HSBC Bank plc

Interim Report 2020

HSBC

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Presentation of information

This document comprises the *Interim Report 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. References to 'HSBC' or 'the Group' within this document mean HSBC Holdings plc together with its subsidiaries.

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

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

Unless otherwise stated, commentary on the income statement compares the six months to 30 June 2020 with the same period in the prior year. Balance sheet commentary compares the position at 30 June 2020 to 31 December 2019.

In accordance with IAS 34, the Interim Report is intended to provide an update on the *Annual Report and Accounts 2019* and therefore focuses on events during the first six months of 2020, rather than duplicating information previously reported.

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

Cautionary statement regarding forward-looking statements

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

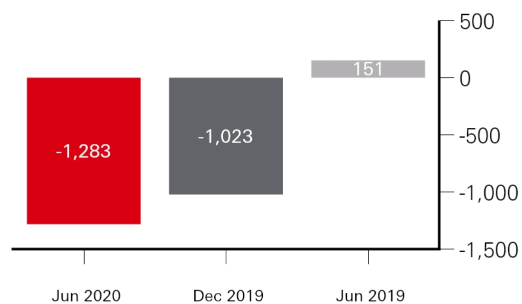
Statements that are not historical facts, including statements about the group's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', variations of these words and 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 statements.

Highlights

For the half-year ended 30 June 2020

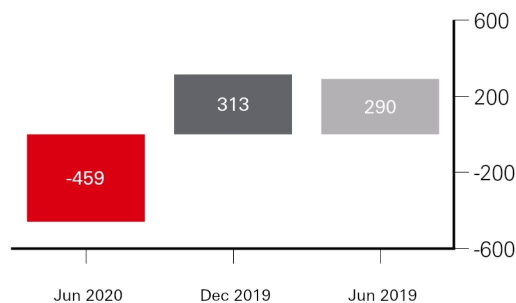
Reported (loss) / profit before tax (£m)



£(1,283)m

(1H19: £151m)

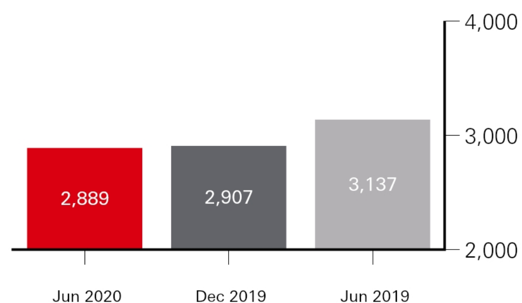
Adjusted (loss) / profit before tax (£m)



£(459)m

(1H19: £290m)

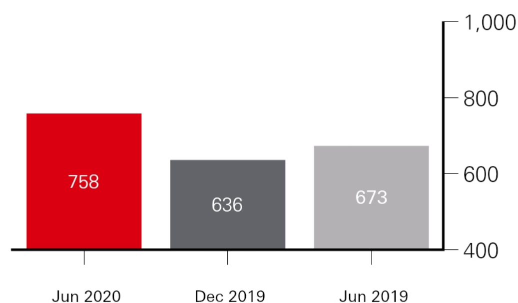
Reported revenue (£m)



£2,889m

(1H19: £3,137m)

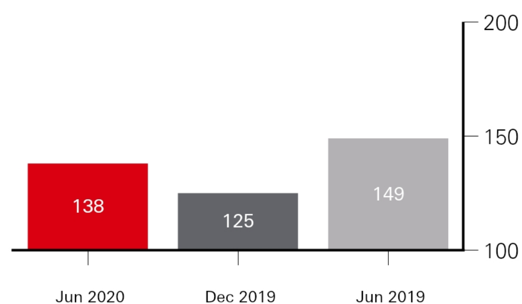
Total assets at period end (£bn)



£758bn

(31 Dec 2019: £636bn)

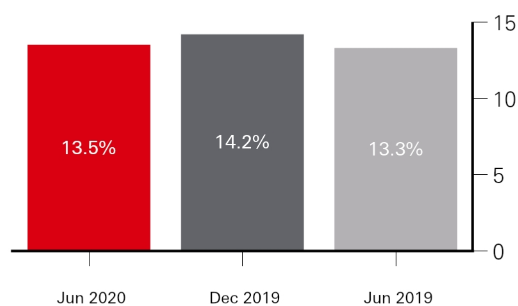
Reported risk-weighted assets at period end (£bn)



£138bn

(31 Dec 2019: £125bn)

Common equity tier 1 ratio at period end (%)



13.5%

(31 Dec 2019: 14.2%)

Key financial metrics

	Footnotes	Half-year to		
		30 Jun 2020	30 Jun 2019	31 Dec 2019
For the period (£m)				
(Loss) / profit before tax (reported basis)		**(1,283)**	151	(1,023)
(Loss) / profit before tax (adjusted basis)	1	**(459)**	290	313
Net operating income before change in expected credit losses and other credit impairment charges	2	**2,889**	3,137	2,907
(Loss) / profit attributable to the parent company		**(1,230)**	23	(1,036)
At period end (£m)				
Total equity attributable to the parent company		**24,623**	25,917	23,503
Total assets		**757,819**	673,008	636,491
Risk-weighted assets	3	**138,378**	148,817	125,413
Loans and advances to customers (net of impairment allowances)		**115,164**	114,906	108,391
Customer accounts		**207,089**	183,084	177,236
Capital ratios (%)	3			
Common equity tier 1		**13.5**	13.3	14.2
Tier 1		**16.5**	15.4	17.6
Total capital		**25.6**	24.8	27.9
Performance, efficiency and other ratios (annualised %)				
Return on average ordinary shareholders' equity	4	**(10.4)**	(0.1)	(9.2)
Return on tangible equity	5	**(5.3)**	(0.7)	0.6
Cost efficiency ratio (reported basis)	6	**120.6**	92.6	133.3
Cost efficiency ratio (adjusted basis)	6	**92.1**	88.3	87.4
Jaws (adjusted basis)	7	**(4.0)**	(12.6)	1.1
Ratio of customer advances to customer accounts		**55.6**	62.8	61.2

1 *Adjusted performance is computed by adjusting reported results for the effect of significant items as detailed on pages 10 and 11.*
2 *Net operating income before change in expected credit losses and other credit impairment charges is also referred to as revenue.*
3 *For further information, refer to the Capital section on pages 34 to 43.*
4 *The return on average ordinary shareholders' equity is defined as profit attributable to the parent company divided by the average total shareholders' equity.*
5 *RoTE is calculated as reported profit attributable to ordinary shareholders less changes in impairment of 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).*
7 *Adjusted jaws measures the difference between adjusted revenue and adjusted cost growth rates.*

HSBC at a glance

HSBC is one of the largest banking and financial services organisations in the world, with operations in 64 countries and territories.

Purpose and strategy

Our purpose

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

HSBC values

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

Open

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

Connected

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

Dependable

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

Our role in society

How we do business is as important as what we do. We seek to build trusting and lasting relationships with our many stakeholders, including customers, employees and shareholders to generate value in society.

HSBC in Europe

HSBC Bank plc is responsible for our European business, excluding UK retail and most commercial banking activity which has been ring-fenced. In the February 2020 business update, the Group announced plans to remodel our European business to focus on our strengths. As a part of our plan to transform, HSBC Bank plc is now managed as one integrated business with two main hubs in London and Paris. This is complemented by our subsidiary in Germany, which serves the European Union's largest economy.

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 France, comprises our Paris hub and its European Union 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 Germany 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 with a clearly defined international Corporate and Institutional target clientele.

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.*

About HSBC Bank plc

With assets of £758bn at 30 June 2020, HSBC Bank plc is one of Europe's largest banking and financial services organisations. More than

1.3 million
customers bank with us

We employ around

17,200
people across our locations

Our vision and strategy

We have a clear vision, to build a strong and successful European business, focused on international wholesale banking clients linked to our global network and a targeted wealth franchise.

HSBC Bank plc's strategic vision is to be the leading international 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, but at a reduced scale.

The impact of Covid-19 on our strategy

Consistent with the Group, HSBC Bank plc paused client and employee transformation actions from late March to mid-June 2020 – as a part of our support to customers, employees and society in navigating Covid-19. Further information as to how we have and will continue to support our stakeholders can be found on page 6.

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 support colleagues closely through all organisational change.

Progress on our 2020 Business Update

Restructuring in Europe

We have commenced restructuring our business in Europe. In order to simplify our organisation, we have implemented a leaner management structure (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.

We have reduced total operating expenses (on an adjusted basis, excluding impairment of goodwill and other intangible assets) by 4% compared to the same period last year. This was driven by cost discipline and reprioritisation of investments to partly mitigate revenue headwinds. Staff costs reduced by 4% as employee and contractor numbers were down since the end of 2019. Performance-related pay, marketing and consultancy expenditure was also reduced. Risk-weighted assets have increased by 10.3% since December 2019, as a result of the economic impact of Covid-19 (for detailed information, refer to risk-weighted assets on pages 34-35). The commitment announced in February 2020 to reduce RWAs remains unchanged.

We have previously announced a strategic review of our retail business in France; this is ongoing and no decisions have been made.

Investing in our opportunities and areas of strength

We were pleased to increase our shareholding in HSBC Germany to over 99%, increasing our participation in Europe's largest economy which enabled us to further establish our presence and our principal operating units.

We continue to invest in our strengths within Global Liquidity and Cash Management ('GLCM'), in particular enhancing our digital functionality for our clients during this time of accelerated change. Within our HSBCnet channel, we have introduced a soft token, enabling authentication with mobile, providing a cheaper, simpler, stronger and a more flexible alternative to a security device. GLCM plans to protect and grow its customer base by enhancing existing payments and liquidity capabilities in target markets.

Global Trade and Receivable Finance ('GTRF') Europe intends to build upon HSBC's leadership in trade finance whilst driving sustainable and profitable growth. GTRF Europe is an integral part of the Global Trade Transformation Programme. The programme is increasing investment in new product platforms (including block chain) and deployment of automated Anti-Money Laundering and Sanctions controls which will result in improved risk management and efficiency.

Products and services

The Group manages its products and services through its three global businesses: GBM; CMB; WPB[1]; and Corporate Centre (Corporate Centre comprises Central Treasury, 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 deliver tailored financial solutions to major government, corporate and institutional clients worldwide. Operating as a global business, we also contribute significant revenues to other regions through our European client base.

We provide a comprehensive suite of services across capital financing, sales and trading, transaction and advisory banking services, 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.

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.

Commercial Banking ('CMB')

We serve customers ranging from small enterprises to multinational corporates operating across borders. We provide the tools and expertise that European businesses need to thrive. Our network of relationship managers and product specialists work closely to meet customer needs, from term loans to region-wide treasury and trade solutions. We are fully committed to helping European businesses navigate change and seize export opportunities as the EU strikes new trade agreements. CMB is at the centre of creating revenue synergies within the Group. We work closely with our GBM colleagues to provide expertise in capital finance and advisory solutions to support our CMB clients. Our trade teams within CMB also provide import and export finance solutions to GBM 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's a receivables finance solution to optimise working capital or support in pursuing the sustainability agenda.

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

In Europe, Wealth and Personal Banking helps 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.

Our Private Banking proposition serves high net worth and ultra high net worth clients with investable assets greater than $5m in Channel Islands and Isle of Man, France and Germany, including those with international banking needs. The range of services available to private banking clients includes investment management (comprising of discretionary, advisory and brokerage services), Private Wealth Solutions (including trusts and estate planning) and bespoke lending such as lending against financial assets and residential mortgage financing for high-end properties.

WPB collaborates with all Global Businesses across the Group to provide financial solutions across all stages of the client continuum, from supporting small business owners within France and Malta through HSBC Fusion to our Private Banking service where we aspire to be the bank of choice to our best corporate clients.

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 (internet and mobile banking). Private Banking hosts a 'Next Generation' programme of events to support our client's next generation and offers philanthropy advisory to their 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. We aim to deliver growth and target to grow revenue faster than costs, increasing return on equity over time.

	GBM	CMB	WPB[1]
Adjusted (loss)/profit before tax	**£(214)m** (1H19: £132m)	**£48m** (1H19: £255m)	**£(148)m** (1H19: £116m)
Risk-Weighted Assets	**£87,555m** (31 Dec 2019: £81,466m)	**£32,053m** (31 Dec 2019: £28,750m)	**£9,831m** (31 Dec 2019: £9,119m)

1 *Global Private Banking and Retail Banking and Wealth Management have been merged to form WPB. Refer to* Note 3 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

Europe (inclusive of the UK) as a region is a fundamental part of the global economy, representing 25% of global Gross Domestic Product ('GDP') and nearly 40% of global trade. It's the largest integrated trading bloc in the world and a key trading partner with Asia, the Middle East, the US, Canada and Latin America. Europe is therefore critical to the Group as a key hub for our global network and capabilities.

The Covid-19 pandemic has created a great deal of uncertainty. It is affecting everyone in different ways, with markets at different stages of the crisis. We are tailoring our response to the different circumstances and situations in which our stakeholders find themselves.

Customers

Europe is home to some of the best performing, forward-thinking companies, ranging from entrepreneurial start-ups to large multinationals. HSBC supports businesses of all sizes across Europe and offers a wide range of banking services with a focus on wholesale banking.

In response to the Covid-19 outbreak, governments and regulators around the world have introduced a number of support measures. We are participating in market-wide schemes with £2.1bn of financing raised for wholesale clients in our major markets. We have £ 3.4bn of exposure (including undrawn commitments) through government-guaranteed loan schemes attracting £1.8bn RWAs at 30 June 2020.

In June 2020 HSBC Bank plc was announced as an accredited lender for the Coronavirus Large Business Interruption Loan Scheme ('CLBILS'). This accreditation is jointly held by our Commercial Banking and Global Banking businesses.

HSBC has produced forward-thinking, innovative content to guide clients in navigating the new normal, sharing HSBC's expertise around the world. Examples of these can be found here:

https://www.business.hsbc.ie/en-gb/generic/security-centre
https://www.hsbcprivatebank.com/en/about-us/video-gallery?vid=%7BBB2189F9-E2EF-4C0B-9DDC-4E189F960B16%7D

In July 2020 HSBC was voted #1 Standout Dealer for global corporates (Greenwich), Global Market Share Leader for Corporates (2020 Euromoney FX Survey).

Sustainability

Europe is at the forefront of international efforts to fight climate change and is a world leader in sustainable finance. We share these values and want to help governments and businesses achieve their aims of developing a sustainable future for all. In 2020 Euromoney named HSBC as 'Western Europe's Best Bank for Sustainable Finance', building on our position as market leader.

Case Studies:

HSBC Bank plc jointly led in the management of issuing an Inaugural Response Bond by Nordic Investment Bank. €1bn has been pledged over three years, to finance projects that aim to alleviate the social and economic consequences of the Covid-19 pandemic.

HSBC Bank plc assisted Neoen (a leading international producer of renewable energy) with issuing the first ever 'green' convertible bond in Europe. HSBC Bank plc acted as an active lead underwriter for Neoen, proceeds from the new issuance will be used to finance renewable energy production or storage activities.

Communities

To deal with the immediate and pressing impact of the Covid-19 outbreak in Europe, we have focused our efforts on our community to provide support to leading Non-Governmental Organisations, ultimately providing medical response, food security and access to support for vulnerable people.

To date, our business has committed more than $3.6m of the total $25m Group pledge, to programmes and partners across Europe, such as the UK National Emergencies Trust, Cresus in France, Caritas in Malta and Red Cross across many countries.

Employees

Our people at HSBC span many cultures, communities and continents. HSBC want to build trusted relationships, where our people feel empowered in their roles and inspired to grow. We are focussed on ensuring our employees are valued, respected and supported to fulfil their potential and thrive. HSBC understands the importance of building a diverse and inclusive workforce, valuing individuals and their contribution. This allows us to better represent our customers and the communities we serve.

In times of uncertainty during the Covid-19 pandemic, our focus has been on ensuring the wellbeing and safety of our employees. A healthy and happy workforce is essential for a positive working environment and our priorities for our people are mental health, flexible working and financial well-being. 90% of our staff felt that HSBC 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, because of the high degree of uncertainty created by the escalating impact of Covid-19. We decided in June to lift the pause on redundancies, proceeding thoughtfully but purposefully, while taking local considerations into account.

We strive to support colleagues closely through all organisational change. Our focus is to prioritise retention of our permanent employees through mechanisms such as redeployment. Where redundancies were necessary in the first half of 2020 we sought to treat people fairly and responsibly. Where appropriate, we provided suitable notice periods and consulted with employee representative bodies. We use objective and appropriate selection criteria for redundancies. We prohibit selection on grounds linked to personal characteristics, for example gender, race, age or having raised past concerns, except as required by law. In many markets our discretionary severance payments exceed statutory minimums and our employees are additionally provided with access to counselling via employee assistance programmes and career transition support.

Our approach to Diversity

Our actions are focused on ensuring our people are valued, respected and supported to fulfil their potential and thrive. Our global ethnicity inclusion programme, which launched in May, will help us take targeted actions to ensure we enable the careers and career progression of all our colleagues in a supportive and inclusive way. It will also help us improve the data and reporting of our people's ethnic backgrounds globally.

We are listening to what our colleagues are telling us in response to the Black Lives Matter movement and in Europe there is active commitment to, and sponsorship of the Diversity & Inclusion (D&I) agenda from senior management, through:

- Ensuring our approach is adapted and relevant to our local markets
- Increasing awareness through communications and podcasts
- Regular Exchange meetings to encourage open dialogue on current D&I topics

Details of the Group D&I strategy, purpose and resources are available on the website at www.hsbc.com/our-approach/culture-and-people/diversity-and-inclusion.

A further update to our plans and progress will be included in our Annual Report and Accounts 2020.

Investors

HSBC Bank plc maintains an active dialogue with its investors. The bank's relationship with its debt investors is held via HSBC Group Investor Relations as many of these relationships span

investments across multiple entities within the broader HSBC Group.

Regulators and Governments

HSBC Bank plc has proactively engaged with relevant regulators and standards setters regarding the numerous policy changes issued in response to the pandemic, to help our customers, to contribute to normalisation and recovery and to manage the operational capacity at both banks and regulators. We have continued to uphold our standards, track and document any changes and maintained our transparency with regulators. We have also engaged extensively with relevant regulators and central banks globally in pursuit of their supervisory objectives and other activities aimed at maintaining the health of the economy, the stability of the financial system and the safety and soundness of individual financial institutions.

Suppliers

Across our 20 European markets (see page 4 for further detail), we have maintained our commitment to supporting suppliers when they may need it most.

Economic background and outlook

UK

Counting the cost of Covid-19

UK Gross Domestic Product (GDP) fell by 19.1% in the three months to May - a far sharper drop than anything seen during the Global Financial Crisis - as the fallout from Covid-19 weighed on economic activity. Job losses have already been widespread, with the 'claimant count' unemployment rate standing at 7.3% in June from a February level of 3.4%. Meanwhile, lower energy prices and the broader downturn are weighing on inflation - the consumer price inflation rate was 0.6% in June, having started the year at 1.8%.

The economic lockdown has been unwinding gradually. Most sectors of the economy have reopened. Alongside the economic reopening, some activity indicators have come off their trough. Having slumped by over 20% across March and April, retail sales rose by 12% in May and by 14% in June.

To mitigate some of the economic impact of the pandemic, fiscal and monetary policies have been loosened considerably. On the fiscal side, the Coronavirus Job Retention Scheme, which provides wage subsidies to ‘furloughed’ employees, has covered over 9 million people. But the scheme is set to end in October. Meanwhile, the Bank of England has cut Bank Rate to 0.10% and announced £300bn of additional asset purchases under its Quantitative Easing programme since March.

Even so, given widespread job losses, continued social distancing measures and broader economic uncertainty, the recovery in economic activity to pre-crisis levels is set to be a protracted one. Unemployment is set to remain elevated and inflation is likely to remain subdued.

Risks to the outlook

The UK's economic outlook faces two key risks. First, the recovery from Covid-19 might be more protracted, particularly if a 'second wave' of the virus brings about the need for renewed lockdowns. Second, significant uncertainty continues to surround the UK's future relationship with the EU. The 'status quo' transition period is set to expire at the end of this year, and further talks are required to find an accord that avoids a potentially disorderly rupture of economic ties. Further stimulus measures - including a cut in Bank Rate below zero - cannot be ruled out if downside economic risks crystallise.

Eurozone

Unprecedented downturn, uncertain recovery

Eurozone real GDP fell by 12.1% q-o-q in the second quarter of 2020, following a 3.6% drop in the first quarter. This is an unprecedented downturn for the eurozone, reflecting the economic shock from Covid-19 and associated lockdown measures. The eurozone jobless rate has started to creep up (7.8% in May versus a March trough of 7.2%) and substantial further rises seem likely. Meanwhile, mainly as a result of lower energy prices, but also due to the slump in economic demand, inflation has fallen sharply - having started the year at a rate of 1.4% annual eurozone consumer price inflation stood at 0.4% in July (initial estimate).

With the phased reopening of European economies, leading indicators point to a recovery in economic activity. But although lockdown measures have eased, the lingering effects of Covid-19 (social distancing, joblessness and corporate failures) will likely see the activity struggling to return to pre-crisis levels. As a result, HSBC Research's view is that the economy is likely to run persistently below capacity and annual inflation is likely to stay well below the European Central Bank's (‘ECB’) target of 'below, but close to, 2%'.

Policy challenges ahead

Significant fiscal and monetary policy challenges lie ahead. A big step was taken in June, with EU leaders agreeing on a €750bn recovery fund to help finance the recovery from Covid-19. However, many economies are nevertheless likely to be left with substantial debt burdens which might constrain fiscal policy in the long run.

Meanwhile, the prospect of persistently subdued inflation is likely to keep monetary policy very loose. The ECB has so far announced €1.35tn of asset purchases under its Pandemic Emergency Purchase Programme. Further expansion of ECB asset purchases seems likely, given the weak inflation outlook and large volume of public debt issuance this year and next.

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 46. In measuring our performance, the financial measures that we use include those derived from our reported results in order to eliminate factors that distort period-on-period comparisons. These are considered non-GAAP financial measures.

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

Change in reportable segments since year end 2019

Effective from the second quarter in 2020, we simplified our organisational structure by merging Global Private Banking ('GPB') and Retail Banking and Wealth Management ('RBWM') to form Wealth and Personal Banking ('WPB'). This followed realignments within our internal reporting and includes the reallocation of Balance Sheet Management 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 3: Segmental analysis on page 54. Reconciliations of reported and adjusted performance are presented on pages 10 and 11.

