**	**9,828**	**24,687**	9,184	15,479	24,663
Debt securities in issue	**13,912**	**1,444**	**15,356**	13,181	1,857	15,038
Other financial liabilities	**38,167**	**56**	**38,223**	39,345	436	39,781
Subordinated liabilities	**330**	**13,030**	**13,360**	—	12,783	12,783
At 31 Dec	**231,507**	**24,573**	**256,080**	222,562	31,426	253,988

28 Offsetting of financial assets and financial liabilities

The 'Amounts not set off in the balance sheet' include transactions where:

- The counterparty has an offsetting exposure with the group and a master netting or similar arrangement is in place with a right of set off only in the event of default, insolvency or bankruptcy, or the offset criteria are not otherwise satisfied.
- In the case of derivatives and reverse repurchase/repurchase, stock borrowing/lending and similar agreements, cash and non-cash collateral has been received/pledged.

For risk management purposes, the net amounts of loans and advances to customers are subject to limits, which are monitored and the relevant customer agreements are subject to review and updated, as necessary, to ensure that the legal right of offset remains appropriate.

	Amounts subject to enforceable netting arrangements								
				Amounts not set off in the balance sheet					
	Gross amounts	Amounts offset	Net amounts in the balance sheet	Financial instruments	Non-cash collateral	Cash collateral	Net amount	Amounts not subject to enforceable netting arrangements[5]	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial assets									
Derivatives (Note 14)[1]	**229,891**	**(29,996)**	**199,895**	**(160,907)**	**(8,837)**	**(29,834)**	**317**	**1,315**	**201,210**
Reverse repos, stock borrowing and similar agreements classified as[2]:									
– trading assets	**12,430**	**(531)**	**11,899**	**(519)**	**(11,380)**	**–**	**–**	**419**	**12,318**
– non-trading assets	**128,246**	**(64,386)**	**63,860**	**(10,604)**	**(53,218)**	**(38)**	**–**	**3,735**	**67,595**
Loans and advances to customers[3]	**17,312**	**(6,990)**	**10,322**	**(8,713)**	**–**	**–**	**1,609**	**1**	**10,323**
At 31 Dec 2020	**387,879**	**(101,903)**	**285,976**	**(180,743)**	**(73,435)**	**(29,872)**	**1,926**	**5,470**	**291,446**
Derivatives (Note 14)[1]	181,449	(18,094)	163,355	(119,222)	(9,344)	(34,543)	246	1,183	164,538
Reverse repos, stock borrowing and similar agreements classified as[2]:									
– trading assets	13,558	(203)	13,355	(1,174)	(12,181)	–	–	96	13,451
– non-trading assets	163,790	(79,963)	83,827	(21,848)	(61,832)	(147)	–	1,946	85,773
Loans and advances to customers[3]	18,726	(6,334)	12,392	(10,066)	–	–	2,326	–	12,392
At 31 Dec 2019	377,523	(104,594)	272,929	(152,310)	(83,357)	(34,690)	2,572	3,225	276,154
Financial liabilities									
Derivatives (Note 14)[1]	**228,372**	**(29,996)**	**198,376**	**(160,907)**	**(14,652)**	**(22,521)**	**296**	**856**	**199,232**
Repos, stock lending and similar agreements classified as[2]:									
– trading liabilities	**12,323**	**(531)**	**11,792**	**(519)**	**(11,273)**	**–**	**–**	**5**	**11,797**
– non-trading liabilities	**99,289**	**(64,386)**	**34,903**	**(10,604)**	**(24,143)**	**(156)**	**–**	**–**	**34,903**
Customer accounts[4]	**21,847**	**(6,990)**	**14,857**	**(8,713)**	**–**	**–**	**6,144**	**8**	**14,865**
At 31 Dec 2020	**361,831**	**(101,903)**	**259,928**	**(180,743)**	**(50,068)**	**(22,677)**	**6,440**	**869**	**260,797**
Derivatives (Note 14)[1]	178,466	(18,094)	160,372	(119,222)	(14,633)	(26,130)	387	711	161,083
Repos, stock lending and similar agreements classified as[2]:									
– trading liabilities	8,013	(203)	7,810	(1,174)	(6,636)	–	–	36	7,846
– non-trading liabilities	129,247	(79,963)	49,284	(21,848)	(27,167)	(269)	–	101	49,385
Customer accounts[4]	20,032	(6,334)	13,698	(10,066)	–	–	3,632	19	13,717
At 31 Dec 2019	335,758	(104,594)	231,164	(152,310)	(48,436)	(26,399)	4,019	867	232,031

1 *At 31 December 2020, the amount of cash margin received that had been offset against the gross derivatives assets was £4,866m (2019: £1,030m). The amount of cash margin paid that had been offset against the gross derivatives liabilities was £10,622m (2019: £5,213 m).*
2 *For the amount of repos, reverse repos, stock lending, stock borrowing and similar agreements recognised on the balance sheet within 'Trading assets' and 'Trading liabilities', see the 'Funding sources and uses' table on page 75.*
3 *At 31 December 2020, the total amount of 'Loans and advances to customers' recognised on the balance sheet was £101,491m (2019: £108,391m) of which £10,322m (2019: £12,392m) was subject to offsetting.*
4 *At 31 December 2020, the total amount of 'Customer accounts' recognised on the balance sheet was £195,184m (2019: £177,236m) of which £14,857m (2019: £13,698m) was subject to offsetting.*
5 *These exposures continue to be secured by financial collateral, but we may not have sought or been able to obtain a legal opinion evidencing enforceability of the right of offset.*

29 Called up share capital and other equity instruments

Issued and fully paid

HSBC Bank plc £1.00 ordinary shares

	2020		2019	
	Number	£m	Number	£m
At 1 Jan	**796,969,111**	**797**	796,969,111	797
At 31 Dec	**796,969,111**	**797**	796,969,111	797

HSBC Bank plc $0.01 non-cumulative third dollar preference shares

	2020		2019	
	Number	£000	Number	£000
At 1 Jan and 31 Dec	**35,000,000**	**172**	35,000,000	172

The bank has no obligation to redeem the preference shares but may redeem them in part or in whole at any time, subject to prior notification to the Prudential Regulation Authority. Dividends on the preference shares in issue are paid annually at the sole and absolute discretion of the Board of Directors. The Board of Directors will not declare a dividend on the preference shares in issue if payment of the dividend would cause the bank not to meet the capital adequacy requirements of the Prudential Regulation Authority or the profit of the bank, available for distribution as dividends, is not sufficient to enable the bank to pay in full both dividends on the preference shares in issue and dividends on any other shares that are scheduled to be paid on the same date and have an equal right to dividends or if payment of the dividend is prohibited by the rights attached to any class of shares in the capital of the bank, excluding ordinary shares.

