HSBC UK Bank plc

Annual Report and Accounts 2021

HSBC

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Presentation of information

This document comprises the *Annual Report and Accounts 2021* for HSBC UK Bank plc ('the bank' or 'the Company') and its subsidiaries (together 'HSBC UK' or 'the group'). 'We', 'us' and 'our' refer to HSBC UK Bank plc together with its subsidiaries. It contains the Strategic Report, the Report of the Directors, the Statement of Directors' Responsibilities and Financial Statements, together with the Independent Auditors' Report, as required by the UK Companies Act 2006. References to 'HSBC Group' or 'the Group' within this document mean HSBC Holdings plc together with its subsidiaries.

A full list of abbreviations is provided on pages 120 to 121.

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

Pillar 3 disclosures for HSBC UK are also available on www.hsbc.com, under Investor Relations.

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

Our reporting currency is £ sterling. Unless otherwise specified, all £ symbols represent £ sterling and $ symbols represent US dollars. The abbreviations '£m' and '£bn' represents millions and billions (thousands of millions) of £ sterling.

This *Annual Report and Accounts 2021* contains certain forward-looking statements with respect to the financial condition, results of operations and business of the group.

Statements that are not historical facts, including statements about the group's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore no undue reliance should be placed on them. Forward-looking statements apply 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 statement.

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

About Us

HSBC UK Bank plc is a public limited company with debt securities traded on the London Stock Exchange. The Company is a ring-fenced bank and wholly owned subsidiary of HSBC Holdings plc.

HSBC UK comprises Wealth and Personal Banking, Commercial Banking, a restricted Global Banking and Markets business and a Corporate Centre.

HSBC UK is a major UK bank that is strongly connected to the rest of the HSBC Group and leverages this network to help support customers and generate revenue across key trade corridors around the world.

Introduction

HSBC UK, headquartered in Birmingham, has over 14.75 million active customers, with over 19,000 FTE employees across the country, supported by a further 5,000 FTE based in our service company HSBC Global Services (UK) Limited, who provide services to HSBC UK and the wider HSBC Group.

The Annual Report and Accounts for the year-ended 31 December 2021 outline our business and financial performance aligned to our key strategic pillars:

Focus on our strengths

We seek to use our strengths as a major UK bank to play a vital role in the economy, focusing on those areas where we have opportunities to grow, and supporting our customers, both in the long term and as the UK emerges from the Covid-19 pandemic.

Digitise at scale

We use technology to deliver fast, easy and secure banking.

Energise for growth

We seek to inspire an inclusive and customer-focused culture where employees can make an impact, learn and grow.

Transition to net zero

We are targeting a transition to net zero for financed emissions from our portfolio of customers by 2050 and in our own operations and supply chain by 2030.

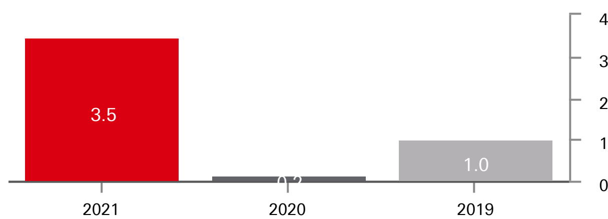
Financial Highlights

For the year ended 31 December 2021

Reported profit before tax

£3.5bn

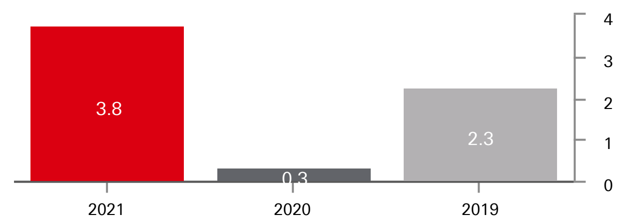
(2020: £0.2bn)
(2019: £1.0bn)



Adjusted profit before tax

£3.8bn

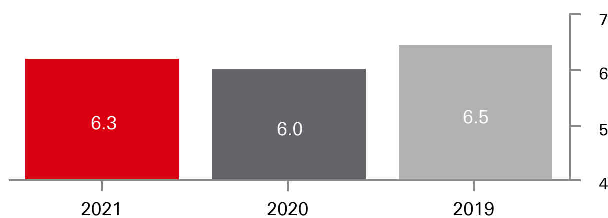
(2020: £0.3bn)
(2019: £2.3bn)



Reported revenue

£6.3bn

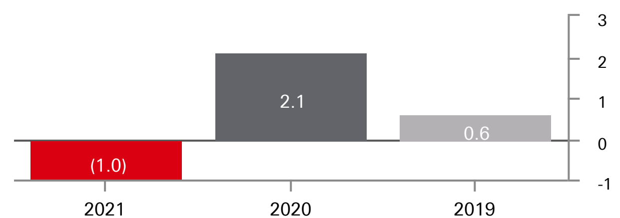
(2020: £6.0bn)
(2019: £6.5bn)



Expected credit losses and other credit impairment charges / (releases)

£(1.0)bn

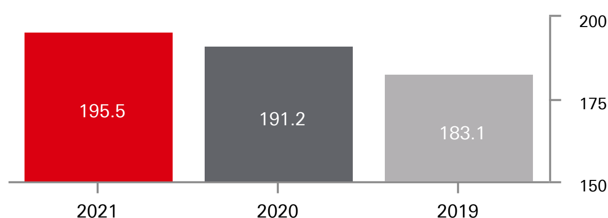
(2020: £2.1bn)
(2019: £0.6bn)



Loans and advances to customers

£195.5bn

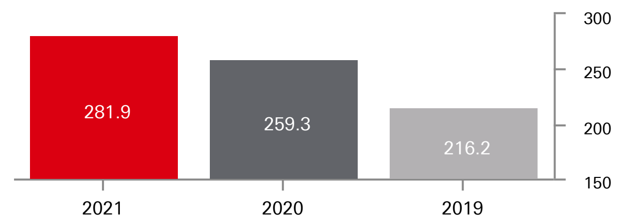
(2020: £191.2bn)
(2019: £183.1bn)



Customer accounts

£281.9bn

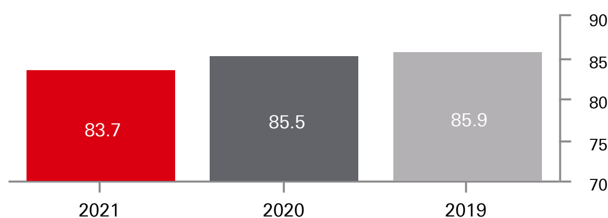
(2020: £259.3bn)
(2019: £216.2bn)



Risk-weighted assets

£83.7bn

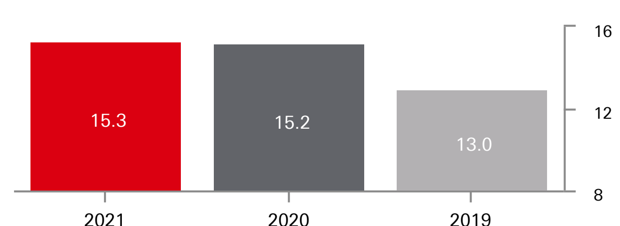
(2020: £85.5bn)
(2019: £85.9bn)



Common equity tier 1 capital ratio

15.3%

(2020: 15.2%)
(2019: 13.0%)



Key financial metrics

	Year ended	
	31 Dec 2021	31 Dec 2020
Reported results		
Reported revenue (£m)[1]	**6,250**	6,031
Reported profit before tax (£m)[3]	**3,480**	163
Reported profit after tax (£m)	**2,368**	80
Profit attributable to the shareholders of the parent company (£m)	**2,363**	76
Return on average tangible equity (%)[3]	**13.5**	(0.1)
Net interest margin (%)	**1.53**	1.71
Expected credit losses/(releases) as % of average gross loans and advances to customers (%)	**(0.51)**	1.12
Adjusted results		
Adjusted revenue (£m)	**6,239**	6,047
Adjusted profit before tax (£m)[3]	**3,764**	334
Cost efficiency ratio (%)[3]	**55.5**	59.5
Adjusted return on average tangible equity (%)[2,3]	**14.7**	0.5
Balance sheet		
Total assets (£m)	**346,063**	304,864
Net loans and advances to customers (£m)	**195,526**	191,233
Customer accounts (£m)	**281,870**	259,341
Average interest-earning assets (£m)	**303,151**	265,891
Loans and advances to customers as % of customer accounts (%)	**69.4**	73.7
Total shareholders' equity (£m)	**23,745**	22,798
Tangible ordinary shareholders equity (£m)	**17,332**	16,485
Capital, leverage and liquidity		
Common equity tier 1 capital ratio (%)[3,4]	**15.3**	15.2
Total capital ratio (%)[4]	**21.6**	21.3
Risk-weighted assets[4] (£m)	**83,723**	85,477
Leverage ratio[4] (%)	**4.2**	4.8
High-quality liquid assets (liquidity value) (£m)	**120,543**	88,838
Liquidity coverage ratio (%)	**241**	198

1 *Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.*
2 *In the event that the current IAS 19 Pension fund surplus was zero Adjusted RoTE would be 17.4% (2020: (0.1)%). Further detail is on page 119.*
3 *These metrics are tracked as Key Performance Indicators of the group.*
4 *Unless otherwise stated, regulatory capital ratios and requirements are based on the transitional arrangements of the Capital Requirements Regulation in force in the EU at the time. These include the regulatory transitional arrangements for IFRS 9 'Financial Instruments' which are explained further on page 51. Leverage ratios are calculated using the end point definition of capital and IFRS 9 regulatory transitional arrangements. References to EU regulations and directives (including technical standards) should, as applicable, be read as a reference to the UK's version of such regulation and/or directive, as onshored into UK law under the EU Withdrawal Act 2018, and as may be subsequently amended under UK law.*

Presentation of alternative performance measures (non-GAAP financial measures)

In measuring our performance, the financial measures that we use include those derived from our reported results 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 11 to 12.

RoTE is computed by adjusting the reported equity for goodwill and intangibles. A reconciliation is provided on page 119, which details the adjustments made to the reported results and equity in calculating RoTE.

Our Purpose and Values

Our purpose

Opening up a world of opportunity.

Our values

- We value difference: Seeking out different perspectives.
- We succeed together: Collaborating across boundaries.
- We take responsibility: Holding ourselves accountable and taking the long view.
- We get it done: Moving at pace and making things happen.

Our global businesses

Wealth and Personal Banking

Customers

WPB helps our customers manage their day-to-day finances and manage, protect and grow their wealth. We serve over 14 million active customers under four brands: HSBC UK, first direct, Marks and Spencer Bank, and John Lewis Financial Services.

Products and services

We offer a comprehensive set of banking products and services to support customers' banking needs including: current and savings accounts, mortgages, unsecured lending, wealth solutions and insurance services. In addition to catering for the mass retail market, we also provide services for emerging affluent, mass affluent and affluent individuals under the following HSBC UK propositions: Advance, Premier, Jade, and Private Banking.

Commercial Banking

Customers

CMB serves over 750,000 active customers across the UK, ranging from start-ups to multi-national corporates, through four customer groups: Small Business Banking; Business Banking; Mid-Market Enterprises; and Large Corporates.

Products and services

We support customers with tailored financial products and services to allow them to operate efficiently and grow, with a strong relationship focus. These include credit and lending, global liquidity and cash management, and global trade and receivables finance.

Global Banking and Markets

Within HSBC UK we offer selected products to enable commercial hedging in permitted products under UK ring-fencing legislation, as well as foreign currency payments and transaction banking. Through close collaboration with HSBC Group we also offer other GBM products required by our clients that are not available within HSBC UK.

Corporate Centre

Corporate Centre supports central operations of the HSBC UK business lines and comprises Markets Treasury, interests in a joint venture, and stewardship costs.

Our core strengths

Full banking capability

We serve customers ranging from individual savers through to multi-national corporates with the support of our three businesses. Our full banking capability assists us in seeking to meet our customers' diverse financial needs, reduce our risk profile and volatility, and generate returns for shareholders.

Value of our network

Within the UK we provide products and services digitally, by phone and face-to-face through our branches, bureaux and offices, commercial centres, and contact centres. We are also supported by our Global Service Centres.

Access to HSBC Group's global network and business synergies

For customers with international interests, we are intrinsically connected with the HSBC Group's wider global network, enabling our customers to seize international growth opportunities. This helps us build deeper and more enduring relationships with businesses and individuals. HSBC Group's geographic reach and network of customers also allows greater insight into the trade and capital flows across supply chains. We share resources and product capabilities across our businesses and leverage these synergies when serving our customers.

Our Strategy

Our UK strategy comprises the following four pillars:

Focus on our strengths

Serving our customers

In 2021, we aimed to strengthen our customer-centric culture by recognising and addressing the needs of our customers. The industry-wide NPS Survey, that runs twice a year, indicated improvements in customer satisfaction scores in 2021 for WPB, increasing 9 points to a score of +9, and ranking joint 10th vs. our peers. first direct ranked 2nd across all retail providers with a score of +45. In CMB, we saw a reduction in our overall score to -15 and a ranking position of 7th, driven by declining scores in our BB and SBB segments. The declines in these segments were, in part, driven by operational capacity challenges as a result of us being one of the few banks being open to new business during this period. Our MME segment ranked first in the market, achieving its highest ever NPS score of +37. There is more work to be done to consistently meet and exceed customer needs.

Through focusing on the areas where we have distinctive capabilities, we continued to attract new customers. In 2021, we saw 162,129 personal customers switch to one of our brands from another provider. Meanwhile HSBC Kinetic, our digital SME bank, onboarded over 24,000 customers.

In WPB, we enhanced our mortgage proposition, launching a new digital journey. As a result, we provided £27.6bn of gross new mortgage lending (FY20: £24.5bn) and increased our stock market share to 7.5% (FY20: 7.4%).

Customer spend remained below 2019 pre-pandemic levels, with demand for unsecured lending subdued following continued Covid restrictions. However, total customer lending was supported by the provision of mortgage stamp duty holidays.

Demand for non-Covid loans remains subdued, with balances falling by £5bn to £44bn and utilisation of revolving credit facilities closing at circa 30%, significantly down on peak levels (circa 50%) at the beginning of the pandemic. In CMB, GTRF, assets are at record levels, near £6bn on a period end basis, reflecting 46% growth on prior year, following a robust recovery in working capital Trade and Receivables Finance activity.

As global economies returned to growth, we saw increased activity from an international perspective, with CMB UK increasing presence in our Mid-Market Mergers and Acquisitions proposition. Additionally, we coordinated a new partnership with HSBC Asset Management to deliver the first HSBC Direct Lending Fund, supported by external direct lender partners.

Supporting our customers

Since the beginning of the pandemic, HSBC UK has provided lending under a series of government schemes (Bounce Bank Loan Scheme, Coronavirus Business Interruption Loan Scheme &

Coronavirus Large Business Interruption Loan Scheme), with 258,238 government loans approved across the three schemes equating to £12.3bn.

We actively facilitated the provision of the new Recovery Loan Scheme to existing HSBC UK and non-HSBC UK customers and assisted clients with the management of their lending through our digital platform, enabling self-service functionality and greater oversight of finances. Additionally, we provided guidance on the Government's Pay As You Grow option for BBLS, providing important flexibility for businesses. As at 31 December, we have supported customers with over 60,000 Pay As You Grow options, of which 85% have been exercised through a digital journey.

We continue to provide support for British businesses to grow, despite the uncertain environment, through the provision of a £15bn SME Fund, with our overall commitment to UK SMEs since 2014 now totalling £75bn.

Financial accessibility and inclusion were key priorities in 2021, as we aimed to enhance support for our vulnerable customers. To date, we have opened more than 3,200 No Fixed Address and Survivor accounts. We have also sent out more than 2,500,000 cards with accessible features.

Digitise at scale

In 2021, HSBC UK set out a new Technology Strategy, focused on improving customer experience, building a competitive digital proposition, providing technologies to support growth, building resilient architecture to support scale and agility and simplifying internal technologies and upskilling employees. To deliver on this strategy, we focused on our key digital priorities across WPB and CMB.

In WPB, we launched our updated Mobile Banking App, with a brand new design and enhanced functionality. Going forward, this will also enable us to develop new features more rapidly. We also introduced the first WPB Wealth journeys on the Mobile Banking App, enabling our customers to access investments and insurance.

We continue with our plans to transform first direct, as we strive to be the best bank for customer service in the UK. In 2021, we launched Straight Through Banking to first direct customers, reducing the account on-boarding time from 10 days to less than 15 minutes, whilst also improving the functionality of our Mobile Banking App.

In CMB, we continued to enhance Kinetic, our mobile-first banking service, by offering Digital Overdrafts, Credit Cards, Commercial Cards, Cheques and Bounce Back Loan servicing. As at November 2021, Kinetic had doubled the number of on-boarded customers in under six months.

Global Wallet went live to allow business clients to manage, transact and hold funds in foreign currencies all in one place. We launched Digital Receivables Finance and enabled indicative offers for facilities to be made in just two days. The product was created in collaboration with Fintech 'Tradeledger' and was commercially launched in the second quarter of 2021.

We also built the first fraud awareness app, launched by a high street bank in the UK, to protect businesses from scams. The free news-style mobile app is set to help our clients fight back against fraudsters and prevent them falling victim to scams.

Energise for growth

Supporting our employees

Employee engagement

Throughout 2021, we continued to focus on our employees' safety, well-being and engagement. We have continued to provide extensive support for our employees, through a new Employee Assistance offering available through BUPA, and the launch of the HSBC Support Fund in partnership with the Bank Workers Charity. This aims to provide short term financial support to current and former HSBC employees.

In August 2021, we launched Degreed, a learning and talent development platform. and have seen 46% of employees enrolled to date. In January 2022, we also launched Talent Marketplace, enabling people to undertake short-term assignments to help gain relevant hands-on experience within a specific discipline.

We have seen overall employee engagement slightly decrease in 2021, with the metric "I would recommend HSBC UK as a great place to work" decreasing by 5 percentage points to 55% (vs. FY20), according to our Snapshot employee survey. 60% of UK employees took part in the FY21 Snapshot survey vs. 51% in FY20.

Speak-up culture

Empowering a speak up culture where our employees feel able to raise issues is critical. Multiple channels are available to our employees, including our confidential whistleblowing helpline and our Human Resources Direct platform. Our HSBC Confidential whistleblowing helpline enables employees to raise concerns in confidence and anonymously if they wish, without fear of retaliation and reprisal. Concerns are investigated thoroughly and independently and HSBC UK does not condone or tolerate any acts of retaliation against concern raisers.

Diversity and Inclusion

In 2021, we worked closely with our 17 Employee Resource Groups, which have a membership of 18,000 employees, to relaunch our Diversity and Inclusion strategy:

- Representation: We are taking steps to improve the diversity of our workforce, aiming for representation of the diversity of the UK population at all levels. In 2021, we exceeded our 35.5% target for female senior leaders, achieving 36.7% as of 31 December 2021.
- Respect: We are embedding behaviours which support an inclusive culture, where people feel valued, respected, and are supported to thrive. Our employee survey results show that we have reduced the engagement gap between disabled and non-disabled people by 2 points. Levels of engagement for ethnic minority colleagues exceed those of ethnic majority colleagues by 3 points.
- Reputation: We are working hard to grow our reputation with our customers, investors, regulators and communities, as an inclusive business which values difference.

Health and Safety

At HSBC UK we are committed to providing a safe and healthy working environment for everyone. During 2021 there were no workplace fatalities (2020: nil) and the number of reportable injuries under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations was 3 (2020: 10). Our injury rate per 100,000 employees was 400 in 2021 (2020: 518), which is attributable to the reduced occupancy of buildings during the Covid-19 pandemic.

Supporting our community

Community partnerships

Employability: The Prince's Trust

Through our Future Skills partnership, we have supported over 1,400 young people with employability opportunities. In 2021, we also funded an additional Social Inclusion Project, through which we have so far supported approximately 90 black young people to take part in the Trust's Enterprise programme.

Employability: Scope

HSBC UK is supporting Scope to create a new online employability platform to reach 1,000 people with disabilities across England and Wales. In addition, working with DS WorkFit, we are pleased to have welcomed 6 colleagues with Down's Syndrome to our branch network team for a three month paid work placement.

Financial capability: Money Heroes

HSBC UK's support has provided a meaningful financial education to 156,442 children aged three to eleven years, with 31% of those from the most deprived parts of the UK.

Community support

In 2021, HSBC UK donated £7.5m to charities and non-profit organisations running programmes and projects in the UK. Additionally, our employees fundraised over £1m, supported with an additional £0.9m contribution from HSBC UK. Our employee-led projects supported 20,213 people across 68 local charities and 2,091 employees took paid volunteering leave to support local communities.

Transition to net zero

Net Zero Bank

HSBC Group has an important role to play in limiting the impact of climate change. We believe our most significant contribution will be to align with the Paris Agreement goal of net zero global greenhouse emissions by 2050.

The Group have set an ambition to achieve this by:

- Becoming a net zero bank by being net zero in our operations and supply chain by 2030 or sooner, and aligning our financed emissions to achieve net zero by 2050 or sooner.
- Supporting our customers in the transition to a sustainable future with $750bn to $1tn of sustainable finance and investment by 2030.
- Unlocking new climate solutions and helping transform sustainable infrastructure into a global asset class, and create a pipeline of bankable projects.

HSBC Group will seek to set intermediate targets that align its portfolio to warming of no more than 1.5°C degrees compared with pre-industrial levels using the best available science.

The Financial Stability Board's Task Force on Climate-related Financial Disclosures recommendations set an important framework for understanding and analysing climate related risks, and the HSBC Group is committed to regular, transparent reporting to help communicate and track its progress. HSBC Group will advocate the same from its customers, suppliers and the industry.

To address its shareholders' concerns, HSBC Group announced its thermal coal phase-out policy in late 2021 and intend to reduce its exposure to thermal coal financing by at least 25% by 2025 and aim to reduce such exposure by 50% by 2030, using its 2020 Task Force on Climate-Related Financial Disclosures reporting as the baseline.

Becoming Net Zero in our Operations

In 2021, HSBC UK has delivered a variety of initiatives to support the Group's commitment to achieve net zero. We announced the signing of our 4th Power Purchase agreement, which is intended to enable HSBC UK to use 100% renewable electricity by 2023, 7 years ahead of target.

We have grown our Sustainable Finance network to 550 ambassadors, which aims to fully equip our frontline employees with a deep understanding of the opportunities and risks faced by our clients as a result of the movement towards a more sustainable economy.

Supporting our customers

In 2021, HSBC UK have played a key role in supporting our customers in the transition to a sustainable future. In CMB, we provided more than £2bn of sustainable finance lending, which includes Green Loans, Sustainability Linked Loans, and Sustainable Bonds.

For further details on the framework we use to define our sustainable financing, please refer to the *HSBC Holdings plc Annual Report and Accounts 2021*.

Throughout the year, we undertook research with University College London for the Transportation, Corporate Real Estate, Manufacturing and Agriculture sectors. We also launched a sustainability hub on our public website for our commercial and retail customers to access relevant information and support.

In January 2022, we launched our £500m Green SME Fund as part of our commitment to support businesses of all sizes to transition and thrive in a low carbon economy.

Providing Innovative green products case studies

Electrocomponents

- In November 2021, HSBC UK acted as Sustainability Coordinator on Electrocomponents' £300m revolving credit facility amendment process to link the facility with the Company's 2030 ESG goals.
- Electrocomponents are a global omni-channel provider of product and service solutions for designers, builders and maintainers of industrial equipment and operations.

Vistry Group

- In December 2021, HSBC UK acted as Documentation Coordinator and Sustainability Coordinator in the provision of a £500m Sustainability-Linked RCF.
- Vistry Group PLC is a FTSE 250 listed company, acknowledged as a top 5 operator in the UK housebuilding market.

Unlocking climate solutions

Additionally, we announced four new Climate Solutions partners. In partnership with National Trust, we planted 250,000 trees and unlocked £3.8m third-party finance for Nature-based solutions in 2021. Working together with National Trust for Scotland, we restored 23 hectares of land. We also supported 43 climate innovation ventures with at the University of Birmingham and Imperial College London.

Stakeholder engagement

This section forms our section 172 statement and addresses the requirements of the Companies (Miscellaneous Reporting) Regulations 2018.

The first part, 'Engaging with our key stakeholders', sets out information about the stakeholders we view as critical to our Company and its prospects, including how the Board had regard for them during its discussions and decision-making in the year The second part, 'Board engagement and governance', provides two examples of principal decisions taken by the Board in 2021 when discharging their responsibility. These show how the Directors and Board respectively discharged their individual and collective responsibility for promoting the long-term success of the Company and took different stakeholder considerations into account in reaching a decision or forming a view. More detailed information on the activities of the Board during 2021 are set out in the Corporate Governance Report on pages 59 to 61.

Engaging with our key stakeholders

Customers

Customer needs are central to the bank's business and must be understood so that we can appropriately support them. How we have served and supported our customers during 2021 is covered in the 'Our Strategy' section on pages 5 to 7 in the Strategic Report. Examples of how the Board has engaged with them during 2021 include:

- CEO Reports to the Board provided key customer-related metrics and performance indicators, such as customer survey feedback and net promoter scores, which allowed the Board to monitor performance and impact.
- Reports to the Board on issues such as complaints, the continuing impact of Covid-19 on customers, supporting vulnerable customers and our branch strategy, enabled the Board to conclude a holistic approach to improving customer service and outcomes was required and prioritise activities to deliver the right outcomes for customers.