Adjusted performance

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

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

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

Summary consolidated income statement

	Half-year to		
	30 Jun 2020	30 Jun 2019	31 Dec 2019
	£m	£m	£m
Net interest income	**917**	670	813
Net fee income	**697**	679	665
Net income from financial instruments measured at fair value	**499**	2,273	1,609
Gains less losses from financial investments	**82**	41	(3)
Net insurance premium income	**764**	1,248	899
Other operating income	**116**	254	262
Total operating income[1]	**3,075**	5,165	4,245
Net insurance claims, benefits paid and movement in liabilities to policyholders	**(186)**	(2,028)	(1,338)
Net operating income before change in expected credit losses and other credit impairment charges	**2,889**	3,137	2,907
Change in expected credit losses and other credit impairment charges	**(651)**	(84)	(40)
Net operating income	**2,238**	3,053	2,867
Total operating expenses excluding impairment of goodwill and other intangible assets[1]	**(2,711)**	(2,902)	(2,713)
Impairment of goodwill and other intangible assets	**(772)**	(4)	(1,163)
Operating (loss)/profit	**(1,245)**	147	(1,009)
Share of (loss) / profit in associates and joint ventures	**(38)**	4	(14)
(Loss)/profit before tax	**(1,283)**	151	(1,023)
Tax expense	**63**	(118)	(1)
(Loss)/profit for the period	**(1,220)**	33	(1,024)
(Loss)/profit attributable to the parent company	**(1,230)**	23	(1,036)
Profit attributable to non-controlling interests	**10**	10	12

1 *Total operating income and expenses include significant items as detailed on pages 10 and 11.*

Reported performance

The following commentary reflects the newly formed Wealth and Personal Banking ('WPB') business segment following the simplification of our organisational structure.

Performance in the first half of 2020 was heavily impacted by the Covid-19 pandemic and heightened levels of market volatility. This resulted in lower revenue and higher Expected Credit Losses ('ECL').

Reported loss before tax of £1,283m compared with a profit before tax of £151m in the first half of 2019, down £1,434m. This was primarily due to higher ECL mainly driven by charges related to specific wholesale exposures, and charges related to the impact of Covid-19 on the economic outlook. The decrease included an impairment and write-off of capitalised software related principally to our businesses in the UK and France. This reflected underperformance and deterioration in the future forecasts of these businesses, substantially relating to prior periods. However, this was partially offset by a reduction in performance-related pay. In addition, revenue was lower, impacted by the sharp fall in equity markets and widening of credit spreads towards the end of the first quarter of 2020, and then by the effect of interest rate reductions on our deposit franchises in the second quarter. There were market impacts on the present value of in-force long-term insurance contracts ('PVIF') in insurance manufacturing in WPB, while GBM revenue included an adverse movement in valuation adjustments and valuation losses in Principal Investments ('PI').

Net interest income ('NII') increased by £247m or 37%. NII was lower in WPB, CMB and GBM compared with the first half of 2019, mainly driven by the impact of the lower interest rate environment. This decrease in NII 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 £18m or 3%, mainly in Global Banking due to higher transaction volumes in the Capital Markets businesses primarily from market activity driven by the impact of Covid-19. This was partly offset by a decrease in net fee income in WPB, primarily in Retail Banking and Asset Management due to the adverse market conditions, lower levels of customer activity and Assets Under Management ('AUM') reflecting the impact of Covid-19.

Net income from financial instruments measured at fair value decreased by £1,774m or 78%. In WPB, revenue decreased mainly in insurance manufacturing primarily from the effect of a fall in equity markets and higher credit spread. 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 asset portfolio. In GBM, revenue increased due to a strong performance in Global Markets, partly offset by adverse credit and funding valuation adjustments and adverse bid-offer spread reflecting the impact of Covid-19. Revenue also decreased in Principal Investments ('PI') which included the impact of Covid-19-related valuation losses in the first half of 2020.

Gains less losses from financial investments increased by £41m, mainly driven by higher gains on the disposal of bonds held at fair value through other comprehensive income ('FVOCI') in Balance Sheet Management ('BSM').

Net insurance premium income decreased by £484m or 39%, mainly in WPB, driven by a reduction in insurance revenue in France due to lower business volumes.

Other operating income decreased by £138m or 54%, mainly driven by market impacts on PVIF in insurance manufacturing within WPB. This reflected the impact of a fall in equity markets and lower interest rates on the valuations of the liabilities under insurance contracts. In addition, revenue was lower due to a decrease in the fair value of preference share holdings in Visa.

Net insurance claims, benefits paid and movement in liabilities to policyholders decreased by £1,842m or 91%, primarily in insurance manufacturing within WPB. This decrease was driven by lower returns on financial assets supporting contracts where the policyholder is subject to part or all of the investment risks and also lower new business volumes. The losses recognised on the financial assets measured at fair value through profit and loss 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.

Changes in expected credit losses and other impairment charges ('ECL') were £567m higher compared with the first half of 2019. This was mainly driven by an increase in charges relating to a small number of wholesale exposures, notably in GBM and CMB, and higher charges related to the ongoing impact of the Covid-19 outbreak on the forward economic outlook.

Total operating expenses excluding impairment of goodwill and other intangible assets decreased by £191m or 7%, as we re-prioritised costs and investments to mitigate revenue headwinds, resulting in lower staff costs, performance-related pay and marketing and consultancy expenditure. The decrease also reflects a number of significant items including:

- the non-recurrence of costs of £58m associated with the group's preparation for the UK's exit from the European Union booked in the first half 2019, and
- a reduction of £43m in expenses related to severance costs arising from cost efficiency measures across our global businesses and functions.

Impairment of goodwill and other intangible assets in the first of 2020 includes a £770m impairment and write-off of capitalised software related principally to our businesses in the UK and France. This reflected the underperformance and deterioration in the future forecasts of these businesses, substantially relating to prior periods.

Share of (loss)/profit in associates and joint ventures was a loss of £38m compared to a profit of £4m in the first half of 2019. This reflected the impact of Covid-19 and the lower interest environment on the share of profit recognised from our associates.

For further details of significant items affecting revenue and costs, please refer to significant revenue/cost items by business segment on pages 10 and 11.

Tax credit was £63m compared to a tax expense of £118m in the first half of 2019. The effective rate for the first half of 2020 of 4.9% was primarily due to the non-recognition of deferred tax on the loss recorded in the UK for the period. The effective tax rate for the first half of 2019 of 78.1% was higher due to charges in respect of prior years.

Adjusted performance

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

	WPB	CMB	GBM	Corporate Centre	Total
	Half-year to 30 Jun 2020				
	£m	**£m**	**£m**	**£m**	**£m**
Reported revenue	**424**	**578**	**1,962**	**(75)**	**2,889**
Significant revenue items	**—**	**—**	**18**	**(1)**	**17**
– debit valuation adjustment on derivative contracts	**—**	**—**	**(22)**	**—**	**(22)**
– fair value movement on non-qualifying hedges	**—**	**—**	**2**	**(1)**	**1**
– restructuring and other related costs	**—**	**—**	**38**	**—**	**38**
Adjusted revenue	**424**	**578**	**1,980**	**(76)**	**2,906**
	Half-year to 30 Jun 2019[1]				
Reported revenue	681	616	1,994	(154)	3,137
Significant revenue items	—	1	24	(6)	19
– debit valuation adjustment on derivative contracts	—	—	21	—	21
– fair value movement on non-qualifying hedges	—	1	3	(6)	(2)
Adjusted revenue	681	617	2,018	(160)	3,156
	Half-year to 31 Dec 2019[1]				
Reported revenue	675	595	1,749	(112)	2,907
Significant revenue items	1	—	6	(1)	6
– customer redress programmes	1	—	—	—	1
– debit valuation adjustment on derivative contracts	—	—	6	—	6
– fair value movement on non-qualifying hedges	—	—	—	(1)	(1)
Adjusted revenue	676	595	1,755	(113)	2,913

1 *A change in reportable segments was made in 2Q20. Comparative data have been re-presented accordingly. For further guidance, refer to Note 3 on page 54.*

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

	WPB	CMB	GBM	Corporate Centre	Total
	Half-year to 30 Jun 2020				
	£m	**£m**	**£m**	**£m**	**£m**
Reported operating expenses	**(635)**	**(418)**	**(2,266)**	**(164)**	**(3,483)**
Significant cost items	**91**	**82**	**495**	**139**	**807**
– costs of structural reform[1]	**—**	**—**	**—**	**—**	**—**
– UK customer redress programmes	**—**	**—**	**—**	**—**	**—**
– restructuring and other related costs[2]	**56**	**49**	**37**	**30**	**172**
– settlements and provisions in connection with legal and regulatory matters	**—**	**—**	**2**	**2**	**4**
– impairment of other intangible assets	**35**	**33**	**456**	**107**	**631**
Adjusted operating expenses	**(544)**	**(336)**	**(1,771)**	**(25)**	**(2,676)**
	Half-year to 30 Jun 2019[3]				
Reported operating expenses	(570)	(331)	(1,885)	(120)	(2,906)
Significant cost items	2	4	62	52	120
– costs of structural reform[1]	—	3	18	37	58
– UK customer redress programmes	—	—	(3)	—	(3)
– restructuring and other related costs	2	1	47	16	66
– settlements and provisions in connection with legal and regulatory matters	—	—	—	(1)	(1)
Adjusted operating expenses	(568)	(327)	(1,823)	(68)	(2,786)
	Half-year to 31 Dec 2019[3]				
Reported operating expenses	(1,159)	(844)	(1,793)	(80)	(3,876)
Significant cost items	650	525	85	70	1,330
– costs of structural reform[1]	—	—	11	18	29
– UK customer redress programmes	—	—	3	—	3
– restructuring and other related costs	18	5	70	45	138
– settlements and provisions in connection with legal and regulatory matters	—	—	1	7	8
– impairment of goodwill	632	520	—	—	1,152
Adjusted operating expenses	(509)	(319)	(1,708)	(10)	(2,546)

1 *Costs of structural reform includes costs associated with the UK's exit from the EU.*
2 *Includes the write down of software £139m.*
3 *A change in reportable segments was made in 2Q20. Comparative data have been re-presented accordingly. For further guidance, refer to Note 3 on page 54.*

Net impact on profit before tax by business segment

	Half-year to 30 Jun 2020				
	WPB	CMB	GBM	Corporate Centre	Total
	£m	£m	£m	£m	£m
Reported (loss)/profit before tax	**(239)**	**(34)**	**(727)**	**(283)**	**(1,283)**
Net impact on reported profit or loss	**91**	**82**	**513**	**138**	**824**
– significant revenue items	**—**	**—**	**18**	**(1)**	**17**
– significant cost items	**91**	**82**	**495**	**139**	**807**
Adjusted (loss)/profit before tax	**(148)**	**48**	**(214)**	**(145)**	**(459)**
	Half-year to 30 Jun 2019[1]				
Reported profit/(loss) before tax	114	250	46	(259)	151
Net impact on reported profit or loss	2	5	86	46	139
– significant revenue items	—	1	24	(6)	19
– significant cost items	2	4	62	52	120
Adjusted profit/(loss) before tax	116	255	132	(213)	290
	Half-year to 31 Dec 2019[1]				
Reported profit/(loss) before tax	(490)	(323)	(22)	(188)	(1,023)
Net impact on reported profit or loss	651	525	91	69	1,336
– significant revenue items	1	—	6	(1)	6
– significant cost items	650	525	85	70	1,330
Adjusted profit/(loss) before tax	161	202	69	(119)	313

1 *A change in reportable segments was made in 2Q20. Comparative data have been re-presented accordingly. For further guidance, refer to Note 3 on page 54.*

Adjusted performance

The following commentary reflects the newly formed WPB business segment following the simplification of our organisational structure.

Adjusted loss before tax of £459m compared to a profit before tax of £290m in the first half of 2019, down £749m. This was largely driven by higher ECL and lower revenue. ECL was higher mainly due to charges relating to a small number of wholesale exposures, and higher charges related to the ongoing global impact of the Covid-19 outbreak on the forward economic outlook and on our customers. Revenue decreased primarily from the effects of a sharp fall in equity markets and widening of credit spreads towards the end of the first quarter of 2020 and also from the lower interest rate environment. This was partly offset by a reduction in operating expenses as we reviewed and re-prioritised spend to reflect the economic outlook. Performance-related pay was lower and we reduced discretionary expenditure across our businesses.

Adjusted revenue decreased by £250m or 8%, reflecting lower revenue in WPB, GBM and CMB, partly offset by lower losses in Corporate Centre.

The decrease in revenue included adverse market impacts on PVIF in insurance manufacturing within WPB following a weakening of equity prices and lower interest rates, as well as a decrease in GBM due to adverse credit and funding valuation adjustments and lower revenue in Principal Investments ('PI') which included the impact of Covid-19-related valuation losses. Revenue was also lower due to a decrease in the fair value of preference share holdings in Visa and due to the impact of the lower interest rate environment on our businesses, particularly in GLCM (in GBM and CMB).

These reductions were partly offset by higher revenue in Global Markets, notably in the Foreign Exchange and Fixed Income ('FICC') businesses driven by strong trading performance and increased market volatility related to Covid-19 as well as an increase in client activity. Revenue also increased in Corporate Centre, primarily driven by the reallocation of certain internal liquidity charges to the global businesses in the first half of 2020.

Adjusted ECL were £567m higher, mainly reflecting charges relating to a small number of wholesale exposures (in both GBM and CMB) and higher charges related to the ongoing impact of the Covid-19 outbreak on the forward economic outlook.

Adjusted operating expenses were lower by £110m or 4%, as we reviewed and re-prioritised costs and investments to partly mitigate revenue headwinds. The decrease primarily reflected lower performance-related pay, staff and consultancy costs, and lower marketing spend. This was partly offset by an increase in the Single Resolution Fund ('SRF') levy in France and Germany.

Share of (loss)/profit in associates and joint ventures was a loss of £38m compared to a profit of £4m in the first half of 2019. This reflected the impact of Covid-19 and the lower interest rate environment on the share of profit recognised from our associates.

Wealth and Personal Banking ('WPB')

Adjusted loss before tax of £148m compared with a profit before tax of £116m in the first half of 2019, down by £264m. This was primarily due to lower revenue and higher ECL, partly offset by lower operating expenses.

Revenue decreased by £257m or 38%, mainly in insurance manufacturing in France largely from negative market impacts following a sharp fall in equity markets and lower interest rates. The decrease in revenue included adverse market impacts on PVIF compared with favourable movements in the first half of 2019. 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 due to a decrease in the fair value of preference share holdings in Visa and a decrease in revenue from the UK life insurance business, notably in onshore investment bonds following market and fund price decreases as a result of equity market volatility. In the Channel Islands and Isle of Man, there was a decrease in revenue from deposits due to the low interest rate environment.

ECL net charges of £29m compared to a net credit of £4m in the first half of 2019, an increase of £33m. This was driven by higher charges relating to the global impact of Covid-19 on the forward economic outlook compared to net releases in the first half of 2019.

Operating expenses decreased by £24m or 4%, mainly driven by lower staff costs and reductions in marketing and consultancy costs.

Commercial Banking ('CMB')

Adjusted profit before tax was £48m, a decrease of £207m compared with the first half of 2019. This was driven by higher ECL and lower revenue including the impact of lower interest rates.

Revenue decreased by £39m or 6%, primarily driven by a decrease in the fair value of preference share holdings in Visa. Revenue also decreased in GLCM due to the lower interest rate environment, partly offset by growth in average deposit balances.

ECL increased by £160m, driven by higher charges against specific customers in the first half of 2020, notably in the retail and automobile sectors in France and Germany. 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 £9m or 3%, mainly driven by an increase in the Single Resolution Fund ('SRF') levy in France.

Global Banking and Markets ('GBM')

Adjusted loss before tax of £214m compared with a profit of £132m in the first half of 2019, a decrease of £346m. This was driven by higher ECL and lower revenue, partly offset by lower operating expenses.

Revenue decreased by £38m or 2%, mainly in Principal Investments ('PI') which included the impact of Covid-19-related valuation losses compared to a gain booked in the first half of 2019. In GLCM, revenue also decreased driven by margin compression following reductions in interest rates towards the end of the first quarter of 2020, although this was partly offset by growth in average balances. By contrast, Global Markets revenue grew, notably in the Foreign Exchange and Fixed Income ('FICC') businesses driven by strong trading performance, an increase in market volatility and higher client activity. This was partly offset by lower revenue in Equities, driven by weaker performance in Prime Finance which included the effect of dividend cancellation, as well as the non-repeat of a legal provision released in the first half of 2019. Markets also received a higher allocation of the bank's funding costs compared with the first half of 2019 to better reflect internal funding used to finance activities in the business.

ECL increased by £359m, driven by higher charges against a small number of clients in Global Banking within the oil and gas and real estate sectors. In addition, there was an increase in charges related to the impact of Covid-19 on the forward economic outlook.

Operating expenses decreased by £52m or 3% compared with the first half of 2019 mainly due to lower performance-related pay. This was party offset by an increase in SRF levy in France and the transfer of the levy from Corporate Centre in Germany in the first half of 2020.

Corporate Centre

Adjusted loss before tax of £145m was £68m lower than the loss of £213m in the first half of 2019. This was mainly driven by higher revenue and lower operating expenses partly offset by a loss in associates and joint ventures.

Revenue increased by £84m, primarily driven by the reallocation of certain internal liquidity charges to the global businesses in the first half of 2020. Revenue also increased in Legacy Credit driven by lower losses on portfolio disposals compared with the half of 2019.

ECL increased by £16m compared with the first half of 2019. There was a net charge of £5m in the first half of 2020 compared with a net credit of £11m in the first half of 2019. This was mainly driven by Legacy Credit portfolio disposals.

Operating expenses decreased by £43m or 63%, mainly driven by the transfer of the Single Resolution Fund levy in Germany to the global businesses in the first half of 2020. There was also lower mark-up on services provided by the Group's UK service company ('Servco').

Share of (loss)/profit in associates and joint ventures was a loss of £38m compared to a profit of £4m in the first half of 2019. This reflected the impact of Covid-19 and the lower interest rate environment on the share of profit recognised from our associates.

Review of business position

Summary consolidated balance sheet

	At	
	30 Jun 2020	31 Dec 2019
	£m	£m
Total assets	**757,819**	636,491
Cash and balances at central banks	**94,247**	51,816
Trading assets	**86,038**	98,249
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**18,222**	17,012
Derivatives	**228,787**	164,538
Loans and advances to banks	**14,258**	11,467
Loans and advances to customers	**115,164**	108,391
Reverse repurchase agreements – non-trading	**62,842**	85,756
Financial investments	**56,452**	46,464
Other assets	**81,809**	52,798
Total liabilities	**733,003**	612,479
Deposits by banks	**38,157**	23,991
Customer accounts	**207,089**	177,236
Repurchase agreements – non-trading	**31,263**	49,385
Trading liabilities	**48,487**	48,026
Financial liabilities designated at fair value	**42,255**	41,642
Derivatives	**222,552**	161,083
Debt securities in issue	**24,159**	25,039
Liabilities under insurance contracts	**22,192**	21,509
Other liabilities	**96,849**	64,568
Total equity	**24,816**	24,012
Total shareholders' equity	**24,623**	23,503
Non-controlling interests	**193**	509

Total reported assets were 19% higher than at 31 December 2019. The group maintained a strong and liquid balance sheet with the ratio of customer advances to customer accounts decreasing to 55.6% from 61.2% at 31 December 2019.

Assets

Cash and balances at central banks increased by 82% as a result of increased customer deposits.

Trading assets decreased by 12% due primarily to a reduction in equity shares positions.

Derivative assets increased by 39%. This was largely due to an increase in mark-to-market of interest rate contracts as a result of a downward shift of yield curves for major currencies.

Non-trading reverse repurchase agreements decreased by 27%, primarily due to a reduction in market activity relative to year-end.

Financial investments increased by 21% as a result of deploying surplus liquidity.

Liabilities

Customer accounts increased by 17%, this is consistent with our funding strategy to grow customer deposits and increase liquidity.

Trading liabilities and financial liabilities designated at fair value balances have remained broadly unchanged.

Debt securities in issue decreased by 4% due primarily to maturing longer term debt which is partially offset by the issuance of short-term commercial paper and certificates of deposits.

Derivative liabilities increased by 38%. This is in line with derivative assets as the underlying risk is broadly matched.

Equity

Total shareholders' equity increased by 5% due primarily to a capital injection by the Group.

Reported performance by country

Profit/(loss) before tax by country within global businesses

	WPB	CMB	GBM	Corporate Centre	Total
	£m	£m	£m	£m	£m
Half-year to 30 Jun 2020					
United Kingdom	**36**	**—**	**(684)**	**(221)**	**(869)**
France	**(270)**	**(102)**	**(164)**	**(54)**	**(590)**
Germany	**9**	**(3)**	**87**	**(6)**	**87**
Other	**(14)**	**71**	**34**	**(2)**	**89**
Loss before tax[1]	**(239)**	**(34)**	**(727)**	**(283)**	**(1,283)**
Half-year to 30 Jun 2019[2]					
United Kingdom	87	113	(8)	(216)	(24)
France	10	68	(52)	(25)	1
Germany	8	10	32	(9)	41
Other	9	59	74	(9)	133
Profit/(loss) before tax	114	250	46	(259)	151
Half-year to 31 Dec 2019[2]					
United Kingdom	105	104	(142)	(149)	(82)
France	29	26	3	(35)	23
Germany	6	27	42	11	86
Other[3]	(630)	(480)	75	(15)	(1,050)
Loss before tax	(490)	(323)	(22)	(188)	(1,023)

1 *Includes the impact of a £631m intangible impairment related to UK (£517m) and France (£114m) in 2020.*
2 *A change in reportable segments was made in 2Q20. Comparative data have been re-presented accordingly. For further guidance, refer to Note 3 on page 54.*
3 *Includes £1.2bn of goodwill impairment related to WPB (£632m) and CMB (£520m).*

Risk

Risk overview

The group continually monitors and identifies risks. This process, which is informed by its risk factors and the results of its stress testing programme, gives rise to the classification of certain financial and non-financial banking risks. Changes in the assessment of these risks may result in adjustments to the group's business strategy and, potentially, its risk appetite. The risks we manage include credit risk, capital and liquidity risk, market risk, resilience risk, regulatory compliance risk, financial crime and fraud risk, and model risk. We also manage 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. A new risk has been added in respect of the Covid-19 outbreak.

The exposure to our risks and risk management of these are explained in more detail in the Report of the Directors on pages 20 to 74 of the *Annual Report and Accounts 2019*.

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. Any execution risks to our programme created by the Covid-19 outbreak, for example remote working, continue to be closely monitored and mitigated. We will continue to work with regulators, governments and our customers to manage the risks created by the UK's exit from 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. 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 sectoral reviews were performed to identify portfolios or customers who were experiencing or were likely to experience financial difficulty as a result of Covid-19. We are also increasing resources to help address the increased level of credit defaults in the current environment.
Cyber threat and unauthorised access to systems	▶	We endeavour to protect HSBC and our customers by strengthening our cyber defences, helping us to execute our business priorities safely and keep our customers' information secure. 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 continue to enhance our management of conduct in a number of areas, including the treatment of potentially vulnerable customers, market surveillance, employee training and performance. At the forefront of current conduct risk considerations is the fair treatment of customers in financial difficulty and ensuring state credit support provided as a result of the pandemic is not exploited. We are fully focussed on providing appropriate customer outcomes in all circumstances.
Financial crime and fraud risk	▶	During the first half of 2020, the Global Standards programme was finalised with any residual aspects integrated into the group's day-to-day operations. We continued to focus on enhancing our risk management capabilities and the effectiveness of our financial crime controls. The application of both advanced analytics and artificial intelligence remains a key element of our next generation of tools to fight financial crime, and our investment in these areas is ongoing. As fraudulent activity is often more prevalent in times of crisis, we have put in place additional measures to minimise and detect fraud.
Market illiquidity and volatility	▲	The Covid-19 outbreak 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 Prudential Regulation Authority ('PRA').
Ibor transition	▲	We are focused on developing alternative rate products, and the supporting processes and systems, to make these available to our customers. We are part of the HSBC Group programme that is concurrently developing the capability to transition, through repapering, outstanding Libor and Eonia contracts. The overall level of risk including operational, conduct and legal risk, has potentially increased as a result of a decline in our customers' appetite to transition and the changes in industry milestones due to the disruption of the Covid-19 outbreak. We continue to proactively engage with industry bodies, regulators and our customers to support an orderly transition.
Climate-related risks	▶	We continue to improve how we identify, oversee and manage climate-related risk, both physical and transition risk. Our risk management priorities focus on assessing the transition and physical risk in our wholesale credit portfolio, reviewing retail mortgage exposures in respect of natural hazard risk, and developing scenarios for internal use in risk management, planning and stress testing. We continue to proactively engage our customers, investors and regulators in order to support the transition to a low-carbon economy, in particular with regard to compiling the 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. These issues can include changes to immigration and tax rules as well as industry-wide regulatory changes. We have put in place measures for our people to ensure that they are able to work safely and are properly supported in coping with Covid-19. We are also monitoring people risks that may arise due to business transformation, ensuring 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. We are enhancing our service management disciplines and change execution capabilities to minimise service disruption to our customers. Our IT systems have been resilient and we have further improved them to support both our customers and our people in new ways of operating during the Covid-19 outbreak.
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 is being closely monitored.