The preference shares in issue carry no rights to conversion into ordinary shares of the bank. Holders of the preference shares in issue will be able to attend any general meetings of shareholders of the bank and to vote on any resolution proposed to vary or abrogate any of the rights attaching to the preference shares or any resolution proposed to reduce the paid up capital of the preference shares. If the dividend payable on the preference shares in issue has not been paid in full for the most recent dividend period or any resolution is proposed for the winding-up of the bank or the sale of its entire business then, in such circumstances, holders of preference shares will be entitled to vote on all matters put to general meetings. In the case of unpaid dividends, the holders of preference shares in issue will be entitled to attend and vote at any general meetings until such time as dividends on the preference shares have been paid in full, or a sum set aside for such payment in full, in respect of one dividend period. All shares in issue are fully paid.

Other equity instruments

HSBC Bank plc additional tier 1 instruments

		2020	2019
		£m	£m
€1,900m	Undated Subordinated Resettable Additional Tier 1 instrument issued 2015 (Callable December 2020 onwards)	**1,388**	1,388
€235m	Undated Subordinated Resettable Additional Tier 1 instrument issued 2016 (Callable January 2022 onwards)	**197**	197
€300m	Undated Subordinated Resettable Additional Tier 1 instrument 2018 (Callable March 2023 onwards)	**263**	263
£555m	Undated Subordinated Resettable Additional Tier 1 instrument 2018 (Callable March 2023 onwards)	**555**	555
£500m	Undated Subordinated Resettable Additional Tier 1 instrument 2019 (Callable November 2024 onwards)	**500**	500
€250m	Undated Subordinated Resettable Additional Tier 1 instrument 2019 (Callable November 2024 onwards)	**213**	213
£431m	Undated Subordinated Resettable Additional Tier 1 instrument 2019 (Callable December 2024 onwards)	**431**	431
€200m	Undated Subordinated Resettable Additional Tier 1 instrument 2019 (Callable January 2025 onwards)	**175**	175
At 31 Dec		**3,722**	3,722

These instruments are held by HSBC UK Holdings Ltd. The bank has issued capital instruments that are included in the group's capital base as fully CRR II compliant additional tier 1 capital.

Interest on these instruments will be due and payable only at the sole discretion of the bank, and the bank has sole and absolute discretion at all times and for any reason to cancel (in whole or in part) any interest payment that would otherwise be payable on any date. There are limitations on the payment of principal, interest or other amounts if such payments are prohibited under UK banking regulations, or other requirements, if the bank has insufficient distributable reserves or if the bank fails to satisfy the solvency condition as defined in the instruments terms.

The instruments are undated and are repayable, at the option of the bank, in whole at the initial call date, or on any Interest Payment Date after the initial call date. In addition, the instruments are repayable at the option of the bank in whole for certain regulatory or tax reasons. Any repayments require the prior consent of the Prudential Regulation Authority. These instruments rank *pari passu* with the bank's most senior class or classes of issued preference shares and therefore ahead of ordinary shares. These instruments will be written down in whole, together with any accrued but unpaid interest if either the group's solo or consolidated Common Equity Tier 1 Capital Ratio falls below 7.00%.

30 Contingent liabilities, contractual commitments and guarantees

	The group		The bank	
	2020	2019	2020	2019
	£m	£m	£m	£m
Guarantees and other contingent liabilities:				
– financial guarantees	**3,969**	4,318	**1,510**	3,695
– performance and other guarantees	**14,282**	15,186	**7,156**	7,554
– other contingent liabilities	**458**	609	**376**	526
At 31 Dec	**18,709**	20,113	**9,042**	11,775
Commitments:[1]				
– documentary credits and short-term trade-related transactions	**1,366**	1,810	**534**	642
– forward asset purchases and forward deposits placed	**42,793**	37,998	**4,747**	2,906
– standby facilities, credit lines and other commitments to lend	**103,144**	89,096	**41,059**	40,539
At 31 Dec	**147,303**	128,904	**46,340**	44,087

1 *Includes £143,036m of commitments (2019: £121,447m), to which the impairment requirements in IFRS 9 are applied where the group has become party to an irrevocable commitment.*

The above table discloses the nominal principal amounts, which represent 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.

UK branches of HSBC overseas entities

In December 2017, HM Revenue & Customs ('HMRC') challenged the VAT status of certain UK branches of HSBC overseas entities. HMRC has also issued notices of assessment covering the period from 1 October 2013 to 31 December 2017 totalling £262m, with interest to be determined. No provision has been recognised in respect of these notices. In Q1 2019, HMRC reaffirmed its assessment that the UK branches are ineligible to be members of the UK VAT group and, consequently, HSBC paid HMRC the sum of £262m and filed appeals which remain pending. The payment of £262m is recorded as an asset on HSBC's balance sheet at 31 December 2020. Since January 2018, HSBC's returns have been prepared on the basis that the UK branches are not in the UK VAT group. In the event that HSBC's appeals are successful, HSBC will seek a refund of this VAT, of which £97m is estimated to be attributable to HSBC Bank plc.

Contingent liabilities arising from legal proceedings, regulatory and other matters against group companies are disclosed in Note 32.

Financial Services Compensation Scheme

The Financial Services Compensation Scheme ('FSCS') provides compensation to customers of financial services firms that have failed. The group could be liable to pay a proportion of any future amounts that the FSCS borrows from HM Treasury to the extent the industry levies imposed to date are not sufficient to cover the compensation due to customers in any future possible collapse. The ultimate FSCS levy to the industry as a result of a collapse cannot be estimated reliably. It is dependent on various uncertain factors including the potential recovery of assets by the FSCS, changes in the level of protected products (including deposits and investments) and the population of FSCS members at the time.

Guarantees

	The group				The bank			
	2020		2019		**2020**		2019	
	In favour of third parties	**By the group in favour of other HSBC Group entities**	In favour of third parties	By the group in favour of other HSBC Group entities	**In favour of third parties**	**By the bank in favour of other HSBC Group entities**	In favour of third parties	By the bank in favour of other HSBC Group entities
	£m	**£m**	£m	£m	**£m**	**£m**	£m	£m
Financial guarantees[1]	**3,541**	**428**	3,832	486	**895**	**615**	1,289	2,406
Performance and other guarantees	**13,091**	**1,191**	14,129	1,057	**6,088**	**1,068**	6,634	920
Total	**16,632**	**1,619**	17,961	1,543	**6,983**	**1,683**	7,923	3,326

1 *Financial guarantees contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due, in accordance with the original or modified terms of a debt instrument. The amounts in the above table are nominal principal amounts. 'Financial guarantees' to which the impairment requirements in IFRS 9 are applied have been presented separately from other guarantees to align with credit risk disclosures.*

The group provides guarantees and similar undertakings on behalf of both third-party customers and other entities within HSBC Group. These guarantees are generally provided in the normal course of the group's banking businesses. Guarantees with terms of more than one year are subject to the group's annual credit review process.

31 Finance lease receivables

The group leases a variety of assets to third parties under finance leases, including transport assets (such as aircraft), property and general plant and machinery. At the end of lease terms, assets may be sold to third parties or leased for further terms. Rentals are calculated to recover the cost of assets less their residual value, and earn finance income.