Employees

Employees are critical to the successful operation of the bank and its long-term future. Understanding how our employees feel helps us to give them the right support to thrive and serve our customers. How we engage with employees in different ways, as well as our focus on improving diversity and inclusion in HSBC UK, is detailed on page 6.

Examples of how the Board has engaged with them during 2021 include:

- CEO Reports to the Board provided updates on employee related activities and events, metrics on employee attrition, gender diversity and personal conduct cases and the bi-annual internal employee surveys ('Snapshot'). These allowed the Board to understand employee sentiment, health and well-being throughout 2021.
- Employee engagement as a proposed core pillar for assessing culture in the bank. The Board reviewed the proposed framework and KPIs, providing input on the suggested measures and reporting to develop a Culture Dashboard to track progress.
- The Board considered strategic implications for the Future of Work. In particular, how the impact of Covid-19 might change future employee working preferences and what support might be required from the bank for them to be successful.

Shareholder and investors

The bank is a wholly owned subsidiary of HSBC Holdings plc and therefore the Board and its executive management consider the impact and implications of their decisions in relation to its shareholder and debt investors during these engagements. Examples of how the Board did this during 2021 include:

- The Board adopted HSBC's Subsidiary Accountability Framework to ensure our governance and engagement standards are aligned with our shareholder's expectations.
- The Board Chairman and Committee Chairs engaged with their Group counterparts and attended Group forums and Board Committee meetings, together with Executive Directors, to engage on common issues and strategic priorities.
- Directors attended a number of climate awareness sessions run by the Group.
- Evaluated the strength of the Company's balance sheet to ensure that the ability to pay principal or interest on its listed debt securities was not at risk.

Suppliers

Suppliers provide critical support to help us operate our business effectively. We work with our suppliers to ensure mutually beneficial relationships. Examples of Board engagement during 2021 include:

- The Chief Operating Officer's regular reports on third-party supplier matters such as the operating model, relationship management, material outsourcing, performance and operational resilience.
- Management reporting on the continuing potential impact to suppliers and the supply chain arising from the UK's withdrawal from the EU and Covid-19.

These reports allowed the Board to assess the effectiveness of our relationships with third party suppliers, remain alert to pressure points and oversee how HSBC UK managed risk relating to its third, fourth and fifth party suppliers. Further detail on third party risk management is included in the Risk Section in the Report of Directors on page 24.

Communities

HSBC UK has an important role in supporting the communities in which it operates and is dependent on those communities for the majority of our workforce. We have established a number of community partnerships which are detailed in the 'Supporting our Community' section on pages 6 to 7. Examples of Board engagement with our communities during 2021 include:

- Approval of HSBC UK's Climate Plan to support our customers and our communities in the UK's transition to net zero. More detail is set out in 'Transition to net zero' on page 7. In approving the plan, the Board recognised the 'green market' was still developing and there were a number of uncertainties and potential consequential risks that would need to be considered further as market and stakeholder expectations evolve.
- Understanding HSBC UK's existing social impact, profile and narrative, and agreeing a more focused societal purpose for HSBC UK. The Board supported the intention to focus our social and community projects on financial inclusion, resilience, capability and opportunity and was keen to ensure the bank's societal purpose aligns with what our customers, communities and shareholder want.

Regulators and Government

As a UK bank, the government and regulators in the UK are our key stakeholders with whom we maintain constructive dialogue and relations. Examples of Board engagement with them during 2021 include:

- Meetings between Directors and regulators, both as part of continuous assessment and on specific issues such as the FCA's presentation of its annual Firm Evaluation to the Board where the regulator set out its expectations of the Board to oversee the impact of strategic change on customers and markets and our treatment of customers in financial difficulty.
- Consideration of relevant matters arising from the PRA's periodic summary review.
- Participation by Directors in government and regulatory consultations, industry forums and round table events.

Board engagement and governance

Set out below are two examples of principal decisions and discussions during the year where the Directors had regard to their statutory duties under section 172(1) (a)-(f) of the Companies Act 2006:

Technology Strategy

HSBC UK's Technology Strategy is key to delivering our strategic ambition to 'Digitise at Scale' and details of this are set out on page 6. During 2021, the Board approved the Technology Strategy focused on improving customer experience, building a competitive digital platform, providing innovative technologies to support growth, building resilient architecture to support scale and agility, simplifying internal technologies and upskilling employees.

During its discussion, the Board considered whether the impacts to, and outcomes for, our stakeholders were appropriate. The Board examined in particular whether the Technology Strategy:

- Would deliver positive outcomes, such as improved digital journeys and enhanced self-servicing capabilities, that were aligned to our customers' priorities.
- Would automate and streamline key processes for employees in operational areas to drive efficiency and reduce manual interventions; and upskill our Technology employees to successfully execute the strategy.
- Would simplify, mitigate risk, improve resilience and reduce costs of HSBC UK's architecture, through the adoption of global capabilities, platforms and technology services provided by our shareholder.
- Was reliant on shared funding and resources from the HSBC Group and whether this was secured.
- Had taken appropriate account of the costs, risks, controls and resourcing required to support the engagement and use of external software and hardware suppliers.

Wealth Model Transformation

A core pillar of our strategy is to 'Grow our business' by focusing on our strengths which are set out on page 5. In 2021 the Board considered early proposals to develop the Wealth Management business. During its discussion, the Board examined whether the proposals:

- Were appropriate for HSBC UK given the key changes to the customer segmentation and organisational model and, if delivered, achieved the specific needs of our customers, the UK market and regulatory environment.
- Would cause detriment to our customers through service or proposition degradation.
- Would impact employees through revised organisational design and resourcing requirements.
- Were reliant on shared funding and resources from the HSBC Group and whether this was secured to deliver the technology enhancements required to improve accessibility and customer journeys.

The Board decided that more detail on the risks, funding requirements and customer impact for the bank was required to satisfy themselves that the impact on, and outcomes for, stakeholders were appropriate before it would be in a position to consider approving the proposals.

Business performance and KPIs

The Board tracks the bank's progress in implementing its strategy with a range of financial and non-financial measures or KPIs.

Progress is assessed by comparison with the group strategic priorities, operating plan targets and historical performance.

Management and the Board review its KPIs regularly in light of its strategic objectives and may adopt new or refined measures to better align the KPIs to HSBC Group's strategy and strategic priorities.

Economic background and outlook

UK economic outlook

UK GDP rose 7.5% in 2021, and HSBC Global Research forecasts further growth of 4.0% in 2022, followed by 1.6% in 2023. Its forecasts assume a 2.5% fall in aggregate household real incomes over 2022 as a whole, led by tax rises and higher inflation. Indeed, against a backdrop of higher commodity prices, constrained supply and a tight labour market, inflation has risen sharply (in common with other developed markets). UK CPI inflation rose to 5.5% year-on-year in January 2022, and HSBC Global Research expects it to continue to rise to a peak of 7.5% in April 2022 (when household energy prices are set to rise by at least 54%). It is expected that CPI will then fall back to 4.5% by end-2022 and 2.1% by end-2023.

The impact may be limited by higher borrowing and lower savings; however, there are downside risks to consumption if households instead cut back on spending.

The UK labour market has outperformed relative to expectations, in common with those of other developed market economies. HSBC Global Research forecasts the unemployment rate to fall from 4.1% (December 2021) to 3.8% by Q3 2022 and then stabilise. Wage growth rose to a peak of 8.8% (total pay) in June 2021. It has since fallen back to 4.3% in December 2021, but base effects account for much of the decline, and pressures are likely to remain acute.

As a consequence of the rise in inflation, the Bank of England raised interest rates from 0.10% to 0.25% on 16 December 2021, and then from 0.25% to 0.50% on 3 February 2022. HSBC Global Research forecasts three further rate rises, each of 25bps, in March 2022, May 2022 and August 2022. Following the rise to 0.50%, the Bank of England has announced that it will sell the corporate bonds in its Quantitative Easing portfolio and cease reinvesting in maturing gilts.

Financial summary

Summary consolidated income statement for the year ended

	Year ended	
	Audited	
	31 Dec 2021	31 Dec 2020
	£m	£m
Net interest income	**4,650**	4,551
Net fee income	**1,080**	1,016
Net income from financial instruments held for trading or managed on a fair value basis	**318**	357
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**15**	(1)
Gains less losses from financial investments	**101**	73
Other operating income	**86**	35
Net operating income before change in expected credit losses and other credit impairment charges[1]	**6,250**	6,031
Change in expected credit losses and other credit impairment charges	**989**	(2,115)
Net operating income	**7,239**	3,916
Total operating expenses[2]	**(3,759)**	(3,753)
Operating profit	**3,480**	163
Profit before tax	**3,480**	163
Tax expense	**(1,112)**	(83)
Profit for the year	**2,368**	80
Profit attributable to shareholders of the parent company	**2,363**	76
Profit attributable to non-controlling interests	**5**	4

1 *Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.*
2 *Total operating expenses include significant items as detailed on pages 11 and 12.*

Reported performance

2021 reported profit before tax of £3,480m, £3,317m higher than 2020 reported profit before tax of £163m, driven by lower ECL and higher revenue.

Net interest income increased by £99m or 2%. Lower rates have benefited mortgage and CMB lending margins but adversely impacted deposit margins. The overall increase in NII is driven by mortgage volume growth.

Net fee income increased by £64m or 6%, due to higher fee based revenue in CMB as the market recovers following the Covid-19 pandemic. WPB net fee income is in line with 2020 due to higher fee income from mortgages, debit cards and investment products, offset by higher profit share payment made from M&S Bank as profit has increased from significant ECL releases.

Net income from financial instruments held for trading or managed on a fair value basis decreased by £39m or 11%, principally due to a change in the commercial fee structure for recharge services provided from HSBC Bank plc.

Gains less losses from financial investments increased by £28m or 38%, due to higher disposal gains realised by the Markets Treasury desk to protect increases in the value of the portfolio in volatile markets.

Other operating income increased by £51m, driven by gains on derecognition in CMB 2021 notably in the context of the Libor transition, and modification losses in 2020, due to unsecured lending payment holidays in WPB.

ECL decreased by £3,104m from a £2,115m charge in 2020 to a release of £989m in 2021. The release in provisions in 2021 was due to the improvement in the UK macroeconomic outlook. This compared with the significant build-up of stage 1 and stage 2 allowances in 2020 at the onset of the Covid-19 pandemic.

Total operating expenses increased by £6m. Restructuring programmes, legacy conduct cases and bank levy costs which were allocated to HSBC UK for the first time in 2021 were partially offset by front and back office cost reductions across the business as we continue to actively manage our cost base.

Net interest income

	Year ended	
	At	
	31 Dec 2021	31 Dec 2020
	£m	£m
Interest income	**5,072**	5,197
Interest expense	**(422)**	(646)
Net interest income	**4,650**	4,551
Average interest-earning assets	**303,151**	265,891
	%	%
Gross interest yield[1]	**1.67**	1.95
Less: Gross interest payable[1]	**(0.18)**	(0.32)
Net interest spread[2]	**1.49**	1.63
Net interest margin[3]	**1.53**	1.71

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

Net interest margin decreased from 1.71% in 2020 to 1.53% in 2021. This was driven by lower margins following the UK Bank base rate reductions in 2020 and higher volumes of customer deposit balances and cash at central banks.

Return on average tangible equity

RoTE is measured as the profit attributable to ordinary shareholders divided by the reported equity adjusted for goodwill and intangibles. The 2021 RoTE of 13.5% was 13.6% higher than the 2020 RoTE of (0.1%), driven by higher reported profit before tax. Average tangible equity has remained in line with 2020.

Alternative performance measures

Our reported results are prepared in accordance with IFRSs, as detailed in the financial statements starting on page 72. In measuring our performance, the financial measures that we use include those derived from our reported results to eliminate factors that distort YoY comparisons. These are considered alternative performance measures (non-GAAP financial measures).

Within the Strategic Report we present performance on an adjusted basis, which is our segment measure for our reportable segments under IFRS 8 but constitutes alternative performance measures when otherwise presented.

Adjusted performance

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

We use significant items to describe collectively the group of individual adjustments excluded from the 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 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, are considered and assessed separately against the above criteria prior to recognition as a significant item. Significant items, which are detailed on pages 11 to 12, 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 to provide 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 YoY 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 CODM for the purposes of identifying the HSBC Group's, and therefore HSBC UK's, reportable segments. HSBC UK's CODM is the HSBC UK Chief Executive, supported by the HSBC UK Executive Committee. The global business results are assessed by the CODM on the basis of adjusted performance that removes the effects of significant items from results. We therefore present HSBC UK global business results on an adjusted basis as required by IFRS.

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 global businesses. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity. Costs which are not allocated to global businesses are included in Corporate Centre.

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

A description of the global businesses is provided in the Strategic Report, page 5.

Adjusted profit before tax and balance sheet data for the year ended

At 31 Dec 2021	**WPB £m**	**CMB £m**	**GBM £m**	**Corporate Centre £m**	**Total £m**
Net operating income/(expense) before change in expected credit losses and other credit impairment charges	**3,369**	**2,748**	**124**	**(2)**	**6,239**
– external	**3,271**	**2,642**	**327**	**(1)**	**6,239**
– inter-segment	**98**	**106**	**(203)**	**(1)**	**—**
– *of which: net interest income*	***2,774***	***1,858***	**—**	***10***	***4,642***
Change in expected credit losses and other credit impairment charges	**439**	**550**	**—**	**—**	**989**
Net operating income/(expense)	**3,808**	**3,298**	**124**	**(2)**	**7,228**
Total operating expenses	**(2,219)**	**(1,174)**	**(32)**	**(39)**	**(3,464)**
Operating profit/(loss)	**1,589**	**2,124**	**92**	**(41)**	**3,764**
Adjusted profit/(loss) before tax	**1,589**	**2,124**	**92**	**(41)**	**3,764**
	%	**%**	**%**	**%**	**%**
Adjusted cost efficiency ratio	**65.9**	**42.7**	**25.8**	**(1,950.0)**	**55.5**
Balance sheet information	**£m**	**£m**	**£m**	**£m**	**£m**
Loans and advances to customers (net)	**131,700**	**63,784**	**—**	**42**	**195,526**
Customer accounts	**178,685**	**103,375**	**—**	**(190)**	**281,870**
At 31 Dec 2020					
Net operating income/(expense) before change in expected credit losses and other credit impairment charges	3,276	2,621	156	(6)	6,047
– external	3,191	2,573	346	(63)	6,047
– inter-segment	85	48	(190)	57	—
– *of which: net interest income/(expense)*	*2,703*	*1,871*	—	*(7)*	*4,567*
Change in expected credit losses and other credit impairment charges	(843)	(1,272)	—	—	(2,115)
Net operating income/(expense)	2,433	1,349	156	(6)	3,932
Total operating (expenses)/income	(2,328)	(1,196)	(86)	12	(3,598)
Operating profit	105	153	70	6	334
Adjusted profit before tax	105	153	70	6	334
Adjusted cost efficiency ratio (%)	71.1	45.6	55.1	(200.0)	59.5
Balance sheet information	£m	£m	£m	£m	£m
Loans and advances to customers (net)	124,041	66,930	—	262	191,233
Customer accounts	160,190	99,434	—	(283)	259,341

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

At 31 Dec 2021	WPB £m	CMB £m	GBM £m	Corporate Centre £m	Total £m
Revenue	**3,364**	**2,759**	**124**	**3**	**6,250**
Significant revenue items	**5**	**(11)**	**—**	**(5)**	**(11)**
– customer remediation and related matters	**5**	**(13)**	**—**	**—**	**(8)**
– restructuring and other related costs	**—**	**2**	**—**	**(5)**	**(3)**
Adjusted revenue/(expense)	**3,369**	**2,748**	**124**	**(2)**	**6,239**
At 31 Dec 2020					
Revenue	3,273	2,608	156	(6)	6,031
Significant revenue items	3	13	—	—	16
– customer remediation and related matters	3	12	—	—	15
– restructuring and other related costs	—	1	—	—	1
Adjusted revenue/(expense)	3,276	2,621	156	(6)	6,047

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

At 31 Dec 2021	WPB £m	CMB £m	GBM £m	Corporate Centre £m	Total £m
Operating expenses	**(2,311)**	**(1,181)**	**(32)**	**(235)**	**(3,759)**
Significant cost items	**92**	**7**	**—**	**196**	**295**
– restructuring and other related costs[1]	**63**	**6**	**—**	**190**	**259**
– customer remediation and related matters	**29**	**1**	**—**	**6**	**36**
– guaranteed minimum pension benefits equalisation	**—**	**—**	**—**	**—**	**—**
Adjusted operating expenses	**(2,219)**	**(1,174)**	**(32)**	**(39)**	**(3,464)**
At 31 Dec 2020					
Operating expenses	(2,355)	(1,223)	(86)	(89)	(3,753)
Significant cost items	27	27	—	101	155
– restructuring and other related costs[1]	73	25	—	81	179
– customer remediation and related matters	(46)	2	—	7	(37)
– guaranteed minimum pension benefits equalisation	—	—	—	13	13
Adjusted operating (expenses)/income	(2,328)	(1,196)	(86)	12	(3,598)

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

Net impact on profit before tax by business segment for the year ended

At 31 Dec 2021	WPB £m	CMB £m	GBM £m	Corporate Centre £m	Total £m
Profit/(loss) before tax	**1,492**	**2,128**	**92**	**(232)**	**3,480**
Net impact on reported profit and loss	**97**	**(4)**	**—**	**191**	**284**
– significant revenue items	**5**	**(11)**	**—**	**(5)**	**(11)**
– significant cost items	**92**	**7**	**—**	**196**	**295**
Adjusted profit/(loss) before tax	**1,589**	**2,124**	**92**	**(41)**	**3,764**
At 31 Dec 2020					
Profit/(loss) before tax	75	113	70	(95)	163
Net impact on reported profit and loss	30	40	—	101	171
– significant revenue items	3	13	—	—	16
– significant cost items	27	27	—	101	155
Adjusted profit before tax	105	153	70	6	334

Adjusted performance

Our adjusted profit before tax in 2021 increased by £3,430m compared with 2020, to a profit of £3,764m. This reflected lower ECL, higher revenue and lower operating expenses across all businesses.

Adjusted revenue increased by £192m or 3%, with increased mortgage and CMB lending revenue, partially offset by lower deposit revenue due to lower interest rates.

ECL decreased by £3,104m, as described on page 10 'Reported Performance'.

Adjusted operating expenses decreased by £134m or 4%, due to reduced staff costs in WPB and CMB, GBM cost reductions from the changes to the commercial arrangement with HSBC Bank plc, and lower back-office operations costs. This was offset by a lower benefit arising from our material pension surplus as discount rates fell and bank levy, which was allocated to HSBC UK for the first time in 2021.

The 2021 adjusted RoTE of 14.7% was 14.2% higher than the 2020 adjusted RoTE of 0.5% driven by higher adjusted profit before tax, with average tangible equity in line with 2020.

Adjusted cost efficiency ratio is measured as total adjusted operating expenses divided by adjusted net operating income before ECL. The adjusted cost efficiency ratio in 2021 improved by 4.0% vs. 2020, from 59.5% to 55.5%.

Wealth and Personal Banking

Adjusted profit before tax was £1,484m higher than 2020, driven by lower ECL, lower operating expenses and higher revenue. Revenue increased by £93m or 3%, primarily due to increased mortgage volumes, partially offset by lower interest rates on deposit balances and other impacts of the Covid-19 pandemic.

ECL decreased by £1,282m.

Operating expenses decreased by £109m or 5%, due to actions taken to reduce the direct staff costs of the business and lower back-office operations costs.

Commercial Banking

Adjusted profit before tax was £1,971m higher than 2020, due to lower ECL, higher revenue and lower operating expenses.

Revenue increased by £127m or 5%, driven by higher volumes and growth in fee-based revenue, higher asset margins and deposit balances, partially offset by the impact of lower interest rates.

ECL have decreased by £1,822m.

Operating expenses decreased by £22m or 2%. Investment in Technology, higher Covid-19 related costs and bank levy costs were offset by staff and non-staff cost efficiencies.

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 transferred to WPB and CMB, with an element retained in GBM.

Adjusted profit before tax was £22m higher than 2020, driven by stronger underlying foreign exchange payment revenues. There was a change in the commercial fee structure for recharge services provided from HSBC Bank plc, effective from January 2021. This change is driving the reduction in operating expenses and revenue from 2020.

Corporate Centre

Adjusted loss before tax of £41m in 2021 was £47m lower than the profit before tax of £6m in 2020, driven by higher operating expenses caused by the reduced benefit arising from our material pension surplus as discount rates fell and lower recovery of costs from the global businesses.

Dividends

The consolidated reported profit for the year attributable to the shareholders of the bank was £2,363m.

Interim dividends of £633m, were paid on the ordinary share capital during the year.

An interim dividend of £491m, in respect of the current year, was resolved on 16 February 2022, payable in March 2022.

Further information regarding dividends is given in Note 6.

Summary consolidated balance sheet as at

	31 Dec 2021 £m	31 Dec 2020 £m
Total assets	**346,063**	304,864
– cash and balances at central banks	**112,478**	76,429
– items in the course of collections from other banks	**299**	253
– financial assets designated and otherwise mandatory measured at fair value	**79**	26
– derivative assets	**64**	155
– loans and advances to banks	**1,914**	1,514
– loans and advances to customers	**195,526**	191,233
– reverse repurchase agreements – non-trading	**7,988**	2,485
– financial investments	**14,377**	19,309
– prepayment, accrued income, interests in joint ventures and other assets	**9,145**	9,318
– current tax assets	**—**	49
– goodwill and intangible assets	**4,193**	4,093
Total liabilities	**322,258**	282,006
– deposits by banks	**11,180**	540
– customer accounts	**281,870**	259,341
– repurchase agreements – non-trading	**10,438**	6,150
– items in the course of transmission to other banks	**151**	132
– derivative liabilities	**292**	365
– debt securities in issue	**900**	866
– accruals, deferred income and other liabilities	**1,674**	1,941
– current and deferred tax liabilities	**2,771**	1,677
– provisions	**495**	979
– subordinated liabilities	**12,487**	10,015
Total equity	**23,805**	22,858
– total shareholders' equity[1]	**23,745**	22,798
– non-controlling interests	**60**	60

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

The group maintained a strong and liquid balance sheet. The ratio of customer advances to customer accounts decreased to 69.4% compared to 73.7% at 31 December 2020 driven by a 8.7% increase in customer account balances.

Impact of Climate Risk

We have assessed the impact of climate risk on our balance sheet and have concluded that there is no material impact on the financial statements for the year ended 31 December 2021. We considered the impact on expected credit losses, classification and measurement of financial instruments, goodwill and intangible assets, our owned properties, our pension plan, as well as our going concern.

During the year we also conducted a stress test to understand the impact of climate risk by request from the Bank of England as part of its Biennial Exploratory Scenario Stress test. Whilst the focus of the exercise was solely on banking book impairments and RWAs, no issues were identified around the going concern status of the bank. For further detail on how climate risk can impact HSBC UK in the medium to long-term see page 16 and on credit risk see page 30.

Assets

Cash and balances at central banks increased by £36bn due to continued growth in customer account balances and drawn funding from the TFSME scheme.

Loans and advances to customers increased by £4.3bn due to growth in retail mortgage lending and the release of £1.1bn stage 1 and 2 ECL due to improving economic conditions. Reverse repurchase agreements increased by £5.5bn as part of balance sheet management activities to manage liquidity and margin.

Liabilities

Customer accounts increased by £22.5bn in both commercial and retail current and savings accounts. We observed a continued build up of customer savings and lower propensity to spend, as a result of the pandemic.

Deposits by banks increased by £10.6bn due to the drawdown of TFSME. Repurchase agreements – non trading have increased by £4.3bn as part of activities to manage liquidity and margin and subordinated liabilities increased £2.5bn in line with capital management requirements.

Provisions have decreased by £0.5bn, primarily related to a reduction in customer remediation.

Equity

Total shareholders' equity, including non-controlling interests, increased by £0.9bn or 4% compared with 31 December 2020. This reflected the effects of profits generated of £2.4bn, partly offset by a reduction in OCI of £0.7bn and dividend payments of £0.8bn. The reduction in OCI included remeasurement of the defined benefit pension assets and obligations of £0.5bn.

Risk overview

HSBC UK continued to play an expanded role in helping to support the UK economy and our customers during 2021 due to the unprecedented economic events caused by the Covid-19 pandemic. Many of our customers' business models and income were impacted by the global economic downturn, requiring them to take significant levels of support from both the UK Government and banks.

Throughout the pandemic, we have continued to support our customers and adapted our operational processes. We have maintained high levels of service as our people, processes and systems responded to the required changes.

Our balance sheet and liquidity remained strong which helped us to support our customers both during periods of UK Government imposed restrictions and when these restrictions were eased.

We continue our increased focus on the quality and timeliness of the data used to inform management decisions, through measures such as early warning indicators, prudent active risk management of our risk appetite, and ensuring regular communication with our Board and key stakeholders.

