HSBC UK Bank plc

Interim Report and Accounts 2020

HSBC

Contents

	Page
Key financial metrics	**2**
Purpose and strategy	**3**
Economic background and outlook	**5**
Financial summary	**6**
Risk	**10**
Capital and liquidity risk	**26**
Directors' responsibility statement	**37**
Independent review report to HSBC UK Bank plc	**38**
Condensed financial statements	**39**
Notes on the condensed financial statements	**44**
Reconciliation of non-GAAP financial measures	**51**

Presentation of information

This document comprises the *Interim Report 2020* for HSBC UK Bank plc ('the bank') and its subsidiaries (together 'HSBC UK' or 'the group'). 'We', 'us' and 'our' refer to HSBC UK Bank plc together with its subsidiaries. References to 'HSBC Group' or 'the Group' within this document mean HSBC Holdings plc together with its subsidiaries. It contains the Interim Management Report and Condensed Consolidated Financial Statements of the group, together with the Auditors' Review Report, as required by the Financial Conduct Authority's ('FCA') Disclosure Guidance and Transparency Rules ('DTR'). 'The capital section also contains certain *Pillar 3 disclosures* which require semi-annual disclosure in accordance with applicable regulatory rules. Unless otherwise stated, commentary on the income statement compares the six months to 30 June 2020 with the six months to 30 June 2019. Balance sheet commentary compares the position at 30 June 2020 to 31 December 2019.

In accordance with International Accounting Standard ('IAS') 34 'Interim Financial Reporting', the Interim Report is intended to provide an update on the *Annual Report and Accounts 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 £ sterling and $ symbols represent US dollars. The abbreviations '£m' and '£bn' represents millions and billions (thousands of millions) of £ sterling.

Cautionary statement regarding forward-looking statements

The *Interim Report 2020* contains certain forward-looking statements with respect to the financial condition, result 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', 'targets', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. HSBC UK makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statements.

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

Key financial metrics

Reported results	Half-year to 30 Jun 2020	30 Jun 2019
Reported revenue (£m)	**3,080**	3,315
Reported profit/(loss) before tax (£m)[2]	**(403)**	616
Reported profit/(loss) after tax (£m)	**(353)**	351
Profit/(loss) attributable to the shareholders of the parent company (£m)	**(356)**	348
Return on average tangible equity (annualised) ('RoTE') (%)[2]	**(4.9)**	3.6
Net interest margin (%)	**1.84**	2.17
Expected credit losses and other credit impairment charges ('ECL') as % of average gross loans and advances to customers (%)	**0.88**	0.37
Adjusted results		
Adjusted revenue (£m)	**3,059**	3,315
Adjusted profit/(loss) before tax (£m)[2]	**(374)**	1,138
Cost efficiency ratio (%)[2]	**59.4**	55.7
Adjusted return on average tangible equity (annualised) ('RoTE') (%)[1,2]	**(4.6)**	10.0

Balance sheet	As at 30 Jun 2020	31 Dec 2019
Total assets (£m)	**287,187**	257,102
Net loans and advances to customers (£m)	**185,400**	183,056
Customer accounts (£m)	**241,342**	216,214
Average interest-earning assets (£m)	**251,683**	231,701
Loans and advances to customers as % of customer accounts (%)	**76.8**	84.7
Total shareholders' equity (£m)	**22,714**	22,191
Tangible ordinary shareholders' equity (£m)	**16,463**	16,001
Capital, leverage and liquidity		
Common equity tier 1 ('CET1') capital ratio (%)[2]	**13.4**	13.0
Total capital ratio (%)	**19.4**	19.2
Risk-weighted assets ('RWAs') (£m)	**88,284**	85,881
Leverage ratio (%)	**4.7**	5.0
High-quality liquid assets (liquidity value) (£m)	**76,736**	56,822
Liquidity coverage ratio (%)	**187**	165

1 *In the event that the current IAS 19 Pension fund surplus was zero, additional CET1 capital would be required to be held and Adjusted RoTE would be (6.8)% (Jun 2019:11.4%); we refer to this as Pension Adjusted RoTE.*
2 *These metrics are tracked as Key Performance Indicators of the group.*

Presentation of non-GAAP measures

In measuring our performance, the financial measures that we use include those derived from our reported results in order to eliminate factors that distort period-on-period comparisons. Such measures are referred to as adjusted performance. A reconciliation of reported to adjusted performance is provided on pages 8 and 9. RoTE is computed by adjusting the reported equity for goodwill and intangibles. A reconciliation is provided on page 51, which details the adjustments made to the reported results and equity in calculating RoTE.

Purpose and strategy

HSBC Group's purpose

To be where the growth is: connecting customers to opportunities. Enabling businesses to thrive and economies to prosper, helping people to fulfil their hopes and dreams and realise their ambitions.

Our values

Our values define who we are as an organisation:

Dependable

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

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.

Our UK ambition

Deeply rooted in the UK and providing a unique gateway to the world. We are investing in growth and innovation to make banking simple, safe and sustainable and be the bank of choice for our customers, colleagues and communities through the generations.

What we do

HSBC UK, headquartered in Birmingham, has over 15 million active customers, with 21,000 colleagues across the country, supported by a further 10,000 colleagues based in our service company HSBC Global Services (UK) Limited, who provide services to HSBC UK and the wider HSBC Group.

HSBC UK manages its products and services through three businesses:

- Wealth and Personal Banking ('WPB'): Our newly created business, combining our former Retail Banking and Wealth Management and Private Banking businesses, helps millions of our customers manage their day-to-day finances and manage, protect and grow their wealth.
- Commercial Banking ('CMB'): Serving businesses across the UK, ranging from start-ups to multi-national corporates, through four customer groups: Small Business Banking ('SBB'); Business Banking ('BB'); Mid-Market Enterprises ('MME'); and Large Corporates ('LC').
- Global Banking and Markets ('GBM'): We are able to offer selected GBM products to our customer base. For example, we maintain a markets team that help to support the sale of eligible markets products to our CMB customers from HSBC Bank plc.

In addition, certain central operations of the HSBC UK business lines are managed through the Corporate Centre.

How we do business

The Covid-19 pandemic has created a great deal of uncertainty and disruption for our customers, colleagues and the communities we serve. It is affecting everyone in different ways and we are tailoring our response to the different circumstances and situations in which our stakeholders find themselves. To support our customers and the communities we serve, we have provided a series of support packages, including both government schemes and non-government scheme lending, totalling £19bn.

We are also re-evaluating our longer term strategy in light of the Covid-19 outbreak and low interest rate environment, considering our office footprint and supporting our colleagues with a shift to a more location-agnostic working model. We are accelerating the roll-out of digital capabilities and functionality that help our customers to self-serve and continue to focus on targeted growth areas, such as mortgages and commercial lending.

Supporting our customers

We have actively supported our customers through support for government schemes and non-government scheme lending, as well as flexibility in our existing products. As at the end of June, these include:

- Providing payment holidays to our personal banking customers: Mortgages: 63,941, Personal Loans: 88,253 and Credit Cards: 63,943.
- Increasing our interest free overdrafts to £500, reducing the interest rates above this amount, decreasing our mortgage rates for new and existing customers looking to switch and allowing customers to access fixed rate savings without charge.
- Supporting our small and medium-sized enterprises ('SME') customers with 141,676 applications approved through the Bounce Back Loan Scheme ('BBLS') worth £4.6bn. We have also approved 11,120 applications through the Coronavirus Business Interruption Loan Scheme ('CBILS') worth £2.4 billion, with our 21.3% market share of CBILS lending being considerably above our BoE published SME lending market share of 9.3%.
- Helping our larger business customers with 82 applications approved through the Coronavirus Large Business Interruption Loan Scheme ('CLBILS') worth £605m.
- Outside of the government schemes, we have approved £2.6bn of Covid-19 related lending to our business customers as well as providing 8,679 capital repayment holidays and 17,515 trade loan extensions, demonstrating our continued support to help UK businesses through the economic uncertainty.

We have also ensured that our customers are able to contact us during the Covid-19 crisis, particularly those that are vulnerable or potentially in financial distress:

- Supported and prioritised the calls of over 800,000 customers through the Vulnerable & Key Worker customer line.
- Proactively contacted over 560,000 customers to ensure they received the support they needed, including those that are most vulnerable and those that cancelled mortgage payment direct debits.
- Established a dedicated Covid-19 helpline for commercial customers.
- On average, 95% of our HSBC UK branch network has remained open, since the commencement of lockdown, with the introduction of social distancing and reduced opening hours.
- Accelerated the roll-out of digital technology to provide faster processing and enable more functionality to be accessed remotely.

Supporting our colleagues

Our people continue to show great resilience despite the challenging environment. We have had a strong focus on managing the impacts of the Covid-19 crisis on our people's safety and wellbeing, including:

- The transition to remote working at scale, to help colleagues remain safe and productive, has been embedded wherever possible.
- The redistribution of over 1,000 colleagues to support other parts of the business that were in need of support.
- Establishing a new branch network operating rhythm to ensure customer areas are managed to maintain social distancing,

whilst also improving the supply of hygiene products and personal protective equipment ('PPE').

- Launching a wellbeing toolkit and regular communication, advice and support. We also continued with our annual wellbeing month in May to address the most important things on our colleagues' minds.
- Reviewing and expanding our colleague support offering, including healthcare benefits.

Supporting our community

We are committed to doing our part to help support vulnerable people across the UK impacted by Covid-19. As well as supporting a range of grassroots efforts and activities across the UK, we have donated £1m to the National Emergencies Trust Coronavirus Appeal and British Red Cross and raised more than £1.4m for The Big Night In Appeal with all proceeds going to BBC Children in Need and Comic Relief. For more information about how we're supporting and helping our customers, employees and wider communities we serve, please visit our response to Covid-19 page (https://www.about.hsbc.co.uk/hsbc-uk/coronavirus).

Our approach to diversity

We are committed to improving diversity at all levels and believe that an inclusive culture brings benefits for our customers, our business and our colleagues. We continue to listen and learn from our colleagues and the communities we operate in, and while our focus on diversity has helped us to build an inclusive culture, we need to support more black and ethnic minority colleagues to succeed at HSBC UK to help drive racial equality in the UK more broadly. We were a founding member of the Business in the Community's Race at Work Charter and we are committed to increasing our focus on this with the following actions:

- We are establishing an ethnicity framework to help us determine what racial equality in our business should look like, where our gaps are and where we need to take action. We've appointed a UK executive sponsor for race to work closely with our employee resource group for ethnicity, Embrace, and our Diversity and Inclusion team.
- We plan to help black and ethnic minority colleagues to succeed through increasing our focus on career development and reviewing our approach to recruitment, ensuring inclusive practices throughout the recruitment journey.
- We plan to make equality in the workplace everyone's responsibility. While leaders in our business have a critical role to play in supporting black and ethnic minority team members, everyone has a role to play in supporting racial equality. From July, a global ethnicity inclusion campaign is expecting to build understanding of issues, opportunities and actions we can take, and we'll continue to support our 'Let's Talk About Race' conversations in teams around the business. By encouraging more conversations about race and how it's affected colleagues, we will all be more empathetic and aware of racism in its various forms.
- We will maintain a zero tolerance approach to racism and hope our efforts will do more to create a safe space for our colleagues, giving them the opportunities and the confidence to speak up and raise concerns more easily.
- We plan to measure and track our progress, ensuring we improve the data that we hold on the ethnicity of our people, so that we can increase transparency and measure the effectiveness of the actions we take.

Our strategy

Our UK strategy is built around four key strategic priorities, aimed at enabling us to be simple, safe and sustainable:

Customer experience

- We are investing in digital capabilities to enhance the overall customer experience, whilst also launching new initiatives to support our customers.

Colleague engagement

- We are building an inclusive culture with a greater focus on colleagues' wellbeing.

Shareholder value growth

- Responding to emerging customer needs, we aim to grow our business in a safe and sustainable way. This will include us targeting growth in market share for mortgages and commercial lending.

Simplification

- We are enhancing and simplifying our business to enable and empower our colleagues to support our customers.

Progress in 2020

Despite Covid-19, we continue to attract new personal customers, with 84,107 customers switching from other providers across our brands. The HSBC UK brand has performed particularly strongly, seeing a 12% increase in the number of customers switching compared to 1H19. We also grew our commercial customer numbers in our LC and MME customer groups (+1.1% vs. FY19).

We continue to focus on our mortgage and commercial lending market share; achieving a 7.7% share of gross mortgage lending (FY19: 7.8%) and increasing mortgage stock share to 6.9% (FY19: 6.8%) as at 31 May 2020. This has seen our mortgage book surpass £100bn, as we continue to help our retail customers purchase their homes. We have also increased our SME lending market share to 9.3% (FY19: 8.4%) and our overall commercial lending market share[1] to 10.2% (FY19: 10.0%).

We have continued to invest in our frontline and digital capabilities to enhance the overall customer experience. This has seen first direct re-establish itself in first place and HSBC UK remain in sixth place in the Competition & Market Authority Service Quality tables.

1 *Loans and overdraft balances as a percentage of the market.*

Managing our conduct risk

At the start of 2020, we established a dedicated programme of work which will help enable us to evidence how proactive and effective management of conduct and operational risk is mitigating customer harm and translating into tangible outcomes for consumers.

Covid-19's impact, indicates a likelihood of increasing 'future conduct risk' and as a result we continue to actively monitor non-financial risk profiles across all business areas.

We understand the very important role HSBC UK plays in helping our customers navigate through this crisis. We are committed to supporting as many of our customers as we can, and where it is appropriate to do so, through:

- Providing support and flexibility to those who may be entering a period of financial uncertainty as a consequence of the pandemic. We will seek to tailor our response to suit individual customer circumstances, as appropriate.
- Helping customers who may be facing some short-term financial hardship to manage cash flow.
- Adapting our operations to ensure that they remain safe for customers and colleagues in line with public health advice.
- Managing our financial resilience and actively managing our liquidity.

Our core advantages

Full banking capability

We serve customers ranging from individual savers through to large multinational corporations with the support of our three businesses. Our full banking capability assists us in seeking to meet our customers' diverse financial needs, reducing our risk profile and volatility, and generating stable returns for shareholders.

Value of our network and access to an exceptional global presence

Within the UK we provide products and services digitally, by phone and face-to-face through over 650 branches, bureaux and offices, 64 commercial centres, and five contact centres.

For customers with international interests, we are intrinsically connected with the HSBC Group's wider global network, which helps enable our customers to seize international growth opportunities. This helps us build deeper and more enduring relationships with businesses and individuals. The HSBC Group's geographic reach and network of customers also allows greater insight into the trade and capital flows across supply chains.

Business synergies

We share resources and product capabilities across our businesses and leverage these synergies when serving our customers. For example, the foreign exchange and wealth management needs of WPB customers create opportunities for GBM. CMB collaborates closely across HSBC UK to fully support our customers at various points in their lifecycle; for example, WPB and CMB work closely to support the owners of CMB companies looking to sell their business and grow their wealth.

Economic background and outlook

UK economic outlook

Real quarterly UK GDP growth fell by 2.2% in the first quarter of 2020, on the back of the Covid-19 outbreak and resultant lockdown. It fell a further 20.3% in April followed by a modest, 1.8% growth in May.

The Covid-19 impact is yet to feed through into headline labour market numbers. The unemployment rate remained at 3.9% in the three months to May; however, this is expected to rise: HSBC Global Research forecasts a rate of 7.2% by year-end. In the three months to May, average wages were 0.3% lower than the corresponding period a year earlier, sharply down from an annual growth rate of 3.1% in February. The annual rate of inflation, according to the Consumer Price Index ('CPI'), stood at 0.6% in June 2020. The 'core' CPI inflation rate, which strips out food and energy prices, was 1.4%.

Following the outbreak of Covid-19, the government announced a raft of lockdown measures in late March. While shops re-opened in England on 15 June, the hospitality sector only began re-opening in early July and some sectors of the economy are still operating well below capacity.

The government also announced measures to support the economy through the lockdown, including the Job Retention Scheme, which sees the government covering the cost of 80% of furloughed workers' salaries, up to a ceiling of £2,500 a month. HSBC UK did not take part in the Job Retention Scheme. In July, further fiscal measures were announced to reward firms for retaining furloughed workers and to incentivise household spending in the hospitality sector. As a consequence of these and other support measures, HSBC Global Research expects the UK budget deficit to rise from 2.8% of GDP in 2019/20 to 13.0% this year, and public sector net debt to rise above 100% of GDP.

Meanwhile, the BoE Bank Rate was cut from 0.75% to 0.10% in March, and the BoE announced an additional £200bn of quantitative easing. In June, it announced another £100bn of government bond purchases taking targeted asset purchases to £745bn, a total it expects to reach around the turn of the year.

Considerable uncertainty remains as to the strength of aggregate demand as restrictions are lifted and over the degree of lasting economic 'scarring' arising from the lockdown.

UK GDP grew 1.4% in 2019. Applying the economic forecasts from consensus central scenario in ECL calculation, a fall of 7.8% is expected in 2020, and then a rise of 5.9% in 2021. The BoE Bank Rate is also expected to remain on hold at 0.10% at least through this year and next, although the BoE could loosen policy again if downside risks crystallise.

UK withdrawal from the European Union

The UK left the EU on 31 January 2020 and entered a transition period until 31 December 2020. During the transition period, the UK continues to be bound by EU laws and regulations. Beyond that date, there is no certainty on what the future relationship between the UK and the EU will be. The prospect of exiting the transition period without a trade agreement is likely to drive increasing market volatility and economic risk, particularly in the UK.

We continue to work with regulators, governments, our customers and colleagues to manage the risks resulting from the UK's exit from the EU as they arise, particularly across those industry sectors most impacted.

While there may be some changes to the provision of products and services for our clients and employees based in the UK, we are taking mitigating actions to help minimise any potential disruption. Our priority is to ensure we continue to support our clients through this period of uncertainty, and help them minimise the impact of these potential risks. We continue to stay very close to our clients and our front-line teams are available to respond to customer queries. Through sectoral analysis, portfolio reviews and stress-testing scenarios, we have developed a range of contingency plans to ensure we can continue to support our clients and minimise potential disruption to them during any periods of volatility or instability.