	2020			2019		
	Total future minimum payments	**Unearned finance income**	**Present value**	Total future minimum payments	Unearned finance income	Present Value
	£m	**£m**	**£m**	£m	£m	£m
Lease receivables:						
No later than one year	**270**	**(16)**	**254**	392	(18)	374
One to two years	**253**	**(17)**	**236**	256	(19)	237
Two to three years	**424**	**(15)**	**409**	306	(17)	289
Three to four years	**305**	**(15)**	**290**	279	(15)	264
Four to five years	**152**	**(9)**	**143**	168	(13)	155
Later than one year and no later than five years	**1,134**	**(56)**	**1,078**	1,009	(64)	945
Later than five years	**770**	**(31)**	**739**	840	(33)	807
At 31 Dec	**2,174**	**(103)**	**2,071**	2,241	(115)	2,126

32 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. While the outcomes of legal proceedings and regulatory matters are inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters as at 31 December 2020 (see Note 25). Where an individual provision is material, the fact that a provision has been made is stated and quantified, except to the extent that doing so would be seriously prejudicial. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

Bernard L. Madoff Investment Securities LLC

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

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

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

US litigation: The Trustee has brought lawsuits against various HSBC companies and others in the US Bankruptcy Court for the Southern District of New York (the 'US Bankruptcy Court'), seeking recovery of transfers from Madoff Securities to HSBC in an amount not yet pleaded or determined. HSBC and other parties to the actions have moved to dismiss the Trustee's claims. The US Bankruptcy Court granted HSBC's motion to dismiss with respect to certain of the Trustee's claims in November 2016. In February 2019, the US Court of Appeals for the Second Circuit (the 'Second Circuit Court of Appeals') reversed that dismissal. Following the US Supreme Court's denial of certiorari in June 2020, the cases were remanded to the US Bankruptcy Court, where they are now pending.

Fairfield Sentry Limited, Fairfield Sigma Limited and Fairfield Lambda Limited (together, 'Fairfield') (in liquidation since July 2009) have brought a lawsuit in the US against fund shareholders, including HSBC companies that acted as nominees for clients, seeking restitution of redemption payments. In December 2018, the US Bankruptcy Court issued an opinion, which ruled in favour of the defendants' motion to dismiss in respect of certain claims by the liquidators for Fairfield and granted a motion by the liquidators to file amended complaints. As a result of that opinion, all claims against one of the HSBC companies, and certain claims against the remaining HSBC defendants, were dismissed. In May 2019, the liquidators appealed certain issues from the US Bankruptcy Court to the US District Court for the Southern District of New York (the 'New York District Court') and, in January 2020, the liquidators filed amended complaints on the claims remaining in the US Bankruptcy Court. In March 2020, HSBC and other parties to the action moved to dismiss the amended complaints in the US Bankruptcy Court. In December 2020, the US Bankruptcy Court granted in part and denied in part the defendants' motion. This action remains pending in the US Bankruptcy Court and the New York District Court.

UK litigation: The Trustee has filed a claim against various HSBC companies in the High Court of England and Wales, seeking recovery of transfers from Madoff Securities to HSBC in an amount not yet pleaded or determined. The deadline for service of the claim has been extended to September 2021 for UK-based defendants and November 2021 for all other defendants.

Cayman Islands litigation: In February 2013, Primeo Fund ('Primeo') (in liquidation since April 2009) brought an action against HSBC Securities Services Luxembourg ('HSSL') and Bank of Bermuda (Cayman) Limited (now known as HSBC Cayman Limited), alleging breach of contract and breach of fiduciary duty and claiming damages and equitable compensation. The trial concluded in February 2017 and, in August 2017, the court dismissed all claims against the defendants. In September 2017, Primeo appealed to the Court of Appeal of the Cayman Islands and, in June 2019, the Court of Appeal of the Cayman Islands dismissed Primeo's appeal. In August 2019, Primeo filed a notice of appeal to the UK Privy Council, which has listed the first of two possible hearings for April 2021.

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

In October 2009, Alpha Prime Fund Limited ('Alpha Prime') brought an action against HSSL before the Luxembourg District Court, seeking the restitution of securities, or the cash equivalent, or money damages. In December 2018, Alpha Prime brought additional claims before the Luxembourg District Court seeking damages against various HSBC companies. These matters are currently pending before the Luxembourg District Court.

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

Ireland litigation: In November 2013, Defender Limited brought an action against HSBC Institutional Trust Services (Ireland) Limited ('HTIE') and others, based on allegations of breach of contract and claiming damages and indemnification for fund losses. The trial commenced in October 2018. In December 2018, the Irish High Court issued a judgment in HTIE's favour on a preliminary issue, holding that Defender Limited had no effective claim against HTIE. This judgment concluded the trial without further issues in dispute being heard. In February 2019, Defender Limited appealed the decision. In July 2020, the Irish Supreme Court ruled in part in favour of Defender Limited and returned the case to the High Court for further proceedings, which will resume in April 2021.

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

Anti-money laundering and sanctions-related matters

In December 2012, HSBC Holdings plc ('HSBC Holdings') entered into a number of agreements, including an undertaking with the UK Financial Services Authority (replaced with a Direction issued by the UK Financial Conduct Authority ('FCA') in 2013, and again in 2020) as well as 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 was, 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. In 2020, HSBC's engagement with the independent compliance monitor, acting in his roles as both Skilled Person and Independent Consultant, concluded. The role of FCA Skilled Person was assigned to a new individual in the second quarter of 2020. Separately, a new FRB Independent Consultant will be appointed pursuant to the cease-and-desist order. The roles of each of the FCA Skilled Person and the FRB Independent Consultant are discussed on page 81.

The FCA is conducting an investigation into HSBC Bank plc's and HSBC UK Bank plc's compliance with UK money laundering regulations and financial crime systems and controls requirements. HSBC continues to cooperate with the FCA's investigation, which is at or nearing completion.

Since November 2014, a number of lawsuits have been filed in federal courts in the US against various HSBC companies and others on behalf of plaintiffs who are, or are related to, victims of terrorist attacks in the Middle East. In each case, it is alleged that the defendants aided and abetted the unlawful conduct of various sanctioned parties in violation of the US Anti-Terrorism Act. Currently, nine actions against HSBC Bank plc remain pending in federal courts in New York or the District of Columbia. In March and September 2019, the courts granted HSBC's motions to dismiss in two of these cases. The plaintiffs have appealed the decision in one of these cases. HSBC filed motions to dismiss in three further cases, with two of the motions granted in June 2020, and the third granted in November 2020. The four remaining actions are at a very early stage.

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

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

Euro interest rate derivatives: In December 2016, the European Commission (the 'EC') issued a decision finding that HSBC, among other banks, engaged in anti-competitive practices in connection with the pricing of euro interest rate derivatives in early 2007. The EC imposed a fine on HSBC based on a one-month infringement. HSBC appealed the decision and, in September 2019, the General Court of the European Union (the 'General Court') issued a decision largely upholding the EC's findings on liability but annulling the fine. HSBC and the EC have both appealed the General Court's decision to the European Court of Justice.

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

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

Intercontinental Exchange ('ICE') Libor: Between January and March 2019, HSBC and other panel banks were named as defendants in three putative class actions filed in the New York District Court on behalf of persons and entities who purchased instruments paying interest indexed to US dollar ICE Libor from a panel bank. The complaints allege, among other things, misconduct related to the suppression of this benchmark rate in violation of US antitrust and state law. In July 2019, the three putative class actions were consolidated, and the plaintiffs filed a consolidated amended complaint. In March 2020, the court granted the defendants' joint motion to dismiss in its entirety. This matter is on appeal.