The macroeconomic, trade and regulatory environment has become increasingly fragmented, with the spread of new variants of Covid-19, alongside other factors, continuing to disrupt supply chains in several industries globally, including commercial real estate. It remains to be seen how supply chains will be impacted by the Omicron or other future variants. The mismatch between supply and demand has pushed up commodity and other prices, particularly energy, creating further challenges for the BoE and our customers. Against a backdrop of both the economic recovery and increasing inflationary pressures, an interest rate rise has been seen in both December 2021 and February 2022. The economic outlook is described in more detail in the 'Description of consensus economic scenarios' section of the Report. See pages 35 and 36.

The emerging geopolitical landscape could also have potential ramifications for HSBC UK and its customers.

Risk Environment

We continuously identify and monitor risks. This process, which is informed by our risk factors and the results of the 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.

Our material banking risks include credit risk, treasury risk, market risk, resilience risk, regulatory compliance risk, financial crime and fraud risk and model risk. See pages 27 to 58.

In addition to these banking risks, we have identified top and emerging risks with the potential to have a material impact on our financial results or reputation and the sustainability of our long-term business model. See pages 19 to 25.

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 17 to 63.

During 2021, a number of changes to our top and emerging risks have been made, to reflect the revised assessment of their effect on HSBC UK. Some risks were removed as these were considered as having been absorbed into business as usual risk management practices, including negative interest rates. Digital currencies and disintermediation risk was added as a new risk in the second half of 2021.

Risk		Mitigants
Externally driven		
Covid-19	►	Since the Covid-19 pandemic in the UK, we have worked with the UK Government, regulators and our customers in order to implement measures to mitigate the financial and non-financial impacts of the pandemic on our customers and the UK economy. Although there has been an economic recovery throughout 2021 and some reduction in credit stress in our portfolios, we maintain heightened monitoring activities to identify sectors and customers experiencing financial difficulties as a result of the Covid-19 pandemic. We continued to operate under business continuity measures to effectively manage our operations under the constraints imposed by the UK Government in response to the pandemic, and introduced measures to enable our people to work safely and flexibly during the pandemic, including those to enable employees who have been working from home the ability to return to the workplace in accordance with advice from the UK Government.
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 and possible, to help ensure we remain within our risk appetite. A new trading relationship between the UK and the EU, outlined within the TCA, commenced on 1 January 2021 and is taking sometime to settle. The relationship between the UK and the EU may come under more severe strain in 2022 over multiple disputes, most notably the Northern Ireland Protocol, with possible repercussions on the terms of trade between the UK and the EU. We will continue to work with regulators, governments and our customers to manage the risks created by the UK's exit from the EU as they arise, particularly across those industry sectors most impacted. The topic of Scottish independence continues to be debated, with differences of opinion expressed publicly between the UK and Scottish Parliaments. We are monitoring developments closely and considering any impacts on HSBC UK or our customers. In addition, with tensions continuing to rise between Russia and Ukraine, we will continue to monitor the development of this situation and any potential implications for HSBC UK or its customers.
Regulatory developments	►	We proactively monitor for both prudential and conduct regulatory developments to ensure they are interpreted and implemented effectively and in a timely way. We engage with regulators, policy makers and standard setters as appropriate, to help make a positive contribution to the evolving regulatory landscape. We also track closely the key themes currently driving the regulatory compliance agenda, which include: understanding what harm customers are vulnerable to throughout the customer lifecycle; ensuring the fair treatment of customers in financial difficulty; ensuring operational resilience; the FCA's new 'Consumer Duty' and the Payments Infrastructure.
Information security risk and cyber crime	►	We protect HSBC UK and our customers by continuing to strengthen our cyber defences, helping us to safely execute our business priorities and keep our customers' information secure. We continue to strengthen controls, for example through a dedicated Operational Resilience programme, to prevent, detect and mitigate the impact of persistent and increasingly advanced cyber threats with specific focus on vulnerability management, malware defence, protection against unauthorised access, third-party risk, customer resilience and financial institution stability. We are closely monitoring our continued dependency on remote working and online facilities.
Ibor transition	▼	We made excellent progress in the latter part of 2021 in transitioning all of the planned legacy contracts referencing demised and demising Ibor benchmarks. We remain focused on completing the system and product updates to support the transition of demising Libor benchmarks. Throughout 2022 there will be an increasing focus on customer engagement, in particular for US dollar Libor related transition activities.

Risk		Mitigants
Externally driven		
Climate-related risks	▲	Climate risk has increased due to the pace and volume of regulatory developments, with trends focusing on formalising climate risk management, enhanced disclosure, greenwashing and integration of environmental and other ESG risks. Investors and activists are also placing greater focus on the actions and investment decisions of financial institutions relating to climate. We continue to roll out customer questionnaires to assess our counterparties' exposure to transition and physical risk. We have introduced Climate risk data within our residential mortgage processes and continue to embed this further. We developed the capability to execute climate stress testing and scenario analysis and delivered the BoE's Climate Biennial Exploratory Scenario stress test exercise. The outputs of our stress testing and scenario analysis are activity are being used to further enhance risk management and decision making. To develop the right climate skills and culture we have delivered a climate risk training programme for all levels of employees.
Digital currencies and disintermediation risk	●	With the increasing attention of the public, governments, regulatory bodies and central banks, on digital currencies, including cryptocurrencies, the banking landscape has potential to move significantly to a more direct linkage between currency providers and payment participants, to the possible detriment of intermediaries, such as HSBC UK. Whilst still developing and uncertain, the possible benefits from the use of digital currencies such as cost reduction, enhanced security, globally accepted currencies and improved speed of transactions and their verification could see a shift in the parties involved in, or engaged with, recordkeeping and payment processes. We will monitor the evolution of digital assets, such as Bitcoin, as they become better established and the potential impacts on our customers and financial institutions, becomes clearer.

Risk		Mitigants
Internally driven		
People risk	▲	We monitor workforce capacity and capability requirements in line with our published growth strategy. People Risk is heightened as a result of the ongoing pandemic conditions, including long periods of working from home. This has affected our staff's resilience, wellbeing and level of engagement over time, with increased attrition seen in some areas of our business. We have put in place measures to help ensure that our people are supported and able to work safely throughout the Covid-19 pandemic, and to integrate our employees back to the workplace as government restrictions ease. Employee engagement continues to be a key priority; business-owned engagement plans are in place which are have been further supported by a variety of wellbeing and recognition initiatives. The relaunch of our Purpose and Values provides support around strategy and our future, and is key to embedding the right culture and employee behaviours to also help achieve our diversity and inclusion aspirations. We continue to monitor people risks that may arise due to business transformation to help ensure that we sensitively manage any redundancies and support impacted employees.
IT systems infrastructure and resilience	▶	We continue to monitor and improve IT systems and network resilience to minimise service disruption and improve HSBC UK customer experience, through for example our Operational Resilience programme which will meet minimum regulatory requirements by March 2022. To support the business strategy, we have continued to strengthen our end to end management, build and deployment controls and system monitoring capabilities.
Model risk	▲	We continue to strengthen our oversight of models and model risk controls. Model risk has heightened with increased requirements to address regulatory and economic changes as we use models across more areas of HSBC UK. We have further embedded our new model risk appetite measures, which focus on the risks inherent in the use of models. We are redeveloping our capital models to reflect the evolving regulatory requirements. We have also enhanced governance and oversight of models used, particularly IFRS 9 models, in light of potential impacts from the uncertain external environment on the model outcomes.
Financial crime and fraud risk	▶	We continued to support our customers as HSBC UK's financial crime landscape evolved due to the Covid-19 pandemic and as broad geopolitical, socioeconomic and technological shifts impacted the UK. We continued to make improvements to our financial crime controls as emerging risks were identified, including more sophisticated fraud attempts against our customers, and to invest in advanced analytics and artificial intelligence as key elements of our next generation of tools to fight financial crime.
Conduct and customer detriment	▶	HSBC UK has a well-established approach to conduct delivering consistent focus for good customer outcomes. We continue to enhance our management of conduct in a number of areas, including fully understanding how our actions impact our customers. Our foundations in this area are strong, and the introduction of a new purpose-led conduct approach in HSBC UK in 2021 offers the opportunity for further simplification and to ensure that our approach to conduct is more meaningful to all colleagues. At the forefront of current conduct risk considerations is the fair treatment of vulnerable customers and customers in financial difficulty.
Data management	▶	We continue to improve the control environment for data-related risks with a focus on investments in data governance, data usage, data integrity, data privacy and information lifecycle management. Our data strategy is being refreshed to support the business strategy, complement the UK technology strategy, recognise external data trends and align with our data strategy pillars of protect, connect and unlock.
Third party risk management	▶	The impacts of the Covid-19 pandemic on the delivery of services provided to HSBC UK continues to be closely monitored, with businesses and functions taking appropriate action where needed. We have continued to enhance our third-party risk management framework as our supply chain evolves, to help ensure engagements comply with our third-party risk policy and to stay aligned to the latest regulatory expectations.
Execution risk	▶	We continue to strengthen our prioritisation and governance processes for significant strategic, regulatory and compliance projects. We monitored and managed our change execution risk, including capacity and resources to meet the increased delivery demand across both strategic transformation programmes, regulatory deliverables and remediation programmes throughout 2021. With business continuity plans and significant remote working in place, the impact of Covid-19 on major change programmes continues to be closely monitored.

● New risk introduced in 2021
▲ Risk has heightened during 2021
▶ Risk remains at the same level as 2020
▼ Risk has decreased during 2021

The Strategic Report comprising pages 2 to 16 was approved by the Board on 21 February 2022 and is signed on its behalf by

John David Stuart

Director
HSBC UK Bank plc
Registered number: 9928412

Risk

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How we manage our risks

Our risk appetite

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

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

The following principles guide HSBC UK's overarching risk appetite and determine how its businesses and risks are managed.

Financial position

- We aim to maintain a strong capital position, defined by regulatory and internal capital ratios.
- We carry out liquidity and funding management for each operating entity, on a stand-alone basis.

Operating model

- We seek to generate returns in line with a conservative risk appetite and strong risk management capability.
- We aim to deliver sustainable earnings and consistent returns for shareholders.

Business practice

- We have zero tolerance for any of our people knowingly engaging in any business, activity or association where foreseeable reputational risk or damage has not been considered and/or mitigated.
- We have no appetite for deliberately or knowingly causing detriment to consumers, or incurring a breach of the letter or spirit of regulatory requirements.
- We have no appetite for inappropriate market conduct by any member of staff or by any HSBC UK business.

Enterprise-wide application

Our risk appetite encapsulates the consideration of financial and non-financial risks. We define financial risk as the risk of a financial loss as a result of business activities. We actively take these types of risks to maximise shareholder value and profits.

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

Our risk management framework

An established risk governance framework and ownership structure ensures oversight of, and accountability for, the effective management of risk. Our Risk Management Framework fosters the continuous monitoring of the risk environment and an integrated evaluation of risks and their interactions. Integral to our risk management framework are risk appetite, stress testing and the identification of emerging risks.

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

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

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

Non-financial risk includes some of the most material risks HSBC UK faces, such as cyber-attacks, poor customer outcomes, loss of data and the current Covid-19 pandemic. Actively managing non-financial risks is crucial to serving our customers effectively and having a positive impact on society. During 2021, we continued to strengthen the control environment and our approach to the management of non-financial risks, as broadly set out in our risk management framework. The management of non-financial risk focuses on governance and risk appetite, providing a single view of the non-financial risks that matter most, and associated controls. It incorporates a risk management system designed to enable the active management of non-financial risk. Our ongoing focus is on simplifying our approach to non-financial risk management, while driving more effective oversight and better end-to-end identification and management of risks. This is overseen by the Operational and Resilience Risk function, headed by the HSBC UK Head of Operational and Resilience Risk.

Three lines of defence

To create a robust control environment to manage risks, we use an activity-based three lines of defence model. This model delineates management accountabilities and responsibilities for risk management and the control environment.

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

- The first line of defence owns the risks and is responsible for identifying, recording, reporting and managing them in line with risk appetite, and ensuring that the right controls and assessments are in place to mitigate them.
- The second line of defence challenges the first line of defence on effective risk management, and provides advice and guidance in relation to the risk.
- The third line of defence is our Internal Audit function, which provides independent assurance that our risk management approach and processes are designed and operating effectively.

Risk appetite

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

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

Our RAS and business activities are guided and underpinned by qualitative principles and/or quantitative metrics.

Stress testing

Stress testing is an important tool for banks and regulators to assess vulnerabilities in individual banks and/or the financial banking sector under hypothetical adverse scenarios. The results of stress testing are used to assess banks' resilience and capital adequacy to a range of adverse shocks.

A number of internal macroeconomic and event-driven stress scenarios specific to the UK or the global economy were considered and reported to senior management during the course of the year. These stress scenarios included the continuing impact of Covid-19 and associated lockdowns in the UK. HSBC UK also conducted Reverse Stress Testing. This exercise required HSBC UK to assess scenarios and circumstances that would render its business model non-viable, thereby identifying potential business vulnerabilities.

Furthermore, HSBC UK is subject to regulatory stress testing and the requirements are increasing in frequency and granularity. The assessment by the regulators is on both a quantitative and qualitative basis, the latter focusing on our portfolio quality, data provision, stress testing capability and capital planning processes.

In 2021, HSBC UK contributed to the successful completion of the BoE solvency stress testing exercise. This exercise was designed to assess whether participating banks have sufficient capital to deal with a worsening of the prevailing stress, as well as to inform the BoE assessment of how the banking system can continue to support the economy.

The BoE published the results of the 2021 solvency stress test in December 2021, confirming that these tests did not reveal any capital inadequacies for the HSBC Group.

Both the 2021 solvency stress test and the 2021 internal stress tests confirm that HSBC UK is well positioned to withstand potential shocks.

In 2021, HSBC UK also contributed to the first BoE Climate Biennial Exploratory Scenario. The BoE's desired outcomes are to: size the financial exposures of the financial system to climate risk; understand the challenges to business models of climate risk; and to assist participants in enhancing their management of climate risk. The CBES is intended to be a learning exercise, and will develop the capabilities of both the BoE and the participants. The CBES will not be used to set capital requirements. The first submission was in October 2021, with a second round to be submitted in March 2022. The full results are expected to be published in May 2022.

Risk management

We recognise that the primary role of risk management is to protect our customers, business, employees, shareholders and the communities that we serve, while ensuring we are able to support our strategy and provide sustainable growth. This is supported through our three lines of defence model.

We use a comprehensive risk management framework across the organisation and across 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 framework fosters continual monitoring, promotes risk awareness and encourages sound operational and strategic decision making. It also ensures a consistent approach to identifying, assessing, managing and reporting the risks we accept and incur in our activities.

Internal Control

We have:

- Established policies to ensure compliance with the PRA Rulebook for Ring-fenced bodies. These include an over-arching Ring-fenced bodies policy, together with additional policies covering Exceptions, Arm's Length Transactions and Distributions.
- Implemented the HSBC Group Risk Management Framework and other HSBC Group policies and procedures. These are designed to: safeguard assets against unauthorised use or disposal; maintain proper accounting records; and ensure the reliability and usefulness of financial information.

Policies and procedures are designed to provide effective internal control within the group but can only provide reasonable assurance against mitigating material misstatement, errors, losses or fraud.

The key risk management and internal control procedures, that have been in place throughout the year ended 31 December 2021 and up to the date of approval of this report, include:

- Global Principles: The HSBC Group's Global Principles set an overarching standard for all other policies and procedures and are fundamental to the Group's risk management structure. They inform and connect our purpose, values, strategy and risk management principles, guiding us to do the right thing and treat our customers and employees fairly at all times.
- HSBC Group Risk Management Framework: see 'Our risk management framework' section of the report on page 17.
- Delegations of authority: Subject to certain matters reserved to the Board, the Board has delegated powers and authority to manage the day-to-day running of the Company within certain limits to the CEO and its Executive Committee. The CEO is permitted to sub-delegate such powers and authorities, within those limits, as he sees fit.
- Strategic plans: Strategic plans are prepared annually for each of the lines of business that make up the group, within the framework of the HSBC Group's overall strategy. The relevant lines of business strategic plans are incorporated into the five year HSBC UK Country Strategic Plan, which is refreshed every three years, and approved by the Company's Board. Progress against the Country Strategic Plan is reported regularly to the Executive Committee, Board and the HSBC Group Executive Committee.

We also approve an annual Financial Resource Plan, which is informed by detailed analysis of risk appetite, stress-testing exercises, and the types and quantum of risk that the Company is prepared to take, within the parameters set by the HSBC Group, to execute its strategy, and also sets out the key business initiatives and the financial impact of those initiatives in order to determine the most appropriate use of the Company's resources. The key risk management and internal control procedures over financial reporting include the following:

- Financial reporting: The financial reporting process for preparing the consolidated *Annual Report and Accounts 2021* is controlled using documented accounting policies and reporting formats, supported by detailed instructions and guidance on reporting requirements. These are issued by the HSBC Group to HSBC UK that are cascaded to all reporting entities within the group in advance of each reporting period end. The submission of the Company's financial information is subject to certification by the CFO, and analytical review procedures undertaken at reporting entity and group levels.
- Disclosure Committee: The Disclosure Committee comprises certain executive management and supports the discharge of the Company's obligations in relation to its debt securities listed and traded on the London Stock Exchange. In particular, it considers whether a new event or circumstance constitutes inside information, reviews all material disclosures and considers and advises upon any requests and reports to be made by any subsidiaries or affiliates of its group with regard to inside information.
- Audit Committee: The Board's Audit Committee reviews the financial reporting disclosures for any material errors, misstatements or omissions with regard to the integrity of financial statements and disclosures and provides oversight over internal financial controls. It is supported by structures and processes within the group's Finance and Risk functions that provide analytical review of financial reporting and the maintenance of accounting records, and seek the committee's support regarding material accounting policies and practices before they are agreed with the External Auditors.
- Risk Committee: The Board's Risk Committee provides oversight over internal controls systems and the status of principal risks, and considers whether the mitigating actions put in place are appropriate. In addition, when unexpected losses have arisen or incidents have occurred which indicate gaps in the control framework or in adherence to policies, the committee reviews reports prepared by management that analyse the cause of the issue, any lessons learned and actions proposed to address the issue.

During the year, the Risk Committee and Audit Committee kept under review the effectiveness of this system of internal controls and reported regularly to the Board. In carrying out their respective reviews, the committees receive regular reports from: business and operational risk assessments; heads of key risk functions covering all internal controls, both financial and non-financial; internal audit reports; external audit reports; prudential reviews; and regulatory reports. More details on the committee's responsibilities and activities during the year are set out in the 'Board Committees' section on page 60.

What are our principal risks and uncertainties

Key developments in 2021

We continued to actively manage the risks resulting from the Covid-19 pandemic and its impacts on our customers and operations during 2021, as well as other key risks described in this section.

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

- We streamlined the articulation of our risk appetite framework, providing further clarity on how risk appetite interacts with strategic planning and recovery planning processes.
- We continued to simplify our approach to non-financial risk management, with the implementation of more effective oversight tools and techniques to improve end-to-end identification and management of these risks.
- We accelerated the transformation of our approach to managing financial risks across the businesses and risk functions, including initiatives to enhance portfolio monitoring and analytics, credit risk, traded risk and treasury risk management, as well as the models used to manage financial risks.
- We are progressing with a comprehensive regulatory reporting programme to strengthen our processes, improve consistency, and enhance controls.
- We continued to enhance our approach to portfolio and concentration risk management, through clearly defined roles and responsibilities, and improving our data and management information reporting capabilities.
- We continued the development of our climate risk management capabilities. Our climate risk programme will shape our approach to climate risk across four key pillars: governance and risk appetite; risk management; stress testing; and disclosures. We enhanced our risk appetite statement with quantitative climate risk metrics.
- We continued to improve the effectiveness of our financial crime controls with a targeted update of our fraud controls. We refreshed our financial crime and fraud policies, ensuring they remained up to date and addressed changing and emerging risks, and we continued to meet our regulatory obligations.
- We introduced enhanced governance and oversight around model adjustments and related processes for IFRS 9 models.

Top and emerging risks

Top and emerging risks are those that may impact on our financial results, reputation or business model. If these risks were to occur, they could have a material effect on HSBC UK.

The exposure to these risks and our risk management approach are explained in more detail below.

Externally driven

Covid-19

Despite the successful roll-out of vaccines in the UK, the Covid-19 pandemic and its effect on the global economy have impacted our customers and our performance. Renewed outbreaks and new Covid-19 variants, including Omicron, emphasise the ongoing threat of Covid-19. It is possible that future variants could result in significant further tightening of UK Government restrictions, following the relaxations seen as milestones in the Government's roadmap out of lockdown were met in 2021. Concerns about the Omicron variant resulted in the UK Government introducing its Plan B measures in December 2021, including asking people to work from home if they were able to do so. These measures were subsequently removed on 26 January 2022 when the UK Government considered that the Omicron concerns had sufficiently abated.

We continue to support our personal and business customers in the UK through measures initiated during the Covid-19 pandemic, and by supporting the UK Government schemes that focus on the parts of the economy most impacted by the pandemic. For further details of our customer relief programmes, see page 29.

The rapid introduction of the UK Government support schemes introduced throughout the Covid-19 pandemic has led to increased operational risks for HSBC UK, including complex conduct considerations, increased reputational risk and increased risk of fraud. These risks are likely to be heightened further as the UK Government support schemes are fully unwound. We are focussed upon avoiding and mitigating any conduct risks that may arise from the implementation decisions that 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. The UK BBLS, that is subject to a 100% government guarantee, closed for new applications and top up requests on the 31 March 2021 and customer repayments have commenced. Currently nearly a quarter of our BBLS customers have chosen to use the Government's Pay As You Grow scheme to reduce their monthly repayments, take repayments holidays or to request an extension of their loan term. Approximately 10% of our customers due to make a BBLS payment are in arrears.

The impact of the pandemic on the long-term prospects of businesses in the most vulnerable sectors of the UK economy, such as retail, the leisure industry (including hospitality, tourism

and hotels), transportation and commercial real estate, remains uncertain and may lead to significant credit losses on specific exposures, which may not be fully captured in ECL estimates. In addition, in times of stress, fraudulent activity is often more prevalent, leading to potentially significant credit or operational losses.

As economic conditions improve, and the UK Government support measures come to an end, there is a risk that the outputs of IFRS 9 models may have a tendency to underestimate loan losses. Model outputs and management adjustments are closely monitored and independently reviewed for reliability and appropriateness prior to inclusion in the financial results.

The operational support functions on which HSBC UK relies are based in a number of countries worldwide, some of which, notably India, have been particularly affected by the Covid-19 pandemic over the course of 2021. As a result of the Covid-19 pandemic, business continuity responses have been embedded and services have been maintained in those locations where we operate. We continue to monitor the situation closely in particular in those countries where the level of Covid-19 infections is most prevalent.

Despite the ongoing economic recovery, significant uncertainties remain in assessing the duration and impact of the Covid-19 outbreak, including whether any subsequent outbreaks result in a re-imposition of the UK Government restrictions, or a further lockdown. We continue to monitor the situation closely, and given the novel and prolonged nature of the outbreak, there may still be a requirement for additional mitigating actions including further use of adjustments, overlays and model redevelopment.

The UK Government and the BoE have deployed extensive measures to support the UK population. The UK economy recovery gathered pace after the rapid Covid-19 vaccine rollout, however in response to increasing inflationary pressures, interest rate rises have been seen in both December 2021 and February 2022. The UK Government is also expected to reduce the level of fiscal support they offer households and businesses as the appetite for lockdowns and public health restrictions decrease. The UK Government debt has risen and is expected to remain high into the medium term. This could eventually pose a dilemma for the BoE, as it faces the conflicting aims of keeping debt servicing costs contained while preventing a steep rise in inflation. Our Central scenario used to calculate impairment assumes that economic activity will continue to recover through 2022, surpassing peak pre-pandemic levels of GDP. It is assumed that private sector expenditure growth accelerates, ensuring a strong recovery is sustained even as pandemic related fiscal support is rolled back. Higher inflation in the UK is assumed to be driven by supply disruptions and pandemic related base effects that peak in the first half of the year. There is a high degree of uncertainty associated with economic forecasts in the current environment and there are significant risks to our Central scenario related to the uncertainty around the evolution of the pandemic in the UK, associated policy responses and ongoing impacts felt from the Trade and Cooperation Agreement in place between the UK and the EU from 1 January 2021. For further details of our Central and other scenarios, see 'Measurement uncertainty and sensitivity analysis of ECL estimates' on page 34.

Mitigating actions

- We continue to support our customers through specific measures initiated during the Covid-19 pandemic, including our relief programmes. See page 29.
- We continue to monitor those industry sectors most impacted by the pandemic and undertake scenario analysis. This enables us to take portfolio actions where necessary, including enhanced monitoring, amending our risk appetite and/or reducing limits and exposures.
- We have successfully embedded business continuity plans to effectively manage our operations under the constraints posed by the UK Government in response to the pandemic.
- We have built up our operational capacity rapidly in response to UK Government support measures aimed at combating the impacts of the Covid-19 pandemic and have been responding to complex conduct considerations and heightened risk of fraud related to these programmes, including as these programmes are unwound.

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 and possible, to help ensure we remain within our risk appetite.

The EU and the UK agreed a TCA at the end of 2020, following the UK's withdrawal from the EU. The agreement mainly focuses on goods and services but also covers a wide range of other areas, including competition, state aid, tax, fisheries, transport, data and security. It addressed financial services in a limited manner and, as a result, did not change our planning in relation to the UK's withdrawal from the EU. Work on the creation of a framework for voluntary regulatory cooperation in financial services between the UK and EU has stalled in 2021 as the broader relationship is beset by several disagreements that may escalate further, most notably over the Northern Ireland Protocol.