For further information, please refer to our top and emerging risks and 'Areas of special interest' on pages 12 and 13.

Financial summary

Summary consolidated income statement

	Half-year to	
	30 Jun 2020 £m	30 Jun 2019 £m
Net interest income	**2,302**	2,437
Net fee income	**530**	618
Net income from financial instruments held for trading or managed on a fair value basis	**176**	208
Change in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**(2)**	—
Gains less losses from financial investments	**66**	29
Other operating income	**8**	23
Total operating income[1]	**3,080**	3,315
Net operating income before change in expected credit losses and other credit impairment charges[2]	**3,080**	3,315
Change in expected credit losses and other credit impairment charges	**(1,615)**	(332)
Net operating income	**1,465**	2,983
Total operating expenses[1]	**(1,868)**	(2,367)
Operating profit/(loss)	**(403)**	616
Profit/(loss) before tax	**(403)**	616
Tax credit/(expense)	**50**	(265)
Profit/(loss) for the period	**(353)**	351
Profit/(loss) attributable to shareholders of the parent company	**(356)**	348
Profit attributable to non-controlling interests	**3**	3

1 *Total operating income and expenses includes significant items as detailed on pages 8 and 9.*
2 *Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.*

Reported performance

In the six months to 30 June 2020 ('1H20') reported loss before tax was £403m, £1,019m lower than the reported profit before tax of £616m in the six months to 30 June 2019 ('1H19').

Net interest income ('NII') decreased by £135m or 6%, due to the impact of lower interest rates.

Net fee income decreased by £88m or 14%, due to changes to overdraft pricing from March 2020 and lower volumes of CMB fee based revenue.

Net income from financial instruments held for trading or managed on a fair value basis decreased by £32m or 15% principally due to reduced payment flows in the foreign currency exchange business.

Gains less losses from financial investments increased by £37m, due to disposal gains from the Balance Sheet Management function.

Other operating income decreased by £15m, due to an adjustment for modification losses to reflect changes in contractual cash flows relating to unsecured lending payment holidays in WPB in 1H20.

ECL increased by £1,283m in 1H20, due to the deteriorating UK macro-economic outlook from Covid-19 increasing amounts recognised to reflect UK economic uncertainty, and increased CMB Stage 3 provisions in 1H20.

Total operating expenses decreased by £499m or 21%, driven by a number of significant items including:

- UK customer redress provisions decreased by £438m from £478m in 1H19 to £40m in 1H20, due to payment protection insurance ('PPI') provisions in 1H19;
- Restructuring and other structural reform costs decreased by £34m compared with 1H19.

Excluding these items, operating expenses decreased by £27m or 1%.

For further details of significant items affecting revenue and costs, please refer to significant revenue/cost items by business segment on page 8.

Net interest income

	Half-year to	
	30 Jun 2020 £m	30 Jun 2019 £m
Interest income	**2,703**	2,880
Interest expense	**(401)**	(443)
Net interest income	**2,302**	2,437
Average interest-earning assets	**251,683**	226,165
	%	%
Gross interest yield[1]	**2.16**	2.57
Less: cost of funds[1]	**(0.42)**	(0.51)
Net interest spread[2]	**1.74**	2.06
Net interest margin[3,4]	**1.84**	2.17

1 *Gross interest yield is the average annualised interest rate earned on average interest-earning assets ('AIEA'). Cost of funds is the average annualised interest cost as a percentage of average interest-bearing liabilities.*
2 *Net interest spread is the difference between the average annualised interest rate earned on AIEA, net of amortised premiums and loan fees, and the average annualised interest rate payable on average interest-bearing funds.*
3 *Net interest margin is net interest income expressed as an annualised percentage of AIEA.*
4 *Net interest margin of 1.84% includes an increase of 2bps (2019: 0bps) due to significant items.*

Net interest margin decreased from 2.17% in 1H19 to 1.84% in 1H20. This was driven by lower deposit margins primarily as a result of the UK interest rate reductions in March 2020.

Non-GAAP financial measures

Our reported results are prepared in accordance with International Financial Reporting Standards ('IFRS'), as detailed in the Condensed financial statements starting on page 39.

In measuring our performance, the financial measures that we use include those derived from our reported results in order to eliminate factors that distort period-on-period comparisons. These are considered non-GAAP financial measures. We present performance on an adjusted basis, which is our segment measure

for our reportable segments under IFRS 8 'Operating Segments' but constitutes a non-GAAP financial measure when otherwise presented.

Adjusted performance

Adjusted performance is computed by adjusting reported results for the 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. An item might be deemed significant if the item is not incurred as part of the normal operational activities of the individual segment, separate identification and explanation of the item is necessary in order for users to gain a proper understanding of the performance of the business, and it is quantitatively and qualitatively material to the group's consolidated financial statements. Customer remediation and redress programmes, which constitute the majority of the group's significant items, are considered and assessed separately against the above criteria prior to recognition as a significant item.

Significant items, which are detailed on pages 8 and 9, are ones that management and investors would ordinarily identify and consider separately when assessing performance to understand better the underlying trends in the business. We consider adjusted performance provides useful information for investors by aligning internal and external reporting, identifying and quantifying items management believes to be significant and providing insight into how management assesses period-on-period performance.

Segmental reporting

Global businesses are our reportable segments under IFRS 8.

The HSBC Group Chief Executive, supported by the rest of the Group Executive Committee, is considered the Chief Operating Decision Maker ('CODM') for the purposes of identifying HSBC Group's and therefore HSBC UK's reportable segments. HSBC UK's chief operating decision-maker is the HSBC UK Chief Executive, supported by the HSBC UK Executive Committee. The global business results are assessed by the HSBC UK Chief Operating Decision Maker on the basis of adjusted performance that removes the effects of significant items from reported results. We therefore present HSBC UK global business results on an adjusted basis 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 global functions to the extent that they can be meaningfully attributed to operational business lines. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity. Costs which are not allocated to global businesses are included in Corporate Centre.

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

Change in reportable segments

Effective from 2Q20, we made the following realignments within our internal reporting to the Group Executive Committee ('GEC') (previously the Group Management Board) and the HSBC UK Executive Committee:

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

Comparative data has been re-presented accordingly.

Our global businesses

HSBC UK 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.

- WPB offers a full range of products and services to meet the personal banking and wealth management needs of customers, from Everyday Banking to ultra-high net worth requirements. Typically, customer offerings include current and savings accounts, mortgages, personal loans, credit cards, overdrafts and local and international payment services. We also provide wealth management services, including insurance and investment products, investment management and Private Wealth Solutions for customers with more sophisticated and international requirements.
- CMB offers a broad range of products and services to serve the needs of our commercial customers, including small- and medium-sized enterprises, mid-market enterprises and corporates. These include credit and lending, international trade and receivables finance, treasury management and liquidity solutions (payments and cash management and commercial cards), commercial insurance and investments. Through close collaboration with HSBC Group, we can make available GBM products and Securities Services to our customers.
- We are able to offer selected GBM products to our customer base. For example, we maintain a markets team that help to support the sale of eligible markets products to our CMB customers from HSBC Bank plc. Services include credit, rates, foreign exchange, equities, money markets and securities services, and principal investment activities.

Adjusted profit/(loss) for the period

	WPB	CMB	GBM	Corporate Centre	Total
	Half-year to 30 Jun 2020				
	£m	**£m**	**£m**	**£m**	**£m**
Net operating income before change in expected credit losses and other credit impairment charges	**1,682**	**1,304**	**75**	**(2)**	**3,059**
– external	**1,669**	**1,337**	**75**	**(22)**	**3,059**
– inter-segment	**13**	**(33)**	**—**	**20**	**—**
– *of which; net interest income*	***1,371***	***913***	***—***	***(3)***	***2,281***
Change in expected credit losses and other credit impairment charges	**(708)**	**(906)**	**—**	**(1)**	**(1,615)**
Net operating income	**974**	**398**	**75**	**(3)**	**1,444**
Total operating expenses	**(1,179)**	**(600)**	**(44)**	**5**	**(1,818)**
Operating profit/(loss)	**(205)**	**(202)**	**31**	**2**	**(374)**
Adjusted profit/(loss) before tax	**(205)**	**(202)**	**31**	**2**	**(374)**
	%	**%**	**%**	**%**	**%**
Adjusted cost efficiency ratio	**70.1**	**46.0**	**58.7**	**250.0**	**59.4**
	Half-year to 30 Jun 2019[2]				
Net operating income before change in expected credit losses and other credit impairment charges	1,821	1,407	89	(2)	3,315
– external	1,820	1,413	86	(4)	3,315
– inter-segment	1	(6)	3	2	0
– *of which; net interest income*	*1,435*	*1,004*	*2*	*(4)*	*2,437*
Change in expected credit losses and other credit impairment charges	(152)	(180)	—	—	(332)
Net operating income	1,669	1,227	89	(2)	2,983
Total operating expenses	(1,229)	(564)	(63)	11	(1,845)
Operating profit	440	663	26	9	1,138
Adjusted profit before tax	440	663	26	9	1,138
	%	%	%	%	%
Adjusted cost efficiency ratio	67.5	40.1	70.8	(550.0)	55.7

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**
Revenue	**1,703**	**1,304**	**75**	**(2)**	**3,080**
Significant revenue items	**(21)**	**—**	**—**	**—**	**(21)**
– customer redress programmes	**(21)**	**—**	**—**	**—**	**(21)**
Adjusted revenue	**1,682**	**1,304**	**75**	**(2)**	**3,059**
	Half-year to 30 Jun 2019[2]				
Revenue	1,821	1,407	89	(2)	3,315
Significant revenue items	—	—	—	—	—
– customer redress programmes	—	—	—	—	—
Adjusted revenue	1,821	1,407	89	(2)	3,315

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**
Operating expenses	**(1,218)**	**(601)**	**(44)**	**(5)**	**(1,868)**
Significant cost items	**39**	**1**	**—**	**10**	**50**
– restructuring and other related costs[1]	**—**	**—**	**—**	**10**	**10**
– customer redress programmes	**39**	**1**	**—**	**—**	**40**
Adjusted operating expenses	**(1,179)**	**(600)**	**(44)**	**5**	**(1,818)**
	Half-year to 30 Jun 2019[2]				
Operating expenses	(1,728)	(573)	(63)	(3)	(2,367)
Significant cost items	499	9	—	14	522
– restructuring and other related costs[1]	21	9	—	14	44
– customer redress programmes	478	—	—	—	478
Adjusted operating expenses	(1,229)	(564)	(63)	11	(1,845)

1 *Restructuring costs include charges received from HSBC Global Services (UK) Limited, which do not form part of the balance sheet provision movement.*
2 *A change in reportable segments was made in 2Q20. Comparative data has been re-presented accordingly.*

Net impact on profit/(loss) before tax by business segment

	Half-year to 30 Jun 2020				
	WPB	CMB	GBM	Corporate Centre	Total
	£m	£m	£m	£m	£m
Profit/(loss) before tax	**(223)**	**(203)**	**31**	**(8)**	**(403)**
Net impact on reported profit and loss	**18**	**1**	**—**	**10**	**29**
– significant revenue items	**(21)**	**—**	**—**	**—**	**(21)**
– significant cost items	**39**	**1**	**—**	**10**	**50**
Adjusted profit/(loss) before tax	**(205)**	**(202)**	**31**	**2**	**(374)**
	Half-year to 30 Jun 2019[1]				
Profit/(loss) before tax	(59)	654	26	(5)	616
Net impact on reported profit and loss	499	9	—	14	522
– significant revenue items	—	—	—	—	—
– significant cost items	499	9	—	14	522
Adjusted profit/(loss) before tax	440	663	26	9	1,138

1 *A change in reportable segments was made in 2Q20. Comparative data has been re-presented accordingly.*

Balance sheet information by global business

	WPB	CMB	GBM	Corporate Centre	Total
	£m	£m	£m	£m	£m
30 Jun 2020					
Loans and advances to customers	**118,020**	**67,045**	**—**	**335**	**185,400**
Customer accounts	**149,573**	**91,978**	**—**	**(209)**	**241,342**
31 Dec 2019[1]					
Loans and advances to customers	118,025	64,772	—	259	183,056
Customer accounts	140,658	75,758	—	(202)	216,214

1 *A change in reportable segments was made in 2Q20. Comparative data has been re-presented accordingly.*

Adjusted performance

Our adjusted loss before tax in 1H20 decreased by £1,512m, compared with 1H19, to a loss of £374m. This reflected higher ECL and lower revenue.

Adjusted revenue decreased by £256m or 8%, with decreases in WPB and CMB due to lower interest rates and other impacts of Covid-19, including overdraft pricing.

ECL increased by £1,283m, due to the deteriorating UK macro-economic outlook from Covid-19 increasing amounts recognised to reflect UK economic uncertainty, and increased CMB Stage 3 provisions in 1H20.

Adjusted operating expenses decreased by £27m or 1%, due to cost savings in WPB and lower costs in GBM foreign currency exchange services, partially offset by additional HSBC Holdings plc costs recharged to HSBC UK in 1H20.

Wealth and Personal Banking

Adjusted loss before tax of £205m in 1H20 was £645m lower than the adjusted profit before tax of £440m in 1H19, driven by higher ECL, lower revenue, offset by lower operating expenses.

Revenue decreased by £139m or 8%, primarily due to lower interest rates and other impacts of Covid-19, including overdraft pricing.

ECL increased by £556m, due to amounts recognised to reflect UK economic uncertainty in 1H20.

Operating expenses decreased by £50m or 4%, due to actions taken to reduce the direct costs of the business including lower staff costs and travel and entertaining costs.

Commercial Banking

Adjusted loss before tax of £202m in 1H20 was £865m, lower than the adjusted profit before tax of £663m in 1H19, due to lower revenue, higher ECL and higher operating expenses.

Revenue decreased by £103m or 7%, driven by lower interest rates and reduced fee volumes from Covid-19.

ECL have increased by £726m, due to the deteriorating UK macro-economic outlook from Covid-19 increasing amounts recognised to reflect UK economic uncertainty, and increased Stage 3 provisions in 1H20.

Operating expenses increased by £36m or 6%, driven by increased investment expenditure and additional HSBC Holdings plc costs recharged to HSBC UK in 1H20, partially offset by lower staff costs and lower travel and entertaining costs.

Global Banking and Markets

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

Adjusted profit before tax of £31m in 1H20 was £5m higher than the profit before tax of £26m in 1H19 due to lower operating expenses, offset by lower revenue.

Revenue decreased by £14m or 16%, due to reduced foreign currency payment flows due to the adverse market conditions.

Operating expenses decreased by £19m or 30%.

Corporate Centre

Adjusted profit before tax of £2m in 1H20 was £7m lower than the profit before tax of £9m in 1H19, driven by higher operating expenses caused by reduced income from the IAS 19 pension surplus.

Dividends

The consolidated reported loss for the period attributable to the shareholder of the bank was £356m.

An interim dividend of £100m, in lieu of a final dividend in respect of the previous financial year, was paid on the ordinary share capital during 1H20.

Further information regarding dividends is given in Note 5.

Summary consolidated balance sheet

	Half-year to	
	30 Jun 2020	31 Dec 2019
	£m	£m
Total assets	**287,187**	257,102
– cash and balances at central banks	**52,760**	37,030
– items in the course of collections from other banks	**244**	504
– financial assets designated and otherwise mandatory measured at fair value	**45**	66
– derivative assets	**157**	121
– loans and advances to banks	**1,442**	1,389
– loans and advances to customers	**185,400**	183,056
– reverse repurchase agreements – non-trading	**3,257**	3,014
– financial investments	**30,119**	19,737
– prepayment, accrued income and other assets	**9,732**	8,212
– goodwill and intangible assets	**4,031**	3,973
Total liabilities	**264,413**	234,851
– deposits by banks	**562**	529
– customer accounts	**241,342**	216,214
– repurchase agreements – non-trading	**5,351**	98
– items in the course of transmission to other banks	**168**	343
– derivative liabilities	**256**	201
– debt securities in issue	**1,884**	3,142
– accruals, deferred income and other liabilities	**1,669**	1,834
– current and deferred tax liabilities	**1,657**	1,632
– provisions	**1,089**	1,325
– subordinated liabilities	**10,435**	9,533
Total equity	**22,774**	22,251
– total shareholders' equity[1]	**22,714**	22,191
– non-controlling interests	**60**	60

1 *Total shareholders' equity includes share capital, share premium, additional Tier 1 instruments and reserves.*

The commentary below compares the balance sheet at 30 June 2020 to that at 31 December 2019.

The group maintained a strong and liquid balance sheet. The ratio of customer advances to customer accounts decreased to 76.8% compared to 84.7% at 31 December 2019.

Assets

Cash and balances at central banks, and Financial investments have increased by £26.1bn due to growth in customer account balances.

Loans and advances to customers increased by £2.3bn. The increase was due to higher levels of commercial term lending, including Covid-related government backed products (BBLS, CBILS and CLBILS).

Liabilities

Customer accounts increased by £25.1bn due to growth in commercial and retail current and savings accounts.

Repurchase agreements – non-trading has increased £5.3bn, and Debt securities in issue has decreased by £1.3bn as part of balance sheet management activities.

Equity

Total shareholders' equity increased by £0.5bn.

Risk

Risk overview

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

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

The exposure to our risks and risk management of these are explained in more detail in the Risk section of the Report of the Directors on pages 16 to 51 of the *Annual Report and Accounts 2019.*

The below table sets out the top and emerging risks and any material change to those reported in our *Annual Report and Accounts 2019*. A new risk has been added in respect of the Covid-19 outbreak.