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

Foreign exchange-related investigations and litigation

Since at least 2014, the EC has been conducting an investigation into trading activities by a number of banks, including HSBC, in the foreign exchange spot market. HSBC is cooperating with this investigation.

In January 2021, HSBC Holdings exited its three-year deferred prosecution agreement with the Criminal Division of the US Department of Justice ('DoJ') (the 'FX DPA'), regarding fraudulent conduct in connection with two particular transactions in 2010 and 2011. HSBC Holdings entered into the FX DPA in January 2018, following the conclusion of the DoJ's investigation into HSBC's historical foreign exchange activities. Under the terms of the FX DPA, the DoJ is expected to file a motion to dismiss the charges deferred by the FX DPA in due course.

In June 2020, the Competition Commission of South Africa, having initially referred a complaint for proceedings before the South African Competition Tribunal in February 2017, filed a revised complaint against 28 financial institutions, including HSBC Bank plc, for alleged anti-competitive behaviour in the South African foreign exchange market. In August 2020, HSBC Bank plc filed an application to dismiss the revised complaint, which remains pending.

In late 2013 and early 2014, various HSBC companies and other banks were named as defendants in various putative class actions consolidated in the New York District Court. The consolidated complaint alleged, among other things, that the defendants conspired to manipulate the WM/Reuters foreign exchange benchmark rates. In September 2015, HSBC reached an agreement with the plaintiffs to resolve the consolidated action, and the court granted final approval of the settlement in August 2018.

In 2017, putative class action complaints making similar allegations on behalf of purported indirect purchasers of foreign exchange products were filed in New York and were subsequently consolidated in the New York District Court. In April 2020, HSBC reached an agreement with the plaintiffs to resolve the indirect purchaser action. In November 2020, the New York District Court granted final approval of the settlement.

In September 2018, various HSBC companies and other banks were named as defendants in two motions for certification of class actions filed in Israel alleging foreign exchange-related misconduct. In July 2019, the Tel Aviv Court allowed the plaintiffs to consolidate their claims and, in September 2019, the plaintiffs filed a motion for certification of the consolidated class action. In August 2020, HSBC Bank plc filed a motion to dismiss, which remains pending.

In November and December 2018, complaints alleging foreign exchange-related misconduct were filed in the New York District Court and the High Court of England and Wales against HSBC and other defendants by certain plaintiffs that opted out of the US class action settlement. In May 2020, the New York District Court granted in part and denied in part the defendants' motion to dismiss the US opt out actions. These matters remain at an early stage.

In February 2019, various HSBC companies were named as defendants in a claim issued in the High Court of England and Wales that alleges foreign exchange-related misconduct. This matter remains ongoing. It is possible that additional civil actions will be initiated against HSBC in relation to its historical foreign exchange activities.

As at 31 December 2020, the bank has recognised a provision for these and similar matters in the amount of £159m. There are many factors that may affect the range of outcomes, and the resulting financial impact, of these matters. Due to uncertainties and limitations of these estimates, the ultimate financial impact could differ significantly from the amount provided.

Precious metals fix-related litigation

Gold: Beginning in March 2014, numerous putative class actions were filed in the New York District Court and the US District Courts for the District of New Jersey and the Northern District of California, naming HSBC and other members of The London Gold Market Fixing Limited as defendants. The complaints allege that, from January 2004 to June 2013, the defendants conspired to manipulate the price of gold and gold derivatives for their collective benefit in violation of US antitrust laws, the US CEA and New York state law. The actions were consolidated in the New York District Court. The defendants' motion to dismiss the consolidated action was granted in part and denied in part in October 2016. In June 2017, the court granted the plaintiffs leave to file a third amended complaint, naming a new defendant. In October 2020, HSBC reached a settlement in principle with the plaintiffs to resolve the consolidated action. The settlement remains subject to court approval.

Beginning in December 2015, numerous putative class actions under Canadian law were filed in the Ontario and Quebec Superior Courts of Justice against various HSBC companies and other financial institutions. The plaintiffs allege that, among other things, from January 2004 to March 2014, the defendants conspired to manipulate the price of gold and gold derivatives in violation of the Canadian Competition Act and common law. These actions are ongoing.

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

In April 2016, two putative class actions under Canadian law were filed in the Ontario and Quebec Superior Courts of Justice against various HSBC companies and other financial institutions. The plaintiffs in both actions allege that, from January 1999 to August 2014, the defendants conspired to manipulate the price of silver and silver derivatives in violation of the Canadian Competition Act and common law. These actions are ongoing.

Platinum and palladium: Between late 2014 and early 2015, numerous putative class actions were filed in the New York District Court, naming HSBC and other members of The London Platinum and Palladium Fixing Company Limited as defendants. The complaints allege that, from January 2008 to November 2014, the defendants conspired to manipulate the price of platinum group metals ('PGM') and PGM-based financial products for their collective benefit in violation of US antitrust laws and the US CEA. In March 2017, the defendants' motion to dismiss the second amended consolidated complaint was granted in part and denied in part. In June 2017, the plaintiffs filed a third amended complaint. In March 2020, the court granted the defendants' motion to dismiss the third amended complaint but granted the plaintiffs leave to re-plead certain claims. The plaintiffs have filed an appeal.

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

Other regulatory investigations, reviews and litigation

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

- an investigation by the FCA in connection with collections and recoveries operations in the UK;
- an information request from the UK Competition and Markets Authority concerning the financial services sector; and
- two group actions pending in the US courts and a claim issued in the High Court of England and Wales in connection with HSBC Bank plc's role as a correspondent bank to Stanford International Bank Ltd from 2003 to 2009.

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

33 Related party transactions

The immediate parent company of the group is HSBC UK Holdings Limited and the ultimate parent company is HSBC Holdings plc, both of which are incorporated in England.

Copies of the Group financial statements may be obtained from the below address.

HSBC Holdings plc

8 Canada Square

London E14 5HQ

IAS 24 'Related party disclosures' defines related parties as including the parent, fellow subsidiaries, associates, joint ventures, post-employment benefit plans for HSBC employees, Key Management Personnel ('KMP') of the group and its ultimate parent company, close family members of the KMP and entities which are controlled, jointly controlled or significantly influenced by the KMP or their close family members.

Particulars of transactions between the group and the related parties are tabulated below. The disclosure of the year-end balance and the highest amounts outstanding during the year are considered to be the most meaningful information to represent the amount of the transactions and outstanding balances during the year.

Key Management Personnel

The KMP of the bank are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the bank. They include the Directors of HSBC Bank plc, and Directors and certain members of the Group Executive Committee of HSBC Holdings plc, to the extent they have a role in directing the affairs of the bank.

A number of the bank's KMP are not Directors of the group, but are Directors or Group Executive Committee members of HSBC Holdings plc. The emoluments of these KMP are paid by other members of the Group who make no recharge to the bank. It is not possible to make a reasonable apportionment of their emoluments in respect of the bank. Accordingly, no emoluments in respect of these KMP are included in the following disclosure.