Alongside increased tensions between the UK and the EU, the likelihood of Scotland leaving the UK is viewed as having increased since the Scottish Parliament elections in May 2021 produced an overall pro-independence majority across the political parties.

Tensions between Russia and the US and a number of European states have heightened significantly following the escalation of hostilities between Russia and Ukraine. While negotiations are ongoing to seek a resolution, a continuation of or any further deterioration to the situation could have significant geopolitical implications, including economic, social and political repercussions on the group and its customers. In addition, the US, the UK and the EU have threatened a significant expansion of sanctions and trade restrictions against Russia in the event of a Russian incursion into Ukraine, and Russian countermeasures are also possible.

In 2021, there was an escalation of diplomatic tensions between China and the US, and increasingly extending to the UK, the EU, India and other countries. The US, with its traditional allies including the UK, the EU, and Canada, has increasingly instituted sanctions in response to allegations of human rights abuses in Xinjiang. China in turn has announced a number of its own sanctions and trade restrictions that target foreign individuals or companies.

Mitigating actions

- We continually monitor the geopolitical outlook and undertake regular reviews of key portfolios to help ensure that individual customer or portfolio risks are understood and our ability to manage the level of facilities offered through any downturn is appropriate.
- We continue to carry out contingency planning following the UK's withdrawal from the EU and we are assessing the potential impact on our portfolios, operations and staff. This includes the possibility of disputes arising from differing interpretations of the TCA and other aspects of the bilateral relationship.
- We are monitoring the debate of Scottish independence closely, whilst ensuring that any possible impacts on the UK and our customers are actively considered in new and existing change programmes.
- We continue to monitor geopolitical tensions involving Russia and Ukraine and any potential impacts on HSBC UK or its customers.

- We stress test portfolios of particular concern to identify sensitivity to loss under a range of scenarios, with management actions being taken to rebalance exposures and manage risk appetite where necessary.

Regulatory developments

Financial service providers continue to face stringent regulatory and supervisory requirements, particularly in the areas of capital and liquidity management, conduct of business, financial crime, internal control frameworks, the use of models, the integrity of financial services delivery and financial and operational resilience. The competitive landscape in which HSBC UK operates may be significantly altered by future regulatory changes and government intervention. Regulatory changes, including those resulting from the UK's exit from the EU, may affect our activities.

Mitigating actions

- We continue to engage in the development of new and amended regulations in the UK to ensure that the implications have been fully considered by regulators and the wider industry.
- We continue to work with the UK authorities and regulatory bodies to discuss any impacts on our customers and the UK market.
- We monitor regulatory developments to ensure that we fully understand the evolving regulatory landscape and implement any applicable change in a timely way.

Information security risk and cyber crime

Together with other organisations, HSBC UK operates in an increasingly hostile cyber threat environment, which requires ongoing investment in business and technical controls to defend against these threats. Key threats include unauthorised access to online customer accounts, advanced malware attacks, attacks on third-party suppliers and the exploitation of security vulnerabilities.

Mitigating actions

- We continually evaluate threat levels for the most prevalent attack types and their potential outcomes. To further protect HSBC UK and our customers we strengthened our controls to reduce the likelihood and impact of advanced malware, data leakage, infiltration of payment systems and denial of service attacks. We also provide our online customers with fraud advice including updates on the latest scams.
- We continue to enhance our cybersecurity capabilities, including threat detection, access control, data analytics and third-party security reviews. An important part of our defence strategy is ensuring that our colleagues are aware of cybersecurity issues and know how to identify and report incidents.
- Cyber risk is a priority area for the Board. We report and review cyber risk and control effectiveness regularly at executive and non-executive Board level. We also report cyber risk across our businesses and functions, to help ensure appropriate visibility and governance of risks and mitigating actions.
- We are focused on improving change control processes and unauthorised access controls by providing additional education and training to identify and manage vulnerabilities in our software, system configurations, logic and architecture.
- We participate in law enforcement and industry schemes to share information about tactics employed by cyber-crime groups and to collaborate in fighting, detecting and preventing cyber-attacks on financial organisations.

Ibor transition

Interbank offered rates have historically been used extensively to set interest on different types of financial transactions for valuation purposes, risk measurement and performance benchmarking.

Following the UK’s FCA announcement in July 2017 that it would no longer continue to persuade or require panel banks to submit Libor rates after 2021, we have been actively working to transition legacy contracts from Ibors and meet client needs for products linked to new near RFRs or alternative reference rates. In March 2021, ICE Benchmark Administration Limited announced that it would cease publication of 24 of the 35 main Libor currency interest rate benchmark settings from the end of 2021, apart from six sterling and Japanese yen settings which are currently being published under an amended methodology, commonly known as ‘synthetic’ Libor and that the most widely used US dollar Libor settings would cease from 30 June 2023. As a result, our focus during 2021 was on developing RFR readiness and the transition of legacy contracts referencing the Libor settings that demised from the end of 2021.

We successfully transitioned all of the contracts we had planned to transition by the end of 2021, representing 93% of the total transition population. Remaining contracts will be transitioned through the first quarter of 2022, in line with facility roll dates. This migration together with the implementation of new processes and controls, significantly reduced our exposure to the heightened financial and non-financial risks. We remain exposed to operational and conduct risks from legacy contracts referencing US dollar Libor that will need transitioning before June 2023. Additionally, customers may delay their transitions very near to transition deadlines, as they focus on more immediate priorities for them, which could potentially delay and compress transition of some US dollar contracts into 2023 thereby heightening the risk.

Non-financial risks, including regulatory compliance risk, resilience risk, financial reporting risk, and legal risk also remain for ‘tough legacy’ contracts, and the US dollar legacy portfolio. These risks continue to be actively managed and mitigated with a focus on ensuring that fair outcomes for our clients are achieved.

Transition of legacy contracts

During 2021, we transitioned legacy Ibor contracts in sterling, Swiss franc, euro and Japanese yen Libor interest rates, with only a very small number of ‘tough legacy’ contracts remaining. We will continue to work with our clients and other market participants to transition the remaining contracts referencing Ibors that demised from the end of 2021, and legacy US dollar Libor contracts. Our Wholesale and Private bank has begun to engage with clients with upcoming US dollar Libor contract maturities with a view to refinancing using an appropriate replacement rate. Further communication and client outreach for customers with US dollar Ibor contracts with later maturities will occur in due course.

The completion of an orderly transition from the remaining Ibors, notably US dollar Libor, continues to be our key objective through 2022 and 2023, with the aim of putting systems and processes in place to help achieve this.

Financial instruments impacted by Ibor reforms

	Financial instruments yet to transition to alternative benchmarks, by main benchmark			
	USD Libor	GBP Libor	Eonia	Others[1]
At 31 Dec 2021	**£m**	**£m**	**£m**	**£m**
Non-derivative financial assets[2]	**1,154**	**8,893**	**—**	**11**
Non-derivative financial liabilities[2]	**621**	**—**	**—**	**—**
Derivative notional contract amount	**2,217**	**—**	**—**	**—**
At 31 Dec 2020				
Non-derivative financial assets[2]	1,717	24,900	—	25
Non-derivative financial liabilities[2]	615	2,279	—	—
Derivative notional contract amount	2,565	5,728	1,264	—

1 *Comprises financial instruments referencing other significant benchmark rates yet to transition to alternative benchmarks: five London interbank offered rates, the Euro Overnight Index Average and the Singapore Interbank Offered Rate.*
2 *Gross carrying amount excluding allowances for expected credit losses.*
3 *The amounts in the above table do not represent amounts at risk as the steps to transition for certain trades have been completed.*

Mitigating actions

- Our Ibor transition programme, which is overseen by the HSBC UK Chief Risk Officer, will continue to deliver IT and operational process changes to meet its objectives.
- We continue to carry out extensive training, communication and client engagement to facilitate appropriate selection of new rates and products, particularly focussed on US dollar Libor.
- We have maintained our dedicated case management and transformation teams to support the transition.
- We have actively transitioned legacy contracts and ceased new issuance of Libor-based contracts, with associated monitoring and controls.
- We continue to assess, monitor and dynamically manage risks arising from Ibor transition, and implement specific mitigating controls when required.
- We continue to actively engage with regulatory and industry bodies to mitigate regulatory risks.

Climate-related risks

Climate change can have an impact across HSBC's risk taxonomy through both transition risk, arising from the move to a low-carbon economy, such as through policy, regulatory and technological changes, and physical risk impacts due to increasing severity and/ or frequency of severe weather or other climatic events, such as rising sea levels and flooding.

These risks have the potential to cause both financial and non-financial impacts for HSBC UK. Financial impacts could materialise, for example, through greater transactional losses and/ or increased capital requirements. Non-financial impacts could materialise if our own assets or operations are impacted by extreme weather or chronic changes in weather patterns, or as a result of business decisions to achieve our Climate Ambition. Climate-related risks have continued to increase over 2021 as a result of the pace and volume of policy and regulatory changes.

Mitigating actions

- Our Chief Risk Officer is responsible for climate financial risks under the UK Senior Managers Regime. The Chief Risk Officer attends HSBC UK Board meetings and is a member of the Executive Committee and, where appropriate, provides verbal or written updates on climate risk.
- HSBC UK's risk appetite statement is recommended and approved by the Board and includes the measures we intend to take to enable our climate ambition and meet our commitments. In HSBC UK, our measures are focused on the oversight and management of climate risks in the WPB and CMB portfolios.
- In 2021 we completed the CBES stress testing exercise as part of our regulatory commitments to the PRA, with the outputs being used to further inform our approach to climate risk management.
- The CBES stress testing exercise helped us to understand the impacts of transition risk in our residential mortgage book, where the demise of Flood Re was considered as well as energy efficiency of properties, using EPC ratings. We have also embedded physical risk data into our mortgage risk management activities, to be able to identify 'at risk' properties, which is primarily those at risk of flooding.
- Our product design, management and governance processes are being reviewed to ensure that climate risk factors are effectively and consistently considered, including the risk of greenwashing; which is the act of knowingly or unknowingly misleading stakeholders regarding our climate strategy, the environmental impact/benefits of a product or service, or regarding the climate commitments we have made to our customers.
- We have expanded the use of a Transition Risk Questionnaire to better understand our exposure to the highest transition risk sectors and we continue to engage with our customers to understand and support their transition away from high carbon activities.
- HSBC UK implements HSBC Group sustainability risk policies as part of its broader reputational risk framework. We focus our policies on sensitive sectors which may have a high adverse impact on people or on the environment and in which we have a significant number of customers. During 2021, the HSBC Group introduced a new policy to phase out the financing of coal-fired power and thermal coal mining, and this has been fully adopted by HSBC UK. For further details, please see 'Net Zero Bank' section of the Report on page 7.
- Climate risk training has been presented to the UK Board and a suite of training modules have been delivered to colleagues across the bank. This training has been supported by the launch of a UK Climate Risk Specialists network, designed to increase awareness of the importance of climate risk, promote the right culture, and bring uniformity to how decisions that concern climate risk are taken.
- The Trustee of our employee pension plan, the HSBC Bank (UK) Pension Scheme, manages climate risk in line with its fiduciary duties and local regulatory requirements, with global corporate policy encouraging consideration of ESG risks when selecting investments. Further details of the plan's annual Taskforce on Climate-Related Financial Disclosures statements are available on the HSBC Bank (UK) Pension Scheme website, www.futurefocus.staff.hsbc.co.uk, under 'Governance Statement'.

Digital currencies and disintermediation risk

Digital assets have, over the past few years, been a growing part of the financial landscape bringing with them increased competition and financial risk. The range of these assets has expanded to include, among others, Central Bank Digital Currencies and cryptocurrencies. These are the focus of the disintermediation risk as, with the increasing attention on

cryptocurrencies and the world's central banks in various stages of addressing digital currencies, recordkeeping of balances and the movement of money between parties has potential to change significantly. This could result in a more direct linkage between currency providers and payment participants, reducing frictions existing in the current value chain, to the detriment of intermediaries such as HSBC UK.

Cryptocurrencies could reduce the requirement for foreign exchange and payment intermediaries as peer-to-peer transactions can take place across borders using a common means of exchange, regardless of where in the world the participants in the transactions are situated.

Mitigating actions

- We are involved in various initiatives and working groups addressing any related changes within the market, including those which the BoE has initiated.
- We will monitor progress and industry developments in digital assets and other aspects of decentralised finance as they become better established and a sense of their evolution emerges.
- We will maintain awareness of the credit market, specifically, how consumers will be able to access credit at the point of purchase, especially if credit card companies are disintermediated.
- There is ongoing liaison with other lines of business to give a view of any changes to the risk assessment. This includes reviewing and identifying any impacts in areas such as vulnerability and financial exclusion.

Internally driven

People risk

Our success in delivering our strategic priorities and proactively managing the regulatory and legislative environment depends on the development and retention of our leadership and high-performing employees. The ability to continue to attract, develop and retain competent individuals in an employment market impacted by the Covid-19 pandemic proves challenging. We remain mindful of the impact that ongoing pandemic conditions, including changed working arrangements, any differing levels of local Covid-19 restrictions and health concerns have on our employee mental health and well-being. We also continue to monitor potential people risks that could arise due to organisational restructuring to help ensure that we sensitively manage redundancies and support impacted employees.

Mitigating actions

- We have put in place measures to ensure that our people are supported and able to work safely and flexibly during the Covid-19 pandemic.
- We promote a diverse and inclusive workforce and provide active support across a wide range of health and well-being activities.
- Launch of the Future Skills Curriculum in HSBC University identifying through research the critical skills that will enable employees and HSBC UK to be successful in the future.
- We continue to develop succession plans for key management roles, with actions agreed and reviewed on a regular basis by the HSBC UK Executive Committee.
- Political, legislative and regulatory challenges are closely monitored to minimise the impact on the attraction and retention of talent and key performers.
- We have robust plans in place driven by senior management to mitigate the effect of external factors that may impact our employment practices.

IT systems infrastructure and resilience

We are reliant on the resilience of our IT systems and critical services and we are fully committed to supporting investment to protect our customers and colleagues and prevent disruption to services, which could result in reputational and regulatory damage.

Mitigating actions

- We continue to invest in transforming how software solutions are developed, delivered and maintained, with a particular focus on providing high-quality, stable and secure services. We continue to improve system resilience and service continuity by enhancing the security features of our software development life cycle and improving our testing processes and tools.
- We continue to upgrade many of our IT systems, simplify our service provisions and replace older IT infrastructure and applications. These enhancements supported improvements in service availability during 2021 for both our customers and colleagues.

Model risk

Model risk arises whenever business decision-making includes reliance on models. We use models in both financial and non-financial contexts and in a range of business applications such as customer selection, product pricing, financial crime transaction monitoring, creditworthiness evaluation and financial reporting. Assessing model performance is a continuous undertaking. Models can need redevelopment as market conditions change, as evidenced in previous years by the model redevelopment required for estimating credit losses post Covid-19. This is due to the significant change to inputs to these models such as GDP, unemployment rates and housing prices as a result of Covid-19 impacts on the UK economy.

Mitigating actions

- We further enhanced the monitoring, review and challenge of loss model performance through our Model Risk Management function as part of a broader quarterly process to determine loss levels. The Model Risk Management team aims to provide strong and effective review and challenge of any future redevelopment of these models.
- We closely monitor changes in model behaviour, working closely with business and function model owners and sponsors.
- We continued to update the model risk policy, as well as its model risk standards to further enable a more risk-based approach to model risk management whilst retaining a consistent approach.
- We work closely with businesses to ensure that models in development meet the risk management, pricing and capital management needs. Internal Audit also plays a key role in assuring that model risk controls for these models are operating effectively and are in compliance with existing regulations.
- We continue to strengthen model risk controls through the Risk Control Assessment process; the lines of business and functions are further testing these controls to better assess and understand model risk.
- We further embedded our Risk Appetite measures focused on forward looking model risk supported by upgrades to the Model Inventory System to provide more granular measurement and management of model risk for multiple applications of a single model.

Financial crime and fraud risk

Financial institutions remain under considerable regulatory scrutiny regarding their ability to prevent and detect financial crime. Threats continue to evolve, often in tandem with increased geopolitical developments, posing challenges for financial institutions to keep abreast of developments and manage conflicting laws.

The global economic slowdown as a result of the Covid-19 pandemic is resulting in changes in the types of fraud attacks, including increasingly sophisticated scams against our customers. Ongoing digital developments around virtual currencies, stablecoins and central bank digital currencies have continued, with the industry's financial crime risk assessment and management frameworks in the early stages of development. The evolving regulatory environment continues to present an execution challenge.

The accelerated digitisation of financial services has fostered significant changes to the payments ecosystem, including a multiplicity of providers and platforms, not all of which are subject to the same level of regulatory scrutiny or regulation as financial institutions. This is presenting increasing challenges to the industry in terms of maintaining required levels of transparency, notably where institutions serve as intermediaries.

We are increasingly focusing on the intersection of conduct and financial crime with ESG issues, including concerns over the likely risk of 'greenwashing' in the drive to net-zero and the transparency of our customers' global supply chains, as well as a heightened regulatory focus on both human rights issues and environment-related crimes. We continue to see increasing challenges presented by national data privacy requirements, which may affect our ability to effectively manage financial crime risks.

Mitigating actions

- We invest in the use of artificial intelligence ('AI') and advanced analytics techniques to manage financial crime risk, notably introducing new automated capabilities in transaction monitoring and name screening.
- We strengthen our anti-fraud capabilities, notably with respect to the early identification of first party lending fraud and the identification of new strategic detection tools, including device profiling, behavioural biometrics and more advanced analytics.
- We have updated our fraud controls and refreshed our policies to ensure that they remain up to date and address changing and emerging risks, as well as meet our regulatory obligations.
- We have developed procedures and controls to manage the risks associated with direct and indirect exposure to virtual currencies, and we continue to monitor external developments.
- We continue to work with government and law enforcement agencies to address data privacy challenges through international standards, guidance, and legislation to enable effective management of financial crime risk.
- We work closely with our regulators; in 2021, there was a particular focus on reform activity in the UK, where we participated in industry responses to a number of consultation papers focused on the overall effectiveness of the UK anti-money laundering framework. These align with our objectives of promoting a public policy and regulatory environment that embraces the use of technology in building the future financial crime framework to ensure HSBC UK is more resilient and secure, while enabling benefits for customers.

Conduct and customer detriment

We continually enhance our management of conduct, learning from the past, including supporting our people in their management of potentially vulnerable customers, product governance arrangements, and encouraging our 'Speak Up' culture. We introduced a number of measures throughout the Covid-19 pandemic to support our customers and to implement government support schemes effectively. At the forefront of current conduct risk considerations is the fair treatment of customers in financial difficulty. We are fully focused in providing appropriate customer outcomes in all circumstances.

Mitigating actions

- We service our customers' ongoing needs and continue to champion a strong conduct and customer-focused culture, by providing support to our customers facing financial difficulties as a result of the prolonged impacts of the Covid-19 pandemic and the resulting uncertainty in trading conditions.
- We have implemented a new purpose-led and simplified approach to conduct, making conduct easier to understand, setting outcomes to be achieved for our customers and markets, and recognising cultural and behavioural drivers of good conduct outcomes.
- We focus oversight on the effectiveness of HSBC UK Conduct Governance, to promote visibility and read across of conduct issues in all business lines and the efficient, consistent escalation of issues.
- We have delivered our annual mandatory training course on conduct to reinforce the importance of conduct for all colleagues.
- We have rolled out bespoke training to all Compliance colleagues, an environment in which employees are encouraged, feel safe to speak up and know of all the channels that are available to them to do so.
- We have commenced the integration of Climate Risk into the Risk Management framework to recognise the importance of strengthened controls and oversight for our related activities.

Data management

HSBC UK is reliant on a large number of systems, applications and a growing quantity of data to support key business processes and operations. As a result, we need to reduce the risk of inaccurate data, unavailability of data or misuse of data; and we continue to focus on meeting our external/regulatory obligations such as the UK General Data Protection Regulation, Basel Committee for Banking Supervision 239, and Basel III.

Mitigating actions

- HSBC UK data management oversight continues to strengthen and enhance the effectiveness of internal systems and processes. We have supported improvements to data management policies and the global data management framework and are implementing data controls for end-to-end critical processes to improve our data capture at the point of entry and throughout the data lifecycle.
- Through our support of the global data management framework, we are enhancing our data governance to proactively monitor the quality, availability and security of critical customer product, reference and transaction data and resolve any identified data issues in a timely manner.
- We continue to modernise our data and analytics infrastructure through investments in advanced capabilities in cloud technology, data visualisation, machine learning and artificial intelligence.
- We continue to help protect customer data via our global data privacy framework that establishes data privacy practices, design principles and guidelines that enable us to demonstrate compliance with data privacy laws and regulations where HSBC UK operates.
- To help our employees keep abreast of data privacy laws and regulations we continue to deliver data privacy awareness training highlighting our commitment to managing and protecting customer, colleague and stakeholder data.

Third-party risk management

In common with other financial service providers HSBC UK utilises third parties for the provision of a range of services. Risks arising from the use of third-party service providers and their supply chain may be less transparent and more challenging to manage or influence. Therefore, we ensure we have appropriate risk

management policies, processes and practices to cover the full breadth of this supply chain and identify and manage risks that arise in it. This includes appropriate control over the selection, governance and oversight of third parties, particularly for key processes and controls that could affect operational resilience. Any deficiency in our management of risks arising from the use of third parties could affect our ability to meet strategic, regulatory or customer expectations.

Mitigating actions

- We have enhanced our control framework for external supplier arrangements to ensure the risks associated with third party arrangements are understood and managed effectively. We continue to embed our control monitoring testing and assurance processes and technology to assess third-party service providers against key criteria.
- Since the Covid-19 pandemic began we have enhanced the oversight of our third party providers to identify any challenges to the operations of services provided.
- We have applied the same control standards to intragroup arrangements as we have for external third party arrangements to ensure we are managing them effectively.
- We are supporting the implementation of changes required by the new global third party risk policy to ensure we continue to comply with the requirements of our regulators.

Execution risk

To deliver our strategic objectives and meet mandatory regulatory requirements, it is important for the bank to maintain a strong focus on execution risk. This requires robust management of significant resource-intensive and time-sensitive programmes. Risks arising from the magnitude and complexity of change may include regulatory censure, reputational damage or financial losses. Current major initiatives include our business transformation programme, Ibor transition and the continued development of Open Banking.

Mitigating actions

- Our prioritisation and governance processes for significant projects are monitored by the HSBC UK Executive Committee. We have also established the HSBC UK Entity Change Forum that has oversight and management of concentration risk and oversight of execution risk for initiatives impacting HSBC UK.
- In 2021, we continued to manage execution risk through closely monitoring the punctual delivery of critical initiatives, internal and external dependencies, and key risks, to allow better portfolio management.

Our material banking risks

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

Description of risks – banking operations

Risks	Arising from	Measurement, monitoring and management of risk
Credit risk (see page 27)		
The risk of financial loss if a customer or counterparty fails to meet an obligation under a contract.	Credit risk arises principally from direct lending, trade finance and leasing business, but also from certain other products such as guarantees and derivatives.	Credit risk is: • measured as the amount that could be lost if a customer or counterparty fails to make repayments; • monitored using various internal risk management measures and within limits approved by individuals within a framework of delegated authorities; and • managed through a robust risk control framework that outlines clear and consistent policies, principles and guidance for risk managers.
Treasury risk (see page 49)		
The risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements, including the risk of adverse impact on earnings or capital due to structural foreign exchange exposures and changes in market interest rates, and including the financial risks arising from historic and current provision of pensions and other post-employment benefits to staff and their dependants.	Treasury risk arises from changes to the respective resources and risk profiles driven by customer behaviour, management decisions or the external environment.	Treasury risk is: • measured through appetites set as target and ratios; • monitored and projected through appetites and using stress and scenario testing and; • managed through control resources in conjunction with risk profiles and cashflows.
Market risk (see page 54)		
The risk that movements in market factors, including but not limited to interest rates, credit spreads and foreign exchange rates will reduce our income or the value of our portfolios.	Exposure to market risk is separated into two portfolios: • trading portfolios; and • non-trading portfolios.	Market risk is: • measured using sensitivities, value at risk and stress testing, giving a detailed picture of potential gains and losses for a range of market movements and scenarios, as well as tail risks over specified time horizons; • monitored using VaR sensitivities, stress testing and other measures, including the sensitivity of net interest income and the sensitivity of structural foreign exchange; and • managed using risk limits approved by the Risk Management Meeting.
Resilience risk (see page 56)		
Resilience risk is the risk that we are unable to provide critical services to our customers, affiliates, and counterparties as a result of sustained and significant operational disruption.	Resilience risk arises from failures or inadequacies in processes, people, systems or external events. These may be driven by rapid technological innovation, changing behaviours of our consumers, cyber threats and attacks, cross border dependencies, and third party relationships.	Resilience risk is: • measured through a range of metrics with defined maximum acceptable impact tolerances and against our agreed risk appetite; • monitored through oversight of enterprise processes, risks, controls and strategic change programmes; and • managed by continuous monitoring and thematic review.
Regulatory compliance risk (see page 56)		
Regulatory compliance risk is the risk associated with breaching our duty to clients and other counterparties, inappropriate market conduct and breaching related financial services regulatory standards.	Regulatory compliance risk arises from the failure to observe the letter and spirit of relevant laws, codes, rules, regulations and standards of good practice. This could result in poor market or customer outcomes leading to fines, penalties and reputational damage to our business.	Regulatory compliance risk is: • measured by reference to risk appetite, identified metrics, incident assessments, regulatory feedback and the judgement and assessment of our regulatory compliance teams; • monitored against the first line of defence risk and control assessments, the results of the monitoring and control assurance activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections; and • managed by establishing and communicating appropriate policies and procedures, training employees in them and monitoring activity to help ensure their observance. Proactive risk control and/or remediation work is undertaken where required.
Financial crime risk (see page 57)		
Financial crime risk is the risk of knowingly or unknowingly helping parties to commit or to further potentially illegal activity through HSBC UK, including money laundering, fraud, bribery and corruption, tax evasion, sanctions breaches, and terrorist and proliferation financing.	Financial crime risk arises from day-to-day banking operations involving customers, third parties and employees.	Financial crime risk is: • measured by reference to risk appetite, identified metrics, incident assessments, regulatory feedback and the judgement of, and assessment by, of our compliance teams; • monitored against the first line of defence risk and control assessments, the results of the monitoring and control assurance activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections; and • managed by establishing and communicating appropriate policies and procedures, training employees in them and monitoring activity to help ensure their observance. Proactive risk control and/or remediation work is undertaken where required.