Risk		Mitigants
Externally driven		
Covid-19	●	Since the Covid-19 outbreak in the UK, we have worked with the UK Government, regulators and our customers in order to implement measures to mitigate the financial impacts of the outbreak on our clients and the UK economy. We have successfully invoked business continuity plans to effectively manage our operations under the constraints imposed by the UK Government in response to the outbreak.
Geopolitical risk	▲	We continually assess the impact of geopolitical events on our businesses and exposures across HSBC UK and take steps to mitigate them, where required, to help ensure we remain within our risk appetite. The Covid-19 outbreak has dominated political and economic issues for the first six months of 2020. The future relationship between the UK and EU is uncertain, with negotiations ongoing and the transition period ending on 31 December 2020. We will continue to work with regulators and our customers to manage the risks associated with the UK's exit from the EU as they arise, particularly across those sectors most impacted, and continue to improve the quality and timeliness of our management information to meet the additional risk challenges in this area, including the impact of Covid-19. Strains in relations between the UK and China are emerging following the passing of the new national security law; and UK Government restrictions on the Chinese telecommunications company Huawei.
Turning of the credit cycle	▲	We regularly undertake detailed reviews of our portfolios and proactively manage credit facilities to customers and sectors likely to come under stress as a result of macroeconomic and geopolitical events. 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 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.
Regulatory developments	▲	We monitor closely for regulatory developments and engage with regulators, as appropriate, to help ensure that new regulatory requirements, such as those in response to Covid-19, are implemented effectively and in a timely way.
Information Security risk and Cyber Crime	▶	We endeavour to protect HSBC UK 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.
Ibor transition	▲	We are focused on developing alternative rate products, and the supporting processes and systems, to make these available to our customers. HSBC UK is 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 are focusing 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 internally for risk management, planning and stress testing. We continue to engage with our stakeholders, in particular with regard to how we compile related data and disclosures.
Internally driven		
People risk	▲	We continue to monitor workforce capacity and capability requirements in line with our strategy and any emerging issues in the UK market. These issues can include changes to immigration and tax rules as well as industry-wide regulatory changes. We have also 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.
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 HSBC UK and significant remote working in place, the impact of Covid-19 on the bank's major change programmes is being closely monitored.
Model risk	▲	We continue to evolve our capability and practice in regard to the risk management of our portfolio of internal models in line with regulatory expectations and industry best practice. The impact of Covid-19 on model performance has required revisions to several models to reflect the current extreme economic shocks and the various government support measures that are now in place.
Conduct and customer detriment	▲	We continue to enhance our management of conduct in a number of areas, including the treatment of potentially vulnerable customers, governance of product arrangements, and encouragement of a 'Speak Up' culture. 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 outbreak is not exploited. We are fully focused on providing appropriate customer outcomes in all circumstances.
Financial crime compliance	▶	The Global Standards programme was completed during the first half of 2020, and any residual aspects were integrated into HSBC UK'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.
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.

● New risk introduced in 2020

▲ Risk has heightened during 2020

▶ Risk remains at the same level as 2019

Managing risk

As a provider of banking and financial services, managing risk is at the core of our day-to-day activities. While our strategy, risk appetite, plans and performance targets are set top-down, 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 HSBC 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 the UK Government and banks. In response, 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.

Key geopolitical risks also heightened during the first half of 2020. An uncertain relationship exists between the UK and the EU as the UK transitions from the EU. Challenges are also emerging in relations between the UK and China. These follow the passing of the Hong Kong national security law, and the UK Government's declaration that it would put new arrangements in place for the path to citizenship for British National (Overseas) passport holders. The rollout of the UK 5G telecommunications network has also complicated relations; on 14 July, new restrictions on the Chinese telecommunications company Huawei were announced under the Telecoms Security Bill. Both issues have the potential to adversely impact bilateral commercial relationships.

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.

In the first half of 2020, 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 a pragmatic approach to the management of non-financial risks to ensure that we could continue to support our customers, and effectively control large-scale operational changes, arising from amended working practices, such as widescale homeworking.

Top and emerging risks

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

During the first half of 2020, we made a number of changes to our assessment of existing top and emerging risks, to reflect their current effect on HSBC UK, and changes in the scope of risk definitions, to ensure appropriate focus. Further details on our top and emerging risks and other banking risks we manage are set out within the Risk Overview on page 10.

Areas of special interest

During 2020, a number of areas have been identified and considered as part of our top and emerging risks because of the effect they may have on HSBC UK. We have placed particular focus on Covid-19 in this section.

Risks related to Covid-19

The uncertainty of Covid-19 and its effect on the global economy has impacted HSBC UK's customers and 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 outbreak of Covid-19 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, in the UK and elsewhere, 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 gradually to recover in the second half of the year, but there is significant uncertainty associated with the pace and scale of resumption, with the UK unemployment rate expected to increase substantially in 2020 when the UK Government employment support measures come to an end. As a result, 2020 is expected to see a pronounced recession in the UK and in many economies around the world. The extent of economic activity, and any reduction in the UK unemployment rate in 2021, is contingent on successful containment of the virus and the resolution of other top risks facing the UK, 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 increasing inequality across markets in which our clients operate. 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.

The UK Government has deployed extensive measures to support households and corporates. Measures implemented include income support to households and funding support to corporates, while measures taken by the Bank of England 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 economic activity increases. The Bank of England is expected to maintain record-low interest rates for a considerable period of time and the debt burden of the UK Government is expected to rise significantly.

HSBC UK has initiated numerous 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 the UK Government and its supporting schemes that focus on the parts of the UK economy most impacted by Covid-19. We have been a provider of the UK Government's Coronavirus Business Interruption Loan Scheme from the beginning. For details of our customer relief programmes see pages 23.

It is recognised that above measures expose HSBC UK to heightened risks. The rapid introduction and varying nature of the UK Government support schemes, as well as customer expectations, can lead to risks as HSBC UK 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 UK Government support schemes are unwound. We are focused upon avoiding and mitigating any conduct risks that may arise from the implementation decisions we have had to make and also those that may be created if our customers find themselves in financial difficulties as a result of Covid-19.

At 30 June 2020, our common equity tier 1 ('CET1') ratio was 13.4 %, compared with 13.0% at 31 December 2019, and our liquidity coverage ratio ('LCR') was 187% compared with 165% at 31 December 2019. 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 UK GDP, a key input used for calculating ECL, and there remains the risk of more adverse economic scenarios given its ongoing impact. Furthermore, ECL is expected to arise from parts of our business impacted by the disruption to supply chains. The impact will vary by sectors of the UK economy, with heightened risk to the retail, transport and discretionary consumer spending 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 current ECL estimates. In addition, in times of crisis, fraudulent activity is often more prevalent, leading to potentially significant ECL charges.

As a result of Covid-19, 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. We have experienced no major impacts to the supply chain from our third-party service providers. The risk of damage or theft to HSBC UK's physical assets or criminal injury to our employees remains unchanged. No significant incidents have impacted our buildings or staff.

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 being in place.

Legal entity restructuring

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

Customer impact

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 customers' operating models, including their working capital requirements, investment decisions and access to financial markets infrastructure. Our priority is to provide continuity of service for our customers.

We are required to migrate some EEA-incorporated customers from the UK to HSBC France, or another EEA entity. This has now mostly been completed for customers we expect can no longer be serviced from the UK. We are working in close collaboration with any remaining customers to make the transition as smooth as possible before the end of December 2020. We have been in close contact with these customers 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 customers from the UK following the transition period.

Employee impacts

We are 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 for the consequences of the UK's departure from the EU. However, there remain execution risks, many of them linked to the uncertain outcome of ongoing negotiations between the two parties.

Model Risk

The Covid-19 outbreak has resulted in very significant movements in economic and market drivers, changes in retail and wholesale behaviours and a significant increase in the UK Government's support programme 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 ongoing monitoring and more frequent testing of models across HSBC UK, particularly credit. It has also resulted in the use of compensating controls in a consistent manner, such as overlays and overrides on top of some model outputs, to help protect HSBC UK from unwanted risks. We expect that 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. However, it is likely that capital, credit risk and IFRS 9 models will need to be recalibrated or in some cases may need to be replaced with the development of new models. The effectiveness of these will depend in large part on the depth and length of the economic downturn currently faced by the UK economy.

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 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 HSBC UK's Libor transition has developed as follows:

Develop Risk Free Rates ('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

Interest rates in most financial markets have been further reduced by central banks since the timelines and path for economic recovery have been adversely impacted and the likelihood of negative rates in more markets has increased. 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, deposit rates are floored at zero, or decisions may be made not to 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 carefully considered. 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 UK.

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 HSBC Group 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

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

A summary of our current policies and practices for the management of credit risk is set out in 'Credit risk management' on page 24 of the *Annual Report and Accounts 2019*.

Credit risk in the first half of 2020

During 1H20, due to the unique market conditions in the Covid-19 crisis, we expanded operational practices to provide short-term support to customers under the current policy framework. For further details of the measures to support our personal and business customers, see page 23. There have been no material changes to credit risk policy.

A temporary pause in the issuance of default notices for WPB accounts started in mid-2019, pending changes to policies and processes associated with the issuance of these notices as a result of a review of the Bank's Retail Collections and Recoveries activities. This has resulted in reduced levels of write-off since mid-2019, and a corresponding increase in Stage 3 balances and ECL. This will be addressed through the re-commencement of the default notice process, which will result in the write-off of balances from Stage 3 and corresponding reductions in ECL – this process was recommenced in Q1 2020 as planned, and customers previously postponed from Default are being contacted to determine the most appropriate solution for them. This process is expected to conclude in the second half of 2020.

Summary of credit risk

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

On 31 December 2019, the IFRS 9 allowance for ECL was £1,744m This allowance has increased by £1,431m to £3,175m at 30 June 2020.

The IFRS 9 allowance for ECL at 30 June 2020 comprises £3,020m in respect of assets held at amortised cost and £155m in respect of loan commitments and financial guarantees. There is £5m allowances for ECL in respect of debt instruments measured at fair value through other comprehensive income ('FVOCI').

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

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

	At 30 Jun 2020		At 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	**188,415**	**(3,015)**	184,734	(1,678)
– personal	**118,235**	**(1,404)**	117,669	(738)
– corporate and commercial	**67,541**	**(1,581)**	64,537	(933)
– non-bank financial institutions	**2,639**	**(30)**	2,528	(7)
Loans and advances to banks at amortised cost	**1,443**	**(1)**	1,390	(1)
Other financial assets measured at amortised cost	**57,563**	**(4)**	41,871	—
– cash and balances at central banks	**52,760**	**—**	37,030	—
– items in the course of collection from other banks	**244**	**—**	504	—
– reverse repurchase agreements – non-trading	**3,257**	**—**	3,014	—
– prepayments, accrued income and other assets[2]	**1,302**	**(4)**	1,323	—
Total gross carrying amount on-balance sheet	**247,421**	**(3,020)**	227,995	(1,679)
Loans and other credit related commitments	**68,046**	**(139)**	63,858	(60)
– personal	**39,523**	**(16)**	37,422	(6)
– corporate and commercial	**28,036**	**(120)**	25,599	(54)
– non-bank financial institutions	**487**	**(3)**	837	—
Financial guarantees	**904**	**(16)**	1,077	(5)
– personal	**15**	**—**	25	—
– corporate and commercial	**628**	**(16)**	685	(5)
– non-bank financial institutions	**261**	**—**	367	—
Total nominal amount off-balance sheet[3]	**68,950**	**(155)**	64,935	(65)
	316,371	**(3,175)**	292,930	(1,744)

	Fair value	Memorandum allowance for ECL[4]	Fair value	Memorandum allowance for ECL[4]
	£m	£m	£m	£m
Debt instruments measured at fair value through other comprehensive income ('FVOCI')	**30,119**	**(5)**	19,737	(1)

1 *Total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.*
2 *Includes only those financial instruments which are subject to the impairment requirements of IFRS 9. 'Prepayments, accrued income and other assets', as presented within the consolidated balance sheet on page 41, includes both financial and non-financial assets.*
3 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
4 *Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in the income statement.*

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

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

	Gross carrying/nominal amount[1]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%	%
Loans and advances to customers at amortised cost	**162,302**	**22,509**	**3,569**	**35**	**188,415**	**(415)**	**(1,537)**	**(1,057)**	**(6)**	**(3,015)**	**0.3**	**6.8**	**29.6**	**17.1**	**1.6**
– personal	**110,160**	**6,761**	**1,314**	**—**	**118,235**	**(186)**	**(842)**	**(376)**	**—**	**(1,404)**	**0.2**	**12.5**	**28.6**	**—**	**1.2**
– corporate and commercial	**50,264**	**15,020**	**2,222**	**35**	**67,541**	**(226)**	**(672)**	**(677)**	**(6)**	**(1,581)**	**0.4**	**4.5**	**30.5**	**17.1**	**2.3**
– non-bank financial institutions	**1,878**	**728**	**33**	**—**	**2,639**	**(3)**	**(23)**	**(4)**	**—**	**(30)**	**0.2**	**3.2**	**12.1**	**—**	**1.1**
Loans and advances to banks at amortised cost	**1,376**	**67**	**—**	**—**	**1,443**	**—**	**(1)**	**—**	**—**	**(1)**	**—**	**1.5**	**—**	**—**	**0.1**
Other financial assets measured at amortised cost	**57,481**	**63**	**19**	**—**	**57,563**	**—**	**(4)**	**—**	**—**	**(4)**	**—**	**6.3**	**—**	**—**	**—**
Loan and other credit-related commitments	**60,242**	**7,364**	**438**	**2**	**68,046**	**(61)**	**(51)**	**(27)**	**—**	**(139)**	**0.1**	**0.7**	**6.2**	**—**	**0.2**
– personal	**38,690**	**735**	**98**	**—**	**39,523**	**(16)**	**—**	**—**	**—**	**(16)**	**—**	**—**	**—**	**—**	**—**
– corporate and commercial	**21,163**	**6,554**	**317**	**2**	**28,036**	**(45)**	**(51)**	**(24)**	**—**	**(120)**	**0.2**	**0.8**	**7.6**	**—**	**0.4**
– financial	**389**	**75**	**23**	**—**	**487**	**—**	**—**	**(3)**	**—**	**(3)**	**—**	**—**	**13.0**	**—**	**0.6**
Financial guarantee and similar contracts	**611**	**281**	**12**	**—**	**904**	**(3)**	**(12)**	**(1)**	**—**	**(16)**	**0.5**	**4.3**	**8.3**	**—**	**1.8**
– personal	**13**	**2**	**—**	**—**	**15**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– corporate and commercial	**365**	**251**	**12**	**—**	**628**	**(3)**	**(12)**	**(1)**	**—**	**(16)**	**0.8**	**4.8**	**8.3**	**—**	**2.5**
– financial	**233**	**28**	**—**	**—**	**261**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 30 Jun 2020	**282,012**	**30,284**	**4,038**	**37**	**316,371**	**(479)**	**(1,605)**	**(1,085)**	**(6)**	**(3,175)**	**0.2**	**5.3**	**26.9**	**16.2**	**1.0**
Loans and advances to customers at amortised cost	168,351	13,177	3,179	27	184,734	(214)	(626)	(838)	—	(1,678)	0.1	4.8	26.4	1.2	0.9
– personal	112,398	4,069	1,202	—	117,669	(76)	(385)	(277)	—	(738)	0.1	9.5	23.0	—	0.6
– corporate and commercial	53,843	8,710	1,957	27	64,537	(135)	(238)	(560)	—	(933)	0.3	2.7	28.6	1.2	1.4
– non-bank financial institutions	2,110	398	20	—	2,528	(3)	(3)	(1)	—	(7)	0.1	0.8	5.0	—	0.3
Loans and advances to banks at amortised cost	1,390	—	—	—	1,390	(1)	—	—	—	(1)	0.1	—	—	—	0.1
Other financial assets measured at amortised cost	41,834	28	9	—	41,871	—	—	—	—	—	—	—	—	—	—
Loan and other credit-related commitments	61,059	2,456	341	2	63,858	(27)	(14)	(19)	—	(60)	—	0.6	5.6	0.9	0.1
– personal	36,974	369	79	—	37,422	(6)	—	—	—	(6)	—	—	—	—	—
– corporate and commercial	23,323	2,013	261	2	25,599	(21)	(14)	(19)	—	(54)	0.1	0.7	7.3	0.9	0.2
– financial	762	74	1	—	837	—	—	—	—	—	—	—	—	—	—
Financial guarantee and similar contracts	898	142	37	—	1,077	(2)	(2)	(1)	—	(5)	0.2	1.4	2.7	—	0.5
– personal	25	—	—	—	25	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	534	114	37	—	685	(2)	(2)	(1)	—	(5)	0.4	1.8	2.7	—	0.7
– financial	339	28	—	—	367	—	—	—	—	—	—	—	—	—	—
At 31 Dec 2019	273,532	15,803	3,566	29	292,930	(244)	(642)	(858)	—	(1,744)	0.1	4.1	24.1	1.2	0.6

1 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*

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 management's most appropriate view of an ECL estimate.

Methodology

Our methodology in relation to the adoption and generation of economic scenarios is described on page 31 and 32 of the *Annual Report and Accounts 2019*. There has been no significant changes during the period. While in keeping with HSBC Group'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 Group, 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 Group's view of the distribution of risks, as disclosed in the *Annual Report and Accounts 2019*, was that it was too early to be able to sufficiently 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 and North America. 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 consensus Central scenario

HSBC Group 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 the virus. 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 to return to their trend rates.

UK GDP is expected to contract by 7.8% in 2020 before recovering to 5.9% in 2021. The average rate of global GDP growth is expected to be 1.9%, 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 downturn of 2008–09 (see chart below).

We note:

- Expectations of GDP growth are deeply negative in 2020, with the strongest year-on-year contraction expected in either the first or second quarter, depending on the timing of the spread of Covid-19 and subsequent restrictions on mobility. GDP is forecast to recover strongly in 2021.
- The unemployment rate is expected to rise sharply, before reverting gradually back 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 converge to the Bank of England targets over the forecast period.
- The UK Government have provided extensive support to households and corporates in our key markets. Fiscal deficits are expected to increase sharply in 2020 before reducing in later years of the projection period. Sovereign indebtedness is expected to increase sharply as a result.
- The Bank of England 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 the economy and the financial system. Interest rate policy is expected to be highly accommodative.

The Central scenario was first created with forecasts available in May, and subsequently updated in June to reflect significant changes to forecasts. The unemployment rate was the only variable to have been amended as a result of this update. The Central scenario has been assigned a 60% weight.

The following tables describes key macroeconomic variables and the probabilities assigned in the consensus Central scenario at 30 June 2020 and 31 December 2019.