The tables below represent the compensation for Directors of the bank in exchange for services rendered to the bank for the period they served during the year.

Compensation of Key Management Personnel

	2020	2019
	£000	£000
Short-term employee benefits	**3,865**	3,330
Other long-term employee benefits	**429**	48
Share-based payments	**586**	348
Year ended 31 Dec	**4,899**	3,726

Advances and credits, guarantees and deposit balances during the year with Key Management Personnel

	2020		2019	
	Balance at 31 Dec	**Highest amounts outstanding during year[2]**	Balance at 31 Dec	Highest amounts outstanding during year
	£m	**£m**	£m	£m
Key Management Personnel[1]				
Advances and credits	**0.03**	**1.5**	0.2	0.4
Deposits	**13**	**39**	8	21

1 *Includes close family members and entities which are controlled or jointly controlled by KMP of the bank or their close family members.*
2 *Exchange rate applied for non-GBP amounts is the average for the year.*

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

In addition to the requirements of IAS 24, particulars of advances (loans and quasi-loans), credits and guarantees entered into by the group with Directors of HSBC Bank plc are required to be disclosed pursuant to section 413 of the Companies Act 2006. Under the Companies Act, there is no requirement to disclose transactions with KMP of the bank's ultimate parent company, HSBC Holdings plc.

Transactions with Directors: advances, credits and guarantees (Companies Act 2006)

	2020	2019
	Balance at 31 Dec	Balance at 31 Dec
	£000	£000
Directors		
Loans	**—**	150

Other related parties

Transactions and balances during the year with KMP of the bank's ultimate parent company

During the course of 2019 and 2020, there were no transactions and balances between KMP of the bank's ultimate parent company, who were not considered KMP of the bank, in respect of Advances and Credits, Guarantees and Deposits.

Transactions and balances during the year with associates and joint ventures

During the course of 2019 and 2020, there were no transactions and balances with associates and joint ventures, in respect of Loans, Deposits, Guarantees and commitments.

The group's transactions and balances during the year with HSBC Holdings plc and subsidiaries of HSBC Holdings plc

	2020				2019			
	Due to/from HSBC Holdings plc		Due to/from subsidiaries of HSBC Holdings plc		Due to/from HSBC Holdings plc		Due to/from subsidiaries of HSBC Holdings plc	
	Highest balance during the year	Balance at 31 Dec	Highest balance during the year	Balance at 31 Dec	Highest balance during the year	Balance at 31 Dec	Highest balance during the year	Balance at 31 Dec
	£m	£m	£m	£m	£m	£m	£m	£m
Assets								
Trading assets	170	108	1,664	1,154	98	75	676	302
Derivatives	2,261	2,002	33,785	20,980	1,685	1,447	24,696	18,130
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	7	7	29	28	8	7	198	27
Loans and advances to banks	—	—	6,222	4,048	—	—	5,341	1,957
Loans and advances to customers	—	—	505	435	406	—	612	400
Financial investments	172	172	—	—	229	160	—	—
Reverse repurchase agreements – non-trading	—	—	4,638	1,137	—	—	6,303	4,638
Prepayments,accrued income and other assets	2,228	1,431	10,821	4,250	1,810	23	10,914	5,402
Total related party assets at 31 Dec	4,838	3,720	57,664	32,032	4,236	1,712	48,740	30,856
Liabilities								
Trading liabilities	406	151	742	51	348	326	1,591	293
Financial liabilities designated at fair value	—	—	1,307	1,201	1,241	—	1,310	1,191
Deposits by banks	—	—	4,961	2,534	—	—	7,373	2,928
Customer accounts	4,200	2,080	2,565	2,234	3,855	1,762	3,119	1,992
Derivatives	4,649	3,443	30,283	20,878	3,163	1,501	22,940	18,055
Subordinated liabilities	—	—	10,756	10,421	6,060	—	10,509	9,787
Repurchase agreements – non-trading	—	—	8,738	1,028	—	—	4,279	4,279
Provisions, accruals, deferred income and other liabilities	103	74	10,719	3,097	1,766	73	9,968	4,342
Total related party liabilities at 31 Dec	9,358	5,748	70,071	41,444	16,433	3,662	61,089	42,867
Guarantees and commitments	—	—	2,438	1,762	—	—	7,774	1,802

	Due to/from HSBC Holdings plc		Due to/from subsidiaries of HSBC Holdings plc	
	2020	2019	2020	2019
	£m	£m	£m	£m
Income statement				
Interest income	5	9	55	142
Interest expense[1]	(55)	84	256	329
Fee income	13	10	55	47
Fee expense	—	2	389	356
Trading income	—	—	2	8
Trading expense	—	—	2	15
Other operating income	30	69	365	322
General and administrative expenses	126	38	2,077	2,207

1 *2020 negative balance relates to net impact of fixed-for-floating-interest-rate swaps which the group has entered into to manage the movements in market interest rates on certain fixed rate financial liabilities.*

The above outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

The bank's transactions and balances during the year with HSBC Bank plc subsidiaries, HSBC Holdings plc and subsidiaries of HSBC Holdings plc

	2020						2019					
	Due to/from subsidiaries of HSBC Bank plc subsidiaries		**Due to/from HSBC Holdings plc**		**Due to/from subsidiaries of HSBC Holdings plc**		Due to/from subsidiaries of HSBC Bank plc subsidiaries		Due to/from HSBC Holdings plc		Due to/from subsidiaries of HSBC Holdings plc	
	Highest balance during the year	**Balance at 31 Dec**	**Highest balance during the year**	**Balance at 31 Dec**	**Highest balance during the year**	**Balance at 31 Dec**	Highest balance during the year	Balance at 31 Dec	Highest balance during the year	Balance at 31 Dec	Highest balance during the year	Balance at 31 Dec
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Assets												
Trading assets	**907**	**234**	**169**	**108**	**1,664**	**1,154**	1,363	907	98	75	676	302
Derivatives	**19,139**	**15,309**	**2,261**	**2,002**	**31,986**	**19,829**	30,022	13,839	1,685	1,447	23,229	17,134
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**—**	**—**	**—**	**—**	**—**	**—**	197	—	—	—	—	—
Loans and advances to banks	**5,263**	**2,123**	**—**	**—**	**4,794**	**3,083**	6,290	4,029	—	—	4,871	1,404
Loans and advances to customers	**8,198**	**6,446**	**—**	**—**	**395**	**322**	7,771	6,969	406	—	586	353
Financial investments	**2,214**	**2,214**	**—**	**—**	**—**	**—**	185	—	—	—	—	—
Reverse repurchase agreements – non-trading	**3,070**	**965**	**—**	**—**	**1,942**	**775**	7,095	3,070	—	—	4,080	1,782
Prepayments, accrued income and other assets	**4,769**	**2,986**	**2,228**	**1,430**	**10,063**	**4,136**	5,217	2,405	1,807	21	9,828	5,301
Investments in subsidiary undertakings	**6,458**	**6,458**	**—**	**—**	**—**	**—**	8,930	6,025	—	—	—	—
Total related party assets at 31 Dec	**50,018**	**36,735**	**4,658**	**3,540**	**50,844**	**29,299**	67,070	37,244	3,996	1,543	43,270	26,276
Liabilities												
Trading liabilities	**10**	**1**	**406**	**151**	**742**	**51**	3	—	348	326	1,591	293
Financial liabilities designated at fair value	**318**	**—**	**—**	**—**	**1,307**	**1,201**	318	318	1,241	—	1,310	1,191
Deposits by banks	**1,956**	**1,096**	**—**	**—**	**3,089**	**1,471**	3,905	1,428	—	—	5,003	1,416
Customer accounts	**1,287**	**1,287**	**4,200**	**2,080**	**2,509**	**2,178**	924	534	3,855	1,762	3,063	1,890
Derivatives	**18,174**	**17,378**	**4,649**	**3,443**	**29,159**	**20,161**	26,270	13,702	3,163	1,501	21,730	17,243
Subordinated liabilities	**700**	**700**	**—**	**—**	**10,519**	**10,187**	701	700	5,827	—	10,272	9,566
Repurchase agreements – non-trading	**2,349**	**988**	**—**	**—**	**8,468**	**1,028**	2,996	1,058	—	—	4,279	4,279
Provisions, accruals, deferred income and other liabilities	**7,716**	**1,563**	**63**	**45**	**9,578**	**2,510**	8,954	3,877	1,747	49	9,107	3,959
Total related party liabilities at 31 Dec	**32,510**	**23,013**	**9,318**	**5,719**	**65,371**	**38,787**	44,071	21,617	16,181	3,638	56,355	39,837
Guarantees and commitments	**11,011**	**4,974**	**—**	**—**	**1,427**	**893**	17,029	8,749	—	—	6,604	923