Description of risks – banking operations (continued)

Risks	Arising from	Measurement, monitoring and management of risk
Model risk (see page 58)		
Model risk is the potential for adverse consequences from business decisions informed by models, which can be exacerbated by errors in methodology, design or the way they are used.	Model risk arises in both financial and non-financial contexts whenever business decision making includes reliance on models.	Model risk is: • measured by reference to model performance tracking and the output of detailed technical reviews, with key metrics including model review statuses and findings; • monitored against model risk appetite statements, insight from the independent review function, feedback from internal and external audits, and regulatory reviews; • managed by creating and communicating appropriate policies, procedures and guidance, training employees in their application, and supervising their adoption to ensure operational effectiveness.

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. Credit risk arises principally from direct lending, trade finance and leasing business, but also from other products such as guarantees and credit derivatives.

Credit risk management

(Audited)

Of the risks in which we engage, credit risk generates the largest regulatory capital requirements.

The principal objectives of our credit risk management are:

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

Within HSBC UK, the Credit Risk function is headed by the Chief Risk Officer who reports to the Chief Executive Officer, with a functional reporting line to the Group Chief Risk Officer.

Its responsibilities are:

- to formulate credit policy. Compliance, subject to approved dispensations, is mandatory for all operating companies which must develop local credit policies consistent with group policies that very closely reflect HSBC Group policy;
- to guide operating companies on the group's appetite for credit risk exposure to specified market sectors, activities and banking products and controlling exposures to certain higher-risk sectors;
- to undertake an independent review and objective assessment of risk. Credit risk assesses all credit facilities and exposures over designated limits, prior to the facilities being committed to customers or transactions being undertaken;
- to monitor the performance and management of portfolios across the group;
- to control exposure to sovereign entities, banks and other financial institutions, as well as debt securities which are not held solely for the purpose of trading;
- to set policy on large credit exposures, ensuring that concentrations of exposure by counterparty, sector or geography do not become excessive in relation to the group's capital base, and remain within internal and regulatory limits;
- to maintain and develop the risk rating framework, systems and models through appropriate governance;
- to report on retail portfolio performance, high risk portfolios, risk concentrations, large impaired accounts, impairment allowances and stress testing results and recommendations to HSBC UK's RMM, Risk Committee and Board; and to act on behalf of the group as the primary interface, for credit-related issues, with the BoE, the PRA, the FCA, rating agencies, analysts and counterparts in major banks and non-bank financial institutions.

Concentration of credit risk exposure

(Audited)

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

Credit quality of financial instruments

(Audited)

Our risk rating system facilitates the internal ratings-based approach under the Basel framework adopted by the group to support the calculation of our minimum credit regulatory capital requirement.

The five credit quality classifications each encompass a range of granular internal credit rating grades assigned to wholesale and retail lending businesses, and the external ratings attributed by external agencies to debt securities.

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

Wholesale lending

The CRR 10-grade scale summarises a more granular underlying 23-grade scale of obligor PD. All corporate customers are rated using the 10- or 23-grade scale, depending on the degree of sophistication of the Basel approach adopted for the exposure. Each CRR band is associated with an external rating grade by reference to long-run default rates for that grade, represented by the average of issuer-weighted historical default rates. This mapping between internal and external ratings is indicative and may vary over time.

Retail lending

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

Credit quality classification

	Debt securities and other bills	Wholesale lending		Retail lending	
	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	A- and above	CRR1 to CRR2	0.000–0.169	Band 1 and 2	0.000–0.500
Good	BBB+ to BBB-	CRR3	0.170–0.740	Band 3	0.501–1.500
Satisfactory	BB+ to B and unrated	CRR4 to CRR5	0.741–4.914	Band 4 and 5	1.501–20.000
Sub-standard	B- to C	CRR6 to CRR8	4.915–99.999	Band 6	20.001–99.999
Credit-impaired	Default	CRR9 to CRR10	100.000	Band 7	100.000

1 *Customer risk rating.*
2 *12-month point-in-time probability-weighted probability of default.*

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

Renegotiated loans and forbearance

(Audited)

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

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

Loans that have been identified as renegotiated retain this designation until maturity or derecognition under our existing disclosures.

Where customers are in (or approaching) financial difficulty, due consideration is given to provide assistance to customers (either on a temporary or permanent basis) to help them meet the contractual commitments relating to their account. The HSBC UK Customer in Financial Difficulty policy provides guidance on when customers are considered to be in financial difficulty and the various forbearance tools that are available to assist them. It is recognised that customers find themselves in financial difficulties as a result of many different situations and Financial Support staff speaking with customers will often be best placed to understand the individual circumstances and needs of specific customers. Prior to agreeing a forbearance an appropriate level of assessment on a customer's affordability is completed to ensure any solution agreed with the customer is suitable, sustainable and will achieve a fair outcome for the customer.

Refinance risk

Personal lending

Interest only mortgages incorporate bullet payments at the point of final maturity. To reduce refinance risk, an initial on-boarding assessment of customers' affordability is made on a capital repayment basis and every customer has a credible defined repayment strategy. Additionally, the customer is contacted during the mortgage term to check the status of the repayment strategy. In situations where it is identified that a borrower is expected not to be able to repay a bullet/balloon payment, the customer is offered advice and options to help them repay the loan in accordance with their loan agreement. In the event that this is not possible, the customer will either default on the repayment or it is likely that the bank may need to apply forbearance to the loan. In either circumstance this gives rise to a credit impaired event.

Wholesale lending

Many types of wholesale lending incorporate bullet/balloon payments at the point of final maturity; often, the intention or assumption is that the borrower will take out a new loan to settle the existing debt. Where this is true the term refinance risk refers generally to the possibility that, at the point that such a repayment is due, a borrower cannot refinance by borrowing to repay existing debt. In situations where it is identified that a borrower is expected not to be able either to repay a bullet/balloon payment or to be capable of refinancing their existing debt on commercial terms then the customer will either default on the repayment or it is likely that the bank may need to refinance the loan on terms it would not normally offer in the ordinary course of business. In either circumstance this gives rise to a loss event and the loan will be considered credit impaired.

Impairment assessment

(Audited)

For details of our impairment policies on loans and advances and financial investments, see Note 1.2(g) on the Financial Statements.

Write-off of loans and advances

(Audited)

For details of our policy on the write-off of loans and advances, see Note 1.2(g) on the Financial Statements.

Personal lending

Property collateral for residential mortgages is repossessed and sold on behalf of the borrower only when the debt recovery procedures have been unsuccessful. Any portion of the balance not covered following the realisation of security is written-off. Unsecured personal lending products are normally written off, when there is no realistic prospect of full recovery.

Wholesale lending

Wholesale loans and advances are written off where normal collection procedures have been unsuccessful to the extent that there appears no realistic prospect of repayment. These procedures may include a referral of the business relationship to a debt recovery company. Debt reorganisation will be considered at all times and may involve, in exceptional circumstances and in the absence of any viable alternative, a partial write-off in exchange for a commitment to repay the remaining balance.

In the event of bankruptcy or similar proceedings, write-off for both personal and wholesale lending may occur earlier than at the periods stated above. Collections procedures may continue after write-off.

Customer relief programmes

In response to the Covid-19 outbreak, UK government 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 31 December 2021. When schemes expire, accounts and customers and their associated drawn balances are no longer reported under relief regardless of their repayment status.

Personal lending

		At	
		31 Dec 2021	31 Dec 2020
Personal lending market-wide schemes			
Number of accounts granted mortgage customer relief	000s	**—**	6
Drawn loan value of customers granted mortgage customer relief	£m	**—**	1,026
Number of accounts granted other personal lending customer relief	000s	**—**	15
Drawn loan value of customers granted other personal lending customer relief	£m	**—**	102
Market-wide schemes and bank-specific measure mortgage relief as a proportion of total mortgage loans and advances	%	**—**	0.9
Market-wide schemes and bank-specific measures other personal lending relief as a proportion of total other personal lending loans and advances	%	**—**	0.8

Wholesale lending

Wholesale lending market-wide schemes			
Number of customers under market-wide measures	000s	**227**	226
Drawn loan value of customers under market-wide schemes	£m	**9,211**	9,899
Wholesale lending bank-specific measures			
Number of customers under bank-specific measures	000s	**—**	—
Drawn loan value of customers under bank-specific measures	£m	**61**	255
Total wholesale lending to major markets under market-wide schemes and bank-specific measures			
Number of customers	000s	**227**	226
Drawn loan value	£m	**9,272**	10,154
Total gross carrying amount for wholesale lending	£m	**66,063**	70,181
Market-wide schemes as a proportion of total wholesale loans and advances	%	**13.9**	14.1
Bank-specific measures as a proportion of total wholesale lending loans and advances	%	**0.1**	0.4
Market-wide schemes and bank-specific measures as a proportion of total wholesale lending loans and advances	%	**14.0**	14.5

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. This forms part of the overall assessment forwhether there has been a significant increase in credit risk and credit impairment to identify loans for which lifetime ECL is appropriate. An extension in payment deferral does not automatically result in Stage 2 or Stage 3. The key accounting and credit risk judgement to ascertain whether a SICR in credit risk has occurred is whether the economic effects of Covid-19 pandemic on the customer are likely to be temporary over the lifetime of the loan, and whether they indicate that a concession is being made in respect of financial difficulty that would be consistent with Stage 3. The following narrative provides further details on the schemes offered:

Market-wide schemes

Personal Lending

Mortgages

Customer relief granted on mortgages primarily consisted of payment holidays or partial payment deferrals. Relief was offered for an initial period of three months and could be further extended for up to a further three months in certain circumstances. No payment was required from the customer during this period (though with a partial payment deferral the customer had expressed a desire to make a contribution) and interest continued to be charged as usual.

Other personal lending payment holidays

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

All UK personal lending schemes expired during 2021.

Wholesale Lending

The primary relief granted under government schemes consisted of the Bounce Back Loan Scheme, Coronavirus Business Interruption Loan Scheme and Coronavirus Large Business Interruption Loan Scheme. Since their initial launch, the application deadline for these schemes was extended to 31 March 2021. The key features of these schemes were as follows:

- The Bounce Back Loan Scheme provided SME with loans of up to £50,000 for a maximum period of six years. Interest was charged at 2.5% and the government paid the fees and interest for the first 12 months. No capital repayment was required by the customer for the first 12 months of the scheme. A government guarantee of 100% was provided under the scheme. Before their first payment was due customers could extend the term of the loan to 10 years, move to interest-only repayments for a period of six months (customers could use this option up to three times) and/or pause repayments for a period of six months (customers could use this option once).
- The Coronavirus Business Interruption Loan Scheme provided SMEs that had a turnover of less than £45m with loans of up to £5m for a maximum period of six years. Interest was charged between 3.49% and 3.99% above the UK base rate and no capital repayment was required by the customer for the first 12 months of the scheme. A government guarantee of up to 80% was provided under the scheme.
- The Coronavirus Large Business Interruption Loan Scheme provided medium and large-sized enterprises that had a turnover in excess of £45m with loans of up to £200m. The interest rate and tenor of the loan were negotiated on commercial terms. A government guarantee of 80% was provided under the scheme.

Until 31 December 2021, the Recovery Loan Scheme, launched on 6 April 2021, provided businesses of any size financial support to recover from the Covid-19 pandemic with loans of £25,001 to £10 million subject to eligibility and viability assessments. A government guarantee of 80% was provided under the scheme.

For term loans and asset finance, businesses could borrow for three months up to six years and for overdrafts and invoice finance, three months up to three years. The scheme was extended until 30 June 2022, with the following changes coming into force from 1 January 2022: The scheme remains open to small- and medium-sized enterprises and the maximum amount of finance available is £2m per business. A government guarantee of 70% is provided on such loans.

HSBC UK specific measures

Wholesale lending

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

Credit risk in 2021

The credit risk effects of the Covid-19 outbreak and the UK withdrawal from the EU continue to be carefully followed by the group. Certain industry segments have found themselves challenged and this trend is likely to continue, with some customers having been obliged to take on additional balance sheet leverage.

Following a temporary pause in the issuance of default notices in WPB this activity has now recommenced.

During the first half of 2021, HSBC UK experienced a release in allowances for ECL, reflecting an improvement of the economic outlook. This trend continued during the second half of the year following better than expected levels of credit performance and lower levels of stage 3 charges. However, in the later part of the year the trend slowed down due to the emergence of the new variant Omicron.

More details analysis of ECL can be found on pages 34 to 39.

A summary of our current policies and practices regarding credit risk is set out on pages 27 and 28.

Climate Risk

For our larger borrowing commercial clients operating in high transition risk sectors, a detailed Transition Risk Questionnaire is completed which assess both the climate risk the client faces and their plans to adapt to a Net Zero world. This information is taken in consideration as part of the broader client credit assessment. During 2022, we will broaden our assessments to include clients not in high transition sectors but may face transition risk nonetheless. This will be done as part of the usual credit assessment processes.

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.

The following table provides an overview of the group and bank's credit risk exposure. As the majority of the group's financial instruments are held by the bank, the remaining IFRS 7 credit disclosures are provided on a group only basis.

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

(Audited)

	At 31 Dec 2021		At 31 Dec 2020	
	Gross carrying/ nominal amount	**Allowance for ECL[1]**	Gross carrying/ nominal amount	Allowance for ECL[1]
The group	**£m**	**£m**	£m	£m
Loans and advances to customers at amortised cost	**197,381**	**(1,855)**	194,426	(3,193)
– personal	**131,318**	**(767)**	124,245	(1,449)
– corporate and commercial	**63,927**	**(1,085)**	67,354	(1,701)
– non-bank financial institutions	**2,136**	**(3)**	2,827	(43)
Loans and advances to banks at amortised cost	**1,914**	**—**	1,515	(1)
Other financial assets measured at amortised cost	**122,133**	**(1)**	80,486	(2)
– cash and balances at central banks	**112,478**	**—**	76,429	—
– items in the course of collection from other banks	**299**	**—**	253	—
– reverse repurchase agreements – non-trading	**7,988**	**—**	2,485	—
– prepayments, accrued income and other assets[2]	**1,368**	**(1)**	1,319	(2)
Total gross carrying amount on-balance sheet	**321,428**	**(1,856)**	276,427	(3,196)
Loans and other credit related commitments	**67,394**	**(73)**	70,215	(190)
– personal	**39,889**	**(9)**	39,715	(16)
– corporate and commercial	**26,843**	**(64)**	29,568	(172)
– non-bank financial institutions	**662**	**—**	932	(2)
Financial guarantees	**1,102**	**(3)**	935	(17)
– personal	**317**	**—**	118	—
– corporate and commercial	**490**	**(2)**	573	(17)
– non-bank financial institutions	**295**	**(1)**	244	—
Total nominal amount off-balance sheet[3]	**68,496**	**(76)**	71,150	(207)
At 31 Dec	**389,924**	**(1,932)**	347,577	(3,403)
	Fair value	**Memorandum allowance for ECL[4]**	Fair value	Memorandum allowance for ECL[4]
	£m	**£m**	£m	£m
Debt instruments measured at 'FVOCI'	**14,377**	**(2)**	19,309	(6)

1 *The total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.*
2 *Includes only those financial instruments 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 74 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.*

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

(Audited)

	At 31 Dec 2021		At 31 Dec 2020	
	Gross carrying/ nominal amount	**Allowance for ECL[1]**	Gross carrying/ nominal amount	Allowance for ECL[1]
The bank	**£m**	**£m**	£m	£m
Loans and advances to customers at amortised cost	**192,880**	**(1,672)**	189,632	(2,832)
– personal	**128,069**	**(667)**	120,765	(1,208)
– corporate and commercial	**55,892**	**(1,002)**	60,079	(1,581)
– non-bank financial institutions	**8,919**	**(3)**	8,788	(43)
Loans and advances to banks at amortised cost	**4,405**	**—**	3,791	(1)
Other financial assets measured at amortised cost	**121,966**	**(1)**	80,221	(2)
– cash and balances at central banks	**112,477**	**—**	76,419	—
– items in the course of collection from other banks	**132**	**—**	137	—
– reverse repurchase agreements – non-trading	**7,988**	**—**	2,485	—
– prepayments, accrued income and other assets[2]	**1,369**	**(1)**	1,180	(2)
Total gross carrying amount on-balance sheet	**319,251**	**(1,673)**	273,644	(2,835)
Loans and other credit related commitments	**53,687**	**(71)**	55,496	(182)
– personal	**29,223**	**(7)**	28,107	(12)
– corporate and commercial	**23,887**	**(64)**	26,546	(168)
– non-bank financial institutions	**577**	**—**	843	(2)
Financial guarantees	**1,102**	**(3)**	935	(17)
– personal	**317**	**—**	118	—
– corporate and commercial	**490**	**(2)**	573	(17)
– non-bank financial institutions	**295**	**(1)**	244	—
Total nominal amount off-balance sheet[3]	**54,789**	**(74)**	56,431	(199)
At 31 Dec	**374,040**	**(1,747)**	330,075	(3,034)

	Fair value	**Memorandum allowance for ECL[4]**	Fair value	Memorandum allowance for ECL[4]
	£m	**£m**	£m	£m
Debt instruments measured at 'FVOCI'	**14,377**	**(2)**	19,309	(6)

1 *The total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.*
2 *Includes only those financial instruments that are subject to the impairment requirements of IFRS 9. 'Prepayments, accrued income and other assets' as presented within the bank's balance sheet on page 77 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: These financial assets are unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised.
- Stage 2: a significant increase in credit risk has been experienced on these financial assets since initial recognition for which a lifetime ECL is recognised.
- Stage 3: There is objective evidence of impairment, and the financial assets are therefore considered to be in default or otherwise credit-impaired 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 at 31 December 2021

(Audited)

	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	174,917	18,436	4,008	20	197,381	(315)	(692)	(843)	(5)	(1,855)	0.2	3.8	21.0	25.0	0.9
– personal	126,904	3,361	1,053	–	131,318	(122)	(353)	(292)	–	(767)	0.1	10.5	27.7	–	0.6
– corporate and commercial	45,957	15,000	2,950	20	63,927	(191)	(338)	(551)	(5)	(1,085)	0.4	2.3	18.7	25.0	1.7
– non-bank financial institutions	2,056	75	5	–	2,136	(2)	(1)	–	–	(3)	0.1	1.3	–	–	0.1
Loans and advances to banks at amortised cost	1,914	–	–	–	1,914	–	–	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	122,085	32	16	–	122,133	(1)	–	–	–	(1)	–	–	–	–	–
Loan and other credit-related commitments	63,642	3,492	260	–	67,394	(32)	(26)	(15)	–	(73)	0.1	0.7	5.8	–	0.1
– personal	39,527	287	75	–	39,889	(8)	(1)	–	–	(9)	–	0.3	–	–	–
– corporate and commercial	23,524	3,134	185	–	26,843	(24)	(25)	(15)	–	(64)	0.1	0.8	8.1	–	0.2
– financial	591	71	–	–	662	–	–	–	–	–	–	–	–	–	–
Financial guarantee and similar contracts	963	123	16	–	1,102	(1)	–	(2)	–	(3)	0.1	–	12.5	–	0.3
– personal	308	9	–	–	317	–	–	–	–	–	–	–	–	–	–
– corporate and commercial	393	81	16	–	490	–	–	(2)	–	(2)	–	–	12.5	–	0.4
– financial	262	33	–	–	295	(1)	–	–	–	(1)	0.4	–	–	–	0.3
At 31 Dec 2021	**363,521**	**22,083**	**4,300**	**20**	**389,924**	**(349)**	**(718)**	**(860)**	**(5)**	**(1,932)**	**0.1**	**3.3**	**20.0**	**25.0**	**0.5**

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

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when they are 30 'DPD' and are transferred from Stage 1 to Stage 2. The following disclosure presents the ageing of Stage 2 financial assets. It distinguishes those assets that are classified as Stage 2 when they are less than 30 days past due (1-29 DPD) from those that are due to ageing and are more than 30 DPD (30 and >DPD). Past due financial instrument are those loans where customers have failed to make payments in accordance with the contractual terms of their facilities.

Stage 2 days past due analysis at 31 December 2021

(Audited)

	Gross carrying amount				Allowance for ECL				ECL coverage %			
	Stage 2	*Of which: Up-to-date[1]*	*Of which: 1 to 29 DPD[2]*	*Of which: 30 and > DPD[2]*	Stage 2	*Of which: Up-to-date[1]*	*Of which: 1 to 29 DPD[2]*	*Of which: 30 and > DPD[2]*	Stage 2	*Of which: Up-to-date[1]*	*Of which: 1 to 29 DPD[2]*	*Of which: 30 and > DPD[2]*
	£m	*£m*	*£m*	*£m*	£m	*£m*	*£m*	*£m*	%	*%*	*%*	*%*
Loans and advances to customers at amortised cost:	18,436	*17,815*	*394*	*227*	(692)	*(616)*	*(42)*	*(34)*	3.8	*3.5*	*10.7*	*15.0*
– personal	3,361	*3,045*	*210*	*106*	(353)	*(286)*	*(36)*	*(31)*	10.5	*9.4*	*17.1*	*29.2*
– corporate and commercial	15,000	*14,695*	*184*	*121*	(338)	*(329)*	*(6)*	*(3)*	2.3	*2.2*	*3.3*	*2.5*
– non-bank financial	75	*75*	–	–	(1)	*(1)*	–	–	1.3	*1.3*	–	–
Loans and advances to banks at amortised cost	–	–	–	–	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	32	*32*	–	–	–	–	–	–	–	–	–	–

1 *Wholesale portfolios are included under Up-to-date.*
2 *The days past due amounts presented above are on a contractual basis and include the benefit of any customer relief payment holidays granted.*

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

(Audited)

	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	162,033	28,802	3,555	36	194,426	(467)	(1,651)	(1,053)	(22)	(3,193)	0.3	5.7	29.6	61.1	1.6
– personal	116,171	6,871	1,203	—	124,245	(161)	(893)	(395)	—	(1,449)	0.1	13.0	32.8	—	1.2
– corporate and commercial	43,844	21,152	2,322	36	67,354	(300)	(728)	(651)	(22)	(1,701)	0.7	3.4	28.0	61.1	2.5
– non-bank financial institutions	2,018	779	30	—	2,827	(6)	(30)	(7)	—	(43)	0.3	3.9	23.3	—	1.5
Loans and advances to banks at amortised cost	1,514	1	—	—	1,515	(1)	—	—	—	(1)	0.1	—	—	—	0.1
Other financial assets measured at amortised cost	80,411	54	20	1	80,486	(2)	—	—	—	(2)	—	—	—	—	—
Loan and other credit-related commitments	63,443	6,486	285	1	70,215	(81)	(70)	(38)	(1)	(190)	0.1	1.1	13.3	100.0	0.3
– personal	39,358	290	67	—	39,715	(15)	(1)	—	—	(16)	—	0.3	—	—	—
– corporate and commercial	23,223	6,138	206	1	29,568	(65)	(68)	(38)	(1)	(172)	0.3	1.1	18.4	100.0	0.6
– financial	862	58	12	—	932	(1)	(1)	—	—	(2)	0.1	1.7	—	—	0.2
Financial guarantee and similar contracts	674	236	25	—	935	(7)	(7)	(3)	—	(17)	1.0	3.0	12.0	—	1.8
– personal	106	12	—	—	118	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	350	198	25	—	573	(7)	(7)	(3)	—	(17)	2.0	3.5	12.0	—	3.0
– financial	218	26	—	—	244	—	—	—	—	—	—	—	—	—	—
At 31 Dec 2020	308,075	35,579	3,885	38	347,577	(558)	(1,728)	(1,094)	(23)	(3,403)	0.2	4.9	28.2	60.5	1.0

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

Stage 2 days past due analysis at 31 December 2020 (continued)

(Audited)

	Gross carrying amount				Allowance for ECL				ECL coverage %			
	Stage 2	*Of which:*	*Of which:*	*Of which:*	Stage 2	*Of which:*	*Of which:*	*Of which:*	Stage 2	*Of which:*	*Of which:*	*Of which:*
		Up-to-date	*1 to 29 DPD*	*30 and > DPD*		*Up-to-date*	*1 to 29 DPD*	*30 and > DPD*		*Up-to-date*	*1 to 29 DPD*	*30 and > DPD*
	£m	*£m*	*£m*	*£m*	£m	£m	*£m*	*£m*	%	%	%	%
Loans and advances to customers at amortised cost:	28,802	*28,307*	*334*	*161*	(1,651)	*(1,520)*	*(71)*	*(60)*	5.7	*5.4*	*21.3*	*37.3*
– personal	6,871	*6,428*	*298*	*145*	(893)	*(783)*	*(59)*	*(51)*	13.0	*12.2*	*19.8*	*35.2*
– corporate and commercial	21,152	*21,100*	*36*	*16*	(728)	*(707)*	*(12)*	*(9)*	3.4	*3.4*	*33.3*	*56.3*
– non-bank financial institutions	779	*779*	—	—	(30)	*(30)*	—	—	3.9	*3.9*	—	—
Loans and advances to banks at amortised cost	1	*1*	—	—	—	—	—	—	—		—	—
Other financial assets measured at amortised cost	54	*54*	—	—	—	—	—	—	—		—	—

Credit exposure

Maximum exposure to credit risk

(Audited)

'Maximum exposure to credit risk' table
The following table presents our maximum exposure before taking account of any collateral held or other credit enhancements (unless such enhancements meet accounting offsetting requirements). The table excludes financial instruments whose carrying amount best represents the net exposure to credit risk; and it excludes equity securities as they are not subject to credit risk. For the financial assets recognised on the balance sheet, the maximum exposure to credit risk equals their carrying amount and is net of the allowance for ECL; for financial guarantees and similar contracts granted, it is the maximum amount that we would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments, it is generally the full amount of the committed facilities. The offset in the table relates to amounts where there is a legally enforceable right of offset in the event of counterparty default and where, as a result, there is a net exposure for credit risk purposes. However, as there is no intention to settle these balances on a net basis under normal circumstances, they do not qualify for net presentation for accounting purposes. No offset has been applied to off-balance sheet collateral. In the case of derivatives the offset column also includes collateral received in cash and other financial assets.