Central scenario applied at 30 June 2020

	2020Q3-2025Q2
	%
GDP growth	
Annual average growth rate: 2020	**(7.8)**
Annual average growth rate: 2021	**5.9**
1Q22–2Q25: average growth	**1.9**
3Q20–2Q22: worst quarter	**(8.6) (Q320)**
Unemployment rate	
Annual average: 2020	**6.8**
Annual average: 2021	**6.3**
1Q22–2Q25: average growth	**4.7**
3Q20–2Q22: worst quarter	**8.1 (Q320)**
House price index	
Annual average growth rate: 2020	**(2.2)**
Annual average growth rate: 2021	**0.9**
1Q22–2Q25: average growth	**3.7**
3Q20–2Q22: worst quarter	**(3.4) (Q420)**
10-year bond yield	
Annual average: 2020	**0.5**
Annual average: 2021	**0.8**
1Q22–2Q25: average growth	**1.6**
3Q20–2Q22: worst quarter	**0.4 (Q320)**
Probability	**60**

Central scenario applied at 31 December 2019

	Average 2020–2024
	%
GDP growth rate	1.6
Inflation	2.0
Unemployment	4.4
Short-term interest rate	0.6
10-year Treasury bond yields	1.7
House price growth	3.0
Equity price growth	2.8
Probability	55

The consensus Upside scenarios

Compared to 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 UK 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 virus.

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, continued support from fiscal and monetary policy, positive resolution of economic uncertainty in the UK and stronger oil prices.

The probability weight assigned to the Upside scenario is 10%. This weight reflects management's view of the potential for more positive outcomes relative to the Central scenario in our key markets.

Management Downside scenario

The severity of the consensus Downside scenario has been amended to reflect management's view of the dispersion of risk in the consensus distribution. Management took the view that this scenario provided a better representation of risks that lie in between the Central and the Alternative Downside scenario. In this scenario GDP falls 9.6% in 2020 and unemployment peaks at 8.5% in 2021. The probability weight assigned to the Downside scenario is 20%.

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 Group top risks crystallise simultaneously and results in an extremely severe and long-lived recession.

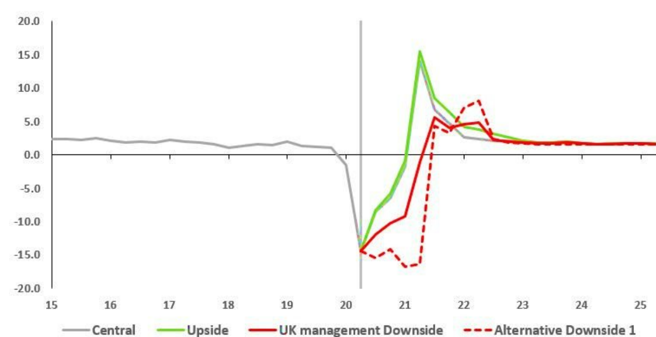
The range of macroeconomic projections are shown in the table below:

Outer scenario ranges (2020Q3–2025Q2)

	%
GDP growth	(8.3) to (16.7) (Q320) (Q121)
Unemployment rate	8.0 to 10.5 (Q320) (Q221)
House Price Index	(2.8) to (24.7) (Q320) (Q221)
10 year bond yield	0.5 to (1.7) (Q320) (Q321)
Consensus Upside scenario: Probability	**10**
Management Downside scenario: Probability	**20**
Alternative Downside 1: Probability	**10**

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 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. N/A – not required in credit models.

UK GDP growth



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 pandemic, including significant judgements relating to:

- the selection and weighting of economic scenarios, given rapidly changing economic conditions, 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 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 on page 33 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 Group's IFRS 9 models, in some cases, generate outputs that appear overly conservative when compared with other economic and credit metrics. Significant management judgement has therefore been applied in adjusting the model output to reflect the amount of ECL which management determines is reasonable in the current uncertain circumstances.

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 ECLs 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. were as follows. The table shows the adjustments applicable to the scenario-weighted ECL numbers, and 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.

Net post-model reductions in ECL (£m)	Retail	Wholesale	Total
Low-risk counterparties and economies (banks, sovereigns and government entities)	**–**	**27**	**27**
Corporate lending adjustments	**–**	**277**	**277**
Retail lending adjustments	**291**	**91**	**382**
Total	**291**	**395**	**686**

For wholesale lending, the total adjustment was a reduction of £395m including £91m from retail SME which uses retail models. The adjustments relating to low credit risk exposures are mainly to highly rated banks and sovereigns where modelled credit factors do not fully reflect the effect of government support and economic programmes in the Covid-19 environment. For certain highly rated sovereign exposures, existing models do not produce plausible outputs under current conditions because there is little or no recessionary experience on which to base modelled outcomes. 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 conservative, which is often 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 a reduction of £291m. The main post-model adjustment where modelled PD outputs for the Downside scenarios were adjusted to address model limitations, so as to be consistent with longer-term relationships between unemployment and defaults.

Economic scenarios sensitivity analysis of ECL estimates

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

The ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible actual 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 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, and 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 sensitivity analysis is stated inclusive of post-model adjustments, as appropriate to each scenario.

In both the wholesale and retail analysis, the comparative period results for alternative Downsides are not directly comparable.

Wholesale analysis

IFRS 9 ECL sensitivity to future economic conditions[1]

	2020	2019
	30 Jun	31 Dec
	£m	£m
ECL of financial instruments subject to significant measurement uncertainty at 30 June 2020[2]		
Reported ECL	**1,114**	430
Consensus scenarios[3]		
Central scenario	**1,020**	320
Upside scenario	**913**	286
Downside scenario	**1,322**	378
Alternative scenarios		
Alternative Downside	**1,668**	580
Tail risk scenarios (UK alternative Downside scenarios 2 and 3)	**N/A**	1,008-1,115

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.*
3 *The Downside scenario is the management's view of the downside scenario, and not the consensus Downside scenario.*

At 30 June 2020, the alternative Downside 1 scenario reflects the most significant level of ECL sensitivity due to combination of potential for deterioration of the credit quality on those markets and level of exposure.

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

The high sensitivity when compared to 4Q19, was 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 represents a prolonged recovery period and sharper impact, comparatively to other scenarios.

Retail analysis

IFRS 9 ECL sensitivity to future economic conditions[1]

	2020 30 Jun £m	2019 31 Dec £m
ECL of financial instruments subject to significant measurement uncertainty at 30 June 2020[2]		
Reported ECL	**1,377**	708
Consensus scenarios[3]		
Central scenario	**1,286**	584
Upside scenario	**1,102**	519
Downside scenario	**1,545**	694
Alternative scenarios		
Alternative Downside	**1,820**	910
Tail risk scenarios (UK alternative Downside scenarios 2 and 3)	**N/A**	1,138-1,297

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 has been a significant increase in reported expected credit losses in all markets due to the Covid-19 outbreak.*
3 *The Downside scenario is the management's view of the downside scenario, and not the consensus Downside scenario.*

At 30 June 2020, the alternative Downside 1 scenario reflected the significant level of ECL sensitivity due to the levels of exposure and credit quality of those markets.

Primarily due to the worsening of the economic forecasts, ECL sensitivities demonstrated an increase from the 2019 year-end. There was an increase in ECL sensitivity observed in all scenarios compared with 4Q19. This was primarily due to the worsening of the unemployment rates in the June 2020 economic forecasts. The alternative Downside 1 scenario ECL sensitivity is reflective of a significantly more pessimistic view of the economy and external environment.

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

The following disclosure provides a reconciliation by stage of the group's gross carrying/nominal amount and allowances for loans commitments and financial guarantees.

The transfers of financial instruments represents the impact of stage transfers upon the gross carrying/nominal amount and associated allowance for ECL. The net remeasurement of ECL arising from stage transfers represents the increase or decrease due to these transfers, for example, moving from a 12-month (Stage 1) to a lifetime (Stage 2) ECL measurement basis. Net remeasurement excludes the underlying CRR/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.

The 'new financial assets originated or purchased', 'net further lending' and 'assets derecognised (including final repayments)'represent the gross carrying/nominal amount and associated allowance ECL 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	**230,869**	**(246)**	**15,748**	**(641)**	**3,557**	**(857)**	**29**	**–**	**250,203**	**(1,744)**
Transfers of financial instruments:	**(13,736)**	**(42)**	**12,816**	**121**	**920**	**(79)**	**–**	**–**	**–**	**–**
– transfers from Stage 1 to Stage 2	**(17,584)**	**86**	**17,584**	**(86)**	**–**	**–**	**–**	**–**	**–**	**–**
– transfers from Stage 2 to Stage 1	**3,916**	**(126)**	**(3,916)**	**126**	**–**	**–**	**–**	**–**	**–**	**–**
– transfers to Stage 3	**(136)**	**1**	**(1,064)**	**97**	**1,200**	**(98)**	**–**	**–**	**–**	**–**
– transfers from Stage 3	**68**	**(3)**	**212**	**(16)**	**(280)**	**19**	**–**	**–**	**–**	**–**
Net remeasurement of ECL arising from transfer of stage	**–**	**68**	**–**	**(131)**	**–**	**(1)**	**–**	**–**	**–**	**(64)**
New financial assets originated or purchased	**18,474**	**(47)**	**–**	**–**	**–**	**–**	**–**	**–**	**18,474**	**(47)**
Asset derecognised (including final repayments)	**(8,971)**	**12**	**(1,002)**	**49**	**(211)**	**14**	**–**	**–**	**(10,184)**	**75**
Changes to risk parameters – further lending/ repayment	**(2,929)**	**19**	**2,574**	**(36)**	**(45)**	**47**	**3**	**–**	**(397)**	**30**
Changes to risk parameters – credit quality	**–**	**(265)**	**–**	**(885)**	**–**	**(414)**	**–**	**(5)**	**–**	**(1,569)**
Changes to model used for ECL calculation	**–**	**21**	**–**	**(76)**	**–**	**(2)**	**–**	**–**	**–**	**(57)**
Assets written off	**–**	**–**	**–**	**–**	**(208)**	**208**	**–**	**–**	**(208)**	**208**
Credit related modifications that resulted in derecognition	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Others	**–**	**–**	**(6)**	**1**	**–**	**(1)**	**6**	**(1)**	**–**	**(1)**
At 30 Jun 2020	**223,707**	**(480)**	**30,130**	**(1,598)**	**4,013**	**(1,085)**	**38**	**(6)**	**257,888**	**(3,169)**
ECL release/(charge) for the period		**(192)**		**(1,079)**	**–**	**(356)**		**(5)**		**(1,632)**
Recoveries										**28**
Others										**7**
Total change in ECL for the period										**(1,597)**

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)

	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	222,184	(283)	17,187	(611)	3,000	(640)	—	—	242,371	(1,534)
Transfers of financial instruments:	(2,733)	(227)	1,290	369	1,443	(142)	—	—	—	—
– transfers from Stage 1 to Stage 2	(14,484)	53	14,484	(53)	—	—	—	—	—	—
– transfers from Stage 2 to Stage 1	11,873	(262)	(11,873)	262	—	—	—	—	—	—
– transfers to Stage 3	(313)	2	(1,618)	188	1,931	(190)	—	—	—	—
– transfers from Stage 3	191	(20)	297	(28)	(488)	48	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	193	—	(138)	—	(2)	—	—	—	53
New financial assets originated or purchased	41,977	(71)	—	—	—	—	29	—	42,006	(71)
Asset derecognised (including final repayments)	(22,938)	21	(1,840)	78	(617)	175	—	—	(25,395)	274
Changes to risk parameters – further lending/ repayment	(7,621)	55	(889)	38	248	5	—	—	(8,262)	98
Changes to risk parameters – credit quality	—	66	—	(377)	—	(739)		—	—	(1,050)
Changes to model used for ECL calculation	—	—	—	—	—	—	—	—	—	—
Assets written off	—	—	—	—	(472)	472	—	—	(472)	472
Credit related modifications that resulted in derecognition	—	—	—	—	(45)	11	—	—	(45)	11
Others	—	—	—	—	—	3	—	—	—	3
At 31 Dec 2019	230,869	(246)	15,748	(641)	3,557	(857)	29	—	250,203	(1,744)
ECL release/(charge) for the period		264		(399)		(561)		—		(696)
Recoveries										78
Others										5
Total change in ECL for the period										(613)

1 The Reconciliation excludes loans and advances to other HSBC Group companies. As at 30 June 2020, these amounted to £0.7bn (2019: £0.8bn) and were classified as Stage 1 with no ECL.

Credit quality of financial instruments

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

The five credit quality classifications each encompass a range of granular internal credit rating grades assigned to wholesale and personal lending businesses and the external ratings attributed by external agencies to debt securities, as shown in the following table. Personal lending credit quality is disclosed based on a 12-month point-in-time PD adjusted for multiple economic scenarios. The credit quality classifications for wholesale lending are unchanged and are based on internal credit risk ratings.

Credit quality classification

		Sovereign debt securities and bills	**Other debt securities and bills**	**Wholesale lending and derivatives**		**Retail lending**	
	Footnotes	**External credit rating**	**External credit rating**	**Internal credit rating**	**12-month Basel probability of default %**	**Internal credit rating**	**12 month probability-weighted PD %**
Quality classification	*1, 2*						
Strong		**BBB and above**	**A- and above**	**CRR 1 to CRR 2**	**0 – 0.169**	**Band 1 and 2**	**0.000 – 0.500**
Good		**BBB- to BB**	**BBB+ to BBB-**	**CRR 3**	**0.170 – 0.740**	**Band 3**	**0.501 – 1.500**
Satisfactory		**BB- to B and unrated**	**BB+ to B and unrated**	**CRR 4 to CRR 5**	**0.741 – 4.914**	**Band 4 and 5**	**1.501 – 20.000**
Sub-standard		**B- to C**	**B- to C**	**CRR 6 to CRR 8**	**4.915 – 99.999**	**Band 6**	**20.001 – 99.999**
Credit impaired		**Default**	**Default**	**CRR 9 to CRR 10**	**100**	**Band 7**	**100**

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

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

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	£m	£m	£m	£m	£m	£m	£m	£m
Loans and advances to customers at amortised cost	111,072	28,711	39,330	5,698	3,604	188,415	(3,015)	185,400
– Stage 1	109,622	23,136	27,737	1,807	–	162,302	(415)	161,887
– Stage 2	1,450	5,575	11,593	3,891	–	22,509	(1,537)	20,972
– Stage 3	–	–	–	–	3,569	3,569	(1,057)	2,512
– POCI	–	–	–	–	35	35	(6)	29
Loans and advances to banks at amortised cost	1,443	–	–	–	–	1,443	(1)	1,442
– Stage 1	1,376	–	–	–	–	1,376	–	1,376
– Stage 2	67	–	–	–	–	67	(1)	66
– Stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	57,320	68	155	1	19	57,563	(4)	57,559
– Stage 1	57,315	60	106	–	–	57,481	–	57,481
– Stage 2	5	8	49	1	–	63	(4)	59
– Stage 3	–	–	–	–	19	19	–	19
– POCI	–	–	–	–	–	–	–	–
Loan and other credit-related commitments	34,662	16,829	15,158	957	440	68,046	(139)	67,907
– Stage 1	33,993	14,352	11,695	202	–	60,242	(61)	60,181
– Stage 2	669	2,477	3,463	755	–	7,364	(51)	7,313
– Stage 3	–	–	–	–	438	438	(27)	411
– POCI	–	–	–	–	2	2	–	2
Financial guarantees	293	218	296	85	12	904	(16)	888
– Stage 1	284	186	135	6	–	611	(3)	608
– Stage 2	9	32	161	79	–	281	(12)	269
– Stage 3	–	–	–	–	12	12	(1)	11
– POCI	–	–	–	–	–	–	–	–
At 30 Jun 2020	204,790	45,826	54,939	6,741	4,075	316,371	(3,175)	313,196
Debt instruments at FVOCI[1]	29,496	–	–	–	–	29,496	(5)	29,491
– Stage 1	29,496	–	–	–	–	29,496	(5)	29,491
– Stage 2	–	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
At 30 Jun 2020	234,286	45,826	54,939	6,741	4,075	345,867	(3,180)	342,687
Loans and advances to customers at amortised cost	111,802	29,968	35,158	4,600	3,206	184,734	(1,678)	183,056
– Stage 1	111,521	28,906	27,314	610	–	168,351	(214)	168,317
– Stage 2	281	1,062	7,844	3,990	–	13,177	(626)	12,551
– Stage 3	–	–	–	–	3,179	3,179	(838)	2,341
– POCI	–	–	–	–	27	27	–	27
Loans and advances to banks at amortised cost	1,385	–	5	–	–	1,390	(1)	1,389
– Stage 1	1,385	–	5	–	–	1,390	(1)	1,389
– Stage 2	–	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	41,611	110	141	–	9	41,871	–	41,871
– Stage 1	41,610	109	115	–	–	41,834	–	41,834
– Stage 2	1	1	26	–	–	28	–	28
– Stage 3	–	–	–	–	9	9	–	9
– POCI	–	–	–	–	–	–	–	–
Loan and other credit-related commitments	36,988	15,950	10,009	568	343	63,858	(60)	63,798
– Stage 1	36,859	15,785	8,304	111	–	61,059	(27)	61,032
– Stage 2	129	165	1,705	457	–	2,456	(14)	2,442
– Stage 3	–	–	–	–	341	341	(19)	322
– POCI	–	–	–	–	2	2	–	2
Financial guarantees	381	295	315	49	37	1,077	(5)	1,072
– Stage 1	381	288	206	23	–	898	(2)	896
– Stage 2	–	7	109	26	–	142	(2)	140
– Stage 3	–	–	–	–	37	37	(1)	36
– POCI	–	–	–	–	–	–	–	–
At 31 Dec 2019	192,167	46,323	45,628	5,217	3,595	292,930	(1,744)	291,186
Debt instruments at FVOCI[1]								
– Stage 1	19,580	–	–	–	–	19,580	(1)	19,579
– Stage 2	–	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
At 31 Dec 2019	19,580	–	–	–	–	19,580	(1)	19,579

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

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 (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 UK specific measures at 30 June 2020.