The above outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

Post-employment benefit plans

The HSBC Bank (UK) Pension Scheme (the 'Scheme') entered into swap transactions with the bank to manage the inflation and interest rate sensitivity of the liabilities. At 31 December 2020, the gross notional value of the swaps was £5,645m (2019: £7,464m), the swaps had a positive fair value of £713m to the bank (2019: positive fair value of £895m) and the bank had delivered collateral of £711m (2019: £904m) to the Scheme in respect of these swaps. All swaps were executed at prevailing market rates and within standard market bid/offer spreads.

34 Events after the balance sheet date

On the 26 January 2021 the bank acquired the remaining 0.67% non-controlling interest in its subsidiary HSBC Trinkaus & Burkhardt AG, making it wholly-owned. This followed the bank's acquisition of an 18.6% non-controlling interest during 2020. Subsequently the shares of HSBC Trinkaus & Burkhardt AG have been delisted.

35 HSBC Bank plc's subsidiaries, joint ventures and associates

In accordance with section 409 of the Companies Act 2006 a list of HSBC Bank plc subsidiaries, joint ventures and associates, the registered office address and the effective percentage of equity owned at 31 December 2020 is disclosed below.

Unless otherwise stated, the share capital comprises ordinary or common shares which are held by HSBC Bank plc subsidiaries. The ownership percentage is provided for each undertaking. The undertakings below are consolidated by HSBC Bank plc unless otherwise indicated.

HSBC Bank plc's registered office address is:

HSBC Bank plc

8 Canada Square

London E14 5HQ

Subsidiaries

The undertakings below are consolidated by the group.