Risk		Mitigants
Internally driven		
Model risk	▲	We continue to strengthen our oversight of models and our second line of defence Model Risk Management function. The impact of Covid-19 on model performance has highlighted the importance of the increased controls and monitoring requirements being put in place, with several models requiring revisions to reflect the current extreme economic shocks and to be in line with the expectation of the future outlook perspective.
Data management	▶	We continue to enhance and advance our insights, data aggregation, reporting and decisions through ongoing improvement and investments in data governance, data quality, data privacy, data architecture, machine learning and artificial intelligence capabilities.
Third-party risk management	▶	We continue to implement and embed changes though a Group-wide third-party risk management programme so we can better identify, understand, mitigate and manage the risks that arise from the outsourcing of services. The programme, due to conclude in the second half of 2020, aims to ensure adherence to our internal third-party risk policy and framework. We have worked closely with our third-party providers, which have faced constraints and enhanced oversight on their operations during the Covid-19 outbreak. There has been no major impact to our services during the period.

▲ Risk has heightened during 2020

▶ Risk remains at the same level as 31 December 2019

● New risk introduced in 2020

Managing risk

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

We use a comprehensive and newly updated risk management framework across the organisation and all risk types, underpinned by the Group's culture and values. This outlines the key principles, policies and practices that we employ in managing material risks, both financial and non-financial.

The first half of 2020 has been marked by unprecedented global economic events, leading to banks playing an expanded role to support society and customers. The Covid-19 outbreak and its impact on the global economy has impacted many of our customers' business models and income, requiring significant levels of support from both governments and banks. In response, to the Covid-19 outbreak, and other key areas, such as increased geopolitical and macroeconomic risks, we have changed our approach to the management of risk in this rapidly changing environment.

Throughout the Covid-19 outbreak, we have supported our customers and adapted our operational processes. Our people, processes and systems have responded to the changes needed and increased workload in serving our customers through this time.

To meet the additional challenges, we supplemented our existing approach to risk management with additional tools and practices to mitigate and manage risks. We increased our focus on the quality and timeliness of our management of information, through measures such as early warning indicators, prudent active risk management of our risk appetite, and ensuring regular communication with our Board and other key stakeholders.

Our risk appetite

Our risk appetite defines our desired forward-looking risk profile, and informs the strategic and financial planning process. It provides an objective baseline to guide strategic decision making, helping to ensure that planned business activities provide an appropriate balance of return for the risk assumed, while remaining within acceptable risk levels.

Our risk appetite also provides an anchor between our businesses and the risk and finance functions, helping to enable our senior management to allocate capital, funding and liquidity optimally to finance growth, while monitoring exposure and the cost impacts of managing non-financial risks. It also helps to develop aligned people and system capabilities. Our risk appetite is articulated in our risk appetite statement, which is approved by the Board. Key elements include:

- risks that we accept as part of doing business, such as credit risk, market risk, and capital and liquidity risk, which are controlled through both active risk management and our risk appetite;
- risks that we incur as part of doing business, such as non-financial risks, which are actively managed to remain within an acceptable appetite; and
- risks for which we have zero tolerance, such as knowingly engaging in activities where foreseeable reputational risk has not been appropriately considered.

We continued to evolve our risk appetite, by enhancing both the financial and non-financial aspects of our risk appetite statement, to ensure we remain able to support our customers and strategic goals against the backdrop of the Covid-19 outbreak. Specific emphasis was placed on capital risk to ensure the group had adequate capacity to provide financial support to customers, and a pragmatic approach to the management of non-financial risks, arising from large scale operational changes from amended working practices, such as widescale homeworking.

Top and emerging risks

The group aims to identify, monitor and, where possible, measure and mitigate large-scale events or sets of circumstances that may have the potential to have a material impact on our financial results or reputation, and the sustainability of our long-term business model. These events, giving rise to additional banking risks, are captured together as the top and emerging risks. The group made a number of changes to its assessment of existing top and emerging risks to reflect their current effect on the group and changes in the scope of risk definitions, to ensure appropriate focus.

Further details on the group's top and emerging risks and other banking risks we manage are set out from page 14.

Areas of special interest

Risks related to Covid-19

The uncertainty of Covid-19 and its effect on the global economy has impacted our customers and our performance and the future effects of the pandemic are uncertain. Covid-19 has necessitated unprecedented levels of government response to protect public health, local economies and livelihoods. The Covid-19 outbreak has impacted countries and territories at different times and magnitudes as it has developed. The varying government measures in response to the outbreak 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 lockdown measures and return to pre-Covid-19 economic levels will vary based on the levels of infection and local political decisions. The risk of subsequent waves of infection remain.

Restrictions implemented by governments the world over to limit the spread of Covid-19 resulted in a sharp contraction in global economic activity in the first half of this year. Economic activity is expected to gradually recover in the second half of the year but there is significant uncertainty associated with the pace and scale of resumption. As a result, 2020 is expected to see pronounced recession in many economies, including those in Europe. The extent of economic activity, and any reduction in unemployment rates across our major markets in 2021, is contingent on successful containment of the virus and the resolution of other top risks including what trade terms will be in place between the UK and the EU from 1 January 2021, following the end of the transition period.

The risk of renewed drops in economic activity is material, and the economic fallout from Covid-19 risks is exacerbating inequality across markets that had already suffered from social unrest. This will leave the burden on governments and central banks to keep up or increase fiscal and monetary stimulus. After a sharp fall in the early phases of the spread of Covid-19, financial markets have rebounded although they 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 households and corporates. Measures implemented by governments include income support to households and funding support to corporates, while measures taken by central banks include cuts to interest rates, support to funding markets and asset purchases. These measures are expected to be unwound gradually as government restrictions ease and as activity increases. Central banks are expected to maintain record-low interest rates for a considerable period of time and the debt burden of governments will rise significantly.

In many of our markets we have initiated market-specific measures to support our personal and business customers through these challenging times, including mortgage assistance, payment holidays, the waiving of certain fees and charges, and liquidity relief for businesses facing market uncertainty and supply chain disruption. We are also working 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 Scheme ('CLBILS'). For details of our customer relief programs see pages 28 and 29.

It is recognised that the above measures expose the group to heightened risks. The rapid introduction and varying nature of the government support schemes, as well as customer expectations, can lead 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 the government support schemes are unwound.

At 30 June 2020, our common equity tier 1 ('CET1') ratio was 13.5%, compared with 14.2% at 31 December 2019, and our liquidity coverage ratio ('LCR') was 141%. Our capital, funding and liquidity position is expected to help us to continue supporting our customers throughout the Covid-19 outbreak.

The Covid-19 outbreak has led to a weakening in GDP in many of our major markets, a key input used for calculating 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 heightened risk to the oil and gas, transport and discretionary consumer sectors being observed in the first stages of the outbreak. 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.

As a result of the Covid-19 outbreak, business continuity plans have been implemented successfully. Despite high levels of working from home, the majority of our service level agreements, both internal and external, are being maintained. No major impacts to supply chain have been experienced from our third-party service providers. The risk of damage or theft to the group's physical assets or criminal injury to our employees remains unchanged; no significant incidents have impacted our buildings or staff. Expedited decisions to ensure the continuity of critical customer services are being documented through governance.

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 which negotiations have been taking place on the future relationship between the UK and the EU. At this stage it remains unclear what that relationship will look like, potentially leaving firms with little time to adapt to changes, which may enter into force on 1 January 2021.

Our programme to manage the impact of the UK leaving the EU has now been largely completed. The programme base case scenario assumes the UK exits the transition period without the existing passporting or regulatory equivalence framework that supports cross-border business. Priority has been given to ensuring we can continue to service our European Economic Area ('EEA') based customers once this framework falls away, with three main areas of activity:

- extension of our product and balance sheet capabilities in continental Europe, mainly in HSBC France and its branches in the Netherlands and Ireland;
- migration of HSBC's EEA clients to HSBC France and other affiliates within the EU; and
- transferring HSBC's EEA branch businesses to HSBC France.

These objectives were largely completed by the end of 2019. The current priority is to complete the migration of remaining customers to one of our entities in the EU.

Product offering and client migration

To accommodate 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.

The UK's departure from the EU's financial services regulatory framework at the end of the transition period without alternative equivalence type arrangements, or a trade deal being in place, is likely to have an impact on our clients' operating models, including their working capital requirements, investment decisions and access to financial markets infrastructure. Our priority is to provide continuity of service, while minimising the level of change for our customers.

We are required to migrate some EEA-incorporated clients from the UK to HSBC France, or another EEA entity. This has now mostly been completed for clients we expect can no longer be serviced from the UK. We are working in close collaboration with any remaining clients to make the transition as smooth as possible before the end of December 2020. We have been in close contact with these clients since the beginning of the transition period and will support them in the final phase of their migration to one of our entities in the EU. We are also considering the application of regulatory regimes in certain EU member states that allow cross-border business with third country firms and the extent to which those may permit continued servicing of some EEA clients from the UK following the transition period.

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. Looking beyond the transfer of roles to the EU, we are also providing support to our employees who are UK citizens resident in EEA countries, and employees who are citizens of an EU member state resident in the UK.

Across the programme, we have made good progress in terms of ensuring we are prepared for the UK leaving the EU under the terms described above. However, there remain execution risks, many of them linked to the uncertain outcome of negotiations.

Model Risk

The Covid-19 crisis has resulted in very significant movement in economic and market drivers, changes in retail and wholesale behaviours and a significant increase in government support programmes for businesses and consumers. All of these factors significantly impact the performance of financial models, including retail, wholesale, IFRS 9 and capital models. This has required more on-going monitoring and more frequent testing of models used across the group, particularly for credit models. It has also resulted in the use of compensating controls in a consistent and explainable manner for some models, such as overlays and overrides on top of model outputs to help protect the group from unwanted risks. The performance and usage of models over the next 12 to 18 months will continue to be impacted significantly by the consequences of Covid-19.

It is too early in the current situation to be certain of the magnitude of change required for models used by the group. However, it is likely that capital, credit risk, IFRS 9 models, and valuation models and financial reporting models, in other areas impacted by Covid-19, will need to be recalibrated or in some cases may need to be replaced with the development of new models. The effectiveness of these models will depend in large part on the depth and length of the economic downturn currently faced by the economies of the major markets in which we operate.

Ibor transition

The Financial Stability Board has observed that the decline in interbank short-term unsecured funding poses structural risks for interest rate benchmarks that reference these markets. In response, regulators and central banks in various jurisdictions have convened national working groups to identify alternative benchmark rates, near risk-free rates or Risk Free Rates ('RFRs') for these Ibors and, where appropriate, to facilitate an orderly transition to these rates.

Following the announcement by the FCA in July 2017 that it will no longer persuade or require banks to submit rates for Libor after 2021, the national working groups for the affected currencies were tasked with facilitating an orderly transition of the relevant Libors to their chosen RFRs. The euro working group is also responsible for facilitating an orderly transition of the Euro Overnight Index Average ('Eonia') to the euro short-term rate ('€STER') as a result of Eonia not being made compliant with the EU Benchmark Regulation.

Regulators have reiterated that firms cannot rely on Libor being published after the end of 2021, but acknowledge that Covid-19 may impact transition plans. Some delays in milestones were agreed in April 2020, in consultation with the industry groups.

National working groups, regulators and governments have also recognised that certain Libor contracts genuinely have no or inappropriate alternatives and no realistic ability to be renegotiated or amended prior to Libor's cessation. In response, the US Government intends to implement legislation that gives market participants the confidence to transition these 'tough legacy' contracts to the recommended benchmark replacement without the fear of legal repercussions. Similarly, in June 2020, the UK Government announced that it would grant powers to the FCA to enable continued publication of a Libor number using a different and more robust methodology and inputs, and therefore reduce disruption to any holders of these tough legacy contracts. There is, however, no certainty as to whether the FCA will exercise these powers or what form the revised methodology would take, and the FCA has consequently encouraged users of Libor to renegotiate or amend as many contracts as possible before Libor's cessation.

The HSBC Group established the Ibor transition programme with the objective of facilitating an orderly transition from Libor and Eonia for the Group and its clients. During the first half of 2020 the group's Libor transition has developed as follows:

Develop RFR product capabilities

Our global businesses continue to develop their capabilities to offer RFR-based products and the supporting processes and systems. The Covid-19 outbreak has impacted the appetite and readiness of many of our customers to adopt RFR-based products. Consequently, the sale of Libor and Eonia contracts with maturities beyond 2021, known as legacy contracts, will continue for longer than initially anticipated, to Q1 2021, as agreed by the industry-led Risk Free Rates Working Group. This is likely to increase the volume of legacy contracts that will need to be transitioned.

Transition legacy contracts

The programme is also continuing to develop the capability to transition legacy Libor and Eonia contracts at a larger scale. The Covid-19 outbreak has affected the pace with which many of our customers will have been preparing to adopt RFR-based products. Consequently, we expect legacy contract transition to occur over a shortened time period, largely in the second half of 2021. In combination with a potentially increased number of legacy contracts requiring transition, this may still increase the overall level of execution risk on the transition process, which could potentially increase the level of conduct and operational risks. Our plans have been adjusted to reflect the changed industry milestones, the greater effort required and associated risks. Critical focus remains on the conduct risk elements of the transition, specifically to address conduct considerations at a product level.

In addition to the heightened conduct and operational risks, the process of adopting new reference rates may expose the group to an increased level of financial risk, such as potential earnings volatility resulting from contract modifications and changes in hedge accounting relationships. Furthermore, the transition to alternative reference rates could have a range of adverse impacts on our business, including legal proceedings or other actions regarding the interpretation and enforceability of provisions in Ibor-based contracts and regulatory investigations or reviews in respect of our preparation and readiness for the replacement of Ibor with alternative reference rates. The FCA and PRA have highlighted that the transition remains a key priority with increased engagement now underway.

We continue to proactively engage with industry bodies, regulators and our clients to support an orderly transition and the mitigation of the risks resulting from the transition.

Interest rate environment

Central banks have reduced interest rates in most financial markets due to the adverse impact on the timelines and path for economic recovery, and the increased likelihood of negative interest rates. This raises a number of risks and concerns, such as the readiness of our systems and processes to accommodate zero or negative rates, the resulting impacts on customers, regulatory constraints and the financial implications given the significant impact that prolonged low interest rates are likely to have on our net interest income.

For some products, we have floored deposit rates at zero or made decisions to not charge negative rates. This, alongside loans repriced at lower rates, results in our commercial margins being compressed, which will be reflected in our profitability. The pricing of this risk will need to be considered carefully. 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 HSBC, and will be considered as part of the group's transformation programme.

Key developments in the first half of 2020

We have been actively managing the risks resulting from Covid-19 and its impact on our customers and operations during the first half of 2020, as well as other key risks described in this Risk section.

We supplemented our existing approach to risk management with additional tools and practices to mitigate and manage risks. We increased our focus on the quality and timeliness of our management information through measures such as the introduction of early warning indicators and prudent active risk management of our risk appetite.

In the first half of 2020, we additionally continued to enhance our risk management in the following areas:

- In January 2020 we simplified our approach and articulation of risk management, through the combination of the enterprise risk management framework and the operational risk management framework.
- 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 combined the second line of defence Operational Risk and second line of defence Resilience Risk sub-functions. By bringing the two teams together, we will benefit from improved stewardship, better risk management capabilities and better outcomes for our customers.
- We continued to focus on enhancing our risk management capabilities and the effectiveness of our financial crime controls. The application of both advanced analytics and artificial intelligence remains a key element of our next generation of tools to fight financial crime, and our investment in these areas is ongoing.
- We continued to promote and encourage good conduct through our people's behaviour and decision making to deliver fair outcomes for customers and preserve market integrity.

Credit risk

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Overview

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 in the first half of 2020

During the first half of 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 28. There have been no material changes to credit risk policy.

A summary of our current policies and practices for the management of credit risk is set out in 'Credit risk management' on pages 28 and 29 of the Annual Report and Accounts 2019.

Summary of credit risk

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

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

	At			
	30 Jun 2020		31 Dec 2019	
	Gross carrying/ nominal amount	**Allowance for ECL[1]**	Gross carrying/ nominal amount	Allowance for ECL[1]
	£m	**£m**	£m	£m
Loans and advances to customers at amortised cost	**116,698**	**(1,534)**	109,428	(1,037)
– personal	**26,720**	**(205)**	24,833	(173)
– corporate and commercial	**72,382**	**(1,200)**	66,990	(809)
– non-bank financial institutions	**17,596**	**(129)**	17,605	(55)
Loans and advances to banks at amortised cost	**14,277**	**(19)**	11,471	(4)
Other financial assets measured at amortised cost	**230,761**	**(11)**	181,755	(9)
– cash and balances at central banks	**94,249**	**(2)**	51,816	—
– items in the course of collection from other banks	**671**	**—**	707	—
– reverse repurchase agreements – non-trading	**62,842**	**—**	85,756	—
– financial investments	**15**	**—**	13	—
– prepayments, accrued income and other assets[2]	**72,984**	**(9)**	43,463	(9)
Total gross carrying amount on-balance sheet	**361,736**	**(1,564)**	302,654	(1,050)
Loans and other credit related commitments	**159,864**	**(120)**	121,447	(54)
– personal	**2,347**	**(1)**	1,950	(2)
– corporate and commercial	**80,190**	**(103)**	68,893	(50)
– financial	**77,327**	**(16)**	50,604	(2)
Financial guarantees[3]	**4,365**	**(15)**	4,318	(9)
– personal	**39**	**—**	34	—
– corporate and commercial	**2,983**	**(13)**	2,849	(8)
– financial	**1,343**	**(2)**	1,435	(1)
Total nominal amount off-balance sheet[4]	**164,229**	**(135)**	125,765	(63)
	525,965	**(1,699)**	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')	**56,346**	**(32)**	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 48 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 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 a significant increase in credit risk for which a 12-month allowance for ECL is recognised.
- Stage 2: A significant increase in credit risk has been experienced on these financial assets since initial recognition for which a lifetime ECL is recognised.
- Stage 3: There is objective evidence of impairment and the financial assets are therefore considered to be in default or otherwise credit impaired for which a lifetime ECL is recognised.
- POCI: Financial assets that are purchased or originated at a deep discount are seen to reflect 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 30 June 2020

	Gross carrying/nominal amount[2]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI[3]	Total	Stage 1	Stage 2	Stage 3	POCI[3]	Total	Stage 1	Stage 2	Stage 3	POCI[3]	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%	%
Loans and advances to customers at amortised cost	97,842	15,459	3,326	71	116,698	(132)	(289)	(1,080)	(33)	(1,534)	0.1	1.9	32.5	46.5	1.3
– personal	25,125	1,059	536	–	26,720	(11)	(34)	(160)	–	(205)	–	3.2	29.9	–	0.8
– corporate and commercial	57,951	11,926	2,434	71	72,382	(110)	(209)	(848)	(33)	(1,200)	0.2	1.8	34.8	46.5	1.7
– non-bank financial institutions	14,766	2,474	356	–	17,596	(11)	(46)	(72)	–	(129)	0.1	1.9	20.2	–	0.7
Loans and advances to banks at amortised cost	13,065	1,205	7	–	14,277	(6)	(9)	(4)	–	(19)	–	0.7	57.1	–	0.1
Other financial assets measured at amortised cost	230,644	83	34	–	230,761	(2)	–	(9)	–	(11)	–	–	26.5	–	–
Loan and other credit-related commitments	144,965	14,622	277	–	159,864	(21)	(62)	(37)	–	(120)	–	0.4	13.4	–	0.1
– personal	2,222	113	12	–	2,347	–	(1)	–	–	(1)	–	0.9	–	–	–
– corporate and commercial	67,706	12,221	263	–	80,190	(18)	(48)	(37)	–	(103)	–	0.4	14.1	–	0.1
– financial	75,037	2,288	2	–	77,327	(3)	(13)	–	–	(16)	–	0.6	–	–	–
Financial guarantees[1]	3,112	1,127	125	1	4,365	(5)	(9)	(1)	–	(15)	0.2	0.8	0.8	–	0.3
– personal	37	1	1	–	39	–	–	–	–	–	–	–	–	–	–
– corporate and commercial	2,028	836	118	1	2,983	(5)	(8)	–	–	(13)	0.2	1.0	–	–	0.4
– financial	1,047	290	6	–	1,343	–	(1)	(1)	–	(2)	–	0.3	16.7	–	0.1
At 30 Jun 2020	489,628	32,496	3,769	72	525,965	(166)	(369)	(1,131)	(33)	(1,699)	–	1.1	30.0	45.8	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').

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 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 30 June 2020

	Gross carrying			Allowance for ECL			ECL coverage %		
		Of which:			*Of which:*			*Of which:*	
	Stage 2	*1 to 29 DPD[1]*	*30 and > DPD[1]*	Stage 2	*1 to 29 DPD[1]*	*30 and > DPD[1]*	Stage 2	*1 to 29 DPD[1]*	*30 and > DPD[1]*
	£m	*£m*	*£m*	£m	*£m*	*£m*	%	*%*	*%*
Loans and advances to customers at amortised cost	15,459	*104*	*111*	(289)	*(2)*	*(4)*	1.9	*1.9*	*3.6*
– personal	1,059	*51*	*86*	(34)	*(2)*	*(3)*	3.2	*3.9*	*3.5*
– corporate and commercial	11,926	*53*	*25*	(209)	–	*(1)*	1.8	–	*4.0*
– non-bank financial institutions	2,474	–	–	(46)	–	–	1.9	–	–
Loans and advances to banks at amortised cost	1,205	–	–	(9)	–	–	0.7	–	–
Other financial assets measured at amortised cost	83	–	–	–	–	–	–	–	–

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)

	Gross carrying/nominal amount[2]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI[3]	Total	Stage 1	Stage 2	Stage 3	POCI[3]	Total	Stage 1	Stage 2	Stage 3	POCI[3]	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%	%
Loans and advances to customers at amortised cost	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	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)

	Gross carrying amount			Allowance for ECL			ECL coverage %		
		Of which:			*Of which:*			*Of which:*	
	Stage 2	*1 to 29 DPD[1]*	*30 and > DPD[1]*	Stage 2	*1 to 29 DPD[1]*	*30 and > DPD[1]*	Stage 2	*1 to 29 DPD[1]*	*30 and > DPD[1]*
	£m	*£m*	*£m*	£m	*£m*	*£m*	%	*%*	*%*
Loans and advances to customers at amortised cost	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.