Personal lending

		At 30 Jun 2020
Personal lending market-wide schemes		
Number of accounts granted mortgage customer relief	000s	**64**
Drawn loan value of customers granted mortgage customer relief	£m	**10,812**
Number of accounts granted other personal lending customer relief	000s	**152**
Drawn loan value of customers granted other personal lending customer relief	£m	**1,287**
Market-wide schemes and bank-specific measure mortgage relief as a proportion of total mortgage loans and advances	%	**10.4**
Market-wide schemes and bank-specific measures other personal lending relief as a proportion of total other personal lending loans and advances	%	**9.1**

Wholesale lending

		At 30 Jun 2020
Wholesale lending market-wide schemes		
Number of customers under market-wide measures	000s	**130**
Drawn loan value of customers under market-wide schemes	£m	**5,430**
Wholesale lending bank-specific measures		
Number of customers under bank-specific measures	000s	**5**
Drawn loan value of customers under bank-specific measures	£m	**3,213**
Total wholesale lending to major markets under market-wide schemes and bank-specific measures		
Number of customers	000s	**135**
Drawn loan value	£m	**8,643**
Market-wide schemes and bank-specific measures as a proportion of total wholesale lending loans and advances	**%**	**12.3**

The initial granting of customer relief does not automatically trigger a migration to Stage 2 or 3. However information provided by payment deferrals are considered in the context of other reasonable and supportable information, as part of the overall assessment for significant increase in credit risk ('SICR') and for 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 is whether the economic effects of Covid-19 on the customer are likely to be temporary, so that they do not result in an SICR over the lifetime of the loan, and do not indicate that a concession is being made in respect of financial difficulty that would be consistent with Stage 3. The following narrative provides further details on the schemes offered:

Market-wide schemes

Personal Lending

Mortgages

Customer relief granted on mortgages primarily consists of payment holidays or partial payment deferrals. Relief is offered for an initial period of three months and can be further extended for up to a further three months in certain circumstances. No payment is required from the customer during this period (though with a partial payment deferral the customer has expressed a desire to make a contribution) and interest continues to be charged as usual. The customers' arrears status is not worsened from utilisation of these schemes.

Other personal lending payment holidays

Customer relief is granted for an initial period of three months and can be extended for a further three months. The maximum relief value is up to the due payment amount during the period.

Wholesale Lending

The primary relief granted under government schemes consists of the Bounce Back Loan Scheme, Coronavirus Business Interruption Loan Scheme and Coronavirus Large Business Interruption Loan Scheme. The key features of these schemes are as follows:

- The Bounce Back Loan Scheme provides SME with loans of up to £50,000 for a maximum period of six years. Interest is charged at 2.5% and the government pay the fees and interest for the first 12 months. No capital repayment is required by the customer for the first 12 months of the scheme. A government guarantee of 100% is provided under the scheme.
- The Coronavirus Business Interruption Loan Scheme provides SME that have a turnover of less than £45m with loans of up to £5m for a maximum period of six years. Interest is charged between 3.49% and 3.99% above the UK base rate and no capital repayment is required by the customer for the first 12 months of the scheme. A government guarantee of up to 80% is provided under the scheme.
- The Coronavirus Large Business Interruption Loan Scheme provides medium- and large-sized enterprises that have a turnover in excess of £45m with loans of up to £200m. The interest rate and tenor of the loan are negotiated on commercial terms. A government guarantee of 80% is provided under the scheme.

HSBC UK specific measures

Personal lending

Overdrafts

£500 interest free overdraft offered to customers for a duration of three months.

Wholesale lending

In addition to the above market-wide schemes, HSBC UK is offering capital repayment holidays to CMB customers. Relief is offered on a preferred term of six months. However, some are granted for three months with the option of an extension. Interest continues to be paid as usual.

Wholesale lending

This section provides further detail on the products in wholesale loans and advances to customers and banks. Product granularity is also provided by stage.

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

	Gross carrying amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Corporate and commercial	**50,264**	**15,020**	**2,222**	**35**	**67,541**	**(226)**	**(672)**	**(677)**	**(6)**	**(1,581)**
– agriculture, forestry and fishing	**3,535**	**304**	**107**	**—**	**3,946**	**(6)**	**(21)**	**(9)**	**—**	**(36)**
– mining and quarrying	**438**	**221**	**421**	**—**	**1,080**	**(1)**	**(2)**	**(69)**	**—**	**(72)**
– manufacture	**6,556**	**1,089**	**138**	**—**	**7,783**	**(26)**	**(50)**	**(138)**	**—**	**(214)**
– electricity, gas, steam and air-conditioning supply	**383**	**109**	**41**	**—**	**533**	**(3)**	**(4)**	**(8)**	**—**	**(15)**
– water supply, sewerage, waste management and remediation	**618**	**185**	**16**	**—**	**819**	**(3)**	**(7)**	**(10)**	**—**	**(20)**
– construction	**2,459**	**1,262**	**154**	**—**	**3,875**	**(9)**	**(62)**	**(66)**	**—**	**(137)**
– wholesale and retail trade, repair of motor vehicles and motorcycles	**7,292**	**2,957**	**383**	**—**	**10,632**	**(38)**	**(85)**	**(115)**	**—**	**(238)**
– transportation and storage	**1,200**	**481**	**82**	**—**	**1,763**	**(7)**	**(26)**	**(36)**	**—**	**(69)**
– accommodation and food	**5,741**	**2,684**	**82**	**—**	**8,507**	**(32)**	**(113)**	**(16)**	**—**	**(161)**
– publishing, audiovisual and broadcasting	**1,836**	**737**	**15**	**23**	**2,611**	**(16)**	**(45)**	**(5)**	**(4)**	**(70)**
– real estate	**10,386**	**1,439**	**502**	**—**	**12,327**	**(23)**	**(69)**	**(108)**	**—**	**(200)**
– professional, scientific and technical activities	**3,425**	**819**	**55**	**—**	**4,299**	**(23)**	**(38)**	**(31)**	**—**	**(92)**
– administrative and support services	**2,786**	**1,764**	**113**	**12**	**4,675**	**(19)**	**(80)**	**(42)**	**(2)**	**(143)**
– public administration and defence, compulsory social security	**4**	**—**	**—**	**—**	**4**	**—**	**—**	**—**	**—**	**—**
– education	**728**	**246**	**8**	**—**	**982**	**(5)**	**(15)**	**(4)**	**—**	**(24)**
– health and care	**1,331**	**414**	**69**	**—**	**1,814**	**(7)**	**(21)**	**(13)**	**—**	**(41)**
– arts, entertainment and recreation	**555**	**275**	**30**	**—**	**860**	**(3)**	**(23)**	**(5)**	**—**	**(31)**
– other services	**488**	**34**	**6**	**—**	**528**	**(5)**	**(11)**	**(2)**	**—**	**(18)**
– activities of households	**1**	**—**	**—**	**—**	**1**	**—**	**—**	**—**	**—**	**—**
– assets backed securities	**502**	**—**	**—**	**—**	**502**	**—**	**—**	**—**	**—**	**—**
Non-bank financial institutions	**1,878**	**728**	**33**	**—**	**2,639**	**(3)**	**(23)**	**(4)**	**—**	**(30)**
Loans and advances to banks	**1,376**	**67**	**—**	**—**	**1,443**	**—**	**(1)**	**—**	**—**	**(1)**
At 30 Jun 2020	**53,518**	**15,815**	**2,255**	**35**	**71,623**	**(229)**	**(696)**	**(681)**	**(6)**	**(1,612)**

Total wholesale credit-related commitments and financial guarantee by stage distribution

	Nominal amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Corporate and commercial	**21,528**	**6,805**	**329**	**2**	**28,664**	**(48)**	**(63)**	**(25)**	**—**	**(136)**
Financial	**622**	**103**	**23**	**—**	**748**	**—**	**—**	**(3)**	**—**	**(3)**
At 30 Jun 2020	**22,150**	**6,908**	**352**	**2**	**29,412**	**(48)**	**(63)**	**(28)**	**—**	**(139)**

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

	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Corporate and commercial	53,843	8,710	1,957	27	64,537	(135)	(238)	(560)	—	(933)
– agriculture, forestry and fishing	3,234	371	89	—	3,694	(7)	(15)	(8)	—	(30)
– mining and quarrying	314	761	2	—	1,077	(1)	(6)	—	—	(7)
– manufacture	6,552	1,261	178	—	7,991	(21)	(36)	(78)	—	(135)
– electricity, gas, steam and air-conditioning supply	451	60	81	—	592	(1)	(2)	(11)	—	(14)
– water supply, sewerage, waste management and remediation	879	21	20	—	920	(2)	(1)	(12)	—	(15)
– construction	2,110	1,514	250	—	3,874	(5)	(21)	(114)	—	(140)
– wholesale and retail trade, repair of motor vehicles and motorcycles	8,156	1,923	272	—	10,351	(14)	(49)	(80)	—	(143)
– transportation and storage	1,469	144	89	—	1,702	(5)	(5)	(39)	—	(49)
– accommodation and food	7,202	432	98	—	7,732	(17)	(17)	(15)	—	(49)
– publishing, audiovisual and broadcasting	1,700	333	33	15	2,081	(9)	(8)	(5)	—	(22)
– real estate	10,703	800	578	—	12,081	(12)	(23)	(109)	—	(144)
– professional, scientific and technical activities	3,238	211	63	—	3,512	(13)	(12)	(34)	—	(59)
– administrative and support services	3,852	569	95	12	4,528	(14)	(23)	(30)	—	(67)
– public administration and defence, compulsory social security	6	7	—	—	13	—	—	—	—	—
– education	784	48	9	—	841	(4)	(3)	(4)	—	(11)
– health and care	1,348	137	75	—	1,560	(5)	(8)	(15)	—	(28)
– arts, entertainment and recreation	908	59	18	—	985	(3)	(5)	(4)	—	(12)
– other services	406	59	7	—	472	(2)	(4)	(2)	—	(8)
– activities of households	—	—	—	—	—	—	—	—	—	—
– assets backed securities	531	—	—	—	531	—	—	—	—	—
Non-bank financial institutions	2,110	398	20	—	2,528	(3)	(3)	(1)	—	(7)
Loans and advances to banks	1,390	—	—	—	1,390	(1)	—	—	—	(1)
At 31 Dec 2019	57,343	9,108	1,977	27	68,455	(139)	(241)	(561)	—	(941)

Total wholesale credit-related commitments and financial guarantee by stage distribution (continued)

	Nominal amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Corporate and commercial	23,857	2,127	298	2	26,284	(23)	(16)	(20)	—	(59)
Financial	1,101	102	1	—	1,204	—	—	—	—	—
At 31 Dec 2019	24,958	2,229	299	2	27,488	(23)	(16)	(20)	—	(59)

Personal lending

We provide a broad range of secured and unsecured personal lending products to meet customer needs. Personal lending includes advances to customers for asset purchases such as residential property where the loans are secured by the assets being acquired. We also offer unsecured lending products such as overdrafts, credit cards and personal loans. The following table shows the levels of personal lending products in the various portfolios.

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

	Gross carrying amount				**Allowance for ECL**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
By portfolio								
First lien residential mortgages	**100,487**	**2,860**	**816**	**104,163**	**(22)**	**(150)**	**(83)**	**(255)**
– of which: interest only (including offset)	***18,829***	***916***	***125***	***19,870***	***(5)***	***(11)***	***(15)***	***(31)***
Other personal lending	**9,673**	**3,901**	**498**	**14,072**	**(164)**	**(692)**	**(293)**	**(1,149)**
– other	**5,947**	**2,207**	**244**	**8,398**	**(115)**	**(363)**	**(153)**	**(631)**
– credit cards	**3,726**	**1,694**	**254**	**5,674**	**(49)**	**(329)**	**(140)**	**(518)**
At 30 Jun 2020	**110,160**	**6,761**	**1,314**	**118,235**	**(186)**	**(842)**	**(376)**	**(1,404)**
By portfolio								
First lien residential mortgages	99,197	1,387	880	101,464	(12)	(14)	(92)	(118)
– of which: interest only (including offset)	*19,480*	*980*	*143*	*20,603*	*(4)*	*(9)*	*(17)*	*(30)*
Other personal lending	13,201	2,682	322	16,205	(64)	(371)	(185)	(620)
– other	7,383	1,287	163	8,833	(36)	(159)	(99)	(294)
– credit cards	5,818	1,395	159	7,372	(28)	(212)	(86)	(326)
At 31 Dec 2019	112,398	4,069	1,202	117,669	(76)	(385)	(277)	(738)

Total personal credit-related commitments and financial guarantees by stage distribution

	Nominal amount				**Allowance for ECL**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 30 Jun 2020	**38,703**	**737**	**98**	**39,538**	**(16)**	**—**	**—**	**(16)**
At 31 Dec 2019	36,999	369	79	37,447	(6)	—	—	(6)

Capital and liquidity risk

Overview

Capital and liquidity risk is the risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements, including pension risk.

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

Capital management

Approach and policy

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

We manage group capital to ensure that we exceed current and expected future requirements. In the first half of 2020, we complied with the PRA regulatory capital adequacy requirements, including those relating to stress testing.

A summary of our policies and practices regarding capital management, measurement and allocation is provided on page 52 of the *Annual Report and Accounts 2019*.

Main features of capital

A summary of the main features of our capital instruments is provided on page 9 of the *2019 Pillar 3 disclosures*. A list of the features of our capital instruments in accordance with Annex III of the Commission Implementing Regulation 1423/2013 is also being published on the HSBC Group website, www.hsbc.com, with reference to our balance sheet at 30 June 2020.

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 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 UK has already indicated that it 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 revisions to the standardised approach for measuring counterparty risk 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.

Capital overview

Key capital numbers

		At	
	Footnotes	**30 Jun 2020**	31 Dec 2019
Available capital (£m)	1		
Common equity tier 1 ('CET1') capital	^	**11,809**	11,202
CET1 capital as if IFRS 9 transitional arrangements had not been applied		**10,915**	11,186
Tier 1 capital	^	**14,052**	13,453
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied		**13,158**	13,437
Total regulatory capital	^	**17,121**	16,462
Total capital as if IFRS 9 transitional arrangements had not been applied		**16,675**	16,446
Risk-weighted assets (£m) – by risk type			
Credit risk		**77,801**	75,353
Counterparty credit risk		**109**	198
Market risk		**71**	27
Operational risk		**10,303**	10,303
Total risk-weighted assets	^	**88,284**	85,881
Total RWAs as if IFRS 9 transitional arrangements had not been applied		**88,256**	85,866
Risk-weighted assets (£m) – by line of business			
Wealth & Personal Banking		**24,620**	24,277
Commercial Banking		**62,257**	60,149
Global Banking & Markets		**336**	364
Corporate Centre		**1,071**	1,091
Total risk-weighted assets	^	**88,284**	85,881
Capital ratios (%)			
CET1	^	**13.4**	13.0
CET1 as if IFRS 9 transitional arrangements had not been applied		**12.4**	13.0
Total tier 1	^	**15.9**	15.7
Tier 1 as if IFRS 9 transitional arrangements had not been applied		**14.9**	15.6
Total capital	^	**19.4**	19.2
Total capital as if IFRS 9 transitional arrangements had not been applied		**18.9**	19.1
Total Capital Requirement (%)			
Total Capital Requirement (Pillar 1 + Pillar 2A)	2	**12.8**	12.2
CET1 available after meeting the bank's minimum capital requirements		**6.2**	6.2
Leverage ratio			
Tier 1 capital (£m)		**14,052**	13,453
Total leverage ratio exposure measure (£m)	3^	**297,321**	268,271
Leverage ratio (%)	3^	**4.7**	5.0
Leverage ratio as if IFRS 9 transitional arrangements had not been applied (%)		**4.4**	5.0

1 *Capital figures and ratios are calculated in accordance with CRR II.*
2 *Total capital requirement is defined as the sum of Pillar 1 and Pillar 2A capital requirements set by the PRA. Our Pillar 2A requirement at 30 June 2020, as per the PRA's Individual Capital Guidance based on a point in time assessment, was 4.84% of RWAs, of which 2.71% was met by CET1.*
3 *Leverage ratio is calculated on a CRR II end point basis for capital.*

HSBC UK has adopted the EU regulatory transitional arrangements for IFRS 9 'Financial Instruments'. Figures indicated with ^ included within certain tables in this section have been prepared on an IFRS 9 transitional basis.

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

Participating interests in banking associates/joint ventures are proportionally consolidated for regulatory purposes by including our share of assets, liabilities, profit and loss, and RWAs in accordance with the PRA's application of EU legislation. As a result of this, total assets in the regulatory balance sheet are £96m higher than in the accounting balance sheet.