Subsidiaries	% of share class held by immediate parent company (or by HSBC Bank plc where this varies)		Footnotes
Assetfinance December (H) Limited	100.00		15
Assetfinance December (M) Limited (In Liquidation)	100.00		16
Assetfinance December (P) Limited	100.00		2, 15
Assetfinance December (R) Limited	100.00		15
Assetfinance June (A) Limited	100.00		15
Assetfinance Limited	100.00		15
Assetfinance March (B) Limited	100.00		17
Assetfinance March (F) Limited	100.00		15
Assetfinance September (F) Limited	100.00		15
Banco Nominees (Guernsey) Limited	100.00		18
Banco Nominees 2 (Guernsey) Limited	100.00		18
Beau Soleil Limited Partnership	n/a		0, 19
Billingsgate Nominees Limited (In Liquidation)	100.00		2, 15
Canada Crescent Nominees (UK) Limited	100.00		2, 15
CCF & Partners Asset Management Limited	100.00	(99.99)	15
CCF Holding (LIBAN) S.A.L. (In Liquidation)	74.99		20
Charterhouse Administrators (D.T.) Limited	100.00	(99.99)	15
Charterhouse Management Services Limited	100.00	(99.99)	15
Charterhouse Pensions Limited	100.00		2, 15
COIF Nominees Limited	n/a		0, 2, 15
Corsair IV Financial Services Capital Partners-B,	n/a		30
Dem 9	100.00	(99.99)	4, 21
Dempar 1	100.00	(99.99)	4, 21
Equator Holdings Limited (In Liquidation)	100.00		2, 16
Eton Corporate Services Limited	100.00		18
Flandres Contentieux S.A.	100.00	(99.99)	21
Foncière Elysées	100.00	(99.99)	21
Griffin International Limited	100.00		15
Grundstuecksgesellschaft Trinkausstrasse Kommanditgesellschaft	n/a		0, 23
HSBC (BGF) Investments Limited	100.00		2, 15
HSBC Asset Finance (UK) Limited	100.00		2, 15
HSBC Asset Finance M.O.G. Holdings (UK) Limited	100.00		2, 15
HSBC Assurances Vie (France)	100.00	(99.99)	24
HSBC Bank (General Partner) Limited	100.00		2, 25
HSBC Bank (RR) (Limited Liability Company)	n/a		0, 13, 26
HSBC Bank Armenia cjsc	70.00		27
HSBC Bank Capital Funding (Sterling 1) LP	n/a		0, 25
HSBC Bank Capital Funding (Sterling 2) LP	n/a		0, 25
HSBC Bank Malta p.l.c.	70.03		28
HSBC Bank Pension Trust (UK) Limited	100.00		2, 15
HSBC City Funding Holdings	100.00		15
HSBC Client Holdings Nominee (UK) Limited	100.00		2, 15
HSBC Client Nominee (Jersey) Limited	100.00		2, 29
HSBC Continental Europe	99.99		21
HSBC Corporate Trustee Company (UK)	100.00		2, 15
HSBC Custody Services (Guernsey) Limited	100.00		18
HSBC Enterprise Investment Company (UK) Limited (In Liquidation)	100.00		2, 16
HSBC Epargne Entreprise (France)	100.00	(99.99)	24
HSBC Equator (UK) Limited (In Liquidation)	100.00		16
HSBC Equity (UK) Limited	100.00		2, 15
HSBC Europe B.V.	100.00		15
HSBC Factoring (France)	100.00	(99.99)	21
HSBC Germany Holdings GmbH	100.00		2, 23
HSBC Global Asset Management (Deutschland) GmbH	100.00	(99.33)	23
HSBC Global Asset Management (France)	100.00	(99.99)	24
HSBC Global Asset Management (International) Limited (In Liquidation)	100.00		2, 31
HSBC Global Asset Management (Malta) Limited	100.00	(70.03)	32
HSBC Global Asset Management (Oesterreich) GmbH	100.00	(99.33)	6, 33
HSBC Global Asset Management (Switzerland) AG	100.00	(99.66)	4, 34
HSBC Global Custody Nominee (UK) Limited	100.00		2, 15
HSBC Global Custody Proprietary Nominee (UK) Limited	100.00		1, 2, 15
HSBC Global Shared Services (India) Private Limited (In Liquidation)	99.99		1, 35
HSBC Infrastructure Limited	100.00		15
HSBC INKA Investment-AG TGV	100.00	(99.33)	14, 36
HSBC Insurance Services Holdings Limited	100.00		2, 15
HSBC Investment Bank Holdings Limited	100.00		2, 15
HSBC Issuer Services Common Depositary Nominee (UK) Limited	100.00		2, 15
HSBC Issuer Services Depositary Nominee (UK) Limited	100.00		2, 15
HSBC Leasing (France)	100.00	(99.99)	21
HSBC Life (UK) Limited	100.00		2, 15
HSBC Life Assurance (Malta) Limited	100.00	(70.03)	32
HSBC LU Nominees Limited	100.00		2, 15
HSBC Marking Name Nominee (UK) Limited	100.00		2, 15
HSBC Middle East Leasing Partnership	n/a		0, 37
HSBC Operational Services GmbH	90.10	(89.49)	38
HSBC Overseas Nominee (UK) Limited	100.00		2, 15
HSBC PB Corporate Services 1 Limited	100.00		39
HSBC Pension Trust (Ireland) DAC	100.00		2, 40
HSBC PI Holdings (Mauritius) Limited	100.00		41
HSBC Preferential LP (UK)	100.00		2, 15
HSBC Private Banking Nominee 3 (Jersey) Limited	100.00		39
HSBC Private Equity Investments (UK) Limited	100.00		15
HSBC Property Funds (Holding) Limited	100.00		15
HSBC Real Estate Leasing (France)	100.00	(99.99)	21
HSBC REIM (France)	100.00	(99.99)	24
HSBC Securities (Egypt) S.A.E.	100.00	(0.80)	42
HSBC Securities (South Africa) (Pty) Limited	100.00		2, 43
HSBC Securities Services (Guernsey) Limited	100.00	99.99	18
HSBC Securities Services (Ireland) DAC	100.00		40
HSBC Securities Services (Luxembourg) S.A.	100.00		2, 44
HSBC Securities Services Holdings (Ireland) DAC	100.00		40
HSBC Service Company Germany GmbH	100.00	(99.33)	45
HSBC Services (France)	100.00	(99.99)	21
HSBC SFH (France)	100.00	(99.99)	4, 24
HSBC SFT (C.I.) Limited	100.00		2, 18
HSBC Specialist Investments Limited	100.00		15
HSBC Transaction Services GmbH	100.00	(99.33)	6, 46
HSBC Trinkaus & Burkhardt (International)	100.00	(99.33)	44
HSBC Trinkaus & Burkhardt AG	99.33		23
HSBC Trinkaus & Burkhardt Gesellschaft fur Bankbeteiligungen mbH	100.00	(99.33)	23
HSBC Trinkaus Europa Immobilien-Fonds Nr. 5 GmbH	100.00	(99.33)	23
HSBC Trinkaus Family Office GmbH	100.00	(99.33)	6, 23
HSBC Trinkaus Immobilien Beteiligungs KG	100.00	(99.33)	23
HSBC Trinkaus Real Estate GmbH	100.00	(99.33)	6, 23
HSBC Trustee (C.I.) Limited	100.00		2, 39
HSBC Trustee (Guernsey) Limited	100.00		2, 18
HSIL Investments Limited	100.00		15
Infrared NF China Real Estate Investments LP	n/a		22
INKA Internationale Kapitalanlagegesellschaft mbH	100.00	(99.33)	46
James Capel & Co. Limited	100.00		2, 15
James Capel (Nominees) Limited	100.00		2, 15

Subsidiaries	% of share class held by immediate parent company (or by HSBC Bank plc where this varies)		Footnotes
James Capel (Taiwan) Nominees Limited	100.00		2, 15
Keyser Ullmann Limited	100.00	(99.99)	15
Midcorp Limited	100.00		2, 15
Prudential Client HSBC GIS Nominee (UK) Limited	100.00		2, 15
Republic Nominees Limited	100.00		2, 18
RLUKREF Nominees (UK) One Limited	100.00		1, 2, 15
RLUKREF Nominees (UK) Two Limited	100.00		1, 2, 15
S.A.P.C. – Ufipro Recouvrement	99.99		21
Saf Baiyun	100.00	(99.99)	4, 21
Saf Guangzhou	100.00	(99.99)	4, 21
Saf Zhu Jiang Shi Ba	100.00	(99.99)	4, 21
Saf Zhu Jiang Shi Er	100.00	(99.99)	4, 21
Saf Zhu Jiang Shi Jiu	100.00	(99.99)	4, 21
Saf Zhu Jiang Shi Liu	100.00	(99.99)	4, 21
Saf Zhu Jiang Shi Qi	100.00	(99.99)	4, 21
Saf Zhu Jiang Shi Wu	100.00	(99.99)	4, 21
SCI HSBC Assurances Immo	100.00	(99.99)	24
SFM	100.00	(99.99)	21
SFSS Nominees (Pty) Limited	100.00		43
SNC Dorique	99.99		1, 11, 49
SNC Les Mercuriales	100.00	(99.99)	1, 11, 21
SNC Les Oliviers D'Antibes	60.00	59.99	24
SNC Makala	100.00	(99.99)	1, 11, 21
SNCB/M6 - 2008 A	100.00	(99.99)	21
SNCB/M6-2007 A	100.00	(99.99)	4, 21
SNCB/M6-2007 B	100.00	(99.99)	4, 21
Société Française et Suisse	100.00	(99.99)	21
Somers Dublin DAC	100.00	(99.99)	40
Sopingest	100.00	(99.99)	21
South Yorkshire Light Rail Limited	100.00		15
Swan National Limited	100.00		15
The Venture Catalysts Limited	100.00		2, 15
Trinkaus Australien Immobilien Fonds Nr. 1 Brisbane GmbH & Co. KG	100.00	(99.33)	23
Trinkaus Australien Immobilien-Fonds Nr. 1 Treuhand-GmbH	100.00	(99.33)	6, 23
Trinkaus Europa Immobilien-Fonds Nr.3 Objekt Utrecht Verwaltungs-GmbH	100.00	(99.33)	23
Trinkaus Immobilien-Fonds Geschaeftsfuehrungs-GmbH	100.00	(99.33)	6, 23
Trinkaus Immobilien-Fonds Verwaltungs-	100.00	(99.33)	6, 23
Trinkaus Private Equity Management GmbH	100.00	(99.33)	23
Trinkaus Private Equity Verwaltungs GmbH	100.00	(99.33)	6, 23
Valeurs Mobilières Elysées	100.00	(99.99)	21

Joint ventures

The undertakings below are joint ventures and equity accounted.