Measurement uncertainty and sensitivity analysis of ECL estimates

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.

Methodology

Our methodology in relation to the adoption and generation of economic scenarios is described on page 37 of the *Annual Report and Accounts 2019*. There have been no significant changes during the first half of 2020. While in keeping with HSBC's methodology, the exceptional nature of the current economic environment has led to extensive application of management's judgement in determining the range of possible outcomes, the number and severity of scenarios selected and the probability weights assigned.

Description of consensus 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 emergent nature of the Covid-19 outbreak at the end of 2019 meant that, consistent with other banks, HSBC's view of the distribution of risks, as disclosed in the *Annual Report and Accounts 2019*, did not, on a forward-looking basis, consider the impact of the virus. Our consensus 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 has led to a fundamental reassessment of our central forecast and the distribution of risks.

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 main factors that affect uncertainty across our key markets are:

- epidemiological concerns, including a possible resurgence of Covid-19 later in 2020 and in 2021;
- the ability of new or continued restrictions in individual markets to affect global growth due to deep cross-border trade and financial linkages;
- the ability of governments and central banks to continue to limit the economic damage through support measures;
- the potential for other geopolitical and macroeconomic risks to affect growth and economic stability as the world recovers from Covid-19-related restrictions; and
- market-specific differences in the progression of Covid-19 and the associated responses by public authorities that imply differentiation in the degree of uncertainty across our key markets.

Economic forecasts and data released since the creation of scenarios in May confirmed the view of elevated uncertainty in some markets such as in the UK, where monthly GDP and unemployment data suggested a larger degree of estimation error than usual in short-term forecasts. The volatility in economic data and forecasts received since the generation of scenarios has been considered by management and is reflected in management's choice of scenarios, in probability weights and in its assessment of ECL outcomes.

The scenarios used to calculate ECL in the *Interim Report 2020* are described below.

The consensus Central scenario

HSBC's Central scenario features a 'V-shaped' shock to economic activity, as characterised by a deep, initial contraction in GDP, followed by a sharp recovery. This V-shape in activity reflects the unique nature of this downturn and is driven by restrictions on mobility and activity imposed by governments to reduce the spread of Covid-19. The Central scenario further assumes that the stringent restrictions on activity, employed across several countries and territories in the first half of 2020, will not be repeated, allowing economic activity to rebound. Minimal long-term damage to economic prospects is expected, allowing economic growth across our key markets to return to forecast trend rates. Cross-country differences in the depth of the contraction, and the speed and scale of subsequent recovery, reflect timing differences in the progression of the Covid-19 outbreak, national level differences in restrictions imposed and the scale of support measures.

Global GDP is expected to contract by 3.9% in 2020 and grow by 4.8% in 2021 in the Central scenario. The average rate of global GDP growth is expected to be 2.7% over the forecast period 2020–2025, which is slightly lower than the average growth rate over the 2015–2019 period.

The unique circumstances surrounding the current fall in economic activity make it difficult to compare current prospects for global economic activity with previous recessions. However, we note that the depth of the contraction in economic activity and the subsequent recovery are both expected to be sharper than experienced during the last global economic downturn of 2008–2009 across our key markets.

Across the key markets, we note:

- Economic activity has fallen significantly in the first half of 2020 across our major markets. The Central scenario projects an annual contraction in GDP across almost all our major markets in 2020. GDP is expected to be positive across all our major markets in 2021.
- The unemployment rate is expected to rise sharply in most of our major markets, before reverting gradually to pre-crisis levels over the forecast horizon.
- Inflation is expected to fall sharply in 2020 in line with the slowdown in economic activity, before increasing to gradually converge to central bank targets in our key markets over the forecast period.
- Governments have provided extensive support to households and corporates in our key markets. Fiscal deficits are expected to increase sharply in 2020 before reducing in the later years of the projection period. Sovereign indebtedness is expected to increase sharply as a result.
- Major central banks have lowered their main policy interest rates, implemented emergency support measures for funding markets, and either restarted or increased quantitative easing programmes, in order to support economies and the financial system. Interest rate policy is expected to be highly accommodative over the projection horizon.
- The West Texas Intermediate oil price is forecast to average $37 per barrel over the projection period.

The Central scenario was first created with forecasts available in May, and subsequently updated in June to reflect significant changes to forecasts. The UK unemployment rate was the only variable to have been amended as a result of this update. Probability weights assigned to the Central scenario reflect both the higher level of uncertainty in the current global economic environment and relative differences across markets. Weights assigned to the Central scenario vary from 55% to 70%.

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

Central scenario (3Q20-2Q25)

	UK %	France %
GDP growth		
Annual average growth rate: 2020	(7.8)	(8.7)
Annual average growth rate: 2021	5.9	7.2
1Q22–2Q25: average growth	1.9	1.7
3Q20–2Q22: worst quarter	(8.6) (3Q20)	(8.9) (3Q20)
Unemployment rate		
Annual average: 2020	6.8	9.8
Annual average: 2021	6.3	10.0
1Q22–2Q25: average	4.7	8.9
3Q20–2Q22: worst quarter	8.1 (3Q20)	10.6 (3Q20)
House price index		
Annual average growth rate: 2020	(2.2)	(0.5)
Annual average growth rate: 2021	0.9	(0.3)
1Q22–2Q25: average growth	3.7	3.4
3Q20–2Q22: worst quarter	(3.4) (4Q20)	(3.9) (4Q20)
10-year bond yield		
Annual average: 2020	0.5	0.0
Annual average: 2021	0.8	0.2
1Q22–2Q25: average	1.6	0.9
3Q20–2Q22: worst quarter	0.4 (3Q20)	0.0 (3Q20)
Probability	60	70

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. Despite this feature, the scenario forecasts 2020 as a year in which global GDP growth contracts and several quarters elapse before economic activity reaches the level attained at the end of 2019, prior to the onset of the Covid-19 outbreak.

The scenario is consistent with a number of key upside risk themes. These include orderly global abatement of Covid-19 via successful containment and/or the development of a vaccine, deescalation of tensions between the US and China, continued support from fiscal and monetary policy, positive resolution of economic uncertainty in the UK, stronger oil prices and deescalation of geopolitical tensions in Hong Kong.

Probability weights assigned to the Upside scenario range from 0% to 10%. These weights reflect management's view of the potential for more positive outcomes relative to the Central scenario in our key markets.

The consensus Downside scenario

Global real GDP growth contracts significantly in 2020 in the Downside scenario, accompanied by a sharp increase in unemployment, and falls in asset and consumer prices, before gradually recovering towards its long-run trend. Compared with the Central scenario, the recovery in economic activity is considerably weaker.

The scenario is consistent with our key downside risks. These include renewed outbreaks of Covid-19 and/or slower easing of restriction of travel and activity, an intensification of tensions between the US and China, a worsening of economic uncertainty in the UK, further risks to economic growth in Hong Kong and weaker commodity prices.

A broad range of weights has been assigned to the consensus Downside scenario. These range from 0% to 35% and reflect management's view of the dispersion of risks and severity across key markets.

UK management Downside scenario

The consensus Downside scenario was replaced with a management Downside scenario for the UK only, to reflect management's view of the dispersion of risks. Management took the view that this scenario provided a better representation of risks that lie in between the Central and the alternative Downside scenario 1. In this scenario, UK GDP falls 9.6% in 2020 and UK unemployment peaks at 8.5% in 2021. This scenario has been assigned a 20% probability.

Alternative Downside scenario 1

An alternative Downside scenario has been created to reflect management's view of extreme risks. This 'U-shaped' scenario assumes that a number of HSBC's top risks crystallise simultaneously and results in an extremely severe and prolonged recession. This scenario has been assigned a 5% probability across all markets except the UK where it has been assigned a 10% weighting.

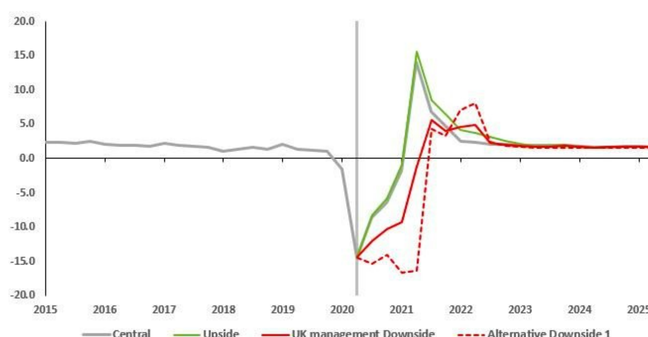
The range of macroeconomic projections across the various scenarios are shown in the table below:

Outer scenario ranges (3Q20-2Q25)

	UK %	France %
GDP growth	(8.3) to (16.7) (3Q20) (1Q21)	(8.7) to (22.0) (3Q20) (3Q20)
Unemployment rate	8.0 to 10.5 (3Q20) (2Q21)	10 to 11.5 (3Q20) (1Q21)
House price index	(2.8) to (24.7) (3Q20) (2Q21)	(2.4) to (13.4) (4Q20) (3Q21)
10-year bond yield	0.5 to (1.7) (3Q20) (3Q21)	0.1 to (0.5) (3Q20) (2Q22)
Consensus Upside scenario: Probability	10	10
Consensus Downside scenario: Probability	0	15
UK management Downside scenario: Probability	20	n/a
Alternative Downside 1: Probability	10	5

Note: The worst point refers to the quarter that is either the trough or peak in the respective variable. The figures provided represent the worst point across all four outer scenarios: the consensus Upside, the consensus Downside, the UK management Downside and the alternative Downside 1. These figures should not be directly compared with the annual averages presented in the previous table for the Central scenario.

UK GDP growth



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

Critical accounting estimates and judgements

The calculation of ECL under IFRS 9 involves significant judgements, assumptions and estimates, as set out in the *Annual Report and Accounts 2019* under 'Critical accounting estimates and judgements'. The level of estimation uncertainty and judgement has increased since 31 December 2019 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 widening in the distribution of economic forecasts. The key judgement is whether the economic effects

of the pandemic are more likely to be temporary or prolonged, and the shape of recovery;

- 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 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, or have extended those deferrals, given limitations in the available credit information on these customers. The use of segmentation techniques for indicators of significant increases in credit risk involves significant estimation uncertainty.

How economic scenarios are reflected in ECL

The methodologies for the application of forward economic guidance into the calculation of ECL for wholesale and retail loans and portfolios are set out in page 38 of the *Annual Report and Accounts 2019*. These models are based largely on historical observations and correlations with default rates.

The severe projections at 30 June 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 governmental support programmes and regulatory guidance on treatment of customer impacts (such as forbearance and payment holidays) and the unpredictable pathways of the pandemic have never been modelled. Consequently, HSBC's IFRS 9 models, in some cases, generate outputs that appear overly conservative when compared with other economic and credit metrics. Post-model adjustments are required to ensure that an appropriate amount of ECL impairment is recognised.

These data and model limitations have been addressed in the short term using in-model and post-model adjustments. This includes refining model inputs and outputs, and using post-model adjustments based on management judgement and higher level quantitative analysis for impacts that are difficult to model. To ensure a consistent framework, we identified the model segments where results were overly conservative based on historical benchmarks and defined the worst economic inputs where the model output is considered reliable. For example, in the case of probability of default ('PD') models for bank and sovereign exposures, based on the historical calibration data, the model was defined as producing meaningful results when the GDP growth input is not worse than five standard deviations below the long-term average. Re-running the models with these capped economic limits established boundary conditions used by credit experts as a starting point for further adjustments based on their own structured judgement and granular analysis. For the wholesale portfolio, this analysis produced a 'credit experts best estimate' to act as a benchmark against the modelled outcomes, and inform post-model adjustments. In the short term, the focus is on refining model inputs and outputs in a consistent and explainable manner, using post-model adjustments. Wider-ranging model changes will take time to develop and need more real data on which models can be trained.

Models will be recalibrated over time once the full impacts of Covid-19 are observed but that will not occur in 2020. Therefore, we anticipate significant in-model and post-model adjustments for the foreseeable future.

Post-model adjustments

In the context of IFRS 9, post-model adjustments are short-term increases or decreases to the ECL at either a customer or portfolio level to account for late breaking events, model deficiencies and expert credit judgement applied following management review and challenge. We have internal governance in place to regularly monitor post-model adjustments and, where possible, to reduce the reliance on these through model recalibration or redevelopment, as appropriate. Depending on the path of the Covid-19 outbreak and the shape of the economic recovery, we anticipate the composition of modelled ECL and post-model adjustments may be revised significantly over 2020, particularly when the economy resumes positive GDP growth and the uncertainty over long-term unemployment abates.

Post-model adjustments made in estimating the reported ECL at 30 June 2020 are set out in the following table. The table includes adjustments in relation to data and model limitations resulting from Covid-19 economic conditions, 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.

Net post-model reductions / (additions) in ECL (£m)	Retail	Wholesale	Total
Low-risk counterparties and economies (banks, sovereigns and government entities)	**146**	**246**	**392**
Corporate lending adjustments	**–**	**117**	**117**
Retail lending adjustments	**(2)**	**–**	**(2)**
Total	**144**	**363**	**507**

The adjustments relating to low-credit risk exposures are mainly to highly rated banks, sovereigns and US government-sponsored entities, where modelled credit factors do 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 the 'credit experts best estimate' review on wholesale corporate exposures. Post-model adjustments, both positive and negative, have been made where modelled rating migration and ECL outputs based on historical relationships produced results that were overly sensitive. This can be the case when using economic inputs that are well outside the range of historical experience. For retail lending, the net impact of model adjustments was much less significant. The adjustment, under low-risk counterparties and economies, was to reduce ECL on insurance portfolios due to model over-prediction of downgrades in the bank and sovereign portfolios.

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 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 post-model adjustments, as appropriate to each scenario. The results tables exclude portfolios held by insurance business and small portfolios.

In both the wholesale and retail analysis, the comparative period results for alternative Downside scenarios are not directly comparable to the current period, because they reflect different risk profiles relative with the Consensus scenarios for the period end.

Wholesale analysis

IFRS 9 ECL sensitivity to future economic conditions[1]

	UK	France
ECL coverage of financial instruments subject to significant measurement uncertainty at 30 June 2020[2]	**£m**	**£m**
Reported ECL	**283**	**99**
Consensus scenarios		
Central scenario	**223**	**85**
Upside scenario	**178**	**81**
Downside scenario[3]	**315**	**153**
Alternative scenarios		
Alternative Downside scenario	**702**	**249**
Gross carrying amount/nominal amount [4]	**138,543**	**111,909**

IFRS 9 ECL sensitivity to future economic conditions[1]

	UK	France
ECL coverage of financial instruments subject to significant measurement uncertainty at 31 December 2019[2]	£m	£m
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/nominal amount [4]	125,085	119,967

1 *ECL sensitivities exclude portfolios utilising less complex modelling approaches.*
2 *ECL sensitivity includes off-balance sheet financial instruments that are subject to significant measurement uncertainty.*
3 *For the UK, this is the UK management Downside scenario.*
4 *Includes low credit-risk financial instruments such as debt instruments at FVOCI, which have high carrying values but low ECL under all the scenarios.*

In the wholesale portfolio, at 30 June 2020, the alternative Downside scenario reflected the most significant levels of ECL sensitivity in the UK, due to the potential for deterioration of credit quality in the UK and levels of exposure.

ECL sensitivities demonstrated an increase from the 2019 year-end across all countries and territories, primarily due to the deterioration of economic forecasts under all scenarios.

The UK observed the highest sensitivity when compared with 4Q19, mainly due to the deterioration of economic forecasts, with an emphasis on the unemployment rate in the June 2020 economic forecasts.

The higher ECL sensitivities can all be observed for the alternative Downside scenario 1, which represents a prolonged recovery period and sharper impact relative to other scenarios.

Retail analysis

IFRS 9 ECL sensitivity to future economic conditions[1]

	UK	France
ECL of loans and advances to customers at 30 June 2020[2]	**£m**	**£m**
Reported ECL	**11**	**113**
Consensus scenarios		
Central scenario	**10**	**112**
Upside scenario	**9**	**110**
Downside scenario[3]	**13**	**119**
Alternative scenarios		
Alternative Downside scenario	**16**	**118**
Gross carrying amount	**1,935**	**19,182**

IFRS 9 ECL sensitivity to future economic conditions[1]

	UK	France
ECL of loans and advances to customers at 31 December 2019[2, 4]	£m	£m
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. In the retail portfolio during the first half of 2020, there was a significant increase in reported expected credit losses in all markets due to the Covid-19 outbreak.*
3 *For the UK, this is the UK management Downside scenario.*
4 *Comparative figures have been represented.*

Across all countries and territories, primarily due to the worsening of the economic forecasts, ECL sensitivities demonstrated an increase from the 2019 year-end.

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers

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 represent 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]

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2020	**195,249**	**(132)**	**11,103**	**(143)**	**2,235**	**(796)**	**78**	**(33)**	**208,665**	**(1,104)**
Transfers of financial instruments:	(15,897)	4	14,233	12	1,664	(16)	–	–	–	–
– transfers from Stage 1 to Stage 2	(18,718)	30	18,718	(30)	–	–	–	–	–	–
– transfers from Stage 2 to Stage 1	2,989	(26)	(2,989)	26	–	–	–	–	–	–
– transfers to Stage 3	(172)	–	(1,528)	19	1,700	(19)	–	–	–	–
– transfers from Stage 3	4	–	32	(3)	(36)	3	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	18	–	(44)	–	(1)	–	–	–	(27)
New financial assets originated or purchased	51,054	(24)	–	–	–	–	9	–	51,063	(24)
Asset derecognised (including final repayments)	(39,006)	2	(657)	12	(298)	48	(15)	1	(39,976)	63
Changes to risk parameters – further lending/repayments	(5,931)	24	6,901	(33)	96	59	(3)	(1)	1,063	49
Changes to risk parameters – credit quality	–	(59)	–	(130)	–	(452)	–	1	–	(640)
Changes to model used for ECL calculation	–	10	–	(36)	–	–	–	–	–	(26)
Assets written off	–	–	–	–	(80)	80	–	–	(80)	80
Credit-related modifications that resulted in derecognition	–	–	–	–	(1)	–	–	–	(1)	–
Foreign exchange	7,676	(7)	753	(5)	118	(43)	3	(1)	8,550	(56)
Others[2]	3,614	–	42	(2)	–	(1)	–	–	3,656	(3)
At 30 Jun 2020	**196,759**	**(164)**	**32,375**	**(369)**	**3,734**	**(1,122)**	**72**	**(33)**	**232,940**	**(1,688)**
ECL income statement (charge)/release for the period		(29)		(231)		(346)		1		(605)
Add: Recoveries										1
Add/(less): Others										5
Total ECL income (charge)/release for the period										**(599)**

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]

	At 30 Jun 2020		Half-year ended 30 Jun 2020
	Gross carrying/nominal amount	Allowance for ECL	ECL charge
	£m	£m	£m
As above	**232,940**	**(1,688)**	**(599)**
Other financial assets measured at amortised cost	230,761	(11)	(2)
Non-trading reverse purchase agreement commitments	62,264	–	–
Performance and other guarantee not considered for IFRS 9			(32)
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/Summary consolidated income statement	525,965	(1,699)	(633)
Debt instruments measured at FVOCI	56,346	(32)	(18)
Total allowance for ECL/total income statement ECL charge for the period	n/a	(1,731)	(651)

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
2 *Includes the period on period movement in exposures relating to other HSBC Group companies. As at 30 June 2020, these amounted to £3.6bn 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]

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2019	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)
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)/release for the period		84		(28)		(176)		(33)		(153)
Add: Recoveries										6
Add/(less): Others										(3)
Total ECL income (charge)/release for the period										(150)

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)

	At 31 Dec 2019		12 month ended 31 December 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.*

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 for major markets at 30 June 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.

Personal lending

		UK	France	Other major markets[1]	Total
Market-wide schemes					
Number of accounts granted mortgage customer relief		1,378	–	–	1,378
Drawn loan value of accounts granted mortgage customer relief	£m	177	–	–	177
Number of accounts granted other personal lending customer relief		628	248	–	876
Drawn loan value of accounts granted other personal lending customer relief	£m	6	20	–	26
HSBC-specific measures					
Number of accounts granted mortgage customer relief		–	–	1,660	1,660
Drawn loan value of accounts granted mortgage customer relief	£m	–	–	234	234
Number of accounts granted other personal lending customer relief		–	2,503	812	3,315
Drawn loan value of accounts granted other personal lending customer relief	£m	–	564	24	588
Total personal lending to major markets under market-wide schemes and HSBC-specific measures					
Number of accounts granted mortgage customer relief		1,378	–	1,660	3,038
Drawn loan value of accounts granted mortgage customer relief	£m	177	–	234	411
Number of accounts granted other personal lending customer relief		628	2,751	812	4,191
Drawn loan value of accounts granted other personal lending customer relief	£m	6	584	24	614
Market-wide schemes and HSBC-specific measures - mortgage relief as a proportion of total mortgages	%	9.6	–	12.6	6.3
Market-wide schemes and HSBC-specific measures - other personal lending relief as a proportion of total other personal lending loans and advances	%	6.6	3.3	5.1	3.4

Wholesale lending

		UK	France	Other major markets[1]	Total
Market-wide schemes					
Number of customers under market-wide schemes		–	3,633	9	3,642
Drawn loan value of customers under market-wide schemes	£m	–	2,119	76	2,195
HSBC-specific measures					
Number of customers under HSBC-specific measures		58	9,410	111	9,579
Drawn loan value of customers under HSBC-specific measures	£m	30	3,212	204	3,446
Total wholesale lending to major markets under market-wide schemes and HSBC-specific measures					
Number of customers		58	13,043	120	13,221
Drawn loan value	£m	30	5,331	280	5,641
Market-wide schemes and HSBC-specific measures as a proportion of total wholesale lending loans and advances	%	0.1	21.4	2.3	7.5

1 *Other major markets include Germany, Malta and Spain. Italy is not included because it has no exposures at 30 June 2020.*

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 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 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, France and other major markets.

UK personal lending

Mortgages

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

Relief is offered for an initial period of three months, but subject to FCA consultation, this may be extended for a further three months in certain circumstances. 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 an initial period of three months, but subject to FCA consultation, this may be extended for a further three months. The maximum relief value is up to the due payment amount 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. No lending has been granted as at 30 June 2020.

France personal lending

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 one year. The maximum relief value is €7m. 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.

France wholesale lending

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.

Other major markets - wholesale lending

Germany

Kreditanstalt für Wiederaufbau (KfW) Coronavirus Aid provides lending to corporates for a maximum tenor of five years. The loan size is dependent on turnover and is capped at €100m.

Malta

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.

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.

Italy

Italy's government backed lending scheme (SACE guarantee) provides state backed guarantees to companies based in Italy. HSBC Italy had no exposure to state guarantees at 30 June 2020.

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 personal lending

Payment holidays offered to professionals, firms, business owners, craftsmen and micro-entrepreneurs for a duration between one and nine months. The maximum relief value is €2m.

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

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.

Market Risk in the first half of 2020

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.