Capital

Own funds disclosure

Ref*		Footnotes	At 30 Jun 2020 £m	At 31 Dec 2019 £m
	Common equity tier 1 ('CET1') capital: instruments and reserves			
1	Capital instruments and the related share premium accounts		**9,015**	9,015
	– ordinary shares		**9,015**	9,015
2	Retained earnings		**11,812**	10,978
3	Accumulated other comprehensive income (and other reserves)		**1,006**	(211)
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend		**(420)**	161
6	**Common equity tier 1 capital before regulatory adjustments**		**21,413**	19,943
	Common equity tier 1 capital: regulatory adjustments			
7	Additional value adjustments		**(3)**	(5)
8	Intangible assets (net of related deferred tax liability)		**(4,031)**	(3,972)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		**(171)**	—
11	Fair value reserves related to gains or losses on cash flow hedges		**1**	14
12	Negative amounts resulting from the calculation of expected loss amounts		**—**	(401)
15	Defined-benefit pension fund assets		**(5,400)**	(4,377)
28	**Total regulatory adjustments to common equity tier 1**		**(9,604)**	(8,741)
29	**Common equity tier 1 capital**		**11,809**	11,202
	Additional tier 1 ('AT1') capital: instruments			
30	Capital instruments and the related share premium accounts		**2,196**	2,196
31	– classified as equity under IFRSs		**2,196**	2,196
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		**47**	55
36	**Additional tier 1 capital before regulatory adjustments**		**2,243**	2,251
	Additional tier 1 capital: regulatory adjustments			
43	**Total regulatory adjustments to additional tier 1 capital**		**—**	—
44	**Additional tier 1 capital**		**2,243**	2,251
45	**Tier 1 capital (T1 = CET1 + AT1)**		**14,052**	13,453
	Tier 2 capital: instruments and provisions			
46	Capital instruments and the related share premium accounts		**2,981**	2,935
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		**64**	74
51	**Tier 2 capital before regulatory adjustments**		**3,045**	3,009
	Tier 2 capital: regulatory adjustments			
57	**Total regulatory adjustments to tier 2 capital**		**24**	—
58	**Tier 2 capital**		**3,069**	3,009
59	**Total capital (TC = T1 + T2)**		**17,121**	16,462
60	**Total risk-weighted assets**		**88,284**	85,881
	Capital ratios and buffers			
61	Common equity tier 1		**13.4%**	13.0%
62	Tier 1		**15.9%**	15.7%
63	Total capital		**19.4%**	19.2%
64	Institution specific buffer requirement		**3.5%**	4.5%
65	– capital conservation buffer requirement		**2.5%**	2.5%
66	– countercyclical buffer requirement		**—**	1.0%
67	– systemic risk buffer		**1.0%**	1.0%
68	Common equity tier 1 available to meet buffers		**8.9%**	8.5%
	Amounts below the threshold for deduction (before risk weighting)			
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)		**228**	231
	Applicable caps on the inclusion of provisions in tier 2			
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		**31**	25
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		**441**	430

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

Leverage ratio

The leverage ratio was introduced into the Basel III framework as a non-risk-based limit, to supplement risk-based capital requirements. It aims to constrain the build-up of excess leverage in the banking sector, introducing additional safeguards against model risk and measurement errors. This ratio has been implemented in the EU for reporting and disclosure purposes but, at this stage, has not been set as a binding requirement. The risk of excess leverage in the group is managed as part of the global risk appetite framework and monitored using a leverage ratio metric within the Risk Appetite Statement ('RAS'). The RAS articulates the aggregate level and types of risk that HSBC UK is willing to accept in its business activities in order to achieve its strategic business objectives. The RAS is monitored via the risk appetite profile report, which includes comparisons of actual performance against the risk appetite and tolerance thresholds assigned to each metric, to ensure that any excessive risk is highlighted, assessed and mitigated appropriately. The risk appetite profile report is presented monthly to the Risk Management Meeting ('RMM').

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

Our UK leverage ratio at 30 June 2020 and 31 March 2020 was 5.8% and 5.5%, respectively. This measure excludes qualifying central bank balances and bounce back loans from the calculation of exposure.

At 30 June 2020, our UK minimum leverage ratio requirement of 3.25% was supplemented by an additional leverage ratio buffer of 0.35%. This additional buffer translated into capital values of £845m. The countercyclical buffer reduced to 0%.

We exceeded these leverage requirements.

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

		At	
		30 Jun 2020	31 Dec 2019
Ref*		**£m**	£m
1	Total assets as per published financial statements	**287,187**	257,102
	Adjustments for:		
2	– consolidation of banking associates/joint ventures	**96**	78
4	– derivative financial instruments	**60**	81
5	– securities financing transactions ('SFT')	**427**	383
6	– off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**17,267**	18,003
7	– other	**(7,716)**	(7,376)
8	**Total leverage ratio exposure**	**297,321**	268,271

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

Leverage ratio common disclosure (LRCom)

		At	
		30 Jun 2020	31 Dec 2019
Ref*		**£m**	£m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**285,756**	255,420
2	(Asset amounts deducted in determining Tier 1 capital)	**(9,602)**	(8,751)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**276,154**	246,669
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**28**	38
5	Add-on amounts for potential future exposure ('PFE') associated with all derivatives transactions (mark-to-market method)	**188**	164
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to IFRSs	**191**	168
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(191)**	(168)
11	**Total derivative exposures**	**216**	202
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**4,233**	3,697
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**(976)**	(683)
14	Counterparty credit risk exposure for SFT assets	**427**	383
16	**Total securities financing transaction exposures**	**3,684**	3,397
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	**72,713**	71,815
18	(Adjustments for conversion to credit equivalent amounts)	**(55,446)**	(53,812)
19	**Total off-balance sheet exposures**	**17,267**	18,003
	Capital and total exposures		
20	**Tier 1 capital**	**14,052**	13,454
21	**Total leverage ratio exposure**	**297,321**	268,271
22	**Leverage ratio (%)**	**4.7**	5.0
EU-23	Choice of transitional arrangements for the definition of the capital measure	**Fully phased-in**	Fully phased-in

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

UK Leverage Ratio

	At		
	30 Jun 2020	31 Mar 2020	31 Dec 2019
	£m	£m	£m
UK leverage ratio exposure – quarterly average	**243,633**	232,048	230,376
	%	%	%
UK leverage ratio – quarterly average	**5.7**	6.0	5.8
UK leverage ratio – quarter end	**5.8**	5.5	5.8

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

		At	
		30 Jun 2020 £m	31 Dec 2019 £m
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	**285,565**	255,252
EU-3	– banking book exposures	**285,565**	255,252
	'banking book exposures' comprises:		
EU-5	exposures treated as sovereigns	**86,874**	56,171
EU-7	institutions	**2,205**	1,660
EU-8	secured by mortgage of immovable property	**103,596**	102,265
EU-9	retail exposures	**15,112**	16,688
EU-10	corporates	**58,374**	60,908
EU-11	exposures in default	**2,416**	2,188
EU-12	other exposures (e.g. equity, securitisations and other non-credit obligation assets)	**16,988**	15,372

Management of liquidity and funding risk in 2020

Liquidity coverage ratio

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

At 30 June 2020, HSBC UK Liquidity Group was above regulatory minimum levels. The following table displays the individual LCR levels for HSBC UK Liquidity Group on an European Commission ('EC') LCR Delegated Regulation basis.

HSBC UK Liquidity Group LCR

	At	
	30 Jun 2020 %	31 Dec 2019 %
HSBC UK Liquidity Group[1]	**187**	165

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

Net stable funding ratio

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

At 30 June 2020, HSBC UK Liquidity Group maintained sufficient stable funding relative to the required stable funding assessed using the NSFR.

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

HSBC UK Liquidity Group NSFR

	At	
	30 Jun 2020 %	31 Dec 2019 %
HSBC UK Liquidity Group	**158**	150

Liquid assets of HSBC UK Liquidity Group

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

HSBC UK Liquidity Group liquid assets

	Estimated liquidity value	
	At 30 Jun 2020 £m	At 31 Dec 2019 £m
HSBC UK Liquidity Group		
Level 1	**75,233**	56,328
Level 2a	**1,503**	494
Level 2b	**—**	—

Sources of funding

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

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

The table analyses our consolidated balance sheet according to the assets that primarily arise from operating activities and the sources of funding primarily supporting these activities. Assets and liabilities that do not arise from operating activities are presented as a net balancing source or deployment of funds. In the first six months of 2020, the level of customer accounts exceeded the level of loans and advances to customers. The positive funding gap was predominantly deployed in liquid assets, cash and balances with central banks and financial investments, as required by the LFRF.

Funding Sources

	30 Jun 2020 £m	31 Dec 2019 £m
Sources		
Customer accounts	**241,342**	216,214
Deposits by banks	**562**	529
Repurchase agreements – non-trading	**5,351**	98
Debt securities in issue	**1,884**	3,142
Accruals, deferred income and other liabilities	**50**	27
– Cash collateral, margin and settlement accounts	**50**	27
Subordinated liabilities	**10,435**	9,533
Total equity	**22,774**	22,251
Other balance sheet liabilities	**4,789**	5,308
At 30 Jun	**287,187**	257,102

Funding Uses

	30 Jun 2020 £m	31 Dec 2019 £m
Uses		
Loans and advances to customers	**185,400**	183,056
Loans and advances to banks	**1,442**	1,389
Reverse repurchase agreements – non-trading	**3,257**	3,014
Prepayments, accrued income and other assets[1]	**198**	123
– Cash collateral, margin and settlement accounts	**198**	123
Financial investments	**30,119**	19,737
Cash and balances with Central banks	**52,760**	37,030
Other balance sheet assets	**14,011**	12,753
At 30 Jun	**287,187**	257,102

1 *Includes only those financial instruments that are subject to the impairment requirements of IFRS 9. 'Prepayments, accrued income and other assets' as presented within the consolidated balance sheet on page 41 includes both financial and non-financial assets.*

Credit Risk

Overview

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

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

Credit risk exposure – summary

	Footnotes	Exposure value £m	RWAs^ £m	Capital required^ £m	RWA Density %
IRB advanced approach		172,527	26,706	2,136	15
– central governments and central banks		8,570	836	67	10
– institutions		1,423	189	15	13
– corporates	1	11,369	6,472	518	57
– total retail		151,165	19,209	1,536	13
– *of which:* *secured by mortgages on immovable property SME*		*54*	*27*	*2*	*50*
secured by mortgages on immovable property non-SME		*114,952*	*5,704*	*456*	*5*
qualifying revolving retail		*26,657*	*5,703*	*456*	*21*
other SME		*2,418*	*2,398*	*192*	*99*
other non-SME		*7,084*	*5,377*	*430*	*76*
IRB securitisation positions		2,277	523	42	23
IRB non-credit obligation assets		1,849	1,174	94	63
IRB foundation approach		62,706	46,735	3,739	75
– corporates		62,706	46,735	3,739	75
Standardised approach		83,102	2,663	213	3
– central governments and central banks		77,191	570	46	1
– regional government or local authorities		268	—	—	—
– public sector entities		1,049	—	—	—
– international organisations		29	—	—	—
– institutions		818	174	14	21
– corporates		368	233	19	63
– retail		1,878	1,132	90	60
– secured by mortgages on immovable property		363	146	11	40
– exposures in default		104	143	11	138
– items associated with particularly high risk		8	12	1	150
– securitisation positions		760	183	15	24
– other items		266	70	6	26
At 30 Jun 2020		322,461	77,801	6,224	24

Credit risk exposure – summary (continued)

	Footnotes	Exposure value	RWAs^	Capital required^	RWA Density
		£m	£m	£m	%
IRB advanced approach		223,110	65,900	5,272	30
– central governments and central banks		6,596	683	55	10
– institutions		938	134	11	14
– corporates	1	66,335	45,008	3,600	68
– total retail		149,241	20,075	1,606	13
– *of which:* *secured by mortgages on immovable property SME*		*1,528*	*830*	*66*	54
secured by mortgages on immovable property non-SME		*111,175*	*5,404*	*433*	5
qualifying revolving retail		*26,185*	*5,708*	*457*	22
other SME		*3,028*	*2,905*	*232*	96
other non-SME		*7,325*	*5,228*	*418*	71
IRB securitisation positions		3,177	596	48	19
IRB non-credit obligation assets		2,011	1,279	102	64
IRB foundation approach		9,280	5,665	453	61
– corporates		9,280	5,665	453	61
Standardised approach		52,718	1,913	153	4
– central governments and central banks		48,244	537	43	1
– regional government or local authorities		257	—	—	—
– public sector entities		1,023	—	—	—
– institutions		776	163	13	21
– corporates		376	294	24	78
– retail		486	340	27	70
– secured by mortgages on immovable property		961	353	28	37
– exposures in default		71	101	8	142
– items associated with particularly high risk		8	12	1	150
– other items		516	113	9	22
At 31 Dec 2019		290,296	75,353	6,028	26

1 Corporates includes specialised lending exposures which are reported in more detail below.

On 1 January 2020, exposures subject to the UK corporate loss-given-default model moved from the advanced to the foundation approach.

Specialised lending on slotting approach

Regulatory categories	Remaining maturity	On-balance sheet amount	Off-balance sheet amount	Risk weight	Exposure amount	RWAs	Expected loss
		£m	£m	%	£m	£m	£m
Category 1 – Strong	Less than 2.5 years	**4,233**	**708**	**50**	**4,536**	**2,260**	**—**
	Equal to or more than 2.5 years	**2,926**	**411**	**70**	**3,124**	**2,178**	**13**
Category 2 – Good	Less than 2.5 years	**1,158**	**107**	**70**	**1,213**	**848**	**5**
	Equal to or more than 2.5 years	**333**	**31**	**90**	**348**	**309**	**3**
Category 3 – Satisfactory	Less than 2.5 years	**88**	**2**	**115**	**89**	**96**	**2**
	Equal to or more than 2.5 years	**37**	**2**	**115**	**37**	**40**	**1**
Category 4 – Weak	Less than 2.5 years	**36**	**3**	**250**	**37**	**89**	**3**
	Equal to or more than 2.5 years	**7**	**—**	**250**	**8**	**19**	**1**
Category 5 – Default	Less than 2.5 years	**218**	**—**	**—**	**294**	**—**	**147**
	Equal to or more than 2.5 years	**149**	**—**	**—**	**186**	**—**	**92**
At 30 Jun 2020	**Less than 2.5 years**	**5,733**	**820**		**6,169**	**3,293**	**157**
	Equal to or more than 2.5 years	**3,452**	**444**		**3,703**	**2,546**	**110**
Category 1 – Strong	Less than 2.5 years	4,836	807	50	5,231	2,615	—
	Equal to or more than 2.5 years	2,988	729	70	3,320	2,314	14
Category 2 – Good	Less than 2.5 years	690	64	70	721	503	3
	Equal to or more than 2.5 years	372	58	90	391	347	3
Category 3 – Satisfactory	Less than 2.5 years	95	6	115	97	103	3
	Equal to or more than 2.5 years	53	2	115	54	55	2
Category 4 – Weak	Less than 2.5 years	40	1	250	41	97	3
	Equal to or more than 2.5 years	3	—	250	3	7	—
Category 5 – Default	Less than 2.5 years	371	9	—	549	—	274
	Equal to or more than 2.5 years	15	—	—	27	—	13
At 31 Dec 2019	Less than 2.5 years	6,032	887		6,639	3,318	283
	Equal to or more than 2.5 years	3,431	789		3,795	2,723	32

Wholesale IRB exposure – by grade

		Central governments and central banks				Institutions				Corporates[1]			
Risk rating	PD range	Undrawn commit-ments	Exposure value	RWA	RWA Density	Undrawn commit-ments	Exposure value	RWA	RWA Density	Undrawn commit-ments	Exposure value	RWA	RWA Density
	%	£m	£m	£m	%	£m	£m	£m	%	£m	£m	£m	%
0.1	0.000 to 0.010	—	7,604	779	10	—	115	16	14	—	—	—	—
1.1	0.011 to 0.028	—	966	57	6	9	490	40	8	17	350	31	9
1.2	0.029 to 0.053	—	—	—	—	34	350	32	9	646	1,056	177	17
2.1	0.054 to 0.095	—	—	—	—	—	126	18	14	1,385	1,793	448	25
2.2	0.096 to 0.169	—	—	—	—	43	340	81	24	4,257	6,959	2,529	36
3.1	0.170 to 0.285	—	—	—	—	—	—	—	—	4,973	9,661	4,536	47
3.2	0.286 to 0.483	—	—	—	—	—	—	—	—	3,202	7,413	4,389	59
3.3	0.484 to 0.740	—	—	—	—	1	1	1	100	3,295	6,771	4,758	70
4.1	0.741 to 1.022	—	—	—	—	1	1	1	100	1,785	5,712	4,425	77
4.2	1.023 to 1.407	—	—	—	—	—	—	—	—	1,556	4,538	4,018	89
4.3	1.408 to 1.927	—	—	—	—	48	—	—	—	1,424	4,046	4,093	101
5.1	1.928 to 2.620	—	—	—	—	—	—	—	—	1,374	4,517	4,727	105
5.2	2.621 to 3.579	—	—	—	—	—	—	—	—	1,159	3,193	3,590	112
5.3	3.580 to 4.914	—	—	—	—	—	—	—	—	706	2,271	3,244	143
6.1	4.915 to 6.718	—	—	—	—	—	—	—	—	364	1,432	1,924	134
6.2	6.719 to 8.860	—	—	—	—	—	—	—	—	271	1,125	1,043	93
7.1	8.861 to 11.402	—	—	—	—	—	—	—	—	199	967	1,765	183
7.2	11.403 to 15.000	—	—	—	—	—	—	—	—	48	265	534	202
8.1	15.001 to 22.000	—	—	—	—	—	—	—	—	76	341	753	221
8.2	22.001 to 50.000	—	—	—	—	—	—	—	—	17	65	146	225
8.3	50.001 to 99.999	—	—	—	—	—	—	—	—	16	69	91	132
9/10	100.000	—	—	—	—	—	—	—	—	143	1,659	147	9
At 30 Jun 2020		—	8,570	836	10	136	1,423	189	13	26,913	64,203	47,368	74
0.1	0.000 to 0.010	—	6,443	674	10	—	66	9	14	—	—	—	—
1.1	0.011 to 0.028	—	153	9	6	21	249	16	6	1	416	38	9
1.2	0.029 to 0.053	—	—	—	—	49	273	27	10	458	859	178	21
2.1	0.054 to 0.095	—	—	—	—	—	24	3	13	2,360	2,434	553	23
2.2	0.096 to 0.169	—	—	—	—	51	325	78	24	4,295	7,011	2,361	34
3.1	0.170 to 0.285	—	—	—	—	—	—	—	—	5,009	10,590	4,882	46
3.2	0.286 to 0.483	—	—	—	—	—	—	—	—	3,331	8,884	4,812	54
3.3	0.484 to 0.740	—	—	—	—	—	—	—	—	2,901	6,406	4,329	68
4.1	0.741 to 1.022	—	—	—	—	—	—	—	—	1,388	5,863	4,649	79
4.2	1.023 to 1.407	—	—	—	—	2	1	1	100	1,466	4,691	4,277	91
4.3	1.408 to 1.927	—	—	—	—	—	—	—	—	1,522	4,860	4,070	84
5.1	1.928 to 2.620	—	—	—	—	—	—	—	—	1,369	3,485	3,687	106
5.2	2.621 to 3.579	—	—	—	—	—	—	—	—	1,087	2,659	3,093	116
5.3	3.580 to 4.914	—	—	—	—	—	—	—	—	828	2,091	2,655	127
6.1	4.915 to 6.718	—	—	—	—	—	—	—	—	366	1,654	2,253	136
6.2	6.719 to 8.860	—	—	—	—	—	—	—	—	134	998	632	63
7.1	8.861 to 11.402	—	—	—	—	—	—	—	—	73	556	1,007	181
7.2	11.403 to 15.000	—	—	—	—	—	—	—	—	34	185	356	192
8.1	15.001 to 22.000	—	—	—	—	—	—	—	—	40	108	219	203
8.2	22.001 to 50.000	—	—	—	—	—	—	—	—	28	109	262	240
8.3	50.001 to 99.999	—	—	—	—	—	—	—	—	8	52	59	113
9/10	100.000	—	—	—	—	—	—	—	—	185	1,270	260	20
At 31 Dec 2019		—	6,596	683	10	123	938	134	14	26,883	65,181	44,632	68