Joint Ventures	held by immediate parent company (or by HSBC Bank plc where this varies)	Footnotes
HCM Holdings Limited (In Liquidation)	50.99	16
The London Silver Market Fixing Limited	n/a	1, 51

Associates

The undertakings below are associates and equity accounted.

Associates	held by immediate parent company (or by HSBC Bank plc where this varies)	Footnotes
BGF Group plc	24.56	51
Bud Financial Limited	10.82	1, 3, 52
Contour	10.80	47
CFAC Payment Scheme Limited	33.33	3, 53
Chemi & Cotex (Rwanda) Limited	33.99	1, 54
Chemi & Cotex Kenya Limited	33.99	1, 55
Chemi and Cotex Industries Limited	33.99	56
Euro Secured Notes Issuer	16.66	57
Episode Six Ltd	9.10	68
GIE GNIFI	n/a	0, 1, 58
Jeppe Star Limited	33.99	59
Liquidity Match LLC	n/a	66
London Precious Metals Clearing Limited	30.00	65
Novo Star Limited	33.99	60
Quantexa Ltd	10.99	48
Services Epargne Enterprise	14.18	61
SIMON Group LLC	n/a	67
sino AG	24.77	62
Trade Information Network	16.67	69
Trinkaus Europa Immobilien-Fonds Nr. 7 Frankfurt Mertonviertel KG	n/a	0, 23
Vizolution Limited	17.95	1, 63
We Trade Innovation Designated Activity Company	8.52	1, 64

Footnotes

0	Where an entity is governed by voting rights, HSBC consolidates when it holds - directly or indirectly - the necessary voting rights to pass resolutions by the governing body. In all other cases, the assessment of control is more complex and requires judgement of other factors, including having exposure to variability of returns, power to direct relevant activities, and whether power is held as an agent or principal. HSBC's consolidation policy is described in Note 1.2(a)
1	Management has determined that these undertakings are excluded from consolidation in the Group accounts as these entities do not meet the definition of subsidiaries in accordance with IFRSs. HSBC's consolidation policy is described in Note 1.2(a).
2	Directly held by HSBC Bank plc
Description of shares	
3	Preference Shares
4	Actions
5	Redeemable Preference Shares
6	GmbH Anteil
7	Limited and Unlimited Liability Shares
8	Liquidating Share Class
9	Nominal Shares
10	Non-Participating Voting Shares
11	Parts
12	Registered Capital Shares
13	Russian Limited Liability Company Shares
14	Stückaktien

Registered offices

15	8 Canada Square , London, United Kingdom, E14 5HQ
16	Hill House, 1 Little New Street, London, United Kingdom, EC4A 3TR
17	5 Donegal Square South , Belfast, Northern Ireland, BT1 5JP
18	Arnold House St Julians Avenue, St Peter Port, Guernsey, GY1 3NF
19	HSBC Main Building 1 Queen's Road Central, Hong Kong
20	Solidere – Rue Saad Zaghloul Immeuble – 170 Marfaa, PO Box 17 5476 Mar Michael 11042040, Beyrouth, Lebanon
21	38 avenue Kléber, Paris, France, 75116
22	Oak House Hirzel Street, St Peter Port, Guernsey, GY1 2NP
23	Königsallee 21/23 , Düsseldorf, Germany, 40212
24	La défense 4, Courbevoie, France, 92400
25	HSBC House Esplanade, St. Helier, Jersey, JE4 8UB
26	2 Paveletskaya square, building 2 , Moscow, Russian Federation, 115054
27	66 Teryan street , Yerevan, Armenia, 0009
28	116 Archbishop Street, Valletta, Malta
29	HSBC House Esplanade, St. Helier, Jersey, JE1 1HS
30	Walkers Corporate Services Limited,Walker House,87 Mary Street George Town,Grand Cayman,KY1 – 9005,Cayman Islands
31	HSBC House Esplanade, St. Helier, Jersey, JE4 8WP
32	80 Mill Street, Qormi, Malta, QRM 3101
33	Herrengasse 1-3 , Wien, Austria, 1010
34	26 Gartenstrasse, Zurich, Switzerland
35	52/60 M G Road, Fort, Mumbai, India, 400 001
36	Breite Str. 29/31, Düsseldorf, Germany, 40213
37	Unit 101 Level 1, Gate Village Building No. 8 Dubai International Financial Centre, Dubai, United Arab Emirates, PO BOX 506553
38	21-23 Yorckstraße, Düsseldorf, Nordrhein-Westfalen, Germany, 40476
39	HSBC House Esplanade, St. Helier, Jersey, JE1 1GT
40	1 Grand Canal Square Grand Canal Harbour, Dublin 2, D02 P820, Ireland
41	6th Floor HSBC Centre, Cybercity, Ebene, Mauritius, 72201
42	306 Corniche El Nil , Maadi, Egypt, 11728
43	1 Mutual Place 107 Rivonia Road , Sandton , Gauteng, South Africa, 2196
44	16 Boulevard d'Avranches, Luxembourg, Luxembourg, 1160
45	Hansaallee 3, Düsseldorf, Germany, 40549
46	Yorckstraße 21 - 23 40476, Duesseldorf, Germany
47	50 Raffles Place, #32-01 Singapore Land Tower, Singapore, 048623
48	75 Park Lane, Croydon, Surrey, United Kingdom, CR9 1XS
49	43 rue de Paris , Saint Denis, France, 97400
50	c/o Hackwood Secretaries Limited One Silk Street, London, United Kingdom, EC2Y 8HQ
51	13-15 York Buildings , London, United Kingdom, WC2N 6JU
52	First Floor The Bower, 207 Old Street, England, United Kingdom, EC1V 9NR
53	65 Gresham Street, 6th Floor, London , United Kingdom, EC2V 7NQ
54	BP 4978, Kigali, Rwanda
55	Plot LR No. 487 Dagoretti / Ruthimitu, P.O. Box 14362, Nairobi, Kenya, 00800
56	Plot No. 89-90 Mbezi Industrial Area Box 347, Dar es Salaam City, Tanzania
57	3 avenue de l'Opera , Paris, France, 75001
58	37 avenue Henri Lafleur , Nouméa, New Caledonia, BP K3 98849
59	c/o Trident Trust Company Trident Chambers, PO Box 146, Tortola, British Virgin Islands
60	Jayla Place Wickhams Cay I, PO Box 3190, Road Town, British Virgin Islands
61	32, rue du Champ de Tir , Nantes, France, 44300
62	Ernst-Schneider-Platz 1 , Duesseldorf, Germany, 40212
63	Office Block A, Bay Studios Business Park, Fabian Way, Swansea, SA1 8QB, Wales, United Kingdom
64	10 Earlsfort Terrace, Dublin, Ireland, D02 T380
65	1-2 Royal Exchange Buildings, Royal Exchange, London, United Kingdom, EC3V 3LF
66	100 Town Square Place, Suite 201, Jersey City, NJ 07310, USA
67	125 W 25th St. New York, NY 10001, USA
68	9/F Amtel Bldg, 148 des Voeux Rd Central, Central, Hong Kong
69	3 More London Riverside, London, SE1 2AQ

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