There were no material changes to our policies and practices for the management of market risk in the first half of 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 from the previous historic peak levels. 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 tended to stabilise from April onwards, as governments in mainly developed countries announced economic recovery programmes and key central banks intervened to provide liquidity and support asset prices.

We managed market risk prudently in the first half of 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.

The overall risk profile remained relatively stable in 1H20 as the Fixed Income business continued to be the main driver of trading VaR. Interest rate risks from market-making activities were the key contributors to trading VaR, with partially offsetting gains from credit spread risks. The Equity and Foreign Exchange businesses provided a further offset to overall market risks in the trading book.

Trading portfolios

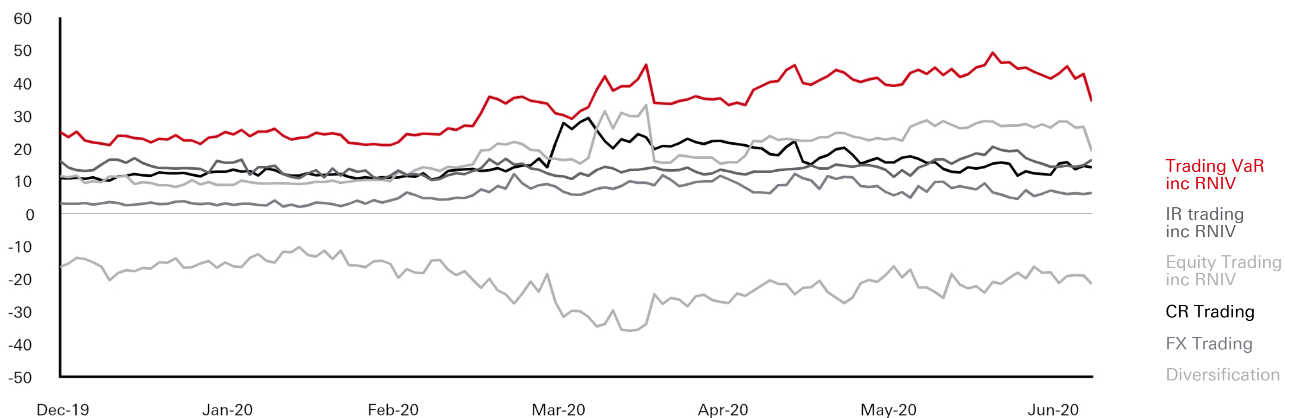
Value at risk of the trading portfolios

Trading VaR predominantly resides within Global Markets where it was £34.2m at 30 June 2020 compared with £24.9m at 31 December 2019. The Total Trading VaR has been fairly volatile during the first half of 2020 due to an unprecedented level of volatility owing to the Covid-19 pandemic; it remained fairly stable during Q1 but increased rapidly during Q2, driven by the Credit, and equity trading VaRs.

The Credit VaR increase was essentially due to a general widening of the credit spreads in March and the utilisation of multiplicative shifts In the credit VaR model. Subsequently, the tightening of the credit spreads during Q2 resulted in a decrease of the Credit VaR.

The equity VaR increase was mostly driven by the equity Dividend add-on; the large dividend cuts applied by many companies in Q1, have been integrated as new scenarios in the risks not in VaR, which as a result, increased the overall add-on.

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

	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 as at 30 Jun 2020	**6.3**	**16.4**	**19.0**	**14.1**	**(21.6)**	**34.2**
Average	**6.2**	**13.9**	**17.9**	**15.4**	**(20.6)**	**32.8**
Maximum	**12.1**	**20.4**	**33.2**	**29.2**		**49.2**
Minimum	**2.0**	**10.2**	**8.1**	**10.0**		**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
Balance as at 30 Jun 2019	3.5	16.5	10.8	22.3	(17.9)	35.2
Average	4.2	18.1	9.5	17.2	(16.6)	32.4
Maximum	9.3	23.3	15.7	23.8		39.8
Minimum	2.4	14.3	6.3	12.3		24.8

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 H1 2020, the group experienced 5 loss back-testing exceptions against Actual profit and losses. The group also experienced 13 loss back-testing exceptions against Hypothetical profit and losses. 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 is against incremental RNIV market risk capital requirements.

The Hypothetical profit and loss reflects the profit and loss that would be realised if positions were held constant from the end of one trading day to the end of the next. This measure of profit and loss does not align with how risk is dynamically hedged, and is not therefore necessarily indicative of the actual performance of the business.

Despite the high number of loss exceptions, performance of the VaR model was in line with expectations when considered in the context of the extraordinary market movements observed in March and April 2020. During this period, market risk continued to be managed using a complementary set of exposure measures and limits, including stress and scenario analysis. This ensured that the business was prudently managed and performed well across the period.

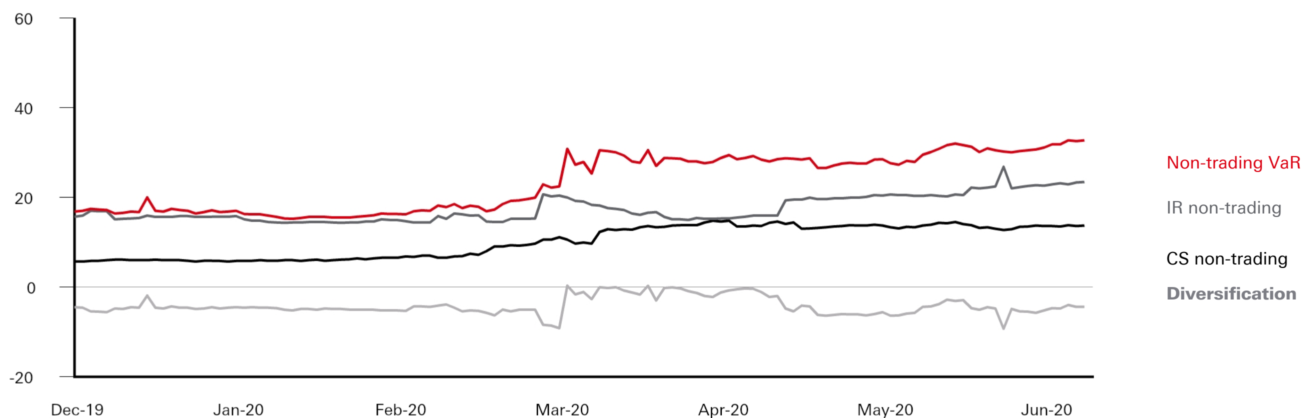
Non-trading portfolios

Value at risk of the non-trading portfolios

The non-trading VaR as at 30 June 2020 was £32.7m, driven by interest rate risk in the banking book arising from BSM and ALCO book positions. The VaR for non-trading activity was £16.9m as at 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 rate swaps, coupled with volatility in the spread of agencies and supranationals led to an overall increase in the non-trading VaR during the first half of the year. The BSM business were actively managing the interest rate risk by reducing outright interest rate risk during the height of the crisis

and adding on treasury spread risk as the economy recovers from the peaks of Covid-19 driving some of the fluctuations of VaR between March and June. 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

	Interest rate (IR)	Credit spread (CS)	Portfolio diversification[1]	Total[2]
	£m	£m	£m	£m
Balance as at 30 Jun 2020	**23.4**	**13.7**	**(4.4)**	**32.7**
Average	**17.4**	**10.2**	**(4.2)**	**23.4**
Maximum	**26.8**	**14.8**		**32.7**
Minimum	**14.3**	**5.7**		**15.2**
Balance as at 31 Dec 2019	15.7	5.7	(4.5)	16.9
Average	17.5	5.3	(4.3)	18.5
Maximum	20.7	7.3		22.5
Minimum	14.9	4.2		15.4
Balance as at 30 Jun 2019	18.3	5.2	(4.2)	19.3
Average	17.9	5.3	(4.3)	18.9
Maximum	20.7	7.3		22.5
Minimum	15.6	4.4		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.*

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 and 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. The cost of claims and benefits can be influenced by many factors, including mortality and morbidity experience, as well as lapse and surrender rates.

A summary of our policies and practices regarding the risk management of insurance operations, our insurance model and the main contracts we manufacture is provided on page 71 of the *Annual Report and Accounts 2019*.

There have been no material changes to the policies and practices for the management of risks arising in our insurance operations described in the *Annual Report and Accounts 2019.*

Insurance manufacturing operations risk profile in the first half of 2020

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. A key risk appetite metric is the economic coverage ratio, which is calculated by dividing the economic net asset value by the economic capital requirement. The business has a current appetite to remain above 135% with a tolerance to 110%. In addition to economic capital, the regulatory solvency ratio is also a metric used to manage risk appetite on an entity basis.

Covid-19 impacts on financial markets has impacted the profitability of manufactured insurance products and has caused

overall capital levels to fall in several of the insurance entities. At 30 June 2020 regulatory capital levels were above risk appetite and the group economic capital level was above risk tolerance. A variety of management actions was taken during the period to actively manage the risk profile of the insurance entities. Enhanced monitoring of risks and pricing conditions will continue, as the low level of interest rates results in a higher cost of guarantees to be paid to policyholders, increasing the reinvestment risk for interest rate sensitive products. This will have an impact on their profitability and increase the solvency requirements for the entities which are most exposed to these products.

The following table shows the composition of assets and liabilities by contract type.

Balance sheet of insurance manufacturing subsidiaries by type of contract

	Footnotes	With DPF	Unit- linked	Other contracts[1]	Shareholder assets and liabilities	Total
		£m	£m	£m	£m	£m
Financial assets		**19,791**	**2,187**	**251**	**2,370**	**24,599**
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss		**8,473**	**2,116**	**93**	**983**	**11,665**
– derivatives		**104**	**—**	**—**	**3**	**107**
– financial investments – at amortised cost		**283**	**—**	**1**	**15**	**299**
– financial investments – at fair value through other comprehensive income		**9,181**	**—**	**111**	**1,258**	**10,550**
– other financial assets	2	**1,750**	**71**	**46**	**111**	**1,978**
Reinsurance assets		**—**	**51**	**146**	**—**	**197**
PVIF	3	**—**	**—**	**—**	**649**	**649**
Other assets and investment properties		**794**	**1**	**1**	**48**	**844**
Total assets at 30 Jun 2020		**20,585**	**2,239**	**398**	**3,067**	**26,289**
Liabilities under investment contracts designated at fair value		**—**	**875**	**—**	**—**	**875**
Liabilities under insurance contracts		**20,472**	**1,358**	**362**	**—**	**22,192**
Deferred tax	4	**113**	**2**	**—**	**45**	**160**
Other liabilities		**—**	**—**	**—**	**1,704**	**1,704**
Total liabilities at 30 Jun 2020		**20,585**	**2,235**	**362**	**1,749**	**24,931**
Total equity at 30 Jun 2020		**—**	**—**	**—**	**1,358**	**1,358**
Total liabilities and equity at 30 Jun 2020		**20,585**	**2,235**	**362**	**3,107**	**26,289**
Financial assets		19,258	2,116	233	2,231	23,838
– financial assets designated and otherwise mandatorily measured at fair value		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.

Market risk

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.

Where local rules require, these reserves are held as part of liabilities under insurance contracts. Any remainder is accounted for as a deduction from the present value of in-force 'PVIF' long-term insurance contracts. 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. 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.

Sensitivities

The following table illustrates the effects of selected interest rate and equity price scenarios on our profit for the period 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. Where observable long-tenor interest rates are at or close to zero, the -100bps stress sensitivity allows for the impact of negative rates.

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.

Sensitivity of the group's insurance manufacturing subsidiaries to market risk factors

	30 June 2020		31 December 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	**102**	**81**	84	67
-100 basis point parallel shift in yield curves	**(196)**	**(173)**	(175)	(157)
10% increase in equity prices	**29**	**29**	28	28
10% decrease in equity prices	**(30)**	**(30)**	(30)	(30)

Capital

Key capital numbers

	Footnotes	At 30 Jun 2020	At 31 Dec 2019
Available capital (£m)	1		
Common equity tier 1 ('CET1') capital		**18,701**	17,791
Tier 1 capital		**22,819**	22,130
Total regulatory capital		**35,490**	34,929
Risk-weighted assets ('RWAs') (£m)			
Credit risk	2	**87,585**	79,208
Counterparty credit risk		**21,699**	21,286
Market risk		**17,282**	13,107
Operational risk		**11,812**	11,812
Total risk-weighted assets		**138,378**	125,413
Capital ratios (%)	1		
Common equity tier 1		**13.5**	14.2
Tier 1		**16.5**	17.6
Total capital		**25.6**	27.9
Leverage ratio (transitional)			
Tier 1 capital (£m)		**22,819**	22,130
Total leverage ratio exposure measure (£m)		**600,340**	571,302
Leverage ratio (%)		**3.8**	3.9
Leverage ratio (fully phased-in)			
Tier 1 capital (£m)		**22,386**	21,480
Total leverage ratio exposure measure (£m)		**600,340**	571,302
Leverage ratio (%)		**3.7**	3.8

1 *Capital figures and ratios are calculated in accordance with the revisions to the Capital Requirements Regulation and Directive, as implemented ('CRR II'), and are subject to the 'CRR Quick Fixes' package where applicable. See page 35 for further detail.*
2 *'Credit risk' here, and in all tables in this capital section where the term is used, excludes counterparty credit risk.*

Capital overview

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

We manage group capital to ensure we exceed current and expected future requirements, and that we respect the payment priority of our capital providers. Throughout the six months to 30 June 2020, we complied with the Prudential Regulation Authority's ('PRA') regulatory capital adequacy requirements, including those relating to stress testing.

A summary of our policies and practices regarding capital management, measurement and allocation is provided on page 75 of the Annual Report and Accounts 2019.

Risk-weighted assets

Risk-weighted assets ('RWAs') rose by £13.0bn during the first half of the year, including an increase of £6.0bn due to foreign currency translation differences. The £7.0bn increase (excluding foreign currency translation differences) comprised the movements described by the following comments.

Asset size

The £6.0bn increase in RWAs was predominantly due to £3.6bn lending growth in GBM and CMB and a £3.2bn increase in market risk RWAs as a result of market volatility. This was partly offset by management initiatives of £1.1bn within GBM and CMB.

Asset quality

Changes in asset quality led to a RWA increase of £1.3bn mainly within CMB and GBM.

Model updates

Model updates led to a £1.1bn decrease in RWAs. This was largely due to a £0.8bn fall in market risk RWAs, as a result of a temporary adjustment to the calculation of risks not in VaR, and a £0.3bn decrease within GBM and CMB due to global corporate model updates.

Methodology and policy

The £0.6bn rise in RWAs included a £3.8bn increase caused by changes in approach to wholesale credit risk exposures and a £0.8bn increase in market risk RWAs relating to foreign exchange risk. This was partly offset by reductions due to management initiatives mainly within GBM worth £4.1bn, which included risk parameter refinements and a change in the treatment of undrawn private equity fund commitments.

With effect from 1 January 2020, we implemented two changes in approach to 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.

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	**(63)**	**91**	**2,055**	**822**	**3,189**	**6,094**
Asset quality	**(159)**	**1,266**	**269**	**(72)**	**–**	**1,304**
Model updates	**–**	**(73)**	**(191)**	**24**	**(811)**	**(1,051)**
Methodology and policy	**495**	**405**	**(2,426)**	**1,315**	**835**	**624**
Foreign exchange movement	**422**	**1,511**	**2,945**	**154**	**962**	**5,994**
Total RWA movement	**695**	**3,200**	**2,652**	**2,243**	**4,175**	**12,965**
RWAs at 30 Jun 2020	**9,814**	**31,968**	**71,221**	**8,093**	**17,282**	**138,378**

Regulatory developments

Covid-19

The current Covid-19 pandemic has created an unprecedented challenge to the global economy. Governments, central banks and regulatory authorities have responded to this challenge with a number of regulatory measures. The substance of the announcements and the pace of response varies by jurisdiction but broadly, these have included a number of customer support measures; operational capacity measures; and amendments to the RWAs, capital and liquidity frameworks.

In the EU, the relief measures have included a package known as the 'CRR Quick Fixes' that was enacted in June 2020. The package represents an acceleration of some of the beneficial elements of the amendments to the Capital Requirements Regulation ('CRR II') that were originally scheduled for June 2021, together with other amendments to mitigate the potential volatility in capital ratios arising from the pandemic. The material changes that were finalised in June, include:

- a resetting of the transitional provisions in relation to recognising IFRS 9 provisions in Common Equity Tier 1 ('CET1') capital;
- the acceleration of the timetable for the changes to the CET1 deduction of software assets so that once the European Banking Authority ('EBA') finishes its current consultation on the new methodology, the rules can go live;
- the CRR II changes to the small and medium sized enterprises ('SME') supporting factor and the new infrastructure supporting factor; and
- the CRR II change to the netting in the leverage ratio exposure measure of regular-way purchases and sales.

The Prudential Regulation Authority ('PRA') has published a statement in response to the package, stating that it will be undertaking a quantitative analysis of the benefits which will be used to inform its supervisory approach. This will include an assessment of whether further action is necessary in Pillar 2.

In addition to the CRR Quick Fix package, there were other changes to the regime in response to Covid-19. These included the enactment by the EU of beneficial changes to the CET1 deduction for prudent valuation adjustments, which will remain in place until 1 January 2021, and the PRA announcing that it is setting all Pillar 2A requirements in 2020 and 2021 as a nominal amount, instead of a percentage of total RWAs.

The Basel Committee

In December 2017, the Basel Committee ('Basel') published the Basel III Reforms. The package finalised in July 2020 when Basel published the final revisions to the credit valuation adjustment ('CVA') framework.

In March 2020, Basel announced a one-year delay to the implementation of the package. It is now to be implemented on 1 January 2023, with a five-year transitional provision for the output floor. This floor ensures that, at the end of the transitional period, banks' total RWAs will be no lower than 72.5% of those generated by the standardised approaches. The final standards will need to be transposed into the relevant local law before coming into effect. The EU and the UK authorities have already indicated that they will apply the new timetable.

There remains a significant degree of uncertainty about the impact of these changes due to the number of national discretions within Basel's reforms and the need for further supporting technical standards to be developed. Furthermore, any impact needs to be viewed in light of the possibility of offsets against Pillar 2, which may arise as shortcomings within Pillar 1 are addressed.

The Capital Requirements Regulation amendments

In June 2019, the EU enacted the CRR II. This is the EU's implementation of changes to the own funds regime and to the Financial Stability Board's ('FSB') requirements for total loss-absorbing capacity ('TLAC'), known in the EU as the minimum requirements for own funds and eligible liabilities ('MREL'). The CRR II will also implement the first tranche of changes to the EU's legislation to reflect the Basel III Reforms, including the changes to market risk ('FRTB') rules, revisions to the standardised approach for measuring counterparty risk, changes to the equity investments in funds rules and the new leverage ratio rules. The CRR II rules will follow a phased implementation with significant elements entering into force in 2021, in advance of Basel's timeline.

The EU's implementation of the Basel III Reforms

The remaining elements of the Basel III Reforms will be implemented in the EU by a further set of amendments to the Capital Requirements Regulation. In 2019, the European Commission began consulting on its implementation, which will include reforms to the credit and operational risk rules and a new output floor. However, draft legislative text has not yet been published. The EU implementation will be subject to an extensive negotiation process with the EU Council and Parliament. As a result, the final form of the rules remains unclear.

The UK's withdrawal from the EU

The UK left the EU on 31 January 2020. In order to smooth the transition, the UK remains subject to EU law during an implementation period, which will end on 31 December 2020. The PRA has announced its intention that, save for in certain limited circumstances, the changes to the prudential framework arising as a result of the UK's withdrawal will be delayed until 31 March 2022.

In June, Her Majesty's Treasury ('HMT') published an update on the framework to implement future prudential changes in the UK. This will be in the form of a Financial Services Bill in which powers will be delegated to the PRA for detailed rule making. The UK has stated that it intends to implement its own version of CRR II to the same timetable as the EU.

At the same time, HMT published a consultation on the implementation of the amendments to the Bank Recovery and Resolution Directive ('BRRD2'), the main EU regulation overseeing resolution and MREL standards. It also subsequently published a consultation on aspects of the amendments to the Capital Requirements Directive ('CRDV'). HMT propose to implement in UK law only those elements of BRRD2 and CRDV that are live on 31 December 2020.

In July 2020, the PRA also issued a consultation on implementing parts of the CRDV, which include its requirements for Pillar 2, remuneration and governance. In the autumn, the PRA will consult on the remaining elements of CRDV and the CRR II elements that apply from December 2020.

Other developments

In July 2020, the PRA published its final policy on reducing Pillar 2A to reflect the additional resilience associated with the higher Countercyclical Capital Buffer ('CCyB') in a standard risk environment proposed by the Financial Policy Committee. However, reflecting the reduction of the UK's CCyB to 0% and the fact that the UK's structural CCyB rate set in a standard risk environment has not changed, the PRA has introduced a requirement to temporarily increase the PRA buffer to offset some of the reductions in Pillar 2A that firms receive under this proposal. The rules take immediate effect.

Also in July, the PRA published a statement outlining its views on the implications of London Interbank Offered Rate ('LIBOR') transition for contracts in scope of its resolution-related rules. The EBA also published its final guidelines on the treatment of structural foreign exchange positions which will apply from 1 January 2022, one year later than originally planned.

In June, the PRA sent a letter to CEOs outlining its expectations of firms in managing climate-related financial risks and advising firms that they must have fully embedded their approaches to managing such risk by the end of 2021.

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

Ref*		Footnotes	At 30 Jun 2020	At 31 Dec 2019	At 30 Jun 2019
	Available capital (£bn)				
1	Common equity tier 1 ('CET1') capital	^	**18.7**	17.8	19.7
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied		**18.6**	17.7	19.7
3	Tier 1 capital	^	**22.8**	22.1	22.9
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied		**22.8**	22.1	22.9
5	Total capital	^	**35.5**	34.9	36.9
6	Total capital as if IFRS 9 transitional arrangements had not been applied		**35.4**	34.9	36.9
	Risk-weighted assets ('RWAs') (£bn)				
7	Total RWAs		**138.4**	125.4	148.8
8	Total RWAs as if IFRS 9 transitional arrangements had not been applied		**138.3**	125.4	148.7
	Capital ratios (%)				
9	CET1	^	**13.5**	14.2	13.3
10	CET1 as if IFRS 9 transitional arrangements had not been applied		**13.5**	14.1	13.2
11	Total tier 1	^	**16.5**	17.6	15.4
12	Tier 1 as if IFRS 9 transitional arrangements had not been applied		**16.5**	17.6	15.4
13	Total capital	^	**25.6**	27.9	24.8
14	Total capital as if IFRS 9 transitional arrangements had not been applied		**25.6**	27.8	24.8
	Leverage ratio				
15	Total leverage ratio exposure measure (£bn)		**600.3**	571.3	621.9
16	Leverage ratio (%)	^	**3.7**	3.8	3.6
17	Leverage ratio as if IFRS 9 transitional arrangements had not been applied (%)		**3.7**	3.7	3.6

* *The references identify the lines prescribed in the EBA template that are applicable and where there is a value.*
^ *Figures have been prepared on an IFRS 9 transitional basis.*

The group has adopted the regulatory transitional arrangements for IFRS 9 'Financial Instruments', including paragraph four within article 473a of the Capital Requirements Regulation, published by the EU on 27 December 2017. These transitional arrangements permit banks to add back to their capital base a proportion of the impact that IFRS 9 has upon their loan loss allowances during the first five years of use. The impact is defined as:

- the increase in loan loss allowances on day one of IFRS 9 adoption; and
- any subsequent increase in expected credit losses ('ECL') in the non-credit-impaired book thereafter.