The following table provides information on balance sheet items, offsets, and loan and other credit-related commitments.

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

Other credit risk mitigants

While not disclosed as an offset in the following 'Maximum exposure to credit risk' table, other arrangements are in place which reduce our maximum exposure to credit risk. These include a charge over collateral on borrowers' specific assets such as residential properties and collateral held in the form of financial instruments that are not held on balance sheet. See Note 22 for further details of collateral in respect of certain loans and advances and derivatives.

Maximum exposure to credit risk

(Audited)

	At 31 Dec 2021			At 31 Dec 2020		
	Maximum exposure	**Offset**	**Net**	Maximum exposure	Offset	Net
The group	**£m**	**£m**	**£m**	£m	£m	£m
Loans and advances to customers held at amortised cost	**195,526**	**(2,457)**	**193,069**	191,233	(3,330)	187,903
– personal	**130,551**	**–**	**130,551**	122,796	–	122,796
– corporate and commercial	**62,842**	**(2,395)**	**60,447**	65,653	(3,200)	62,453
– non-bank financial institutions	**2,133**	**(62)**	**2,071**	2,784	(130)	2,654
Loans and advances to banks at amortised cost	**1,914**	**–**	**1,914**	1,514	–	1,514
Other financial assets held at amortised cost	**122,258**	**–**	**122,258**	80,627	–	80,627
– cash and balances at central banks	**112,478**	**–**	**112,478**	76,429	–	76,429
– items in the course of collection from other banks	**299**	**–**	**299**	253	–	253
– reverse repurchase agreements – non-trading	**7,988**	**–**	**7,988**	2,485	–	2,485
– prepayments, accrued income and other assets	**1,493**	**–**	**1,493**	1,460	–	1,460
Derivatives	**64**	**(49)**	**15**	155	(41)	114
Total on-balance sheet exposure to credit risk	**319,762**	**(2,506)**	**317,256**	273,529	(3,371)	270,158
Total off-balance sheet	**73,654**	**–**	**73,654**	75,744	–	75,744
– financial guarantees and similar contracts	**3,286**	**–**	**3,286**	3,246	–	3,246
– loan and other credit-related commitments	**70,368**	**–**	**70,368**	72,498	–	72,498

Concentration of exposures

(Audited)

The diversification of our lending portfolio and our broad range of businesses and products ensured that we did not overly depend on any one business segment to generate growth in 2021.

Loans and advances to customers and banks held at amortised cost

The table on page 32 analyses loans and advances by industry sector to show any concentration of credit risk exposures.

Other financial assets held at amortised cost

Financial investments

Our holdings of government and government agency debt securities, corporate debt securities, asset-backed securities and other securities were spread across a range of issuers in 2021 with 95% (2020: 95%) invested in government or government agency debt securities.

Items in the course of collection from other banks

Settlement risk arises in any situations where a payment in cash, securities or equities is made with the expectation of a corresponding receipt of cash, securities or equities. Daily settlement limits are established for counterparties to cover the aggregate of transactions with each counterparty on any single day.

The group substantially mitigates settlement risk on many transactions, particularly those involving securities, by settling through assured payment systems, or on a delivery-versus-payment basis.

Measurement uncertainty and sensitivity analysis of ECL estimates

(Audited)

Despite a broad recovery in economic conditions during 2021, ECL estimates continued to be subject to a high degree of uncertainty, and management judgements and estimates continued to reflect a degree of caution, both in the selection of economic scenarios and their weightings, and through management judgemental adjustments. Releases of provisions were made progressively as economic conditions recovered and by 31 December 2021 the majority of the 2020 uplift in ECL provisions had been reversed. By the end of 2021, we retained £181m (13%) of the £1,400m uplift in stage 1 and stage 2 ECL provisions on loans made during 2020.

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

Methodology

Four economic scenarios are used to capture the current economic environment and to articulate management's view of the range of potential outcomes. Scenarios produced to calculate ECL are aligned to HSBC Group's top and emerging risks.

In the second quarter of 2020, to ensure that the severe risks associated with the pandemic were appropriately captured,

management added a fourth, more severe, scenario to use in the measurement of ECL. Starting in the fourth quarter of 2021, HSBC Group's methodology has been adjusted so that the use of four scenarios, of which two are downside scenarios, is the standard approach to ECL calculation.

Three of the scenarios are drawn from consensus forecasts and distributional estimates. The Central scenario is deemed the 'most likely' scenario, and usually attracts the largest probability weighting, while the outer scenarios represent the tails of the distribution, which are less likely to occur. The Central scenario is created using the average of a panel of external forecasters. Consensus Upside and Downside scenarios are created with reference to distributions for select markets that capture forecasters' views of the entire range of outcomes. In the later years of the scenarios, projections revert to long-term consensus trend expectations. In the consensus outer scenarios, reversion to trend expectations is done mechanically with reference to historically observed quarterly changes in the values of macroeconomic variables.

The fourth scenario, Downside 2, is designed to represent Management's view of severe downside risks. It is a globally consistent narrative-driven scenario that explores more extreme economic outcomes than those captured by the consensus scenarios. In this scenario, variables do not, by design, revert to long-term trend expectations. They may instead explore alternative states of equilibrium, where economic activity moves permanently away from past trends.

The consensus, 'Upside' scenarios is constructed to be consistent with a 10% probability. The two Downside scenarios were given a combined probability weighting of 30%. The Central Scenario is assigned the remaining 60%. This weighting scheme is deemed appropriate for the unbiased estimation of ECL in most circumstances. However, management may depart from this probability based scenario weighting approach when the economic outlook is determined to be particularly uncertain and risks are elevated.

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 global economy experienced a recovery in 2021, following an unprecedented contraction in 2020. Restrictions to mobility and travel eased, aided by the successful rollout of vaccination programmes. The emergence of new variants that potentially reduce the efficacy of vaccines remains a risk.

Economic forecasts remain subject to a high degree of uncertainty. Risks to the economic outlook are dominated by the progression of the pandemic, vaccine roll-out and the public policy response. Continued uncertainty over the long-term economic relationship between the UK and EU also present downside risks.

The scenarios used to calculate ECL in the *Annual Report and Accounts 2021* are described below.

The consensus Central scenario

HSBC UK's Central scenario features a continued recovery in economic growth in 2022 as activity and employment gradually return to the levels reached prior to the outbreak of Covid-19.

Our Central scenario assumes that the stringent restrictions on activity, imposed across UK in 2020 and 2021 are not repeated. The new viral strain, that emerged late in 2021, Omicron, has only a limited impact on the recovery. Consumer spending and business investment, supported by elevated levels of private sector savings, are expected to drive the economic recovery as fiscal and monetary policy support recedes.

UK GDP is expected to grow by 5% in 2022 in the Central scenario and the average rate of UK GDP growth is 2.5% over the five-year forecast period.

The key features of our Central scenario are:

- Growth in UK GDP in 2022. Economic activity continue to recover. GDP grows at a moderate rate and exceeds pre-pandemic levels in 2022.
- Unemployment declines to levels only slightly higher than existed pre-pandemic.
- Covid-19 related fiscal spending recedes in 2022 as fewer restrictions on activity allow fiscal support to be withdrawn.
- Inflation remains elevated through 2022. Supply driven price pressures persist through the first half of 2022 before gradually easing. In subsequent years, inflation quickly converges back towards target rates.
- Bank of England base rate rises gradually over our projection period, in line with economic recovery.

In the longer term, growth reverts back towards similar rates that existed prior to the pandemic, suggesting that the damage to long-term economic prospects is expected to be minimal.

The Central scenario was first created with forecasts available in November, and subsequently updated in December. Probability weights assigned to the Central scenario is 60%.

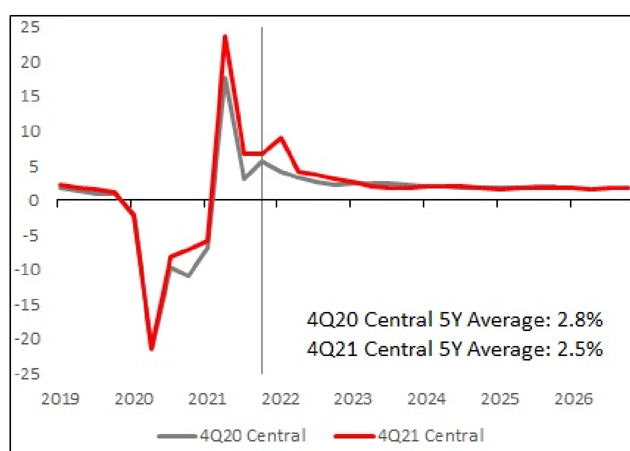
The following table describes key macroeconomic variables and the probabilities assigned in the consensus Central scenario applied at 31 December 2021 and 31 December 2020.

Central scenario

	Average 2022 Q1–2026 Q4	Average 2021 Q1–2025 Q4
	UK%	UK%
GDP growth rate	**2.5**	2.8
Unemployment	**4.3**	5.6
Short-term interest rate	**1.2**	0.2
House price growth	**3.5**	1.9
Probability	**60**	40

The graphs comparing the respective Central scenarios in the fourth quarters of 2020 and 2021 reveal the extent of economic dislocation that occurred in 2020 and compares current economic expectations with those held a year ago.

GDP growth: Comparison.



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

The consensus Upside scenario

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

The scenario is consistent with a number of key upside risk themes. These include the orderly and rapid global abatement of Covid-19 via successful containment and ongoing vaccine efficacy; continued fiscal and monetary policy support; and smooth relations between the UK and the EU.

The following table describes key macroeconomic variables and the probabilities assigned in the consensus Upside scenario applied at 31 December 2021.

Consensus Upside scenario best outcome

	UK%
GDP growth rate	**9.9 (1Q22)**
Unemployment	**3.0 (4Q23)**
Short-term Interest rate	**0.7 (1Q22)**
House price growth	**7.4 (2Q23)**
Probability	**10**

Note: extreme point in the consensus Upside is 'best outcome' in the scenario, i.e. highest GDP growth, lowest unemployment rate etc., in first two years of the scenario.

The Downside scenarios

The progress of the pandemic and the ongoing public policy response continue to be a key source of risk. Downside scenarios assume that new strains of the virus result in an acceleration in infection rates and increased pressure on public health services, necessitating restrictions on activity. The reimposition of such restrictions could be assumed to have a damaging effect on consumer and business confidence.

UK government fiscal programmes in 2020 and 2021 were supported by accommodative actions taken by the Bank of England. These measures have provided households and firms with significant support. An inability or unwillingness to continue with such support or the untimely withdrawal of support present a downside risk to growth.

While Covid-19 and related risks dominate the economic outlook, continued uncertainty over the long-term economic relationship between the UK and EU also present a threat. Potential disagreements between the UK and the EU may hinder the ability to reach a more comprehensive agreement on trade and services, despite the Trade and Cooperation Agreement averting a disorderly UK departure.

The consensus Downside scenario

In the consensus Downside scenario, economic recovery is weaker compared with the Central scenario as key global risks, including the Covid-19 pandemic, escalate. Compared with the Central scenario, GDP growth is expected to be lower, unemployment rates rise moderately and asset and commodity prices fall before gradually recovering towards their long-run trend expectations.

The following table describes key macroeconomic variables and the probabilities assigned in the Consensus Downside scenario applied at 31 December 2021.

Consensus Downside scenario worst outcome

	UK%
GDP growth rate	**(0.5) (3Q23)**
Unemployment	**5.6 (4Q22)**
Short-term Interest rate	**0.2 (4Q23)**
House price growth	**(4.2) (1Q23)**
Probability	**15**

Note: extreme point in the consensus Downside is 'worst outcome' in the scenario, i.e. lowest GDP growth, highest unemployment rate etc., in first two years of the scenario.

Downside 2 scenarios

The Downside 2 scenario features a deep global recession. In this scenario, new Covid-19 variants emerge that cause infections to rise sharply in 2022, resulting in setbacks to vaccine programmes and the rapid imposition of travel restrictions and lockdowns across some countries. The scenario also assumes UK governments and the Bank of England are unable to significantly increase fiscal and monetary support, which results in abrupt corrections in labour and asset markets.

The table below describes key macro-economic variables and the probability in the Downside 2 scenario applied at 31 December 2021:

Downside 2 scenario worst outcome

	UK%
GDP growth rate	**(4.6) (4Q22)**
Unemployment	**7.5 (2Q23)**
Short-term Interest rate	**1.6 (2Q22)**
House price growth	**(14.2) (2Q23)**
Probability	**15**

Note: extreme point in the Downside 2 is 'worst outcome' in the scenario, i.e. lowest GDP growth and the highest unemployment rate, in the first two years of the scenario

Scenario weighting

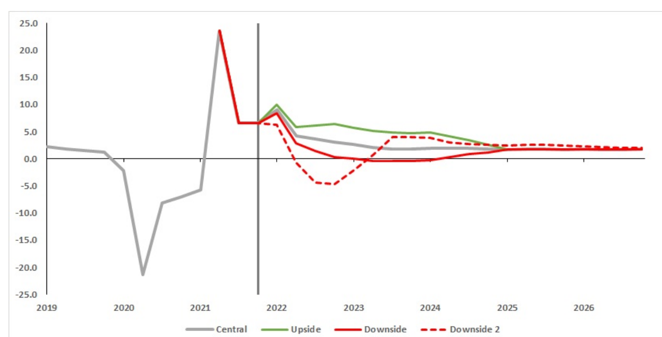
In reviewing the economic conjuncture, the level of uncertainty and risk, management has considered both global and UK specific factors. This has led management to assign scenario probabilities that are tailored to its view of uncertainty in individual markets.

To inform its view, management has considered the progression of the virus in the UK, the speed of vaccine roll-outs, the degree of current and expected future government support and the connectivity with other countries. Management has also been guided by the policy response and UK economic performance through the pandemic, as well as the evidence that UK economy has adapted as the virus has progressed.

A key consideration in the fourth quarter was the emergence of the new variant, Omicron. The virulence and severity of the new strain, in addition to the continued efficacy of vaccines against it, was unknown when the variant first emerged. Management therefore determined that uncertainty attached to forecasts had increased and sought to reflect this in scenario weightings.

The UK faces the significant economic uncertainty. The emergence of Omicron exacerbated the rise in case rates and hospitalisations in UK, necessitating the imposition of new restrictions. These increase uncertainty around economic growth and employment. Accordingly, the Central scenario is assigned 60% weight. The two Downside scenarios were given a combined probability weighting of 30%.

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



Critical accounting estimates and judgements

The calculation of ECL under IFRS 9 involves significant judgements, assumptions and estimates. Despite a general recovery in economic conditions during 2021, the level of estimation uncertainty and judgement has remained high during 2021 as a result of the ongoing economic effects of the Covid-19 pandemic and other sources of economic instability, including significant judgements relating to:

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

together represent a very high degree of estimation uncertainty, particularly in assessing Downside scenarios;

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

How economic scenarios are reflected in the wholesale calculation of ECL

HSBC Group have developed a globally consistent methodology for the application of forward economic guidance into the calculation of ECL and particularly into the estimation of the term structure of PD and LGD. For PDs, we consider the correlation of forward economic guidance to default rates for a particular industry in a country. For LGD calculations, we consider the correlation of forward economic guidance to collateral values and realisation rates for a particular country and industry. PDs and LGDs are estimated for the entire term structure of each instrument.

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

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

How economic scenarios are reflected in the retail calculation of ECL

HSBC Group have developed and implemented a globally consistent methodology for incorporating forecasts of economic conditions into ECL estimates. The impact of economic scenarios on PD is modelled at a portfolio level. Historical relationships between observed default rates and macroeconomic variables are integrated into IFRS 9 ECL estimates by using economic response models. The impact of these scenarios on PD is modelled over a period equal to the remaining maturity of underlying asset or assets. The impact on LGD is modelled for mortgage portfolios by forecasting future LTV profiles for the remaining maturity of the asset by using national level forecasts of the house price index and applying the corresponding LGD expectation.

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

Management judgemental adjustments

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

At 31 December 2021, management judgements were applied to reflect credit risk dynamics not captured by our models. The drivers of the management judgemental adjustments reflect the changing economic outlook and evolving risks across UK.

Where the macroeconomic and portfolio risk outlook continues to improve, supported by low levels of observed defaults, adjustments initially taken to reflect increased risk expectations have been retired or reduced.

However, other adjustments have increased where modelled outcomes are overly sensitive and not aligned to observed changes in the risk of the underlying portfolios during the pandemic, or where sector-specific risks are not adequately captured.

The effect of management judgemental adjustments are considered for balances and ECL when determining whether or not a significant increase in credit risk has occurred and are attributed or allocated to a stage as appropriate. This is in accordance with the internal adjustments framework.

Management judgemental adjustments are reviewed under the governance process for IFRS 9 (as detailed in the section 'Credit risk management' on page 27. Review and challenge focuses on the rationale and quantum of the adjustments with a further review carried out by the second line of defence where significant. For some management judgemental adjustments, internal frameworks establish the conditions under which these adjustments should no longer be required and as such are considered as part of the governance process. This internal governance process allows management judgemental adjustments to be reviewed regularly and, where possible, to reduce the reliance on these through model recalibration or redevelopment, as appropriate.

Management judgemental adjustments made in estimating the scenario-weighted reported ECL at 31 December 2021 are set out in the following table. The table includes adjustments in relation to data and model limitations, including those driven by late-breaking events and sector-specific risks and as a result of the regular process of model development and implementation.

Management judgemental adjustments to ECL at 31 December 2021[1]

	Retail	Wholesale	Total
	£m	£m	£m
Low-risk counterparties (banks, sovereigns and government entities)	–	3	3
Corporate lending adjustments	–	310	310
Retail lending PD adjustments	–	–	–
Retail model default timing adjustment	–	–	–
Macroeconomic-related adjustments	28		28
Pandemic-related economic recovery adjustments	41	4	45
Other retail lending adjustments	73	–	73
Total	**142**	**317**	**459**

Management judgemental adjustments to ECL at 31 December 2020[1]

	Retail	Wholesale	Total
	£m	£m	£m
Low-risk counterparties (banks, sovereigns and government entities)	–	5	5
Corporate lending adjustments	–	357	357
Retail lending PD adjustments	(569)	(256)	(825)
Retail model default timing adjustment	977	386	1,363
Macroeconomic-related adjustments	(95)	–	(95)
Pandemic-related economic recovery adjustments	–		–
Other retail lending adjustments	34	–	34
Total	347	492	839

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

Management judgemental adjustments at 31 December 2021 were an increase to ECL of £317m for the wholesale portfolio and an increase to ECL of £142m for the retail portfolio.

During 2021, management judgemental adjustments reflected an evolving macroeconomic outlook and the relationship of the modelled ECL to this outlook and to late-breaking and sector specific risks.

At 31 December 2021, wholesale management judgmental adjustments were an ECL increase of £317m, comprising £284m relating to Wholesale portfolios and £33m relating to Retail SME

portfolios which use Retail models (31 December 2020: £492m increase including £130m from retail SME).

- The adjustments relating to low-credit risk exposures increased ECL by £3m at 31 December 2021 (31 December 2020: £5m increase).
- Adjustments to corporate exposures increased ECL by £310m at 31 December 2021 (31 December 2020: £357m increase). These principally reflected the outcome of management judgements for high-risk and vulnerable sectors, supported by credit experts' input, portfolio risk metrics, quantitative analyses and benchmarks. Considerations include risk of individual exposures under different macroeconomic scenarios and comparison of key risk metrics to pre-pandemic levels, resulting in releases of ECL. The sector most impacted by these adjustments is Corporate Real Estate, particularly in relation to hotel exposures.
- The decrease in adjustment impact relative to 31 December 2020 was mostly driven by management judgements as a result of the effect of further improvement of macroeconomic scenarios on modelled outcomes and less dislocation of modelled outcomes to management expectations for high-risk sectors and due to late-breaking events not fully reflected in the underlying data.
- The net £130m adjustment relating to Retail SMEs in the prior year, has been discontinued in 2021.

At 31 December 2021, retail management judgemental adjustments were an ECL increase of £142m (31 December 2020: £347m increase).

- Pandemic-related economic recovery adjustments increased ECL by £41m (31 December 2020: £nil) to adjust for the effects of the volatile pace of recovery from the pandemic. This is where in management's judgement, supported by quantitative analyses of portfolio and economic metrics, modelled outcomes are overly sensitive given the limited observed deterioration in the underlying portfolio during the pandemic.
- Macroeconomic-related adjustments increased ECL by £28m (31 December 2020: £95m decrease). These were applied to reflect management concern about specific risks not fully captured by models, including inflation, and downside risk of reductions in customer income.
- Other retail lending adjustments increased ECL by £73m (31 December 2020: £34m increase). These were primarily to address areas such as model recalibration and redevelopment, customer relief and data limitations.
- The net £408m adjustments for default suppression and retail lending PD model outputs have been discontinued in 2021. The need for these adjustments was driven by the interaction of severe economic conditions with modelled outputs, but as the economic outlook has now improved significantly, these adjustments are no longer required.

Economic scenarios sensitivity analysis of ECL estimates

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

The ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible ECL outcomes. The impact of defaults that might occur in the future under different economic scenarios is captured by recalculating ECL for loans at the balance sheet date.

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 (stage 3) obligors. It is generally impracticable to separate the effect of macroeconomic factors in individual assessments of obligors in default. The measurement of stage 3 ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios, and loans to defaulted obligors are a small portion of the overall wholesale lending exposure, even if representing the majority of the allowance for ECL. Therefore, the sensitivity analysis to macroeconomic scenarios does not capture the residual estimation risk arising from wholesale stage 3 exposures.

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 analysis

The wholesale and retail sensitivity analysis is stated inclusive of management judgemental adjustments, as appropriate to each scenario. The results tables exclude small portfolios, and as such cannot be directly compared to personal and wholesale lending presented in other credit risk tables. Additionally, in both the wholesale and retail analysis, the comparative period results for Downside 2 scenarios are also not directly comparable to the current period, because they reflect different risk profiles relative with the Consensus scenarios for the period end.

Wholesale analysis

IFRS 9 ECL sensitivity to future economic conditions[1]

	2021 £m	2020 £m
ECL of financial instruments subject to significant measurement uncertainty at 31 Dec[1]		
Reported ECL	**584**	1,237
Consensus scenarios		
Central scenario	**455**	914
Upside scenario	**371**	613
Downside scenario	**598**	1,359
Downside 2 scenario	**1,295**	2,238

1 *ECL sensitivity includes off-balance sheet financial instruments that are subject to significant measurement uncertainty.*

Retail analysis

IFRS 9 ECL sensitivity to future economic conditions[1]

	2021 £m	2020 £m
ECL of loans and advances to customers at 31 Dec		
Reported ECL	**738**	1,429
Consensus scenarios		
Central scenario	**636**	1,283
Upside scenario	**562**	903
Downside scenario	**769**	1,561
Downside 2 scenario	**1,514**	1,810

1 *ECL sensitivities exclude portfolios utilising less complex modelling approaches.*

Mortgages reflected the lowest level of ECL sensitivity across most markets as collateral values remain resilient. Credit cards and other unsecured lending are more sensitive to economic forecasts, which have improved in 2021.

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

The following disclosure provides a reconciliation by stage of the group's gross carrying/nominal amount and allowances for loans and advances to banks and customers, including loan commitments and financial guarantees.