1 *Corporates excludes specialised lending exposures subject to supervisory slotting approach.*

Retail IRB exposure – by internal PD band

	PD range	At 30 Jun 2020			
		Undrawn commitments	Exposure value	RWA	RWA Density
	%	£m	£m	£m	%
Retail SME exposure secured by mortgages on immovable property		**10**	**54**	**27**	**50**
Band 1	0.000 to 0.483	4	13	2	15
Band 2	0.484 to 1.022	3	18	6	33
Band 3	1.023 to 4.914	3	16	9	56
Band 4	4.915 to 8.860	—	1	1	100
Band 5	8.861 to 15.000	—	—	—	—
Band 6	15.001 to 50.000	—	—	—	—
Band 7	50.001 to 100.000	—	6	9	150
Retail non-SME exposure secured by mortgages on immovable property		**7,107**	**114,952**	**5,704**	**5**
Band 1	0.000 to 0.483	6,671	109,186	3,653	3
Band 2	0.484 to 1.022	177	2,278	301	13
Band 3	1.023 to 4.914	208	1,910	415	22
Band 4	4.915 to 8.860	22	287	129	45
Band 5	8.861 to 15.000	3	135	96	71
Band 6	15.001 to 50.000	8	351	164	47
Band 7	50.001 to 100.000	18	805	946	118
Qualifying revolving retail exposure		**33,377**	**26,657**	**5,703**	**21**
Band 1	0.000 to 0.483	30,191	21,040	1,314	6
Band 2	0.484 to 1.022	1,824	2,130	684	32
Band 3	1.023 to 4.914	1,140	2,476	1,783	72
Band 4	4.915 to 8.860	84	370	501	135
Band 5	8.861 to 15.000	38	160	297	186
Band 6	15.001 to 50.000	37	133	342	257
Band 7	50.001 to 100.000	63	348	782	225
Other retail SME exposure		**2,212**	**2,418**	**2,398**	**99**
Band 1	0.000 to 0.483	709	385	126	33
Band 2	0.484 to 1.022	320	257	174	68
Band 3	1.023 to 4.914	1,011	1,312	1,312	100
Band 4	4.915 to 8.860	72	186	232	125
Band 5	8.861 to 15.000	32	74	105	142
Band 6	15.001 to 50.000	42	84	149	177
Band 7	50.001 to 100.000	26	120	300	250
Other retail non-SME exposure		**101**	**7,084**	**5,377**	**76**
Band 1	0.000 to 0.483	87	3,125	1,093	35
Band 2	0.484 to 1.022	5	1,238	924	75
Band 3	1.023 to 4.914	6	1,964	2,154	110
Band 4	4.915 to 8.860	—	283	386	136
Band 5	8.861 to 15.000	—	122	192	157
Band 6	15.001 to 50.000	—	81	167	206
Band 7	50.001 to 100.000	3	271	461	170
Total retail exposure		**42,807**	**151,165**	**19,209**	**13**
Band 1	0.000 to 0.483	37,662	133,749	6,188	5
Band 2	0.484 to 1.022	2,329	5,921	2,089	35
Band 3	1.023 to 4.914	2,368	7,678	5,673	74
Band 4	4.915 to 8.860	178	1,127	1,249	111
Band 5	8.861 to 15.000	73	491	690	141
Band 6	15.001 to 50.000	87	649	822	127
Band 7	50.001 to 100.000	110	1,550	2,498	161

Retail IRB exposure – by internal PD band (continued)

	PD range	Undrawn commitments	Exposure value	RWA	RWA Density
		At 31 Dec 2019			
	%	£m	£m	£m	%
Retail SME exposure secured by mortgages on immovable property		315	1,528	830	54
Band 1	0.000 to 0.483	94	316	60	19
Band 2	0.484 to 1.022	99	410	140	34
Band 3	1.023 to 4.914	101	649	454	70
Band 4	4.915 to 8.860	15	80	100	125
Band 5	8.861 to 15.000	3	26	42	162
Band 6	15.001 to 50.000	1	11	20	182
Band 7	50.001 to 100.000	2	36	14	39
Retail non-SME exposure secured by mortgages on immovable property		6,918	111,175	5,403	5
Band 1	0.000 to 0.483	6,419	105,254	3,392	3
Band 2	0.484 to 1.022	226	2,440	283	12
Band 3	1.023 to 4.914	222	1,970	371	19
Band 4	4.915 to 8.860	21	279	105	38
Band 5	8.861 to 15.000	3	143	91	64
Band 6	15.001 to 50.000	8	308	140	45
Band 7	50.001 to 100.000	19	781	1,021	131
Qualifying revolving retail exposure		31,064	26,185	5,708	22
Band 1	0.000 to 0.483	28,167	19,861	1,275	6
Band 2	0.484 to 1.022	1,847	2,469	784	32
Band 3	1.023 to 4.914	876	2,927	2,036	70
Band 4	4.915 to 8.860	70	365	479	131
Band 5	8.861 to 15.000	31	154	280	182
Band 6	15.001 to 50.000	32	131	334	255
Band 7	50.001 to 100.000	41	278	520	187
Other retail SME exposure		2,224	3,028	2,905	96
Band 1	0.000 to 0.483	754	475	159	33
Band 2	0.484 to 1.022	481	387	243	63
Band 3	1.023 to 4.914	792	1,451	1,395	96
Band 4	4.915 to 8.860	86	297	347	117
Band 5	8.861 to 15.000	38	140	186	133
Band 6	15.001 to 50.000	43	151	263	174
Band 7	50.001 to 100.000	30	127	312	246
Other retail non-SME exposure		149	7,325	5,229	71
Band 1	0.000 to 0.483	130	3,760	1,533	41
Band 2	0.484 to 1.022	5	1,500	1,201	80
Band 3	1.023 to 4.914	12	1,610	1,745	108
Band 4	4.915 to 8.860	—	183	257	140
Band 5	8.861 to 15.000	—	76	122	161
Band 6	15.001 to 50.000	—	49	104	212
Band 7	50.001 to 100.000	2	147	267	182
Total retail exposure		40,670	149,241	20,075	13
Band 1	0.000 to 0.483	35,564	129,666	6,419	5
Band 2	0.484 to 1.022	2,658	7,206	2,651	37
Band 3	1.023 to 4.914	2,003	8,607	6,001	70
Band 4	4.915 to 8.860	192	1,204	1,288	107
Band 5	8.861 to 15.000	75	539	721	134
Band 6	15.001 to 50.000	84	650	861	132
Band 7	50.001 to 100.000	94	1,369	2,134	156

Counterparty credit risk

Overview

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

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

Counterparty credit risk – RWAs by exposure class and product

	At 30 Jun 2020			At 31 Dec 2019		
	EAD pre CRM	RWAs	Capital	EAD pre CRM	RWAs	Capital
	£m	£m	£m	£m	£m	£m
By exposure class						
IRB advanced approach	56	13	1	89	44	4
– institutions	56	13	1	33	12	1
– corporates	—	—	—	56	32	3
IRB foundation approach	46	26	2	—	—	—
– corporates	46	26	2	—	—	—
Standardised approach	24	5	—	388	78	6
– institutions	24	5	—	388	78	6
Credit valuation adjustment	—	17	1	—	23	2
CCP standardised	1,006	48	4	1,079	53	4
	1,132	109	8	1,556	198	16
By product						
– derivatives	673	50	4	710	60	5
– SFTs	459	13	1	846	84	7
– Credit valuation adjustment	—	17	1	—	23	2
– CCP default funds	—	29	2	—	31	2
Total	1,132	109	8	1,556	198	16

Market risk

Overview

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

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

Market risk under standardised approach

	At 30 Jun 2020		At 31 Dec 2019	
	RWAs	Capital required	RWAs	Capital required
	£m	£m	£m	£m
Outright products				
Interest rate risk (general and specific)	1	—	2	—
Foreign exchange risk	70	6	25	2
Total	71	6	27	2

Operational risk

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

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

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

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

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

Operational risk RWAs and capital required

	At 30 Jun 2020		At 31 Dec 2019	
	RWAs	Capital required	RWAs	Capital required
	£m	£m	£m	£m
Own funds requirement for operational risk – assessed on the standardised approach	10,303	824	10,303	824

Directors' responsibility statement

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 a 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.

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

On behalf of the Board

Dame Clara Furse

Chairman

2 August 2020

HSBC UK Bank plc

Registered number 9928412

+ Independent non-executive Director

* Non-executive Director

Independent review report to HSBC UK Bank plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed HSBC UK Bank plc's condensed financial statements (the "interim financial statements") in the *Interim Report 2020* of HSBC UK Bank plc 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

Birmingham

2 August 2020

1 *Certain other information comprises the following tables: 'Adjusted profit/(loss) for the period', 'Significant revenue items by business segment - (gains)/losses', 'Significant cost items by business segment - recoveries/(charges)', 'Net impact on profit/(loss) before tax by business segment', 'Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees' and 'Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation'.*

Condensed financial statements

Consolidated income statement

		Half-year to	
		30 Jun 2020	30 Jun 2019
	Notes	**£m**	£m
Net interest income		**2,302**	2,437
– interest income		**2,703**	2,880
– interest expense		**(401)**	(443)
Net fee income	*2*	**530**	618
– fee income		**609**	730
– fee expense		**(79)**	(112)
Net income from financial instruments held for trading or managed on a fair value basis		**176**	208
Change in fair value of other financial instruments mandatorily measured at fair value through profit or loss		**(2)**	—
Gains less losses from financial investments		**66**	29
Other operating income		**8**	23
Total operating income		**3,080**	3,315
Net operating income before change in expected credit losses and other credit impairment charges		**3,080**	3,315
Change in expected credit losses and other credit impairment charges		**(1,615)**	(332)
Net operating income		**1,465**	2,983
Employee compensation and benefits		**(447)**	(471)
General and administrative expenses		**(1,241)**	(1,739)
Depreciation and impairment of property, plant and equipment and right-of-use assets		**(91)**	(83)
Amortisation and impairment of intangible assets		**(89)**	(74)
Total operating expenses		**(1,868)**	(2,367)
Operating profit/(loss)		**(403)**	616
Profit/(loss) before tax		**(403)**	616
Tax credit/(expense)	*4*	**50**	(265)
Profit/(loss) for the period		**(353)**	351
Attributable to:			
– shareholders of the parent company		**(356)**	348
– non-controlling interests		**3**	3
Profit/(loss) for the period		**(353)**	351

The accompanying notes on pages 44 to 50, the adjusted performance tables in the 'Financial summary' section on pages 8 to 9, and the following disclosures in the Risk section on pages 10 to 25 form an integral part of these condensed financial statements: 'Distribution of financial instruments to which the impairment requirements of IFRS 9 are applied, by credit quality and stage allocation' and 'Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advanced to banks and customers including loan commitments and financial guarantees'.

Consolidated statement of comprehensive income

	Half-year to	
	30 Jun 2020	30 Jun 2019
	£m	£m
Profit/(loss) for the period	**(353)**	351
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Debt instruments at fair value through other comprehensive income	**80**	(5)
– fair value gains	**170**	21
– fair value gains transferred to the income statement on disposal	**(66)**	(29)
– expected credit losses recognised in the income statement	**5**	1
– income taxes	**(29)**	2
Cash flow hedges	**11**	29
– fair value gains/(losses)	**(1)**	28
– fair value losses reclassified to the income statement	**16**	11
– income taxes	**(4)**	(10)
Exchange differences	**4**	–
– other exchange differences	**4**	–
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit asset/liability	**914**	(106)
– before income taxes	**1,315**	(147)
– income taxes	**(401)**	41
Other comprehensive income/(expense) for the year, net of tax	**1,009**	(82)
Total comprehensive income for the period	**656**	269
Attributable to:		
– shareholders of the parent company	**653**	266
– non-controlling interests	**3**	3
Total comprehensive income for the period	**656**	269

Consolidated balance sheet

		At	
		30 Jun 2020	31 Dec 2019
	Notes	**£m**	£m
Assets			
Cash and balances at central banks		**52,760**	37,030
Items in the course of collection from other banks		**244**	504
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	*6*	**45**	66
Derivatives		**157**	121
Loans and advances to banks		**1,442**	1,389
Loans and advances to customers		**185,400**	183,056
Reverse repurchase agreements – non-trading		**3,257**	3,014
Financial investments		**30,119**	19,737
Prepayments, accrued income and other assets		**9,724**	8,203
Interests in joint ventures		**8**	9
Goodwill and intangible assets	*8*	**4,031**	3,973
Total assets		**287,187**	257,102
Liabilities and equity			
Liabilities			
Deposits by banks		**562**	529
Customer accounts		**241,342**	216,214
Repurchase agreements – non-trading		**5,351**	98
Items in the course of transmission to other banks		**168**	343
Derivatives		**256**	201
Debt securities in issue		**1,884**	3,142
Accruals, deferred income and other liabilities		**1,669**	1,834
Current tax liabilities		**59**	409
Provisions	*9*	**1,089**	1,325
Deferred tax liabilities		**1,598**	1,223
Subordinated liabilities		**10,435**	9,533
Total liabilities		**264,413**	234,851
Equity			
Called up share capital		**—**	—
Share premium account		**9,015**	9,015
Other equity instruments		**2,196**	2,196
Other reserves		**7,783**	7,688
Retained earnings		**3,720**	3,292
Total shareholders' equity		**22,714**	22,191
Non-controlling interests		**60**	60
Total equity		**22,774**	22,251
Total liabilities and equity		**287,187**	257,102

Consolidated statement of cash flows

	Half-year to	
	30 Jun 2020	30 Jun 2019
	£m	£m
Profit/(loss) before tax	**(403)**	616
Adjustments for non-cash items:		
Depreciation and amortisation	**180**	157
Net gain from investing activities	**(66)**	(30)
Change in expected credit losses gross of recoveries and other credit impairment charges	**1,647**	383
Provisions including pensions	**(17)**	526
Share-based payment expense	**8**	3
Elimination of exchange differences[1]	**(613)**	(57)
Changes in operating assets	**(4,437)**	(6,472)
Changes in operating liabilities	**29,330**	4,503
Contributions paid to defined benefit plans	**(180)**	(32)
Tax paid	**(356)**	(286)
Net cash from operating activities	**25,093**	(689)
Purchase of financial investments	**(21,236)**	(7,503)
Proceeds from the sale and maturity of financial investments	**12,004**	5,765
Net cash flows from the purchase and sale of property, plant and equipment	**(25)**	(41)
Net investment in intangible assets	**(146)**	(146)
Net cash from investing activities	**(9,403)**	(1,925)
Subordinated loan capital issued	**—**	4,208
Dividends paid to shareholders of the parent company and non-controlling interests	**(167)**	(389)
Net cash from financing activities	**(167)**	3,819
Net increase in cash and cash equivalents	**15,523**	1,205
Cash and cash equivalents at the beginning of the period	**38,086**	33,817
Exchange differences in respect of cash and cash equivalents	**166**	2
Cash and cash equivalents at the end of the period	**53,775**	35,024

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

Consolidated statement of changes in equity

	Called up share capital and share premium	Other equity instru-ments	Retained earnings	Other reserves: Financial assets at FVOCI reserve	Other reserves: Cash flow hedging reserve	Other reserves: Foreign exchange reserve	Other reserves: Group re-organisation reserve	Total share-holders' equity	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2020	**9,015**	**2,196**	**3,292**	**9**	**(12)**	**—**	**7,691**	**22,191**	**60**	**22,251**
Profit/(loss)for the period	**—**	**—**	**(356)**	**—**	**—**	**—**	**—**	**(356)**	**3**	**(353)**
Other comprehensive income (net of tax)	**—**	**—**	**914**	**84**	**11**	**—**	**—**	**1,009**	**—**	**1,009**
– debt instruments at fair value through other comprehensive income	**—**	**—**	**—**	**80**	**—**	**—**	**—**	**80**	**—**	**80**
– cash flow hedges	**—**	**—**	**—**	**—**	**11**	**—**	**—**	**11**	**—**	**11**
– remeasurement of defined benefit asset/liability	**—**	**—**	**914**	**—**	**—**	**—**	**—**	**914**	**—**	**914**
– exchange differences	**—**	**—**	**—**	**4**	**—**	**—**	**—**	**4**	**—**	**4**
Total comprehensive income for the period	**—**	**—**	**558**	**84**	**11**	**—**	**—**	**653**	**3**	**656**
Dividends to shareholders	**—**	**—**	**(164)**	**—**	**—**	**—**	**—**	**(164)**	**(3)**	**(167)**
Other movements[1]	**—**	**—**	**34**	**—**	**—**	**—**	**—**	**34**	**—**	**34**
At 30 Jun 2020	**9,015**	**2,196**	**3,720**	**93**	**(1)**	**—**	**7,691**	**22,714**	**60**	**22,774**
At 1 Jan 2019	9,015	2,196	3,405	14	(46)	(2)	7,691	22,273	60	22,333
Profit for the period	—	—	348	—	—	—	—	348	3	351
Other comprehensive income (net of tax)	—	—	(106)	(7)	29	2	—	(82)	—	(82)
– debt instruments at fair value through other comprehensive income	—	—	—	(5)	—	—	—	(5)	—	(5)
– cash flow hedges	—	—	—	—	29	—	—	29	—	29
– remeasurement of defined benefit asset/liability	—	—	(106)	—	—	—	—	(106)	—	(106)
– exchange differences	—	—	—	(2)	—	2	—	—	—	—
Total comprehensive income for the period	—	—	242	(7)	29	2	—	266	3	269
Dividends to shareholders	—	—	(386)	—	—	—	—	(386)	(3)	(389)
Other movements	—	—	(4)	—	—	—	—	(4)	—	(4)
At 30 Jun 2019	9,015	2,196	3,257	7	(17)	—	7,691	22,149	60	22,209

1 Relates primarily to £28m pension assets transfer from HSBC Global Services (UK) Limited and HSBC Bank plc (1H19: £nil).