Any add-back must be tax affected and accompanied by a recalculation of capital deduction thresholds, exposure and RWAs. The impact is calculated separately for portfolios using the standardised ('STD') and internal ratings based ('IRB') approaches. For IRB portfolios, there is no add-back to capital unless loan loss allowances exceed regulatory 12-month expected losses.

The EU's CRR 'Quick Fix' relief package enacted in June 2020 increased from 70% to 100% the relief that banks may take for loan loss allowances recognised since 1 January 2020 on the non-credit-impaired book.

In the current period, the add-back to CET1 capital amounted to £102m under the STD and IRB approaches with a tax impact of £(43)m. At 31 December 2019, the add-back to the capital base under the STD approach was £83m with a tax impact of £(21)m.

Regulatory balance sheet

Structure of the regulatory group

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

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

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

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

	Ref †	Accounting balance sheet £m	Deconsolidation of insurance/ other entities £m	Consolidation of banking associates £m	Regulatory balance sheet £m
Assets					
Cash and balances at central banks		94,247	—	18	94,265
Items in the course of collection from other banks		671	—	—	671
Trading assets		86,038	—	—	86,038
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss		18,222	(11,699)	362	6,885
– *of which: debt securities eligible as tier 2 issued by group FSEs that are outside the regulatory scope of consolidation*	r	—	*428*	—	*428*
Derivatives		228,787	(60)	—	228,727
Loans and advances to banks		14,258	(298)	—	13,960
Loans and advances to customers		115,164	(507)	—	114,657
– *of which: expected credit losses on IRB portfolios*	h	*(1,212)*	—	—	*(1,212)*
Reverse repurchase agreements – non-trading		62,842	—	—	62,842
Financial investments		56,452	(11,037)	—	45,415
Capital invested in insurance and other entities		—	633	—	633
Prepayments, accrued income and other assets		79,030	(968)	27	78,089
– *of which: retirement benefit assets*	j	*22*	—	—	*22*
Current tax assets		606	—	—	606
Interests in associates and joint ventures		422	—	(406)	16
Goodwill and intangible assets	e	804	(650)	—	154
Deferred tax assets	f	276	145	2	423
Total assets at 30 Jun 2020		757,819	(24,441)	3	733,381
Liabilities and equity					
Liabilities					
Deposits by banks		38,157	(24)	—	38,133
Customer accounts		207,089	358	—	207,447
Repurchase agreements – non-trading		31,263	—	—	31,263
Items in the course of transmission to other banks		277	—	—	277
Trading liabilities		48,487	—	—	48,487
Financial liabilities designated at fair value		42,255	376	—	42,631
– *of which: included in tier 2*	n, o, q, i	*2,374*	—	—	*2,374*
Derivatives		222,552	38	—	222,590
– *of which: debit valuation adjustment*	i	*46*	—	—	*46*
Debt securities in issue		24,159	(1,277)	—	22,882
Accruals, deferred income and other liabilities		81,543	(985)	3	80,561
Current tax liabilities		133	(8)	—	125
Liabilities under insurance contracts		22,192	(22,192)	—	—
Provisions		626	(2)	—	624
– *of which: credit-related contingent liabilities and contractual commitments on IRB portfolios*	h	*132*	—	—	*132*
Deferred tax liabilities		23	(15)	—	8
Subordinated liabilities		14,247	—	—	14,247
– *of which:*					
included in tier 1	l	*700*	—	—	*700*
included in tier 2	n, o, q	*13,547*	—	—	*13,547*
Total liabilities at 30 Jun 2020		733,003	(23,731)	3	709,275
Equity					
Called up share capital	a	797	—	—	797
Other equity instruments	k	3,722	—	—	3,722
Other reserves	c, g	(4,557)	8	—	(4,549)
Retained earnings	b, c	24,661	(718)	—	23,943
Total shareholders' equity		24,623	(710)	—	23,913
Non-controlling interests	d, m, p	193	—	—	193
Total equity at 30 Jun 2020		24,816	(710)	—	24,106
Total liabilities and equity at 30 Jun 2020		757,819	(24,441)	3	733,381

† *The references (a)–(r) identify balance sheet components which are used in the calculation of regulatory capital on pages 38 and 39.*

Own funds

Own funds disclosure

Ref*		Ref †	At 30 Jun 2020 £m	At 31 Dec 2019 £m
	Common equity tier 1 capital: instruments and reserves			
1	Capital instruments and related share premium accounts		**797**	797
	– ordinary shares	a	**797**	797
2	Retained earnings	b	**17,328**	19,272
3	Accumulated other comprehensive income (and other reserves)	c	**3,388**	2,048
5	Minority interests (amount allowed in consolidated common equity tier 1)	d	**67**	350
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend[1]	b	**(1,204)**	(3,019)
6	**Common equity tier 1 capital before regulatory adjustments**		**20,376**	19,448
	Common equity tier 1 capital: regulatory adjustments			
7	Additional value adjustments[2]		**(665)**	(651)
8	Intangible assets (net of related deferred tax liability)	e	**(141)**	(854)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	f	**(132)**	(72)
11	Fair value reserves related to gains or losses on cash flow hedges	g	**(170)**	(65)
12	Negative amounts resulting from the calculation of expected loss amounts	h	**(272)**	(189)
14	Gains or losses on liabilities at fair value resulting from changes in own credit standing	i	**(274)**	193
15	Defined benefit pension fund assets	j	**(21)**	(19)
28	**Total regulatory adjustments to common equity tier 1**		**(1,675)**	(1,657)
29	**Common equity tier 1 capital**		**18,701**	17,791
	Additional tier 1 ('AT1') capital: instruments			
30	Capital instruments and related share premium accounts		**3,722**	3,722
31	– classified as equity under IFRSs	k	**3,722**	3,722
33	Amount of qualifying items and related share premium accounts subject to phase out from AT1	l	**433**	650
34	Qualifying tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	m	**12**	12
36	**Additional tier 1 capital before regulatory adjustments**		**4,167**	4,384
	Additional tier 1 capital: regulatory adjustments			
37	Direct and indirect holdings of own AT1 instruments[3]		**(49)**	(45)
43	**Total regulatory adjustments to additional tier 1 capital**		**(49)**	(45)
44	**Additional tier 1 capital**		**4,118**	4,339
45	**Tier 1 capital (T1 = CET1 + AT1)**		**22,819**	22,130
	Tier 2 capital: instruments and provisions			
46	Capital instruments and related share premium accounts	n	**12,462**	12,336
	– *of which: instruments grandfathered under CRR II*		***1,492***	*1,399*
47	Amount of qualifying items and the related share premium accounts subject to phase out from T2	o	**440**	661
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in CET1 or AT1) issued by subsidiaries and held by third parties	p, q	**229**	232
49	– *of which: instruments issued by subsidiaries subject to phase out*	q	***54***	*57*
	– *of which: instruments issued by subsidiaries grandfathered under CRR II*		***39***	*43*
51	**Tier 2 capital before regulatory adjustments**		**13,131**	13,229
	Tier 2 capital: regulatory adjustments			
52	Direct and indirect holdings of own T2 instruments[3]		**(32)**	(31)
55	Direct and indirect holdings by the institution of T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	r	**(428)**	(399)
57	**Total regulatory adjustments to tier 2 capital**		**(460)**	(430)
58	**Tier 2 capital**		**12,671**	12,799
59	**Total capital (TC = T1 + T2)**		**35,490**	34,929
60	**Total risk-weighted assets**		**138,378**	125,413
	Capital ratios and buffers			
61	Common equity tier 1		**13.5%**	14.2%
62	Tier 1		**16.5%**	17.6%
63	Total capital		**25.6%**	27.9%
64	Institution specific buffer requirement		**2.52%**	2.89%
65	– capital conservation buffer requirement		**2.50%**	2.50%
66	– countercyclical buffer requirement		**0.02%**	0.39%
68	Common equity tier 1 available to meet buffers		**9.0%**	9.7%
	Amounts below the threshold for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		**1,350**	1,712
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		**635**	600
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)		**475**	447

Own funds disclosure (continued)

Ref*		Ref †	At 30 Jun 2020 £m	At 31 Dec 2019 £m
	Applicable caps on the inclusion of provisions in tier 2			
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		**322**	330
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		**445**	396
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)			
82	Current cap on AT1 instruments subject to phase-out arrangements		**463**	695
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		**267**	364
84	Current cap on T2 instruments subject to phase-out arrangements		**506**	759
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		**251**	109

* *The references identify the lines prescribed in the EBA template that are applicable and where there is a value.*
† *The references (a)–(r) identify balance sheet components on page 37 that are used in the calculation of regulatory capital.*
1 *This row includes losses that have been recognised and deducted as they arose and were therefore not subject to an independent review.*
2 *Additional value adjustments are deducted from CET1. These are calculated on all assets measured at fair value.*
3 *As advised by the PRA a market making waiver has been applied to the deduction of holdings of own T1 and T2 instruments.*

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

At 30 June 2020, our common equity tier 1 ('CET1') capital ratio decreased to 13.5% from 14.2% at 31 December 2019. This was mainly due to an increase in RWAs, and was partly offset by an increase in capital during the period. CET1 capital increased in 1H20 by £0.9bn, mainly as a result of a capital injection of £1bn by HSBC UK Holdings Limited, foreign exchange differences of £0.7bn, offset by loss for the period on a regulatory basis (adjusted for intangible impairments) of £0.5bn net of cash and scrip dividends.

Leverage ratio

The leverage ratio was introduced into the Basel III framework as a non-risk-based limit, to supplement risk-based capital requirements. It aims to constrain the build-up of excess leverage in the banking sector, introducing additional safeguards against model risk and measurement errors. This ratio has been implemented in the EU for reporting and disclosure purposes but, at this stage, has not been set as a binding requirement. The PRA's leverage ratio requirement applies at the highest level of UK consolidation. For HSBC, this applies at the Group level and not at the HSBC Bank plc level.

Although there is currently no binding leverage ratio requirement on the group, the risk of excess leverage is managed as part of HSBC's global risk appetite framework and monitored using a leverage ratio metric within our Risk Appetite Statement ('RAS'). The RAS articulates the aggregate level and types of risk that HSBC is willing to accept in its business activities in order to achieve its strategic business objectives. The RAS is monitored via the risk appetite profile report, which includes comparisons of actual performance against the risk appetite and tolerance thresholds assigned to each metric, to ensure that any excessive risk is highlighted, assessed and mitigated appropriately. The risk appetite profile report is presented monthly to the Risk Management Meeting ('RMM').

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

Our leverage ratio calculated in accordance with the Capital Requirements Regulation was 3.7% at 30 June 2020, a decrease from 3.8% at 31 December 2019. Our leverage exposure measure includes a £17.1bn favourable impact arising from the 'CRR Quick Fix' relief permitting the netting in leverage exposure of regular-way purchases and sales awaiting settlement under certain conditions.

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

Ref*		At 30 Jun 2020 £m	At 31 Dec 2019 £m
1	Total assets as per published financial statements	**757,819**	636,491
	Adjustments for:		
2	– entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**(24,438)**	(24,038)
4	– derivative financial instruments	**(173,776)**	(93,974)
5	– securities financing transactions ('SFT')	**2,052**	(1,243)
6	– off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**50,539**	49,188
EU-6a	– intragroup exposures excluded from the leverage ratio exposure measure	**(397)**	(341)
7	– other adjustments	**(11,459)**	5,219
8	**Total leverage ratio exposure**	**600,340**	571,302

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

Leverage ratio common disclosure (LRCom)

Ref*		At 30 Jun 2020 £m	At 31 Dec 2019 £m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**414,047**	355,108
2	(Asset amounts deducted in determining Tier 1 capital)	**(615)**	(1,178)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**413,432**	353,930
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**53,242**	30,146
5	Add-on amounts for potential future exposure ('PFE') associated with all derivatives transactions (mark-to-market method)	**83,103**	86,906
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to IFRSs	**8,096**	5,213
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(43,912)**	(28,285)
8	(Exempted central counterparty ('CCP') leg of client-cleared trade exposures)	**(49,706)**	(28,442)
9	Adjusted effective notional amount of written credit derivatives	**120,277**	117,851
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**(116,148)**	(112,846)
11	**Total derivative exposures**	**54,952**	70,543
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**230,590**	217,376
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**(153,936)**	(124,530)
14	Counterparty credit risk exposure for SFT assets	**5,160**	5,136
16	**Total securities financing transaction exposures**	**81,814**	97,982
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	**126,839**	120,337
18	(Adjustments for conversion to credit equivalent amounts)	**(76,300)**	(71,149)
19	**Total off-balance sheet exposures**	**50,539**	49,188
	Exempted exposures		
EU-19	(Exemption of intragroup exposures (solo basis))	**(397)**	(341)
	Capital and total exposures		
20	**Tier 1 capital**	**22,386**	21,480
21	**Total leverage ratio exposure**	**600,340**	571,302
22	**Leverage ratio (%)**	**3.7**	3.8
EU-23	Choice of transitional arrangements for the definition of the capital measure	**Fully phased-in**	Fully phased-in

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

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

		At 30 Jun 2020 £m	At 31 Dec 2019 £m
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	**370,135**	326,823
EU-2	– trading book exposures	**66,694**	83,656
EU-3	– banking book exposures	**303,441**	243,167
	'banking book exposures' comprises:		
EU-5	exposures treated as sovereigns	**145,716**	93,555
EU-7	institutions	**14,498**	13,058
EU-8	secured by mortgages of immovable properties	**24,048**	8,462
EU-9	retail exposures	**4,071**	17,452
EU-10	corporate	**78,436**	74,726
EU-11	exposures in default	**3,057**	1,181
EU-12	other exposures (e.g. equity, securitisations and other non-credit obligation assets)	**33,615**	34,733

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

Risk-weighted assets

Overview of RWAs (OV1)

		At		
		30 Jun 2020	31 Dec 2019	30 Jun 2020
		RWAs	RWAs	Capital[1] required
		£m	£m	£m
1	**Credit risk (excluding counterparty credit risk)**	**79,218**	72,773	**6,338**
2	– standardised approach	**19,733**	21,514	**1,579**
3	– foundation IRB approach	**29,016**	11,605	**2,321**
4	– advanced IRB approach	**30,469**	39,654	**2,438**
6	**Counterparty credit risk**	**21,688**	21,173	**1,734**
7	– mark-to-market	**10,974**	9,973	**878**
10	– internal model method	**8,831**	9,017	**706**
11	– risk exposure amount for contributions to the default fund of a central counterparty	**264**	270	**21**
12	– credit valuation adjustment	**1,619**	1,913	**129**
13	**Settlement risk**	**11**	113	**1**
14	**Securitisation exposures in the non-trading book**	**5,593**	3,819	**447**
14a	– internal ratings-based approach ('SEC-IRBA')[2]	**906**	459	**72**
14b	– external ratings-based approach ('SEC-ERBA')[2]	**2,249**	—	**180**
14c	– internal assessment approach ('IAA')[2]	**1,717**	1,099	**137**
14d	– standardised approach ('SEC-SA')[2]	**721**	196	**58**
14e	– exposures subject to the pre-existing securitisation framework[3]	**—**	2,065	**—**
19	**Market risk**	**17,282**	13,107	**1,382**
20	– standardised approach	**2,902**	1,567	**232**
21	– internal models approach	**14,380**	11,540	**1,150**
23	**Operational risk**	**11,812**	11,812	**946**
25	– standardised approach	**11,812**	11,812	**946**
27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**2,774**	2,616	**222**
29	**Total**	**138,378**	125,413	**11,070**

1 *'Capital requirement' represents the minimum total capital charge set at 8% of RWAs by article 92 of the Capital Requirements Regulation.*
2 *On 1 January 2019, a new securitisation framework came into force in the EU for new transactions. The new framework prescribes the four approaches listed in rows 14a to 14d of the table above.*
3 *Further details of our exposures subject to approaches under the pre-existing framework at 31 December 2019 can be found on page 3 of the* HSBC Bank plc Pillar 3 Disclosures at 31 December 2019 *document. These transactions, which were subject to 'grandfathering' provisions, transferred to approaches under the new framework on 1 January 2020.*

Credit risk, including amounts below the thresholds for deduction

Credit risk RWAs increased by £6.6bn in the first half of the year, primarily due to lending growth and the transfer of certain UK corporate exposures from the Advanced to the Foundation IRB approach. This was partly offset by a fall in RWAs due to management initiatives.

Counterparty credit risk

Counterparty credit risk (including settlement risk) RWAs increased by £0.4bn, which was primarily due to credit rating downgrades and foreign exchange movements, partly offset by management initiatives and reduction in exposures.

Securitisation in non-trading book

Securitisation RWAs increased by £1.8bn, primarily due to £2.3bn of exposures which moved onto the new securitisation framework.

Market risk

Market risk RWAs increased by £4.2bn. This was mainly due to a £0.8bn increase in foreign exchange risk under the standardised approach and a £3.2bn increase arising from market volatility under the internal models approach.

Credit risk – RWAs by exposure class

	Footnotes	30 Jun 2020		31 Dec 2019	
		RWAs	**Capital required**	RWAs	Capital required
		£m	**£m**	£m	£m
IRB advanced approach		**28,634**	**2,291**	37,679	3,014
– central governments and central banks		**2,886**	**232**	1,915	153
– institutions		**2,311**	**185**	2,439	195
– corporates	1	**20,156**	**1,612**	30,560	2,445
– total retail		**3,281**	**262**	2,765	221
– *of which:*					
secured by mortgages on immovable property - small and medium-sized enterprises ('SME')		***274***	***22***	*278*	*22*
secured by mortgages on immovable property - non-SME		***1,791***	***143***	*586*	*47*
qualifying revolving retail		***55***	***4***	*38*	*3*
other SME		***639***	***51***	*507*	*41*
other non-SME		***522***	***42***	*1,356*	*108*
IRB securitisation positions		**906**	**72**	2,084	167
IRB non-credit obligation assets		**1,835**	**147**	1,976	158
IRB foundation approach		**29,016**	**2,321**	11,605	928
– central governments and central banks		**3**	**—**	2	—
– institutions		**9**	**1**	17	1
– corporates		**29,004**	**2,320**	11,586	927
Standardised approach		**27,194**	**2,176**	25,864	2,069
– central governments and central banks		**1,188**	**95**	1,117	89
– regional governments or local authorities		**—**	**—**	2	—
– public sector entities		**10**	**1**	9	1
– institutions		**1,926**	**154**	1,085	87
– corporates		**9,340**	**747**	11,494	920
– retail		**325**	**26**	412	33
– secured by mortgages on immovable property		**1,705**	**136**	1,448	116
– exposures in default		**451**	**36**	470	38
– items associated with particularly high risk		**4,787**	**383**	5,481	438
– securitisation positions		**4,687**	**375**	1,735	139
– collective investments undertakings		**10**	**1**	6	—
– equity	2	**2,431**	**194**	2,327	186
– other items		**334**	**28**	278	22
Total		**87,585**	**7,007**	79,208	6,336

1 *'Corporates' includes specialised lending exposures subject to the supervisory slotting approach of £3,936m (2019: £4,104m) and RWAs of £2,641m (2019: £2,699m).*
2 *'Equity' includes investments in group insurance companies that are risk-weighted at 250%.*

Counterparty credit risk – RWAs by exposure class and product

		At			
		30 Jun 2020		31 Dec 2019	
		RWAs	**Capital required**	RWAs	Capital required
	Footnotes	**£m**	**£m**	£m	£m
By exposure class					
IRB advanced approach		**7,010**	**561**	15,258	1,221
– central governments and central banks		**330**	**26**	302	24
– institutions		**5,456**	**437**	5,878	470
– corporates		**1,224**	**98**	9,078	727
IRB foundation approach		**9,537**	**763**	1,553	124
– corporates		**9,537**	**763**	1,553	124
Standardised approach		**3,067**	**245**	2,087	167
– central governments and central banks		**11**	**1**	14	1
– institutions		**2,741**	**219**	1,869	150
– corporates		**315**	**25**	204	16
CVA advanced		**1,213**	**97**	1,375	110
CVA standardised		**406**	**32**	538	43
Central counterparties ('CCP') standardised		**466**	**37**	475	38
Total		**21,699**	**1,735**	21,286	1,703
By product					
– derivatives (OTC and exchange traded derivatives)		**15,355**	**1,228**	14,581	1,167
– SFTs		**3,607**	**289**	3,916	313
– other	*1*	**854**	**68**	606	48
– CVA advanced		**1,213**	**97**	1,375	110
– CVA standardised		**406**	**32**	538	43
– CCP default funds	*2*	**264**	**21**	270	22
Total		**21,699**	**1,735**	21,286	1,703

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

Market risk under standardised approach (MR1)

		At			
		30 Jun 2020		31 Dec 2019	
		RWAs	**Capital required**	RWAs	Capital required
		£m	**£m**	£m	£m
	Outright products				
1	Interest rate risk (general and specific)	**497**	**40**	377	30
2	Equity risk (general and specific)	**245**	**20**	44	3
3	Foreign exchange risk	**1,029**	**82**	194	16
4	Commodity risk	**31**	**2**	74	6
	Options				
6	Delta-plus method	**103**	**8**	59	5
8	**Securitisation**	**997**	**80**	819	65
9	**Total**	**2,902**	**232**	1,567	125

Market risk under IMA (MR2-A)

		At			
		30 Jun 2020		31 Dec 2019	
		RWAs	**Capital required**	RWAs	Capital required
		£m	**£m**	£m	£m
1	**VaR (higher of values a and b)**	**4,768**	**381**	3,404	272
(a)	Previous day's VaR		**67**		45
(b)	Average daily VaR[1]		**381**		272
2	**Stressed VaR (higher of values a and b)**	**6,683**	**535**	5,226	418
(a)	Latest SVaR		**68**		59
(b)	Average SVaR[1]		**535**		418
3	**Incremental risk charge (higher of values a and b)**	**2,314**	**185**	2,152	172
(a)	Most recent IRC value		**154**		144
(b)	Average IRC value[1]		**185**		172
5	**Other**	**615**	**49**	758	61
6	**Total**	**14,380**	**1,150**	11,540	923

1 VaR average values are calculated on a 60 business days basis. SVaR and IRC average values are calculated on a 12-week basis.

Statement of Directors’ Responsibilities

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

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

- the condensed set of financial statements has been prepared in accordance with IAS 34 ‘Interim Financial Reporting’ as adopted by the EU; and
- the interim management report includes a fair review of the information required by DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year ending 31 December 2020 and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the financial year.