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

remeasurement excludes the underlying 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.

Gross carrying/nominal amount transfers from stage 1 to stage 2 include movements to reflect the results of Corporate lending adjustments to modelled ECL. Adjustments to gross carrying/ nominal amount transfers between stages have been allocated proportionately to the quantum of the Corporate lending adjustment.

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

(Audited)

	Non credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2021	**226,574**	**(559)**	**35,528**	**(1,728)**	**3,850**	**(1,091)**	**38**	**(23)**	**265,990**	**(3,401)**
Transfers of financial instruments:	**7,393**	**(717)**	**(8,936)**	**855**	**1,543**	**(138)**	**—**	**—**	**—**	**—**
– transfers from Stage 1 to Stage 2	**(13,961)**	**92**	**13,961**	**(92)**	**—**	**—**	**—**	**—**	**—**	**—**
– transfers from Stage 2 to Stage 1	**21,731**	**(787)**	**(21,731)**	**787**	**—**	**—**	**—**	**—**	**—**	**—**
– transfers to Stage 3	**(591)**	**5**	**(1,541)**	**218**	**2,132**	**(223)**	**—**	**—**	**—**	**—**
– transfers from Stage 3	**214**	**(27)**	**375**	**(58)**	**(589)**	**85**	**—**	**—**	**—**	**—**
Net remeasurement of ECL arising from transfer of stage	**—**	**461**	**—**	**(83)**	**—**	**(1)**	**—**	**—**	**—**	**377**
Changes due to modifications not derecognised	**—**	**—**	**—**	**—**	**(1)**	**—**	**—**	**—**	**(1)**	**—**
New financial assets originated or purchased	**46,099**	**(114)**	**—**	**—**	**—**	**—**	**—**	**—**	**46,099**	**(114)**
Changes to Risk parameters – further lending/ repayment	**(12,643)**	**132**	**(1,305)**	**182**	**(119)**	**182**	**(18)**	**4**	**(14,085)**	**500**
Changes to risk parameters – credit quality	**—**	**432**	**—**	**(66)**	**—**	**(406)**	**—**	**14**	**—**	**(26)**
Changes to model used for ECL calculation	**—**	**(13)**	**—**	**(40)**	**—**	**—**	**—**	**—**	**—**	**(53)**
Asset derecognised (including final repayments)	**(27,037)**	**30**	**(3,248)**	**162**	**(417)**	**21**	**—**	**—**	**(30,702)**	**213**
Assets written off	**—**	**—**	**—**	**—**	**(573)**	**573**	**—**	**—**	**(573)**	**573**
Credit related modifications that resulted in derecognition	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Others	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2021	**240,386**	**(348)**	**22,039**	**(718)**	**4,283**	**(860)**	**20**	**(5)**	**266,728**	**(1,931)**
ECL release/(charge) for the period		**928**		**155**		**(204)**		**18**		**897**
Recoveries										**100**
Others										**(24)**
Total change in ECL for the period										**973**
At 1 Jan 2020	230,869	(246)	15,748	(641)	3,557	(857)	29	—	250,203	(1,744)
Transfers of financial instruments:	(23,710)	(337)	21,905	506	1,805	(169)	—	—	—	—
– transfers from Stage 1 to Stage 2	(44,718)	203	44,718	(203)	—	—	—	—	—	—
– transfers from Stage 2 to Stage 1	21,168	(532)	(21,168)	532	—	—	—	—	—	—
– transfers to Stage 3	(296)	2	(2,063)	249	2,359	(251)	—	—	—	—
– transfers from Stage 3	136	(10)	418	(72)	(554)	82	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	249	—	(244)	—	(1)	—	—	—	4
Changes due to modifications not derecognised	—	—	—	—	—	—	—	—	—	—
New financial assets originated or purchased	49,787	(142)	—	—	—	—	—	—	49,787	(142)
Changes to Risk parameters – further lending/ repayment	(10,266)	108	391	86	(205)	163	3	—	(10,077)	357
Changes to risk parameters – credit quality	—	(284)	—	(1,545)	—	(760)		(22)	—	(2,611)
Changes to model used for ECL calculation	—	46	—	(5)	—	—	—	—	—	41
Asset derecognised (including final repayments)	(20,106)	47	(2,510)	114	(797)	23	—	—	(23,413)	184
Assets written off	—	—	—	—	(510)	510	—	—	(510)	510
Credit related modifications that resulted in derecognition	—	—	—	—	—	—	—	—	—	—
Others	—	—	(6)	1	—	—	6	(1)	—	—
At 31 Dec 2020	226,574	(559)	35,528	(1,728)	3,850	(1,091)	38	(23)	265,990	(3,401)
ECL release/(charge) for the period		24		(1,594)		(575)		(22)		(2,167)
Recoveries										83
Others										(17)
Total change in ECL for the period										(2,101)

1 *The Reconciliation excludes loans and advances to other HSBC Group companies. As at 31 December 2021, these amounted to £0.8bn (2020: £0.6bn) and were classified as Stage 1 with no ECL.*

Credit quality of financial instruments

(Audited)

We assess the credit quality of all financial instruments that are subject to credit risk. The credit quality of financial instruments is a-point-in-time assessment of 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 defined above each encompass a range of granular internal credit rating grades assigned to wholesale and retail lending businesses and the external ratings attributed by external agencies to debt securities, as shown in the table on page 28.

Distribution of financial instruments by credit quality

(Audited)

	Gross carrying/notional amount							
	Strong	Good	Satis-factory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	£m	£m	£m	£m	£m	£m	£m	£m
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	**124,378**	**25,978**	**36,519**	**6,478**	**4,028**	**197,381**	**(1,855)**	**195,526**
– personal	**117,587**	**6,460**	**5,764**	**454**	**1,053**	**131,318**	**(767)**	**130,551**
– corporate and commercial	**5,797**	**19,367**	**29,775**	**6,018**	**2,970**	**63,927**	**(1,085)**	**62,842**
– non-bank financial institutions	**994**	**151**	**980**	**6**	**5**	**2,136**	**(3)**	**2,133**
Loans and advances to banks held at amortised cost	**1,914**	**—**	**—**	**—**	**—**	**1,914**	**—**	**1,914**
Cash and balances at central banks	**112,478**	**—**	**—**	**—**	**—**	**112,478**	**—**	**112,478**
Items in the course of collection from other banks	**299**	**—**	**—**	**—**	**—**	**299**	**—**	**299**
Reverse repurchase agreements – non-trading	**7,988**	**—**	**—**	**—**	**—**	**7,988**	**—**	**7,988**
Other assets	**1,085**	**110**	**156**	**1**	**16**	**1,368**	**(1)**	**1,367**
– endorsements and acceptances	**7**	**52**	**18**	**1**	**—**	**78**	**—**	**78**
– accrued income and other	**1,078**	**58**	**138**	**—**	**16**	**1,290**	**(1)**	**1,289**
Debt instruments measured at FVOCI[1]	**14,273**	**—**	**—**	**—**	**—**	**14,273**	**(2)**	**14,271**
Out-of-scope for IFRS 9								
Derivatives	**53**	**8**	**3**	**—**	**—**	**64**	**—**	**64**
Total gross carrying amount on balance sheet	**262,468**	**26,096**	**36,678**	**6,479**	**4,044**	**335,765**	**(1,858)**	**333,907**
Percentage of total credit quality	**78.2%**	**7.8%**	**10.9%**	**1.9%**	**1.2%**	**100.0%**	**—**	**—**
Loan and other credit related commitments	**42,690**	**12,513**	**10,983**	**948**	**260**	**67,394**	**(73)**	**67,321**
Financial guarantees	**623**	**170**	**237**	**56**	**16**	**1,102**	**(3)**	**1,099**
In-scope: Irrecoverable loan commitments and financial guarantees	**43,313**	**12,683**	**11,220**	**1,004**	**276**	**68,496**	**(76)**	**68,420**
Loan and other credit related commitments	**553**	**1,198**	**1,167**	**105**	**24**	**3,047**	**—**	**3,047**
Performance and other guarantees	**383**	**677**	**1,029**	**84**	**19**	**2,192**	**(5)**	**2,187**
Out-of-scope: Revocable loan commitments and Non-financial guarantees	**936**	**1,875**	**2,196**	**189**	**43**	**5,239**	**(5)**	**5,234**
Total nominal amount off balance sheet	**44,249**	**14,558**	**13,416**	**1,193**	**319**	**73,735**	**(81)**	**73,654**
At 31 Dec 2021	**306,717**	**40,654**	**50,094**	**7,672**	**4,363**	**409,500**	**(1,939)**	**407,561**
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	112,291	27,119	41,784	9,641	3,591	194,426	(3,193)	191,233
– personal	104,776	7,875	8,682	1,709	1,203	124,245	(1,449)	122,796
– corporate and commercial	6,449	18,857	32,071	7,619	2,358	67,354	(1,701)	65,653
– non-bank financial institutions	1,066	387	1,031	313	30	2,827	(43)	2,784
Loans and advances to banks held at amortised cost	1,515	—	—	—	—	1,515	(1)	1,514
Cash and balances at central banks	76,429	—	—	—	—	76,429	—	76,429
Items in the course of collection from other banks	253	—	—	—	—	253	—	253
Reverse repurchase agreements – non-trading	2,485	—	—	—	—	2,485	—	2,485
Other assets	1,072	73	152	1	21	1,319	(2)	1,317
– endorsements and acceptances	1	32	24	1	—	58	—	58
– accrued income and other	1,071	41	128	—	21	1,261	(2)	1,259
Debt instruments measured at FVOCI[1]	18,844	—	—	—	—	18,844	(6)	18,838
Out-of-scope for IFRS 9								
Derivatives	111	29	14	1	—	155	—	155
Total gross carrying amount on balance sheet	213,000	27,221	41,950	9,643	3,612	295,426	(3,202)	292,224
Percentage of total credit quality	72.1%	9.2%	14.2%	3.3%	1.2%	100.0%	—	—
Loan and other credit related commitments	33,954	20,545	13,615	1,815	286	70,215	(190)	70,025
Financial guarantees	338	183	319	70	25	935	(17)	918
In-scope: Irrecoverable loan commitments and financial guarantees	34,292	20,728	13,934	1,885	311	71,150	(207)	70,943
Loan and other credit related commitments	161	569	1,644	85	14	2,473	—	2,473
Performance and other guarantees	211	895	914	258	64	2,342	(15)	2,327
Out-of-scope: Revocable loan commitments and Non-financial guarantees	372	1,464	2,558	343	78	4,815	(15)	4,800
Total nominal amount off balance sheet	34,664	22,192	16,492	2,228	389	75,965	(222)	75,743
At 31 Dec 2020	247,664	49,413	58,442	11,871	4,001	371,391	(3,424)	367,967

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.*

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

(Audited)

	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	**124,378**	**25,978**	**36,519**	**6,478**	**4,028**	**197,381**	**(1,855)**	**195,526**
– Stage 1	**124,221**	**24,837**	**25,096**	**763**	**–**	**174,917**	**(315)**	**174,602**
– Stage 2	**157**	**1,141**	**11,423**	**5,715**	**–**	**18,436**	**(692)**	**17,744**
– Stage 3	**–**	**–**	**–**	**–**	**4,008**	**4,008**	**(843)**	**3,165**
– POCI	**–**	**–**	**–**	**–**	**20**	**20**	**(5)**	**15**
Loans and advances to banks at amortised cost	**1,914**	**–**	**–**	**–**	**–**	**1,914**	**–**	**1,914**
– Stage 1	**1,914**	**–**	**–**	**–**	**–**	**1,914**	**–**	**1,914**
– Stage 2	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– Stage 3	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– POCI	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other financial assets measured at amortised cost	**121,850**	**110**	**156**	**1**	**16**	**122,133**	**(1)**	**122,132**
– Stage 1	**121,850**	**109**	**126**	**–**	**–**	**122,085**	**(1)**	**122,084**
– Stage 2	**–**	**1**	**30**	**1**	**–**	**32**	**–**	**32**
– Stage 3	**–**	**–**	**–**	**–**	**16**	**16**	**–**	**16**
– POCI	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Loan and other credit-related commitments	**42,690**	**12,513**	**10,983**	**948**	**260**	**67,394**	**(73)**	**67,321**
– Stage 1	**42,688**	**12,344**	**8,516**	**94**	**–**	**63,642**	**(32)**	**63,610**
– Stage 2	**2**	**169**	**2,467**	**854**	**–**	**3,492**	**(26)**	**3,466**
– Stage 3	**–**	**–**	**–**	**–**	**260**	**260**	**(15)**	**245**
– POCI	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Financial guarantees	**623**	**170**	**237**	**56**	**16**	**1,102**	**(3)**	**1,099**
– Stage 1	**623**	**169**	**155**	**16**	**–**	**963**	**(1)**	**962**
– Stage 2	**–**	**1**	**82**	**40**	**–**	**123**	**–**	**123**
– Stage 3	**–**	**–**	**–**	**–**	**16**	**16**	**(2)**	**14**
– POCI	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 Dec 2021	**291,455**	**38,771**	**47,895**	**7,483**	**4,320**	**389,924**	**(1,932)**	**387,992**
Debt instruments at FVOCI[1]	**14,273**	**–**	**–**	**–**	**–**	**14,273**	**(2)**	**14,271**
– Stage 1	**14,273**	**–**	**–**	**–**	**–**	**14,273**	**(2)**	**14,271**
– Stage 2	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– Stage 3	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– POCI	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 Dec 2021	**14,273**	**–**	**–**	**–**	**–**	**14,273**	**(2)**	**14,271**
Loans and advances to customers at amortised cost	112,291	27,119	41,784	9,641	3,591	194,426	(3,193)	191,233
– stage 1	111,587	24,532	25,301	613	–	162,033	(467)	161,566
– stage 2	704	2,587	16,483	9,028	–	28,802	(1,651)	27,151
– stage 3	–	–	–	–	3,555	3,555	(1,053)	2,502
– POCI	–	–	–	–	36	36	(22)	14
Loans and advances to banks at amortised cost	1,515	–	–	–	–	1,515	(1)	1,514
– stage 1	1,514	–	–	–	–	1,514	(1)	1,513
– stage 2	1	–	–	–	–	1	–	1
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	80,239	73	152	1	21	80,486	(2)	80,484
– stage 1	80,239	71	101	–	–	80,411	(2)	80,409
– stage 2	–	2	51	1	–	54	–	54
– stage 3	–	–	–	–	20	20	–	20
– POCI	–	–	–	–	1	1	–	1
Loan and other credit-related commitments	33,954	20,545	13,615	1,815	286	70,215	(190)	70,025
– stage 1	33,914	20,083	9,284	162	–	63,443	(81)	63,362
– stage 2	40	462	4,331	1,653	–	6,486	(70)	6,416
– stage 3	–	–	–	–	285	285	(38)	247
– POCI	–	–	–	–	1	1	(1)	–
Financial guarantees	338	183	319	70	25	935	(17)	918
– stage 1	338	169	155	12	–	674	(7)	667
– stage 2	–	14	164	58	–	236	(7)	229
– stage 3	–	–	–	–	25	25	(3)	22
– POCI	–	–	–	–	–	–	–	–
At 31 Dec 2020	228,337	47,920	55,870	11,527	3,923	347,577	(3,403)	344,174
Debt instruments at FVOCI[1]	18,844	–	–	–	–	18,844	(6)	18,838
– stage 1	18,844	–	–	–	–	18,844	(6)	18,838
– stage 2	–	–	–	–	–	–	–	–
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
At 31 Dec 2020	18,844	–	–	–	–	18,844	(6)	18,838

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

Credit-impaired loans

(Audited)

HSBC UK determines that a financial instrument is credit-impaired and in Stage 3 by considering relevant objective evidence, primarily whether:

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

Renegotiated loans and forbearance

The following table shows the gross carrying amounts of the HSBC UK's holdings of renegotiated loans and advances to customers by industry sector and by stages. Wholesale renegotiated loans are classified as Stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period, and there are no other indicators of impairment. Personal renegotiated loans generally remain credit-impaired until repayment, write-off or derecognition. Mandatory and general offer loan modifications that are not borrower-specific, for example market-wide customer relief programmes, have not been classified as renegotiated loans. For details on customer relief schemes see page 29.

A summary of our current policies and practices for renegotiated loans and forbearance is set out in 'Credit risk management' on page 27.

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

	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m
Gross carrying amount					
Personal	**—**	**—**	**510**	**—**	**510**
– first lien residential mortgages	**—**	**—**	**340**	**—**	**340**
– other personal lending	**—**	**—**	**170**	**—**	**170**
Wholesale	**196**	**79**	**1,158**	**20**	**1,453**
– corporate and commercial	**196**	**79**	**1,158**	**20**	**1,453**
– non-bank financial institutions	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2021	**196**	**79**	**1,668**	**20**	**1,963**
Allowance for ECL					
Personal	**—**	**—**	**(92)**	**—**	**(92)**
– first lien residential mortgages	**—**	**—**	**(47)**	**—**	**(47)**
– other personal lending	**—**	**—**	**(45)**	**—**	**(45)**
Wholesale	**(3)**	**(2)**	**(122)**	**(5)**	**(132)**
– corporate and commercial	**(3)**	**(2)**	**(122)**	**(5)**	**(132)**
– non-bank financial institutions	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2021	**(3)**	**(2)**	**(214)**	**(5)**	**(224)**
Gross carrying amount					
Personal	—	—	545	—	545
– first lien residential mortgages	—	—	382	—	382
– other personal lending	—	—	163	—	163
Wholesale	189	206	827	36	1,258
– corporate and commercial	186	202	827	36	1,251
– non-bank financial institutions	3	4	—	—	7
At 31 Dec 2020	189	206	1,372	36	1,803
Allowance for ECL					
Personal	—	—	(120)	—	(120)
– first lien residential mortgages	—	—	(24)	—	(24)
– other personal lending	—	—	(96)	—	(96)
Wholesale	(7)	(6)	(133)	(22)	(168)
– corporate and commercial	(7)	(6)	(133)	(22)	(168)
– non-bank financial institutions	—	—	—	—	—
At 31 Dec 2020	(7)	(6)	(253)	(22)	(288)

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	45,957	15,000	2,950	20	63,927	(191)	(338)	(551)	(5)	(1,085)
– agriculture, forestry and fishing	3,476	459	149	—	4,084	(5)	(14)	(11)	—	(30)
– mining and quarrying	402	193	71	—	666	(1)	(1)	(8)	—	(10)
– manufacturing	5,586	1,275	209	—	7,070	(13)	(27)	(42)	—	(82)
– electricity, gas, steam and air-conditioning supply	480	19	1	—	500	(3)	—	—	—	(3)
– water supply, sewerage, waste management and remediation	687	42	25	—	754	(2)	(1)	(7)	—	(10)
– construction	2,401	887	137	—	3,425	(8)	(16)	(29)	—	(53)
– wholesale and retail trade, repair of motor vehicles and motorcycles	8,956	1,720	355	—	11,031	(17)	(25)	(99)	—	(141)
– transportation and storage	1,376	471	82	—	1,929	(4)	(12)	(10)	—	(26)
– accommodation and food	898	6,326	655	—	7,879	(35)	(118)	(24)	—	(177)
– publishing, audiovisual and broadcasting	2,039	325	100	20	2,484	(21)	(19)	(47)	(5)	(92)
– real estate	8,701	1,302	534	—	10,537	(43)	(15)	(148)	—	(206)
– professional, scientific and technical activities	3,435	311	143	—	3,889	(9)	(14)	(18)	—	(41)
– administrative and support services	3,624	757	190	—	4,571	(15)	(23)	(39)	—	(77)
– public administration and defence, compulsory social security	1	—	—	—	1	—	—	—	—	—
– education	696	123	44	—	863	(2)	(5)	(13)	—	(20)
– health and care	1,277	397	111	—	1,785	(5)	(11)	(20)	—	(36)
– arts, entertainment and recreation	557	216	100	—	873	(4)	(26)	(25)	—	(55)
– other services	1,140	177	44	—	1,361	(4)	(11)	(11)	—	(26)
– activities of households	1	—	—	—	1	—	—	—	—	—
– assets backed securities	224	—	—	—	224	—	—	—	—	—
Non-bank financial institutions	2,056	75	5	—	2,136	(2)	(1)	—	—	(3)
Loans and advances to banks	1,914	—	—	—	1,914	—	—	—	—	—
At 31 Dec 2021	**49,927**	**15,075**	**2,955**	**20**	**67,977**	**(193)**	**(339)**	**(551)**	**(5)**	**(1,088)**

Total wholesale credit-related commitments and financial guarantees 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	23,917	3,215	201	—	27,333	(24)	(25)	(17)	—	(66)
Financial	853	104	—	—	957	(1)	—	—	—	(1)
At 31 Dec 2021	**24,770**	**3,319**	**201**	**—**	**28,290**	**(25)**	**(25)**	**(17)**	**—**	**(67)**

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

	Gross carrying amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Corporate and commercial	43,844	21,152	2,322	36	67,354	(300)	(728)	(651)	(22)	(1,701)
– agriculture, forestry and fishing	3,358	525	122	—	4,005	(5)	(31)	(11)	—	(47)
– mining and quarrying	263	335	150	—	748	(1)	(5)	(24)	—	(30)
– manufacturing	4,930	2,307	176	—	7,413	(39)	(87)	(64)	—	(190)
– electricity, gas, steam and air-conditioning supply	445	76	8	—	529	(3)	(3)	—	—	(6)
– water supply, sewerage, waste management and remediation	698	67	27	—	792	(3)	(2)	(11)	—	(16)
– construction	2,196	1,449	126	—	3,771	(15)	(45)	(74)	—	(134)
– wholesale and retail trade, repair of motor vehicles and motorcycles	7,258	3,419	348	—	11,025	(42)	(96)	(99)	—	(237)
– transportation and storage	1,346	578	65	—	1,989	(8)	(25)	(17)	—	(50)
– accommodation and food	2,841	5,761	251	—	8,853	(41)	(158)	(50)	—	(249)
– publishing, audiovisual and broadcasting	1,689	634	21	23	2,367	(20)	(36)	(8)	(14)	(78)
– real estate	9,903	1,610	562	—	12,075	(35)	(33)	(161)	—	(229)
– professional, scientific and technical activities	2,769	1,183	62	—	4,014	(27)	(72)	(28)	—	(127)
– administrative and support services	2,768	1,667	192	13	4,640	(32)	(70)	(44)	(8)	(154)
– public administration and defence, compulsory social security	1	—	—	—	1	—	—	—	—	—
– education	559	330	19	—	908	(8)	(12)	(5)	—	(25)
– health and care	1,402	403	69	—	1,874	(10)	(19)	(12)	—	(41)
– arts, entertainment and recreation	259	791	112	—	1,162	(6)	(29)	(31)	—	(66)
– other services	737	17	12	—	766	(5)	(5)	(12)	—	(22)
– activities of households	1	—	—	—	1	—	—	—	—	—
– assets backed securities	421	—	—	—	421	—	—	—	—	—
Non-bank financial institutions	2,018	779	30	—	2,827	(6)	(30)	(7)	—	(43)
Loans and advances to banks	1,514	1	—	—	1,515	(1)	—	—	—	(1)
At 31 Dec 2020	47,376	21,932	2,352	36	71,696	(307)	(758)	(658)	(22)	(1,745)

Total wholesale credit-related commitments and financial guarantees 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	23,573	6,336	231	1	30,141	(72)	(75)	(41)	(1)	(189)
Financial	1,080	84	12	—	1,176	(1)	(1)	—	—	(2)
At 31 Dec 2020	24,653	6,420	243	1	31,317	(73)	(76)	(41)	(1)	(191)

Commercial real estate

Commercial real estate lending includes the financing of corporate, institutional and high net worth customers who are investing primarily in income-producing assets and, to a lesser extent, in their construction and development. The business focuses mainly on traditional core asset classes such as retail, offices, light industrial and residential building projects.

Commercial real estate lending

	2021	2020
	£m	£m
Gross loans and advances		
Stage 1	**9,551**	10,689
Stage 2	**1,855**	2,949
Stage 3	**575**	516
POCI	**—**	—
At 31 Dec	**11,981**	14,154
– *of which: renegotiated loans*	***229***	*453*
Allowance for ECL	**(201)**	(303)

Refinance risk in commercial real estate

Commercial real estate lending tends to require the repayment of a significant proportion of the principal at maturity. Typically, a customer will arrange repayment through the acquisition of a new loan to settle the existing debt. Refinance risk is the risk that a customer, being unable to repay the debt on maturity, fails to refinance it at commercial rates. We monitor our commercial real estate portfolio closely, assessing indicators for signs of potential issues with refinancing.

Commercial real estate gross loans and advances maturity analysis

	2021	2020
	£m	£m
< 1 year	**6,831**	7,818
1-2 years	**2,718**	3,308
2-5 years	**1,978**	2,185
> 5 years	**454**	843
At 31 Dec	**11,981**	14,154

Collateral and other credit enhancement held

(Audited)

Although collateral can be an important mitigant of credit risk, it is HSBC UK's practice to lend on the basis of the customer's ability to meet their obligations out of their cash flow resources rather than rely on the value of security offered. Depending on the customer's standing and the type of product, facilities may be provided unsecured.

For other lending a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of a default, the group may utilise the collateral as a source of repayment. Depending on its form, collateral can have a significant financial effect in mitigating exposure to credit risk.