Notes on the condensed financial statements

1 Basis of preparation and significant accounting policies

(a) Compliance with International Financial Reporting Standards

The interim condensed consolidated financial statements of HSBC UK 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. Therefore, they include an explanation of events and transactions that are significant to an understanding of the changes in HSBC UK's financial position and performance since the end of 2019.

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 HSBC UK.

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 our critical accounting estimates and judgements are those that relate to effective interest rate applied to interest income recognised on credit card lending, impairment of amortised cost and FVOCI debt financial assets, provisions for liabilities, impairment of goodwill and defined benefit pension obligations. There were no changes in the current period to the critical accounting estimates and judgements applied in 2019, which are stated on pages 78 to 86 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 17.

(c) Composition of group

On 1 January 2020, substantially all of HSBC Private Bank (UK) Limited's assets and liabilities were transferred to HSBC UK Bank plc after the High Court of Justice formally sanctioned on 9 December 2019 the Banking Business Transfer Scheme (including the acceptance of deposits), the provision of financial services and other related activities from HSBC Private Bank (UK) Limited to HSBC UK Bank plc under Part VII of the Financial Services and Markets Act 2000.

(d) Future accounting developments

There were no accounting standards issued as at 30 June 2020 but not adopted which would have an impact on the group accounts.

(e) Going concern

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

(f) Accounting policies

Except as described above, the accounting policies applied by the group for these interim condensed consolidated financial statements are consistent with those described on pages 78 to 86 of the *Annual Report and Accounts 2019*, as are the methods of computation.

2 Net fee income

	Half-year to	
	30 Jun	30 Jun[1,2]
	2020	2019
Net fee income by product	**£m**	£m
Account services	**142**	199
Funds under management	**52**	52
Cards	**185**	245
Credit facilities	**60**	44
Imports/exports	**15**	25
Insurance agency commission	**22**	21
Receivables finance	**40**	47
Other	**93**	97
Fee income	**609**	730
Less: fee expense	**(79)**	(112)
Net fee income	**530**	618
Net fee income by global business		
Wealth and Personal Banking	**275**	345
Commercial Banking	**342**	371
Global Banking and Markets	**(85)**	(95)
Corporate Centre	**(2)**	(3)

1 *A change in reportable segments was made in 2Q20. Comparative data has been re-presented accordingly. For further guidance, refer to page 7 under segmental analysis.*
2 *At 30 June 2020, HSBC UK changed its accounting practice to include certain Accounts services fee income within Cards. Comparatives have been re-presented. The net effect of these changes reduced Accounts Services and increased Cards by £84m (1H19: £104m). Certain balances within Other have also been reallocated.*

3 Post-employment benefit plans

We operate a pension plan for our employees called the HSBC Bank (UK) Pension Scheme ('the plan'). Details of the plan are explained on page 88 of the *Annual Report and Accounts 2019*, and details of the policies and practices associated with the plan on page 46 of the *Annual Report and Accounts 2019.*

Net assets/(liabilities) under defined benefit pension plans

	Fair value of plan assets	Present value of defined benefit obligations	Net defined benefit assets
	£m	£m	£m
At 30 Jun 2020	**31,216**	**(23,819)**	**7,397**
At 31 Dec 2019	28,647	(22,811)	5,836

Post-employment defined benefit plan actuarial financial assumptions

The group determines the discount rates to be applied to its obligations in consultation with the plan's local actuaries, on the basis of current average yields of high quality (AA-rated or equivalent) debt instruments with maturities consistent with those of the defined benefit obligations.

Key actuarial assumptions for the plan

	Discount rate[1]	Inflation rate	Rate of increase for pensions	Rate of pay increase
	%	%	%	%
At 30 Jun 2020	**1.70**	**3.00**	**2.85**	**3.65**
At 31 Dec 2019	2.00	3.10	2.90	3.65

1 *The corporate bonds which underpin the discount rate models used in the valuation have been updated in 2020 to include bonds issued by corporate special purpose vehicles. This has increased the discount rate by approximately 25bps.*

Mortality tables and average life expectancy at age 60 for the plan

	Mortality table	Life expectancy at age 60 for a male member currently:		Life expectancy at age 60 for a female member currently:	
		Aged 60	Aged 40	Aged 60	Aged 40
At 30 Jun 2020	**SAPS S2[1]**	**28.1**	**29.5**	**28.4**	**30.0**
At 31 Dec 2019	SAPS S2[2]	28.0	29.4	28.2	29.8

1 *Self-administered pension scheme ('SAPS') S2 table (males: 'Normal Health Pensioners' version; females: 'All Pensioners' version) with a multiplier of 0.94 for males and 1.15 for females. Improvements are projected in accordance with the Continuous Mortality Investigation ('CMI') 2019 core projection model with an initial addition to improvements of 0.25% per annum and a long-term rate of improvement of 1.25% per annum. Separate tables have been applied to lower paid pensioners and dependant members.*
2 *Self-administered pension scheme ('SAPS') S2 table (males: 'Normal Health Pensioners' version; females: 'All Pensioners' version) with a multiplier of 0.94 for males and 1.15 for females. Improvements are projected in accordance with the Continuous Mortality Investigation ('CMI') 2018 core projection model with an initial addition to improvements of 0.25% per annum and a long-term rate of improvement of 1.25% per annum. Separate tables have been applied to lower paid pensioners and dependant members.*

4 Tax

Tax charge

The effective tax rate is 12.4% (1H19: 43.0%). The effective tax rate is reduced by 14.6% by a charge arising from the remeasurement of the group's deferred tax balances following the reversal of the planned reduction in the main rate of UK corporation tax from 19% to 17%, which was due to be effective from 1 April 2020. This item decreases the effective tax rate because a loss before tax is reported for the period. The tax relief on AT1 coupon payments, which increases the effective tax rate on a loss before tax, is offset by a charge relating to prior years. The effective tax rate for 1H19 was increased by 19.3% by the impact of non-deductible costs associated with PPI and certain other customer redress which are not deductible for tax in the UK.

5 Dividends

Dividends to the shareholder of the parent company

	Half-year to			
	30 Jun 2020		30 Jun 2019	
	£ per share	**£m**	£ per share	£m
Dividends paid on ordinary shares				
Interim dividend in respect of the previous year	**2,000**	**100**	4,000	200
Interim dividend in respect of the current year	**—**	**—**	2,400	120
Total	**2,000**	**100**	6,400	320

Total coupons on capital securities classified as equity

		Half-year to	
		30 Jun 2020	30 Jun 2019
	First call date	**£m**	£m
Undated Subordinated Additional Tier 1 instruments			
– £1,096m	Dec 2019	**32**	33
– £1,100m	Dec 2024	**32**	33
Total		**64**	66

6 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				At 31 Dec 2019			
	Valuation techniques				Valuation techniques			
	Quoted market price	**Using observable inputs**	**With significant unobservable input**		Quoted market price	Using observable inputs	With significant unobservable input	
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Recurring fair value measurements								
Assets								
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**45**	**—**	**—**	**45**	65	1	—	66
Derivatives	**3**	**154**	**—**	**157**	2	119	—	121
Financial investments	**29,860**	**259**	**—**	**30,119**	19,285	452	—	19,737
Liabilities								
Derivatives	**4**	**252**	**—**	**256**	4	197	—	201

Transfers between levels of the fair value hierarchy are deemed to occur at the end of each quarterly reporting period. Transfers into and out of levels of the fair value hierarchy are primarily attributable to observability of valuation inputs and price transparency. There were no transfers between Level 1 and Level 2 during 2020 and 2019.

7 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, deposits by banks, customer accounts, debt securities in issue, subordinated liabilities and non-trading repurchase and reverse repurchase agreements are explained on pages 94 and 95 of the *Annual Report and Accounts 2019.*

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

	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	**1,442**	**1,442**	1,389	1,389
Loans and advances to customers	**185,400**	**186,025**	183,056	184,275
Reverse repurchase agreements – non-trading	**3,257**	**3,257**	3,014	3,014
Liabilities				
Deposits by banks	**562**	**562**	529	529
Customer accounts	**241,342**	**241,342**	216,214	216,214
Repurchase agreements – non-trading	**5,351**	**5,351**	98	98
Debt securities in issue	**1,884**	**1,855**	3,142	3,142
Subordinated liabilities	**10,435**	**10,319**	9,533	10,094

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.

8 Goodwill and intangible assets

Impairment testing

As described on pages 100 to 101 of the *Annual Report and Accounts 2019*, we test goodwill for impairment at 1 July each year and whenever there is an indication that goodwill may be impaired. At 30 June 2020, we reviewed the inputs used in our most recent impairment test in the light of current economic and market conditions, including the impact of the Covid-19 outbreak and there was no indication of goodwill impairment.

9 Provisions

	Restructuring costs[2]	Legal proceedings and regulatory matters	Customer remediation[3]	Other provisions	Total
	£m	£m	£m	£m	£m
Provisions (excluding contractual commitments)					
At 1 Jan 2020	**52**	**4**	**1,190**	**4**	**1,250**
Additions	**1**	**–**	**49**	**4**	**54**
Amounts utilised	**(16)**	**–**	**(339)**	**–**	**(355)**
Unused amounts reversed	**(10)**	**–**	**(21)**	**(1)**	**(32)**
At 30 Jun 2020	**27**	**4**	**879**	**7**	**917**
Contractual commitments[1]					
At 1 Jan 2020					**75**
Net change in expected credit loss provision					**97**
At 30 Jun 2020					**172**
Total Provisions					
At 1 Jan 2020					**1,325**
At 30 Jun 2020					**1,089**

1 *The contractual commitments provision includes off-balance sheet loan commitments and guarantees, for which expected credit losses are provided under IFRS 9.*
2 *Restructuring costs include charges received from HSBC Global Services (UK) Limited, which do not form part of the balance sheet provision movement.*
3 *During 2020 the additional provisions of £49m were recorded in the consolidated income statement under net interest income (£10m), net fee income (£2m) and operating expenses (£37m).*

Payment protection insurance

At 30 June 2020, £497m (Dec 2019: £801m) of the customer remediation provision relates to the estimated liability for redress in respect of the possible mis-selling of PPI policies in previous years. Payments totalling £304m were made during the first six months of 2020.

At 30 June 2020, contact has been made with customers who collectively held 3.0 million policies, representing 56% of total policies sold. A total of 5.4 million PPI policies have been sold since 2000, generating estimated revenues of £2.6bn. The gross written premiums on these policies was approximately £3.4bn.

As at 30 June 2020, there are an estimated 42,700 complaints still requiring assessment. Historical claim handling processes are monitored on a regular basis, and there remains potential for this review process to lead to additional rework costs in the future.

Although the deadline for bringing complaints has passed, customers can still commence litigation for PPI mis-selling. Provision has been made for the best estimate of any obligation to pay compensation in respect of an estimated 43,000 future claims. However, the volume and quality of future claims through legal channels, and the amount of any compensation to be paid, remain uncertain. The provision also includes claims made by the Official Receiver to pursue redress amounts in respect of bankrupt and insolvent customers.

The estimated liability for redress for both single and regular premium policies is calculated on the basis of a refund of the total premiums paid by the customer plus simple interest of 8% per annum (or the rate inherent to the related loan product where higher). Further estimated redress levels are based on historical redress paid to customers per policy.

The PPI provision is based upon assumptions and estimates taken from historic experience. The profile of cases yet to be assessed, whether those submitted prior to the complaints deadline or subsequently via the legal channels, could therefore vary, leading to different uphold rates or average redress levels being used to arrive at the provision.

We continued to monitor available information up until the date of the approval of the financial statements to ensure that the provision estimate was appropriate.

Sensitivity to key assumptions

An increase/decrease in customer redress volumes of 10,000 received through legal channels would increase/decrease the redress provision by approximately £13m, based on observed settlement rates and average redress during H1 2020.

Collections and recoveries related matters

At 30 June 2020, a provision of £227m (Dec 2019: £220m) was held relating to the estimated liability for redress payable to customers following a review of collections and recoveries practices in the UK, including HSBC UK. During the first six months of 2020, redress payments and incurred operating costs totalled £9m.

The provision has been estimated based on a number of customer cohorts who may have been impacted and a number of assumptions which are highly judgemental. The provision has been adjusted to reflect latest available information, but remains subject to significant judgement. Operating costs for the programme have also been reassessed, and the provision has been increased by £16m as a result of these factors.

Work to identify relevant data continues, and there is significant uncertainty surrounding the total number of customers affected and the amount of any redress to be paid. Redress is expected to be completed during 2020.

The table below sets out sensitivities to the assumptions applied, but it is not intended to indicate a range of any final amount payable.

Assumption	£m
20% increase/decrease in population of customers impacted	33.2
20% increase/decrease in level of redress paid in respect of interest and fee charged	19.3

Legal proceedings and regulatory matters

Further details of legal proceedings and regulatory matters are set out in Note 11. Legal proceedings include civil court, arbitration or tribunal proceedings brought against the group (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.

10 Contingent liabilities, contractual commitments and guarantees

	At 30 Jun 2020 £m	At 31 Dec 2019 £m
Guarantees and other contingent liabilities:		
– financial guarantees	**904**	1,077
– performance and other guarantees	**2,258**	2,351
At the end of the period	**3,162**	3,428
Commitments[1]:		
– documentary credits and short-term trade-related transactions	**95**	95
– forward asset purchases and forward deposits placed	**220**	184
– standby facilities, credit lines and other commitments to lend	**68,495**	67,023
At the end of the period	**68,810**	67,302

1 *Includes £68bn of commitments at 30 June 2020 (31 December 2019: £64bn), to which the impairment requirements in IFRS 9 are applied where HSBC UK has become party to an irrevocable commitment.*

The preceding table discloses the nominal principal amounts of off-balance sheet liabilities and commitments for the group, which represent the maximum amounts at risk should the contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments are expected to expire without being drawn upon, the total of the nominal principal amounts is not indicative of future liquidity requirements. The expected credit loss provision relating to guarantees and commitments under IFRS 9 is disclosed in Note 9.

The majority of the guarantees have a term of less than one year, while guarantees with terms of more than one year are subject to the group's annual credit review process.

Contingent liabilities arising from legal proceedings, regulatory and other matters against group companies are disclosed in Note 11.

11 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 at 30 June 2020 (see Note 9). Where an individual provision is material, the fact that a provision has been made is stated and quantified, except to the extent doing so would be seriously prejudicial. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

Anti-money laundering and sanctions-related matters

In December 2012, among other agreements, HSBC Holdings agreed to an undertaking with the UK Financial Service 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 Group 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 Group'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 Group 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 51 of the *Annual Report and Accounts 2019*.

Through the Skilled Person/Independent Consultant's prior reviews, as well as internal reviews conducted by HSBC Group, certain potential AML and sanctions compliance issues have been identified that HSBC Group is reviewing further with the FRB, FCA and/ or OFAC. The FCA is also conducting an investigation into HSBC Bank plc's and HSBC UK's compliance with UK money laundering regulations and financial crime systems and controls requirements. HSBC Group is cooperating with this investigation.

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

Film finance litigation

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

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

In June 2020, two separate claims were issued against HSBC UK (as successor to PBGB's business) by two separate groups of investors in Eclipse film finance schemes in connection with PBGB's role in facilitating the design, promotion and operation of such schemes. Only one of these claims has been served to date. These matters are at an early stage.

In February 2020 a claim was issued against HSBC UK (as successor to PBGB's business) by two individuals in relation to the Zeus film finance schemes. Separately, in June 2020, HSBC UK received an application for disclosure of documents by a law firm acting on behalf of a number of investors in the Zeus schemes. These matters are at an early stage.

It is possible that additional actions or investigations will be initiated against HSBC UK as a result of PBGB's historical involvement in the provision of certain film finance related services.

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

Collections and recoveries related investigation

Various HSBC Group companies, including HSBC UK, are subject to an ongoing investigation by the FCA in connection with collections and recoveries operations in the UK. HSBC UK is cooperating with the investigation. There are many factors that may affect the range of outcomes, and the resulting financial impact, of this matter, which could be significant.

Foreign exchange related matters

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 Group's historical foreign exchange activities. Under the terms of the FX DPA, the HSBC Group has a number of ongoing obligations, including implementing enhancements to its internal controls and procedures in its Global Markets business, which will be the subject of annual reports to the DoJ.

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

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

12 Transactions with related parties

There were no changes to the related party transactions described in 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*.

13 Events after the balance sheet date

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

14 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. *The Interim Report 2020* was approved by the Board of Directors on 2 August 2020. The statutory accounts of HSBC UK 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.

Reconciliation of non-GAAP financial measures

Return on equity and return on tangible equity

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

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

Return on Equity and Return on Tangible Equity

	Half-year to	
	30 Jun 2020	30 Jun 2019
	$m	$m
Profit/(loss)		
Profit/(loss) attributable to the ordinary shareholders of the parent company	**(517)**	369
Significant items (net of tax)	**27**	657
Adjusted profit/(loss) attributable to the ordinary shareholders of the parent company	**(490)**	1,026
Equity		
Average shareholders' equity	**29,094**	28,501
Additional Tier 1	**(2,780)**	(2,819)
Average ordinary shareholders' equity	**26,314**	25,682
Effect of goodwill and other intangibles (net of deferred tax)	**(5,095)**	(4,970)
Average tangible ordinary shareholders' equity	**21,219**	20,712
Ratio	**%**	%
Return on equity (annualised)	**(4.0)**	2.9
Return on average tangible equity (annualised)[1]	**(4.9)**	3.6
Adjusted return on average tangible equity (annualised)	**(4.6)**	10.0

1 *In the event that the current IAS 19 Pension fund surplus was zero, additional CET1 capital would be required to be held and Adjusted RoTE would be (6.8)% (1H19:11.4%); we refer to this as Pension Adjusted RoTE.*

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