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

On behalf of the Board

J Fleurant

Director

3 August 2020

Registered number 14259

† Independent non-executive Director

Independent Review Report to HSBC Bank plc

Report on the condensed financial statements

Our conclusion

We have reviewed the condensed financial statements (the "interim financial statements") of HSBC Bank plc and its subsidiaries (the 'group') in the Interim Report 2020 for the 6 month period ended 30 June 2020. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the consolidated balance sheet as at 30 June 2020;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated statement of cash flows for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements and certain other information.[1]

The interim financial statements included in the Interim Report 2020 have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

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

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the Directors

The Interim Report 2020, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the *Interim Report 2020* in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the Interim Report 2020 based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

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

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

We have read the other information contained in the *Interim Report 2020* and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants

London

3 August 2020

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

Condensed financial statements

Consolidated income statement

	Notes	Half-year to 30 Jun 2020 £m	30 Jun 2019 £m	31 Dec 2019 £m
Net interest income		**917**	670	813
– interest income		**2,226**	2,774	2,730
– interest expense		**(1,309)**	(2,104)	(1,917)
Net fee income	4	**697**	679	665
– fee income		**1,341**	1,296	1,294
– fee expense		**(644)**	(617)	(629)
Net income from financial instruments held for trading or managed on a fair value basis		**1,061**	1,205	850
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss		**(611)**	814	474
Changes in fair value of long-term debt and related derivatives		**8**	(9)	1
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss		**41**	263	284
Gains less losses from financial investments		**82**	41	(3)
Net insurance premium income		**764**	1,248	899
Other operating income		**116**	254	262
Total operating income		**3,075**	5,165	4,245
Net insurance claims, benefits paid and movement in liabilities to policyholders		**(186)**	(2,028)	(1,338)
Net operating income before change in expected credit losses and other credit impairment charges[1]		**2,889**	3,137	2,907
Change in expected credit losses and other credit impairment charges		**(651)**	(84)	(40)
Net operating income		**2,238**	3,053	2,867
Total operating expenses		**(3,483)**	(2,906)	(3,876)
– employee compensation and benefits		**(1,013)**	(1,142)	(1,083)
– general and administrative expenses		**(1,503)**	(1,591)	(1,443)
– depreciation and impairment of property, plant and equipment and right of use assets		**(107)**	(107)	(103)
– amortisation and impairment of intangible assets	7	**(860)**	(66)	(95)
– goodwill impairment	7	**—**	-	(1,152)
Operating (loss)/profit		**(1,245)**	147	(1,009)
Share of (loss)/profit in associates and joint ventures		**(38)**	4	(14)
(Loss)/profit before tax		**(1,283)**	151	(1,023)
Tax expense		**63**	(118)	(1)
(Loss)/profit for the period		**(1,220)**	33	(1,024)
(Loss)/profit attributable to the parent company		**(1,230)**	23	(1,036)
Profit attributable to non-controlling interests		**10**	10	12

1 *Net operating income before change in expected credit losses and other credit impairment charges is also referred to as 'revenue'.*

The accompanying notes on pages 53 to 67, the 'Significant revenue items by business segments – (gains)/losses', 'Significant cost items by business segment – recoveries/(charges)', 'Net impact on profit before tax by business segment' tables in the financial summary section on pages 10 and 11 and the following disclosures in the Risk section on pages 26 and 27 form an integral part of these condensed financial statements: Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees'.

Consolidated statement of comprehensive income

	Half-year to		
	30 Jun	30 Jun	31 Dec
	2020	2019	2019
	£m	£m	£m
(Loss)/profit for the period	**(1,220)**	33	(1,024)
Other comprehensive income/(expense)			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Debt instruments at fair value though other comprehensive income	**148**	162	(41)
– fair value gains/(losses)	**287**	272	(34)
– fair value (gains)/losses transferred to the income statement on disposal	**(80)**	(44)	5
– expected credit losses recognised in income statement	**18**	(8)	(19)
– income taxes	**(77)**	(58)	7
Cash flow hedges	**89**	66	(1)
– fair value (losses)/gains	**(268)**	2	212
– fair value losses/(gains) reclassified to the income statement	**390**	86	(213)
– income taxes	**(33)**	(22)	-
Exchange differences and other	**690**	13	(720)
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit asset/liability	**3**	(28)	40
– before income taxes	**(11)**	(38)	24
– income taxes	**14**	10	16
Equity instruments designated at fair value through other comprehensive income	**1**	1	1
– fair value gains	**1**	1	1
– income taxes	**—**	–	–
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	**450**	(266)	15
– before income taxes	**619**	(370)	(16)
– income taxes	**(169)**	104	31
Other comprehensive income/(expense) for the period, net of tax	**1,381**	(52)	(706)
Total comprehensive income/(expense) for the period	**161**	(19)	(1,730)
Attributable to:			
– the parent company	**122**	(33)	(1,712)
– non-controlling interests	**39**	14	(18)

Consolidated balance sheet

		At	
		30 Jun 2020	31 Dec 2019
	Notes	**£m**	£m
Assets			
Cash and balances at central banks		**94,247**	51,816
Items in the course of collection from other banks		**671**	707
Trading assets		**86,038**	98,249
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss		**18,222**	17,012
Derivatives		**228,787**	164,538
Loans and advances to banks		**14,258**	11,467
Loans and advances to customers		**115,164**	108,391
Reverse repurchase agreements – non-trading		**62,842**	85,756
Financial investments		**56,452**	46,464
Prepayments, accrued income and other assets		**79,030**	48,939
Current tax assets		**606**	725
Interests in associates and joint ventures		**422**	437
Goodwill and intangible assets	7	**804**	1,582
Deferred tax assets		**276**	408
Total assets		**757,819**	636,491
Liabilities and equity			
Liabilities			
Deposits by banks		**38,157**	23,991
Customer accounts		**207,089**	177,236
Repurchase agreements – non-trading		**31,263**	49,385
Items in the course of transmission to other banks		**277**	403
Trading liabilities		**48,487**	48,026
Financial liabilities designated at fair value		**42,255**	41,642
Derivatives		**222,552**	161,083
Debt securities in issue		**24,159**	25,039
Accruals, deferred income and other liabilities		**81,543**	50,315
Current tax liabilities		**133**	106
Liabilities under insurance contracts		**22,192**	21,509
Provisions	8	**626**	540
Deferred tax liabilities		**23**	22
Subordinated liabilities		**14,247**	13,182
Total liabilities		**733,003**	612,479
Equity			
Total shareholders' equity		**24,623**	23,503
– called up share capital		**797**	797
– other equity instruments		**3,722**	3,722
– other reserves		**(4,557)**	(5,465)
– retained earnings		**24,661**	24,449
Non-controlling interests		**193**	509
Total equity		**24,816**	24,012
Total liabilities and equity		**757,819**	636,491

Consolidated statement of cash flows

	Half-year to		
	30 Jun 2020	30 Jun 2019	31 Dec 2019
	£m	£m	£m
(Loss)/profit before tax	**(1,283)**	151	(1,023)
Adjustments for non-cash items:			
Depreciation, amortisation and impairment[1]	**967**	173	1,350
Net (gain)/loss from investing activities	**(89)**	(49)	(10)
Share of loss/(profit) in associates and joint ventures	**38**	(4)	14
Change in expected credit losses gross of recoveries and other credit impairment charges	**652**	91	39
Provisions including pensions	**66**	60	171
Share-based payment expense	**34**	58	30
Other non-cash items included in profit before tax	**129**	(12)	(7)
Elimination of exchange differences[2]	**(6,541)**	(190)	4,191
Change in operating assets	**(8,413)**	(21,151)	4,702
Change in operating liabilities	**55,984**	34,479	(19,570)
Contributions paid to defined benefit plans	**(15)**	(5)	(8)
Tax received/(paid)	**118**	(317)	30
Net cash from operating activities	**41,647**	13,284	(10,091)
Purchase of financial investments	**(15,527)**	(16,181)	(10,019)
Proceeds from the sale and maturity of financial investments	**10,951**	9,893	14,411
Net cash flows from the purchase and sale of property, plant and equipment	**(36)**	(25)	(33)
Net purchase of intangible assets	**(133)**	(180)	(205)
Net cash outflow from acquisition of businesses and subsidiaries	**(331)**	(33)	(16)
Net cash from investing activities	**(5,076)**	(6,526)	4,138
Issue of ordinary share capital and other equity instruments	**—**	175	1,144
Redemption of preference shares	**(318)**	—	—
Subordinated loan capital issued	**—**	7,066	(330)
Subordinated loan capital repaid	**(18)**	(7,100)	—
Dividends to the parent company	**(57)**	(1,130)	(1,855)
Funds received from the parent company	**1,000**	—	—
Dividend paid to non-controlling interests	**—**	(16)	(1)
Net cash from financing activities	**607**	(1,005)	(1,042)
Net increase/(decrease) in cash and cash equivalents	**37,178**	5,753	(6,995)
Cash and cash equivalents at the beginning of the period	**92,338**	97,058	102,819
Exchange differences in respect of cash and cash equivalents	**5,603**	8	(3,486)
Cash and cash equivalents at the end of the period[3]	**135,119**	102,819	92,338

1 *Included are the impact of £770m of capitalised software impairment and write-offs related principally to our businesses in the UK and France 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 *At 31 December 2019, HSBC re-presented cash and cash equivalents to reflect a consistent global approach to these amounts. The net effect of these changes decreased cash and cash equivalents by £4.9bn at 30 June 2019.*

Consolidated statement of changes in equity

	Called up share capital and share premium	Other equity instruments	Retained earnings	Other reserves				Total share-holders' equity	Non-controlling interests[3]	Total equity
				Financial assets at FVOCI reserve	Cash flow hedging reserve	Foreign exchange reserve	Group reorgani-sation reserve			
	£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/(profit) for the period	**–**	**–**	**(1,230)**	**–**	**–**	**–**	**–**	**(1,230)**	**10**	**(1,220)**
Other comprehensive income (net of tax)	**–**	**–**	**450**	**151**	**89**	**662**	**–**	**1,352**	**29**	**1,381**
– debt instruments at fair value through other comprehensive income	**–**	**–**	**–**	**150**	**–**	**–**	**–**	**150**	**(2)**	**148**
– equity instruments designated at fair value through other comprehensive income	**–**	**–**	**–**	**1**	**–**	**–**	**–**	**1**	**–**	**1**
– cash flow hedges	**–**	**–**	**–**	**–**	**89**	**–**	**–**	**89**	**–**	**89**
– remeasurement of defined benefit asset/ liability	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3**	**3**
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	**–**	**–**	**450**	**–**	**–**	**–**	**–**	**450**	**–**	**450**
– exchange differences	**–**	**–**	**–**	**–**	**–**	**662**	**–**	**662**	**28**	**690**
Total comprehensive income for the period	**–**	**–**	**(780)**	**151**	**89**	**662**	**–**	**122**	**39**	**161**
Capital securities issued during the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Dividends to parent	**–**	**–**	**(57)**	**–**	**–**	**–**	**–**	**(57)**	**–**	**(57)**
Net impact of equity-settled share-based payments	**–**	**–**	**16**	**–**	**–**	**–**	**–**	**16**	**–**	**16**
Capital contribution[2]	**–**	**–**	**1,000**	**–**	**–**	**–**	**–**	**1,000**	**–**	**1,000**
Change in business combinations and other movements[3]	**–**		**33**	**6**	**–**	**–**	**–**	**39**	**(355)**	**(316)**
30 Jun 2020	**797**	**3,722**	**24,661**	**1,246**	**129**	**1,760**	**(7,692)**	**24,623**	**193**	**24,816**

1 *At 30 June 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 gain of £446m. The cumulative change on 31 December 2019 was a loss of £346m.*

2 *HSBC UK Holdings Ltd. (HUHO) 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.*

3 *Additional shares were acquired in HSBC Trinkaus & Burkhardt AG in May 2020, increasing the group's interest from 80.67% to 99.33%.*

Consolidated statement of changes in equity (continued)

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

1 At 30 June 2019, the cumulative amount of change in fair value attributable to changes in own credit risk of financial liabilities designated at fair value was a loss of £301m.
2 HSBC Bank plc issued additional tier 1 capital instruments of £175m to HSBC UK Holdings Ltd in January 2019.
3 The dividends to the parent company includes a £1,080m dividend paid and £50m paid as coupons on additional tier 1 instruments.

Consolidated statement of changes in equity (continued)

	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 reorgani-sation reserve	Total share-holders' equity	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jul 2019	797	2,578	27,278	1,124	41	1,791	(7,692)	25,917	526	26,443
(Loss)/profit for the period	—	—	(1,036)	—	—	—	—	(1,036)	12	(1,024)
Other comprehensive income (net of tax)	—	—	53	(35)	(1)	(693)	—	(676)	(30)	(706)
– debt instruments at fair value through other comprehensive income	—	—	—	(36)	—	—	—	(36)	(5)	(41)
– equity instruments designated at fair value through other comprehensive income	—	—	—	1	—	—	—	1	—	1
– cash flow hedges	—	—	—	—	(1)	—	—	(1)	—	(1)
– remeasurement of defined benefit asset/ liability	—	—	38	—	—	—	—	38	2	40
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	—	—	15	—	—	—	—	15	—	15
– exchange differences and other	—	—	—	—	—	(693)	—	(693)	(27)	(720)
Total comprehensive income for the period	—	—	(983)	(35)	(1)	(693)	—	(1,712)	(18)	(1,730)
Capital securities issued during the period[2]	—	1,144	—	—	—	—	—	1,144	—	1,144
Dividends to parent[3]	—	—	(1,855)	—	—	—	—	(1,855)	(1)	(1,856)
Net impact of equity-settled share-based payments	—	—	14	—	—	—	—	14	—	14
Change in business combinations and other movements	—	—	(5)	—	—	—	—	(5)	2	(3)
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 £45m.*

2 *HSBC Bank plc issued additional tier 1 capital instruments to HSBC UK Holdings Ltd of £713m in November 2019 and £431m in December 2019.*

3 *The dividends to the parent company includes a £1,707m dividend paid, £51m on preference shares and £97m paid as coupons on additional tier 1 instruments.*

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Notes on the condensed financial statements

1 Basis of preparation and significant accounting policies

(a) Compliance with International Financial Reporting Standards

The interim condensed consolidated financial statements of HSBC Bank plc ('the bank') and its subsidiaries (together 'the group') have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and IAS 34 'Interim Financial Reporting,' as issued by the International Accounting Standards Board ('IASB') and as endorsed by the EU. These financial statements should be read in conjunction with the *Annual Report and Accounts 2019*.

At 30 June 2020, there were no unendorsed standards effective for the half-year to 30 June 2020 affecting these financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the group.

Standards applied during the half-year to 30 June 2020

There were no new standards or amendments to standards that had an effect on these interim condensed consolidated financial statements.

(b) Use of estimates and judgements

Management believes that the group's critical accounting estimates and judgements are those which relate to impairment of amortised cost and FVOCI financial assets, goodwill impairment, impairment of investments in subsidiaries, the valuation of financial instruments, deferred tax assets and provisions for liabilities. There were no changes in the current period to the critical accounting estimates and judgements applied in 2019, which are stated on pages 105 to 115 of the *Annual Report and Accounts 2019*. However, the level of estimation uncertainty and judgement for the calculation of expected credit losses ('ECL') has increased since 31 December 2019 as a result of the economic effects of the Covid-19 outbreak as set out in 'Measurement uncertainty and sensitivity analysis' on page 22. In addition, as result of the heightened economic uncertainty together with the plans announced in the 2020 business update and historical under performance of certain businesses, the estimates and judgements with regard to the expected cash flows of cash generating units, that are applied to the impairment of non-financial assets other than goodwill, particularly intangible assets, have become more sensitive and resulted in significant impairment charges in the interim reporting period. See Note 7 Goodwill and intangible assets.

(c) Composition of group

There were no material changes in the composition of the group in the half-year to 30 June 2020.

(d) Future accounting developments

IFRS 17 'Insurance Contracts' was issued in May 2017, with amendments to the standard issued in June 2020. It has not been endorsed for use in the EU. 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 impact of its implementation remains uncertain.

(e) Going concern

The financial statements are prepared on a going concern basis as the Directors are satisfied that the group and parent company have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows, capital requirements and capital resources. These considerations include stressed scenarios that reflect the increasing uncertainty that the global Covid-19 pandemic has had on HSBC's operations, as well as considering potential impacts from other Top & Emerging Risks, and the related impact on profitability, capital and liquidity.

(f) Accounting policies

The accounting policies applied by the group for these interim condensed consolidated financial statements are consistent with those described on pages 105 to 115 of the *Annual Report and Accounts 2019*, as are the methods of computation.

2 Dividends

Dividends to the parent company

	Half-year to					
	30 Jun 2020		30 Jun 2019		31 Dec 2019	
	£ per share	**£m**	£ 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	—	—	1.36	1,080	2.14	1,707
Dividends on preference shares classified as equity						
Dividend on HSBC Bank plc non-cumulative third dollar preference shares	—	—	—	—	1.47	51
Total	—	—	—	—	1.47	51
Total coupons on capital securities classified as equity		**57**		50		97
Dividends to parent		**57**		1,130		1,855

Total coupons on capital securities classified as equity

	First call date	Half-year to 30 Jun 2020 £m	30 Jun 2019 £m	31 Dec 2019 £m
Undated Subordinated Additional Tier 1 instruments				
– £555m	Mar 2023	**28**	28	—
– €235m	Jan 2022	**11**	12	—
– €300m	Mar 2023	**10**	10	—
– €1,900m	Dec 2020	**—**	—	97
– €200m	Jan 2025	**8**	—	—
		57	50	97

3 Segmental analysis

Basis of preparation

The Chief Executive, supported by the rest of the Executive Committee ('EC'), 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 2Q20, we made the following realignments within our internal reporting to the EC and CODM:

- Simplification of our matrix organisational structure by merging GPB and RBWM to form Wealth and Personal Banking ('WPB').
- Reallocation of Balance Sheet Management from Corporate Centre to the global businesses.

Comparative data has been represented 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.

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/(loss) before tax

	Half-year to 30 Jun 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]	**424**	**578**	**1,980**	**(76)**	**2,906**
– external	**439**	**609**	**2,273**	**(415)**	**2,906**
– inter-segment	**(15)**	**(31)**	**(293)**	**339**	**—**
– *of which: net interest income/(expense)*	***340***	***345***	***275***	***(43)***	***917***
Change in expected credit losses and other credit impairment charges	**(28)**	**(194)**	**(423)**	**(6)**	**(651)**
Net operating income/(expense)	**396**	**384**	**1,557**	**(82)**	**2,255**
Total operating expenses	**(544)**	**(336)**	**(1,771)**	**(25)**	**(2,676)**
Operating (loss)/profit	**(148)**	**48**	**(214)**	**(107)**	**(421)**
Share of loss in associates and joint ventures	**—**	**—**	**—**	**(38)**	**(38)**
Adjusted (loss)/profit before tax	**(148)**	**48**	**(214)**	**(145)**	**(459)**
	%	**%**	**%**		**%**
Adjusted cost efficiency ratio	**128.3**	**58.1**	**89.4**		**92.1**

Adjusted profit/(loss) before tax (continued)

	Half-year to 30 Jun 2019[2]				
	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]	681	617	2,018	(160)	3,156
– external	694	627	2,259	(424)	3,156
– inter-segment	(13)	(10)	(241)	264	—
– of which: net interest income/(expense)	*377*	*382*	*399*	*(488)*	*670*
Change in expected credit losses and other credit impairment charges	3	(35)	(63)	11	(84)
Net operating income/(expense)	684	582	1,955	(149)	3,072
Total operating expenses	(568)	(327)	(1,823)	(68)	(2,786)
Operating profit/(loss)	116	255	132	(217)	286
Share of profit in associates and joint ventures	—	—	—	4	4
Adjusted profit/(loss) before tax	116	255	132	(213)	290
	%	%	%		%
Adjusted cost efficiency ratio	83.4	53.0	90.3		88.3

	Half-year to 31 Dec 2019[2]				
Net operating income/(expense) before change in expected credit losses and other credit impairment charges[1]	676	595	1,755	(113)	2,913
– external	698	633	1,985	(403)	2,913
– inter-segment	(22)	(38)	(230)	290	—
– of which: net interest income/(expense)	*369*	*379*	*371*	*(306)*	*813*
Change in expected credit losses and other credit impairment charges	(6)	(74)	22	18	(40)
Net operating income/(expense)	670	521	1,777	(95)	2,873
Total operating expenses	(509)	(319)	(1,708)	(10)	(2,546)
Operating profit/(loss)	161	202	69	(105)	327
Share of profit in associates and joint ventures	—	—	—	(14)	(14)
Adjusted profit/(loss) before tax	161	202	69	(119)	313
	%	%	%		%
Adjusted cost efficiency ratio	75.3	53.6	97.3		87.4

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 2Q20. Comparative data have been re-presented accordingly.

Reported 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:

	Half-year to		
	30 Jun 2020	30 Jun 2019	31 Dec 2019
	£m	£m	£m
Reported external net operating income by country[1]	**2,889**	3,137	2,907
– United Kingdom	**1,496**	1,590	1,397
– France	**639**	867	786
– Germany	**421**	346	364
– Other countries	**333**	334	360

Adjusted results reconciliation

	Half-year to								
	30 Jun 2020			30 Jun 2019			31 Dec 2019		
	Adjusted	**Significant items**	**Reported**	Adjusted	Significant items	Reported	Adjusted	Significant items	Reported
	£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Revenue[1]	**2,906**	**(17)**	**2,889**	3,156	(19)	3,137	2,913	(6)	2,907
ECL	**(651)**	**—**	**(651)**	(84)	—	(84)	(40)	—	(40)
Operating expenses	**(2,676)**	**(807)**	**(3,483)**	(2,786)	(120)	(2,906)	(2,546)	(1,330)	(3,876)
Share of (loss)/profit in associates and joint ventures	**(38)**	**—**	**(38)**	4	—	4	(14)	—	(14)
(Loss)/profit before tax	**(459)**	**(824)**	**(1,283)**	290	(139)	151	313	(1,336)	(1,023)

1 Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.

Adjusted profit reconciliation

	Half-year to		
	30 Jun 2020	30 Jun 2019	31 Dec 2019
	£m	£m	£m
Adjusted profit before tax	**(459)**	290	313
Significant items	**(824)**	(139)	(1,336)
– UK customer redress programmes	**—**	3	(4)
– debit valuation adjustment on derivative contracts	**22**	(21)	(6)
– fair value movement on non-qualifying hedges	**(1)**	2	1
– cost of structural reform	**—**	(58)	(29)
– restructuring and other related costs	**(210)**	(66)	(138)
– settlements and provisions in connection with legal and regulatory matters	**(4)**	1	(8)
– impairment of goodwill	**—**	—	(1,152)
– impairment of other intangible assets	**(631)**	—	—
Reported (loss)/profit before tax	**(1,283)**	151	(1,023)

Balance sheet by business

	WPB	**CMB**	**GBM**	**Corporate Centre**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
30 Jun 2020					
Loans and advances to customers	**28,658**	**30,149**	**56,166**	**191**	**115,164**
Customer accounts	**43,150**	**46,518**	**117,193**	**228**	**207,089**
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 2Q20. Comparative data have been re-presented accordingly.*

4 Net fee income

	Half-year to		
	30 Jun 2020	30 Jun 2019	31 Dec 2019
	£m	£m	£m
Net fee income by product			
Account services	**115**	163	171
Funds under management	**205**	212	215
Cards	**21**	23	24
Credit facilities	**122**	141	160
Broking income	**178**	142	147
Unit trusts	**2**	2	4
Underwriting	**202**	156	131
Imports/exports	**20**	27	24
Remittances	**31**	31	43
Global custody	**105**	53	65
Insurance agency commission	**10**	9	11
Other	**330**	337	299
Fee income	**1,341**	1,296	1,294
Less: fee expense	**(644)**	(617)	(629)
Net fee income	**697**	679	665
Net fee income by global business[1]			
Wealth and Personal Banking	**179**	195	187
Commercial Banking	**182**	183	167
Global Banking and Markets	**334**	303	323
Corporate Centre	**2**	(2)	(12)

1 *A change in reportable segments was made in 2Q20. Comparative data have been re-presented accordingly. For further guidance, refer to Note 3 on page 54.*

5 Fair values of financial instruments carried at fair value

The accounting policies, control framework, and the hierarchy used to determine fair values are consistent with those applied for the *Annual Report and Accounts 2019*.

Financial instruments carried at fair value and bases of valuation

	At							
	30 Jun 2020				31 Dec 2019[1]			
	Quoted market price Level 1	**Using observable inputs Level 2**	**With significant un-observable inputs Level 3**	**Total**	Quoted market price Level 1	Using observable inputs Level 2	With significant un-observable inputs Level 3	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Recurring fair value measurements								
Assets								
Trading assets	**54,015**	**29,523**	**2,500**	**86,038**	69,292	25,754	3,203	98,249
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**5,203**	**8,772**	**4,247**	**18,222**	4,972	8,303	3,737	17,012
Derivatives	**1,330**	**224,293**	**3,164**	**228,787**	869	162,032	1,637	164,538
Financial investments	**42,548**	**12,051**	**1,838**	**56,437**	32,729	12,168	1,554	46,451
Liabilities								
Trading liabilities	**36,577**	**11,825**	**85**	**48,487**	37,195	10,791	40	48,026
Financial liabilities designated at fair value	**859**	**40,232**	**1,164**	**42,255**	7,222	33,477	943	41,642
Derivatives	**1,163**	**218,398**	**2,991**	**222,552**	672	158,730	1,681	161,083

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**	**Derivatives**	**Trading liabilities**	**Designated at fair value**	**Derivatives**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 30 Jun 2020							
Transfers from Level 1 to Level 2	**25**	**592**	**—**	**—**	**47**	**6,013**	**—**
Transfers from Level 2 to Level 1	**1,555**	**745**	**71**	**—**	**268**	**—**	**—**
Full year to 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. Aside from the re-presented balances, in the current year the majority of the transfer relates to the reclassification of certain positions where improved data is now available.

Fair value valuation bases

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

	Assets					Liabilities			
	Financial investments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Total	Trading liabilities	Designated at fair value	Derivatives	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Private equity including strategic investments	**68**	**3**	**3,768**	**—**	**3,839**	**3**	**—**	**—**	**3**
Asset-backed securities	**793**	**534**	**79**	**—**	**1,406**	**—**	**—**	**—**	**—**
Structured notes	**—**	**2**	**—**	**—**	**2**	**29**	**1,160**	**—**	**1,189**
Derivatives	**—**	**—**	**—**	**3,164**	**3,164**	**—**	**—**	**2,982**	**2,982**
Other portfolios	**977**	**1,961**	**400**	**—**	**3,338**	**53**	**4**	**9**	**66**
30 Jun 2020	**1,838**	**2,500**	**4,247**	**3,164**	**11,749**	**85**	**1,164**	**2,991**	**4,240**
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
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.*

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

Movement in Level 3 financial instruments

	Assets				Liabilities		
	Financial investments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading liabilities	Designated at fair value	Derivatives
	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2020[1]	**1,554**	**3,203**	**3,737**	**1,637**	**40**	**943**	**1,681**
Total gains or losses recognised in profit or loss	**(9)**	**(419)**	**(19)**	**1,560**	**–**	**–**	**1,595**
– net income/(expense) from financial instruments held for trading or managed on a fair value basis	**–**	**(419)**	**–**	**1,560**	**–**	**–**	**1,595**
– net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– gains less losses from financial investments at fair value through other comprehensive income	**(9)**	**–**	**–**	**–**	**–**	**–**	**–**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**–**	**–**	**(19)**	**–**	**–**	**–**	**–**
Total gains or losses recognised in other comprehensive income	**40**	**71**	**149**	**38**	**1**	**29**	**9**
– financial investments: fair value gains/(losses)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– exchange differences	**40**	**71**	**149**	**38**	**1**	**29**	**9**
Purchases	**287**	**110**	**457**	**–**	**52**	**–**	**–**
Issues	**–**	**–**	**–**	**–**	**1**	**334**	**–**
Sales	**(216)**	**(436)**	**(219)**	**–**	**(1)**	**–**	**–**
Settlements	**(60)**	**(17)**	**(17)**	**(81)**	**(10)**	**(248)**	**(229)**
Transfers out	**(4)**	**(624)**	**(2)**	**(72)**	**(4)**	**(70)**	**(171)**
Transfers in	**246**	**612**	**161**	**82**	**6**	**176**	**106**
At 30 Jun 2020	**1,838**	**2,500**	**4,247**	**3,164**	**85**	**1,164**	**2,991**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2020	**–**	**(11)**	**(51)**	**493**	**3**	**58**	**976**
– net income from financial instruments held for trading or managed on a fair value basis	**–**	**(11)**	**–**	**493**	**3**	**–**	**976**
– net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	**–**	**–**	**(51)**	**–**	**–**	**58**	**–**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 1 Jan 2019	1,392	3,552	3,282	2,080	46	990	1,463
Total gains or losses recognised in profit or loss	–	(14)	102	(63)	(4)	103	420
– net income/(expense) from financial instruments held for trading or managed on a fair value basis	–	(14)	–	(63)	(4)	–	420
– net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	–	–	–	–	–	–	–
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	–	–	102	–	–	103	–
Total gains/(losses) recognised in other comprehensive income ('OCI')	37	2	(5)	1	–	(1)	–
– financial investments: fair value gains/(losses)	35	–	–	–	–	–	–
– exchange differences	2	2	(5)	1	–	(1)	–
Purchases	71	726	374	–	3	91	–
Issues	–	120	–	–	–	325	–
Sales	(6)	(223)	(57)	–	(7)	(138)	–
Settlements	(66)	(277)	(146)	122	–	(226)	(87)
Transfers out	(2)	(262)	(8)	(497)	(8)	(201)	(153)
Transfers in	137	171	–	37	8	2	14
At 30 Jun 2019[1]	1,563	3,795	3,542	1,680	38	945	1,657
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2019	–	2	–	195	18	(40)	217
– net income from financial instruments held for trading or managed on a fair value basis	–	2	–	195	18	–	217
– net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	–	–	–	–	–	(40)	–
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	–	–	–	–	–	–	–

Movement in Level 3 financial instruments (continued)

	Assets				Liabilities		
	Financial investments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading liabilities	Designated at fair value	Derivatives
	£m	£m	£m	£m	£m	£m	£m
At 1 Jul 2019	1,563	3,795	3,542	1,680	38	945	1,657
Total gains or losses recognised in profit or loss	4	(90)	162	252	1	8	167
– net income/(expense) from financial instruments held for trading or managed on a fair value basis	–	(90)	–	252	1	–	167
– net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	–	–	–	–	–	–	–
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	4	–	162	–	–	8	–
Total gains or losses recognised in other comprehensive income	(24)	(52)	(103)	(24)	(1)	(15)	(7)
– financial investments: fair value gains/(losses)	(3)	–	–	–	–	–	–
– exchange differences	(21)	(52)	(103)	(24)	(1)	(15)	(7)
Purchases	252	742	365	–	2	32	–
Issues	–	–	–	–	4	361	–
Sales	(37)	(276)	(121)	–	–	(11)	–
Settlements	(57)	(321)	(106)	(220)	(5)	(224)	36
Transfers out	(178)	(767)	(2)	(113)	–	(165)	(219)
Transfers in	31	172	–	62	1	12	47
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/(expense) 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.*

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions

	At							
	30 Jun 2020				31 Dec 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
Derivatives, trading assets and trading liabilities[1]	**180**	**(171)**	**–**	**–**	140	(131)	–	–
Financial assets and liabilities designated and otherwise mandatorily measured at fair value	**299**	**(299)**	**–**	**–**	288	(211)	–	–
Financial investments	**58**	**(60)**	**23**	**(23)**	7	(10)	62	(62)
Total	**537**	**(530)**	**23**	**(23)**	435	(352)	62	(62)

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 £45m and £65m respectively.*

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

	30 Jun 2020				31 Dec 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	**268**	**(269)**	**—**	**—**	278	(202)	—	—
Asset-backed securities	**48**	**(22)**	**23**	**(23)**	32	(8)	17	(17)
Structured notes	**22**	**(22)**	**—**	**—**	6	(6)	—	—
Derivatives	**86**	**(89)**	**—**	**—**	62	(63)	—	—
Other derivatives	**—**	**—**	**—**	**—**	—	—	—	—
Other portfolios	**113**	**(128)**	**—**	**—**	57	(73)	45	(45)
Total	**537**	**(530)**	**23**	**(23)**	435	(352)	62	(62)

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 due to other portfolios of £45m and increase in Financial assets designated and mandatorily measured at fair value reflected in profit or loss of £65m due to Private equity including strategic investments £6m and other portfolios £59m.*

The sensitivity analysis aims to measure a range of fair values consistent with the application of a 95% confidence interval. Methodologies take account of the nature of the valuation technique employed, as well as the availability and reliability of observable proxy and historical data. When the fair value of a financial instrument is affected by more than one unobservable assumption, the above table reflects the most favourable or the most unfavourable change from varying the assumptions individually.

Key unobservable inputs to Level 3 financial instruments

Quantitative information about significant unobservable inputs in Level 3 valuations

	At							
	30 Jun 2020						31 Dec 2019	
	Fair value							
	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	**3,839**	**3**	**See notes[1]**	**See notes[1]**	**N/A**	**N/A**	N/A	N/A
Asset-backed securities	**1,407**	**—**						
– CLO/CDO[2]	**80**	**—**	**Market proxy**	**Bid quotes**	**N/A**	**N/A**	—	100
– other ABSs	**1,327**	**—**	**Market proxy**	**Bid quotes**	**—**	**100**	—	99
Structured notes	**2**	**1,189**						
– equity-linked notes	**—**	**819**	**Model-Option**	**Equity volatility**	**—**	**161%**	5%	90%
			Model-Option model	**Equity correlation**	**22%**	**90%**	31%	91%
– fund-linked notes	**—**	**94**	**Model-Option**	**Fund volatility**	**7%**	**28%**	5%	21%
– FX-linked notes	**—**	**15**	**Model-Option**	**FX volatility**	**1%**	**34%**	4%	23%
– other	**2**	**261**						
Derivatives	**3,164**	**2,982**						
Interest rate derivatives:								
– securitisation swaps	**230**	**705**	**Model-Discounted cash flow**	**Prepayment rate**	**6%**	**7%**	6%	7%
– long-dated swaptions	**1,442**	**595**	**Model-Option model**	**IR volatility**	**7%**	**33%**	8%	22%
– other	**319**	**306**						
FX derivatives:								
– FX options	**347**	**392**	**Model-Option model**	**FX volatility**	**—**	**49%**	—	25%
Equity derivatives:								
– long-dated single stock options	**416**	**489**	**Model-Option model**	**Equity volatility**	**5%**	**131%**	4%	89%
– other	**338**	**459**						
Credit derivatives	**72**	**36**						
Other portfolios:	**3,337**	**66**						
– structured certificates	**800**	**—**	**Model-Discounted cash flow**	**Credit volatility**	**11%**	**11%**	4%	4%
– other	**2,537**	**66**						
At 30 Jun 2020	**11,749**	**4,240**						

1 *See notes on page 129 of the* Annual Report and Accounts 2019.
2 *Collateralised loan obligation/collateralised debt obligation.*

6 Fair values of financial instruments not carried at fair value

The bases for measuring the fair values of loans and advances to banks and customers, financial investments, deposits by banks, customer accounts, debt securities in issue, subordinated liabilities, non-trading repurchase and reverse repurchase agreements are consistent with that detailed in the *Annual Report and Accounts 2019*.

Fair values of financial instruments not carried at fair value on the balance sheet

	At 30 Jun 2020		At 31 Dec 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
	£m	£m	£m	£m
Assets				
Loans and advances to banks	14,258	14,260	11,467	11,477
Loans and advances to customers	115,164	115,296	108,391	108,526
Reverse repurchase agreements – non-trading	62,842	62,842	85,756	85,756
Financial investments – at amortised cost	15	15	13	13
Liabilities				
Deposits by banks	38,157	38,155	23,991	23,978
Customer accounts	207,089	207,088	177,236	177,283
Repurchase agreements – non-trading	31,263	31,263	49,385	49,385
Debt securities in issue	24,159	24,159	25,039	25,039
Subordinated liabilities	14,247	14,246	13,182	13,638

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.

7 Goodwill and intangible assets

	30 Jun 2020	31 Dec 2019
	£m	£m
Present value of in-force long-term insurance business	649	715
Other intangible assets[1]	155	867
Intangible Assets	804	1,582

1 *Included within the group's other intangible assets is internally generated software with a net carrying value of £136m (2019: £776m). During the year, amortisation and impairment of other intangible assets totalled £860m for the group (2019: £161m).*

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 capitalised software impairment. As a result, interim impairment tests were performed at 30 June 2020.

Other intangible assets

30 June 2020 impairment test

An impairment test was performed at 30 June 2020 by comparing the net carrying value 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 have been updated for changes in the external outlook, although current economic and geopolitical risks increase the inherent estimation uncertainty.

We recognised £770m 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.

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 benefits 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 cash flows in perpetuity because of the long-term perspective of the businesses within the group. Rates do not exceed forecast inflation for the countries and territories within which the group operates.
- Discount rates: Rates are based on a Capital asset pricing model ('CAPM') calculation considering market data for the businesses and geographies in which the group operates. Discount rates ranged from 8.5% to 9.7% for 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.

8 Provisions

	Restructuring costs	Legal proceedings and regulatory matters	Customer remediation	Other provisions	Total
	£m	£m	£m	£m	£m
Provisions (excluding contractual commitments)					
At 31 Dec 2019	**94**	**211**	**29**	**104**	**438**
Additions	**16**	**4**	**1**	**40**	**61**
Amounts utilised	**(47)**	**(15)**	**(1)**	**(24)**	**(87)**
Unused amounts reversed	**(8)**	**(1)**	**(1)**	**(10)**	**(20)**
Exchange and other movements	**5**	**15**	**–**	**6**	**26**
At 30 Jun 2020	**60**	**214**	**28**	**116**	**418**
Contractual commitments[1]					
At 31 Dec 2019					**102**
Net change in expected credit loss provisions					**106**
At 30 Jun 2020					**208**
Total provisions					
31 Dec 2019					**540**
30 Jun 2020					**626**

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 26.*

Customer remediation

Provisions include £28m (2019: £29m) in respect of customer redress programmes. The majority of the provisions relating to Payment Protection Insurance were transferred to HSBC UK Bank plc under the ring-fence implementation in 2018. At 30 June 2020, HSBC Bank plc holds £5m in provisions in respect to Payment Protection Insurance claims for Channel Island and Isle of Man customers.

Legal proceedings and regulatory matters

Further details of legal proceedings and regulatory matters are set out in Note 10. 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.

9 Contingent liabilities, contractual commitments and guarantees

	At	
	30 Jun 2020	31 Dec 2019
	£m	£m
Guarantees and other contingent liabilities:		
– financial guarantees	**4,365**	4,318
– performance and other guarantees	**14,066**	15,186
– other contingent liabilities	**441**	609
At the end of the period	**18,872**	20,113
Commitments: [1]		
– documentary credits and short-term trade-related transactions	**1,264**	1,810
– forward asset purchases and forward deposits placed	**62,265**	37,998
– standby facilities, credit lines and other commitments to lend	**100,599**	89,096
At the end of the period	**164,128**	128,904

1 *Includes £159,864m 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 represents the maximum amounts at risk should the contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the nominal principal amounts is not indicative of future liquidity requirements.

In December 2017, HM Revenue & Customs ('HMRC') challenged the VAT status of certain UK branches of HSBC overseas entities. HMRC has also issued notices of assessment covering the period from 1 October 2013 to 31 December 2017 totalling £262m, with interest to be determined. No provision has been recognised in respect of these notices. In 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 30 June 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 £72m 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 10. The expected credit loss provisions relating to guarantees and commitments under IFRS 9 is disclosed in Note 8.

10 Legal proceedings and regulatory matters

The group is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, the group considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 1 of the *Annual Report and Accounts 2019*. 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 30 June 2020 (see Note 8). 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 were dismissed, and certain claims against the remaining HSBC defendants were also 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.

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 2020 for UK-based defendants and November 2020 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 hearing 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.

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, 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 UK Financial Conduct Authority ('FCA') in 2013, and again in July 2020, and consented to a cease-and-desist order with the US Federal Reserve Board ('FRB'), both of which contained certain forward-looking anti-money laundering ('AML') and sanctions-related obligations. HSBC also agreed to retain an independent compliance monitor (who is, for FCA purposes, a 'Skilled Person' under section 166 of the Financial Services and Markets Act and, for FRB purposes, an 'Independent Consultant') to produce periodic assessments of the Group's AML and sanctions compliance programme (the 'Skilled Person/Independent Consultant'). In December 2012, HSBC Holdings also entered into an agreement with the Office of Foreign Assets Control ('OFAC') regarding historical transactions involving parties subject to OFAC sanctions. HSBC's engagement with the Skilled Person appointed pursuant to the 2013 Direction was terminated in February 2020 and a new Skilled Person with a narrower mandate has been appointed to assess the remaining areas that require further work in order for HSBC to transition fully to business-as-usual financial crime risk management. The Independent Consultant will continue to carry out an annual OFAC compliance review at the FRB's discretion. The role of the Skilled Person/Independent Consultant is discussed on page 70 of the *Annual Report and Accounts 2019*.

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

Since November 2014, a number of lawsuits have been filed in federal courts in the US against various HSBC companies and others on behalf of plaintiffs who are, or are related to, victims of terrorist attacks in 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 and are seeking certification to appeal in the other case. HSBC has filed motions to dismiss in three further cases, two of which were granted in June 2020, while the third remains pending. The four remaining actions are at a very early stage.

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

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

Euro interest rate derivatives: In December 2016, the European Commission (the 'EC') issued a decision finding that HSBC, among other banks, engaged in anti-competitive practices in connection with the pricing of euro interest rate derivatives in early 2007. The EC imposed a fine on HSBC based on a one-month infringement. HSBC 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 (the 'Lender class'); persons who purchased US dollar Libor-indexed interest rate swaps and other instruments directly from the defendant banks and their affiliates (the 'OTC class'); and persons who purchased US dollar Libor-indexed interest rate swaps and other instruments from certain financial institutions that are not the defendant banks or their affiliates. During 2018, the New York District Court granted final approval of the settlements with the OTC and Lender classes. The remaining settlements are subject to final court approval. Additionally, a number of other US dollar Libor-related actions remain pending against HSBC in the New York District Court and the Second Circuit Court of Appeals.

Intercontinental Exchange ('ICE') Libor: Between January and March 2019, HSBC and other panel banks were named as defendants in three putative class actions filed in the New York District Court on behalf of persons and entities who purchased instruments paying interest indexed to US dollar ICE Libor from a panel bank. The complaints allege, among other things, misconduct related to the suppression of this benchmark rate in violation of US antitrust and state law. In July 2019, the three putative class actions were consolidated, and the plaintiffs filed a consolidated amended complaint. In March 2020, the court granted the defendants' joint motion to dismiss in its entirety. The plaintiffs have appealed.

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

Foreign exchange-related investigations and litigation

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

In January 2018, HSBC Holdings entered into a three-year deferred prosecution agreement with the Criminal Division of the US Department of Justice ('DoJ') (the 'FX DPA'), regarding fraudulent conduct in connection with two particular transactions in 2010 and

2011. This concluded the DoJ's investigation into HSBC's historical foreign exchange activities. Under the terms of the FX DPA, HSBC has a number of ongoing obligations, including implementing enhancements to its internal controls and procedures in its Global Markets business, which will be the subject of annual reports to the DoJ. In addition, HSBC agreed to pay a financial penalty and restitution.

In 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 October 2018, HSBC Holdings and HSBC Bank plc received an information request from the EC concerning potential coordination in foreign exchange options trading. In May 2020, HSBC was informed that the EC had discontinued its investigation and does not intend to take further action.

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. The settlement remains subject to final court approval.

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 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 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 at an early stage. It is possible that additional civil actions will be initiated against HSBC in relation to its historical foreign exchange activities.

As at 30 June 2020, the bank has recognised a provision for these and similar matters in the amount of £162m. 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. The court has denied the pre-existing defendants' request for leave to file a joint motion to dismiss, and discovery is proceeding.

Beginning in December 2015, numerous putative class actions under Canadian law were filed in the Ontario and Quebec Superior Courts of Justice against various HSBC companies and other financial institutions. The plaintiffs allege that, among other things, from January 2004 to March 2014, the defendants conspired to manipulate the price of gold and gold derivatives in violation of the Canadian Competition Act and common law. These actions are at an early stage.

Silver: Beginning in July 2014, numerous putative class actions were filed in 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. The Ontario action is at an early stage. The Quebec action has been temporarily stayed.

Platinum and palladium: Between late 2014 and early 2015, numerous putative class actions were filed in the New York District Court, naming HSBC and other members of The London Platinum and Palladium Fixing Company Limited as defendants. The complaints allege that, from January 2008 to November 2014, the defendants conspired to manipulate the price of platinum group metals ('PGM') and PGM-based financial products for their collective benefit in violation of US antitrust laws and the US CEA. In March 2017, the defendants' motion to dismiss the second amended consolidated complaint was granted in part and denied in part. In June 2017, the plaintiffs filed a third amended complaint. 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 Swiss Competition Commission in connection with the setting of Euribor and Japanese yen Libor;
- 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;
- a putative class action brought in the New York District Court relating to the market for US dollar-denominated supranational sovereign and agency bonds; 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.

11 Transactions with related parties

There were no changes to the related party transactions described in Note 33 of the *Annual Report and Accounts 2019* that have had a material effect on the financial position or performance of the group in the half-year to 30 June 2020.

All related party transactions that took place in the half-year to 30 June 2020 were similar in nature to those disclosed in the *Annual Report and Accounts 2019*.

12 Events after the balance sheet date

In its assessment of events after the balance sheet date, the group has considered and concluded that no material events have occurred resulting in adjustments to the financial statements.

In line with the Group's business update announced in February 2020, HSBC France has presented, in early July, to the Social and Economic Council a reorganisation plan for the GBM business in France. Its objective is to preserve the bank's future competitiveness and to focus on our strategic positioning while reducing the size of GBM business in France. The social plan project *('Plan de Sauvegarde pour l'Emploi')* considers 235 job positions cut. Negotiations with social bodies have been launched mid-July and should be finalised end of October. At this stage, the net best estimate of the related costs is around £81.4m.

We have also previously announced a strategic review of our retail business in France; this is ongoing and no decisions have been made.

There have been no other significant events between 30 June 2020 and the date of approval of these financial statements which would require a change to or additional disclosure in the financial statements.

13 Interim Report 2020 and statutory accounts

The information in this *Interim Report 2020* is unaudited and does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. This *Interim Report 2020* was approved by the Board of Directors on 3 August 2020. The statutory accounts of HSBC Bank plc for the year ended 31 December 2019 have been delivered to the Registrar of Companies in England and Wales in accordance with section 447 of the Companies Act 2006. The group's auditor, PricewaterhouseCoopers LLP ('PwC'), has reported on those accounts. Its report was unqualified, did not include a reference to any matters to which PwC drew attention by way of emphasis without qualifying their report, and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

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