Collateral on loans and advances

Collateral held is analysed separately for commercial real estate and for other corporate and commercial and financial (non-bank) lending. The following tables include off-balance sheet loan commitments, primarily undrawn credit lines.

The collateral measured in the following tables consists of fixed first charges on real estate, and charges over cash and marketable financial instruments. The values in the tables represent the expected market value on an open market basis.

No adjustment has been made to the collateral for any expected costs of recovery. Marketable securities are measured at their fair value. Other types of collateral such as unsupported guarantees and floating charges over the assets of a customer's business are not measured in the following tables. While such mitigants have value, often providing rights in insolvency, their assignable value is not sufficiently certain and they are therefore assigned no value for disclosure purposes. The LTV ratios presented are calculated by directly associating loans and advances with the collateral that individually and uniquely supports each facility. When collateral assets are shared by multiple loans and advances, whether specifically or, more generally, by way of an all monies charge, the collateral value is pro-rated across the loans and advances protected by the collateral.

For credit-impaired loans, the collateral values cannot be directly compared with impairment allowances recognised. The LTV figures use open market values with no adjustments. Impairment allowances are calculated on a different basis, by considering other cash flows and adjusting collateral values for costs of realising collateral as explained further on page 85.

Commercial real estate loans and advances

The value of commercial real estate collateral is determined by using a combination of external and internal valuations and physical inspections. For CRR 1–7, local valuation policies determine the frequency of review on the basis of local market conditions because of the complexity of valuing collateral for commercial real estate. For CRR 8–10, almost all collateral would have been revalued within the last three years.

Facilities of a working capital nature are generally not secured by a first fixed charge, and are therefore disclosed as not collateralised.

Wholesale lending: commercial real estate loans and advances including loan commitments by level of collateral (by stage)

(Audited)

	2021		2020	
	Gross carrying/ nominal amount	ECL coverage	Gross carrying/ nominal amount	ECL coverage
	£m	%	£m	%
Stage 1				
Not collateralised	**4,739**	**0.5**	4,191	0.6
Fully collateralised	**8,813**	**0.2**	9,036	0.2
LTV ratio:				
– less than 50%	**2,923**	**0.2**	2,605	0.2
– 51% to 75%	**4,282**	**0.2**	4,891	0.2
– 76% to 90%	**1,175**	**0.2**	1,359	0.2
– 91% to 100%	**433**	**0.1**	181	0.2
Partially collateralised (A):	**1,412**	**0.1**	1,003	0.2
– *collateral value on A*	***644***		*656*	
Total	**14,964**	**0.3**	14,230	0.3
Stage 2				
Not collateralised	**1,314**	**0.9**	2,238	1.8
Fully collateralised	**714**	**1.2**	1,709	0.6
LTV ratio:				
– less than 50%	**390**	**1.0**	774	0.4
– 51% to 75%	**283**	**1.4**	656	0.7
– 76% to 90%	**32**	**0.7**	256	0.8
– 91% to 100%	**9**	**3.9**	23	2.3
Partially collateralised (B):	**270**	**0.4**	522	0.8
– *collateral value on B*	***165***		*180*	
Total	**2,298**	**1.0**	4,469	1.2
Stage 3				
Not collateralised	**301**	**41.9**	291	52.3
Fully collateralised	**240**	**3.6**	233	10.1
LTV ratio:				
– less than 50%	**26**	**2.5**	41	5.5
– 51% to 75%	**170**	**2.6**	73	15.8
– 76% to 90%	**8**	**4.0**	101	5.9
– 91% to 100%	**36**	**9.0**	18	19.9
Partially collateralised (C):	**72**	**32.8**	143	27.6
– *collateral value on C*	***40***		*88*	
Total	**613**	**25.8**	667	32.2
POCI				
Not collateralised	**—**	**—**	—	—
Fully collateralised	**—**	**—**	—	—
LTV ratio:				
– less than 50%	**—**	**—**	—	—
– 51% to 75%	**—**	**—**	—	—
– 76% to 90%	**—**	**—**	—	—
– 91% to 100%	**—**	**—**	—	—
Partially collateralised (D):	**—**	**—**	—	—
– *collateral value on D*	**—**		—	
Total	**—**	**—**	—	—
At 31 Dec	**17,875**	**1.2**	19,366	1.6

Wholesale lending: commercial real estate loans and advances including loan commitments by level of collateral

(Audited)

	2021		2020	
	Gross carrying/ nominal amount	ECL coverage	Gross carrying/ nominal amount	ECL coverage
	£m	%	£m	%
Rated CRR/PD1 to 7				
Not collateralised	**6,047**	**0.5**	6,419	1.0
Fully collateralised	**9,509**	**0.2**	10,693	0.2
Partially collateralised (A):	**1,679**	**0.2**	1,524	0.3
– *collateral value on A*	***805***		*835*	
Total	**17,235**	**0.3**	18,636	0.5
Rated CRR/PD 8				
Not collateralised	**5**	**45.1**	11	7.1
Fully collateralised	**18**	**24.0**	51	4.5
LTV ratio:				
– less than 50%	**10**	**24.5**	11	9.3
– 51% to 75%	**6**	**22.7**	29	2.2
– 76% to 90%	**—**	**—**	4	14.7
– 91% to 100%	**2**	**13.0**	7	1.7
Partially collateralised (B):	**4**	**12.1**	1	52.0
– *collateral value on B*	***3***		*1*	
Total	**27**	**26.3**	63	5.9
Rated CRR/PD9 to 10				
Not collateralised	**301**	**41.9**	291	52.3
Fully collateralised	**240**	**3.6**	233	10.1
LTV ratio:				
– less than 50%	**26**	**2.5**	41	5.5
– 51% to 75%	**170**	**2.6**	73	15.8
– 76% to 90%	**8**	**4.0**	101	5.9
– 91% to 100%	**36**	**9.0**	18	19.9
Partially collateralised (C):	**72**	**32.8**	143	27.6
– *collateral value on C*	***40***		*88*	
Total	**613**	**25.8**	667	32.2
At 31 Dec	**17,875**	**1.2**	19,366	1.6

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

(Audited)

Other corporate, commercial and financial (non-bank) loans are analysed separately in the following table. For financing activities in other corporate and commercial lending that are not predominantly commercial real estate-oriented, collateral value is not strongly correlated to principal repayment performance.

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

Accordingly, the following table reports values only for customers with CRR 8–10, recognising that these loans and advances generally have valuations that are comparatively recent.

Wholesale lending: other corporate, commercial and financial (non-bank) loans and advances including loan commitments by level of collateral (by stage)

(Audited)

	2021		2020	
	Gross carrying/ nominal amount	**ECL coverage**	Gross carrying/ nominal amount	ECL coverage
	£m	**%**	£m	%
Stage 1				
Not collateralised	**42,837**	**0.3**	40,112	0.6
Fully collateralised	**10,840**	**0.2**	12,435	0.4
LTV ratio:				
– less than 50%	**3,163**	**0.2**	4,377	0.3
– 51% to 75%	**4,844**	**0.2**	5,220	0.4
– 76% to 90%	**1,442**	**0.1**	1,654	0.4
– 91% to 100%	**1,391**	**0.1**	1,184	0.4
Partially collateralised (A):	**6,317**	**0.1**	4,940	0.5
– *collateral value on A*	***3,515***		*2,549*	
Total	**59,994**	**0.3**	57,487	0.6
Stage 2				
Not collateralised	**9,350**	**2.6**	15,016	3.7
Fully collateralised	**5,473**	**1.4**	6,192	2.2
LTV ratio:				
– less than 50%	**2,109**	**1.5**	1,503	1.6
– 51% to 75%	**2,857**	**1.2**	3,916	2.3
– 76% to 90%	**343**	**2.1**	342	3.2
– 91% to 100%	**164**	**1.6**	431	2.0
Partially collateralised (B):	**1,344**	**1.8**	2,831	2.7
– *collateral value on B*	***690***		*1,242*	
Total	**16,167**	**2.1**	24,039	3.2
Stage 3				
Not collateralised	**1,533**	**20.0**	1,305	27.8
Fully collateralised	**819**	**3.0**	276	11.7
LTV ratio:				
– less than 50%	**142**	**4.2**	109	8.3
– 51% to 75%	**562**	**1.1**	116	13.8
– 76% to 90%	**69**	**11.5**	37	6.9
– 91% to 100%	**46**	**9.2**	14	31.3
Partially collateralised (C):	**200**	**39.0**	335	25.7
– *collateral value on C*	***115***		*207*	
Total	**2,552**	**16.0**	1,916	25.1
POCI				
Not collateralised	**20**	**22.7**	37	60.9
Fully collateralised	**—**	**—**	—	—
LTV ratio:				
– less than 50%	**—**	**—**	—	—
– 51% to 75%	**—**	**—**	—	—
– 76% to 90%	**—**	**—**	—	—
– 91% to 100%	**—**	**—**	—	—
Partially Collateralised (D):	**—**	**—**	—	—
– *collateral value on D*	**—**		—	
Total	**20**	**22.7**	37	60.9
At 31 Dec	**78,733**	**1.2**	83,479	1.9

Wholesale lending: other corporate, commercial and financial (non-bank) loans and advances including loan commitments by level of collateral rated CRR/PD 8 to 10 only

(Audited)

	2021		2020	
	Gross carrying/ nominal amount	**ECL coverage**	Gross carrying/ nominal amount	ECL coverage
	£m	**%**	£m	%
Rated CRR/PD 8				
Not collateralised	**807**	**4.4**	654	8.9
Fully collateralised	**84**	**13.2**	121	9.5
LTV ratio:				
– less than 50%	**28**	**12.7**	17	13.3
– 51% to 75%	**29**	**22.5**	63	6.7
– 76% to 90%	**17**	**5.6**	10	21.5
– 91% to 100%	**10**	**2.4**	31	9.3
Partially collateralised (A):	**102**	**8.0**	127	9.1
– *collateral value on A*	***29***		*61*	
Total	**993**	**5.5**	902	9.0
Rated CRR/PD9 to 10				
Not collateralised	**1,553**	**20.0**	1,342	28.7
Fully collateralised	**819**	**3.0**	276	11.7
LTV ratio:				
– less than 50%	**142**	**4.2**	109	8.3
– 51% to 75%	**562**	**1.1**	116	13.8
– 76% to 90%	**69**	**11.5**	37	6.9
– 91% to 100%	**46**	**9.2**	14	31.3
Partially collateralised (B):	**200**	**39.0**	335	25.7
– *collateral value on B*	***115***		*207*	
Total	**2,572**	**16.1**	1,953	25.8
At 31 Dec	**3,565**	**13.1**	2,855	20.5

Other credit risk exposures

(Audited)

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

- some securities issued by governments, banks and other financial institutions benefit from additional credit enhancement provided by government guarantees that cover the assets;
- debt securities issued by banks and financial institutions include asset-backed securities and similar instruments which are supported by underlying pools of financial assets;
- the group's maximum exposure to credit risk includes financial guarantees and similar arrangements that we issue or enter into, and loan commitments that we are irrevocably committed to. Depending on the terms of the arrangement, we may have recourse to additional credit mitigation in the event that a guarantee is called upon or a loan commitment is drawn and subsequently defaults.

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	**115,464**	**1,927**	**686**	**118,077**	**(20)**	**(42)**	**(101)**	**(163)**
– *of which: interest only (including offset)*	***17,371***	***1,189***	***71***	***18,631***	***(3)***	***(16)***	***(18)***	***(37)***
Other personal lending	**11,440**	**1,434**	**367**	**13,241**	**(102)**	**(311)**	**(191)**	**(604)**
– other	**6,199**	**778**	**245**	**7,222**	**(52)**	**(118)**	**(115)**	**(285)**
– credit cards	**5,241**	**656**	**122**	**6,019**	**(50)**	**(193)**	**(76)**	**(319)**
At 31 Dec 2021	**126,904**	**3,361**	**1,053**	**131,318**	**(122)**	**(353)**	**(292)**	**(767)**

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 31 Dec 2021	**39,835**	**296**	**75**	**40,206**	**(8)**	**(1)**	**—**	**(9)**

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

	Gross carrying amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
By portfolio								
First lien residential mortgages	106,892	3,026	753	110,671	(30)	(43)	(96)	(169)
– *of which: interest only (including offset)*	*17,256*	*2,075*	*111*	*19,442*	*(5)*	*(12)*	*(18)*	*(35)*
Other personal lending	9,279	3,845	450	13,574	(131)	(850)	(299)	(1,280)
– other	5,165	2,304	239	7,708	(74)	(421)	(164)	(659)
– credit cards	4,114	1,541	211	5,866	(57)	(429)	(135)	(621)
At 31 Dec 2020	116,171	6,871	1,203	124,245	(161)	(893)	(395)	(1,449)

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

	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 31 Dec 2020	39,464	302	67	39,833	(15)	(1)	—	(16)

Mortgage lending

We offer a wide range of mortgage products designed to meet customer needs, including capital repayment, interest-only and offset mortgages. Internal credit policies prescribe the range of acceptable residential property LTV thresholds with the maximum upper limit for new loans set between 50% and 95%, depending on the product type and loan amount.

We have continued see net growth in our Mortgage business of £7.4bn in 2021. We have maintained strong presence in the market through 2021 while, where appropriate, strengthening our affordability controls and credit policy to reflect the more uncertain economic outlook.

The quality of our mortgage book remained high, with negligible defaults and impairment allowances. The average LTV ratio on new lending was 67%, compared with an estimated 51% for the overall mortgage portfolio.

Exposure to interest-only mortgage loans

The following information is presented for the bank's HSBC branded interest-only mortgage loans; this excludes offset mortgages in first direct and private banking mortgages.

The exposure of interest-only mortgage loans at the end of 2021 is £11bn and the maturity profile is as follows:

HSBC interest-only mortgage loans

	£m
Matured interest-only mortgage loans[1]	**123**
Interest-only mortgage loans by maturity	
– 2022	**198**
– 2023	**297**
– 2024	**244**
– 2025	**310**
– 2026–2030	**2,429**
– post 2030	**7,635**
At 31 Dec 2021	**11,235**

1 *Includes interest-only mortgages which have reached their contractual maturity date, but were unsettled at the end of 2021.*

At the end of 2021, the average LTV ratio of the interest-only mortgage loans was 40%, and 99% had a LTV ratio of 75% or less.

Of the interest-only mortgage loans that expired in 2019, 89% were repaid within 12 months of expiry with a total of 91% being repaid within 24 months of expiry. For those expiring during 2020, 73% were repaid within 12 months of expiry. The drop of the amount fully repaid within the 12 months is explained by the extensions granted as part of the FCA guidance on helping borrowers with maturing interest-only mortgages during the pandemic that ended in October 2021. Excluding the extensions, only £2.9m remain outstanding.

Exposure to offset mortgage in first direct

The offset mortgage in first direct is a flexible way for our customers to take control of their finances. It works by grouping together the customer's mortgage, savings and current accounts to off-set their credit and debit balances against their mortgage exposure which at the end of 2021 is of £5.2bn with an average LTV ratio of 35%.

Collateral and other credit enhancements held

(Audited)

The following table provides a quantification of the value of fixed charges we hold over specific assets where we have a history of enforcing, and are able to enforce, collateral in satisfying a debt in the event of the borrower failing to meet its contractual obligations, and where the collateral is cash or can be realised by sale in an established market. The collateral valuation excludes any adjustments for obtaining and selling the collateral and, in particular, loans shown as not collateralised or partially collateralised may also benefit from other forms of credit mitigants.

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

(Audited)

	2021		2020	
	Gross carrying/ nominal amount	ECL coverage	Gross carrying/ nominal amount	ECL coverage
	£m	%	£m	%
Stage 1				
Fully collateralised	121,888	–	114,109	–
LTV ratio:				
– less than 50%	58,971	–	55,036	–
– 51% to 60%	20,559	–	17,260	–
– 61% to 70%	18,722	–	16,807	–
– 71% to 80%	17,460	–	15,053	–
– 81% to 90%	5,723	–	9,365	–
– 91% to 100%	453	–	588	0.1
Partially collateralised (A):	253	–	203	0.1
LTV ratio:				
– 101% to 110%	75	–	62	0.3
– 111% to 120%	43	–	31	–
– greater than 120%	135	–	110	–
– *collateral value on A*	*169*		*150*	
Total	122,141	–	114,312	–
Stage 2				
Fully collateralised	1,978	2.1	3,063	1.4
LTV ratio:				
– less than 50%	1,346	1.6	1,771	1.2
– 51% to 60%	288	2.5	531	1.3
– 61% to 70%	192	3.2	444	1.3
– 71% to 80%	125	4.8	179	2.9
– 81% to 90%	23	5.6	101	3.7
– 91% to 100%	4	1.9	37	2.5
Partially collateralised (B):	2	9.0	4	2.6
LTV ratio:				
– 101% to 110%	1	0.4	3	0.9
– 111% to 120%	–	–	–	0.5
– greater than 120%	1	11.1	1	6.3
– *collateral value on B*	*1*		*3*	
Total	1,980	2.1	3,067	1.4
Stage 3				
Fully collateralised	695	14.3	757	12.3
LTV ratio:				
– less than 50%	463	13.0	488	10.9
– 51% to 60%	92	14.0	102	15.1
– 61% to 70%	58	16.2	82	12.8
– 71% to 80%	50	19.1	58	13.7
– 81% to 90%	15	26.9	21	22.3
– 91% to 100%	17	18.6	6	18.2
Partially collateralised (C):	5	26.3	12	20.0
LTV ratio:				
– 101% to 110%	3	20.7	7	16.7
– 111% to 120%	–	–	3	18.5
– greater than 120%	2	33.4	2	33.5
– *collateral value on C*	*4*		*7*	
Total	700	14.4	769	12.4
At 31 Dec	124,821	0.1	118,148	0.1

Treasury risk

Overview

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

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

Approach and Policy

(Audited)

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

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

Our policy is underpinned by our risk management framework, our ICAAP and our ILAAP. The risk framework incorporates a number of measures aligned to our assessment of risks for both internal and regulatory purposes. These risks include credit, market, operational, pensions, non-trading book foreign exchange risk, and interest rate risk in the banking book.

For further details, refer to our Pillar 3 Disclosures at 31 December 2021.

Treasury Risk Management

Key developments in 2021

- Global Treasury initiated a new flagship programme to deliver a more resilient, effective and efficient Treasury function over the next 3 years with a focus on optimising and safeguarding financial resources. The programme expects to deliver modernised infrastructure and upgraded modelling capabilities alongside a broad re-organisation of the Treasury function.
- We continued to build our recovery and resolution capabilities, including in relation to the BoE Resolvability Assessment Framework, which had an overall compliance deadline of 1 January 2022. The HSBC Group submitted a self-assessment report on its resolvability to the PRA and the BoE on 1 October 2021. This included an assessment of how we addressed resolvability outcomes that impact treasury risk, including valuations, and capital, liquidity and funding capabilities in resolution. The HSBC Group will publish a summary of its self-assessment report in June 2022. The BoE will similarly publish a statement relating to the resolvability of the HSBC Group at the same time.
- The BoE's FPC confirmed its guidance on the path for the UK countercyclical capital buffer rate. It has announced that it is increasing the rate from 0% to 1%, effective December 2022 in line with the usual 12-month implementation lag. Absent a material change in the outlook for the UK's financial stability, the FPC would expect to further increase the rate to 2% in the second quarter of 2022, which would take effect 12 months later.
- As part of our ongoing focus on enhancing the quality of our regulatory reporting, we are progressing with a comprehensive programme to strengthen our global processes, improve consistency and enhance control standards on various aspects of regulatory reporting. Further details can be found in the subsequent sub-section 'Regulatory reporting processes and controls'.
- We worked with the fiduciaries of all our pension plans to ensure the measures taken in response to the Covid-19 pandemic, including remote working for plan providers and dealing appropriately with affected plan members, were properly maintained and supported. Our de-risking programmes continued to provide protection against the volatility in financial markets that resulted from the pandemic's economic impact.
- A new team was created within the Global Treasury function to be accountable for monitoring and managing the financial risk and capital implications of the HSBC Group's employee defined benefit pension plans. This change creates clearer delineation of the roles and responsibilities of the first and second lines of defence.

Governance and structure

The Chief Risk Officer is the accountable risk steward, and the Chief Financial Officer is the risk owner, for all treasury risks.

Capital, liquidity, interest rate risk in the banking book and non-trading book foreign exchange risk are the responsibility of the Executive Committee and the Risk Committee. The Treasury function actively manages these risks on an on-going basis, supported by the ALCO, overseen by Treasury Risk Management and the RMM.

Pension risk is overseen by a pension risk management meeting, chaired by the accountable risk steward.

Capital, liquidity and funding risk management

Assessment and risk appetite

Our capital management policy is underpinned by a global capital management framework and our ICAAP. The framework incorporates key capital risk appetites for CET1, total capital, MREL and leverage. The ICAAP is an assessment of our capital position, outlining both regulatory and internal capital resources and requirements resulting from our business model, strategy, risk profile and management, performance and planning, risks to capital, and the implications of stress testing. Our assessment of capital adequacy is driven by an assessment of risks. These risks include credit, market, operational, pensions, insurance, structural foreign exchange and interest rate risk in the banking book. We also consider climate risk as part of the ICAAP, and are continuing to develop our approach. The ICAAP supports the determination of the capital risk appetite and target ratios, as well as enables the assessment and determination of capital requirements by the PRA. HSBC Holdings provides equity capital and MREL-eligible debt to HSBC UK.

We comply with the HSBC Group's comprehensive policies, metrics and controls which aim to ensure we, and the Group, have oversight of our liquidity and funding risks. The Group requires us to manage liquidity and funding risk at an operating entity level to make sure that obligations can be met in the jurisdiction where they fall due. HSBC Group policies also require us to meet internal minimum requirements and any applicable regulatory requirements at all times. These requirements are assessed through the ILAAP, which ensure that we have robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons, including intra-day. The ILAAP informs the validation of risk tolerance and the setting of risk appetite. It also assesses the capability to manage liquidity and funding effectively in each major entity. These metrics are set and managed locally but are subject to robust global review and challenge to ensure consistency of approach and application of the Group's policies and controls.

Planning and performance

Capital and RWA plans form part of the annual financial resource plan that is approved by the Board. Capital and RWA forecasts are monitored and managed against the plan.

Through our internal governance processes, we seek to strengthen discipline over our investment and capital allocation decisions, and to ensure that returns on investment meet management's objectives. Our strategy is to allocate capital to businesses and entities to support growth objectives where returns above internal hurdle levels have been identified and in order to meet their regulatory and economic capital needs. We evaluate and manage business returns by using a return on average tangible equity measure.

Funding and liquidity plans form part of the financial resource plan that is approved by the Board. The Board-level appetite measures are the LCR and NSFR, together with an internal liquidity metric which was introduced in January 2021 to supplement the LCR and NSFR. In addition, we use a wider set of measures to manage an appropriate funding and liquidity profile, including legal entity depositor concentration limits, intra-day liquidity, forward-looking funding assessments and other key measures.

Risks to capital and liquidity

Outside the stress testing framework, other risks may be identified that have the potential to affect our RWAs, capital and/or liquidity position. We closely monitor future regulatory changes and continue to evaluate the impact of these upon our capital and liquidity requirements. These include the UK's implementation of amendments to the Capital Requirements Regulation, the Basel III Reforms, and the regulatory impact from the UK's withdrawal from the EU, as well as other regulatory statements including changes to IRB modelling requirements.

Regulatory developments

The PRA has confirmed that software assets will be deducted in full from CET1 capital starting 1 January 2022. This will reverse the beneficial changes to the treatment of software assets that were implemented as part of the EU's response to the Covid-19 pandemic. As a result, changes to capital resources and RWAs will reduce the CET1 ratio by 51bp's.

Overall we expect RWAs to increase by around 8% as a result of new regulations during 2022. These include the changes to the UK's version of the Capital Requirements Regulation, as well as other regulatory statements including changes to IRB modelling requirements. Note, following the implementation of the UK's amendments to the CRR II, we have adopted the PRA's new rules on NSFR, counterparty risk, equity investment in funds, and leverage ratio, which will be reflected in disclosures starting in the first quarter of 2022.

Further changes will occur with the introduction of the remaining Basel III reforms on which the PRA is expected to consult in the second half of 2022.

Further details can be found in the 'Regulatory developments' section of the HSBC UK's Pillar 3 Disclosures at 31 December 2021.

Regulatory reporting processes and controls

The quality of regulatory reporting remains a key priority for management and regulators. Notably, the PRA published a Dear CEO letter addressed to UK regulated banks, which highlighted areas of concern over the processes firms use to deliver regulatory returns. Recent sanctions issued by the PRA demonstrate their intent in this respect. We are progressing with a comprehensive programme to strengthen our processes, improve consistency, and enhance controls on various aspects of regulatory reporting. We have commissioned a number of independent external reviews, some at the request of our regulators, including one of our credit risk RWA reporting process which is currently ongoing. As a result of these initiatives, there may be an impact on some of our regulatory ratios, such as the CET1 and LCR.

Stress testing and recovery planning

We use stress testing to evaluate the robustness of plans and risk portfolios, and to meet the stress testing requirements set by the PRA. Stress testing also informs the ICAAP and ILAAP and supports recovery planning. It is an important output used to evaluate how much capital and liquidity the group requires in setting risk appetite for capital and liquidity risk. It is also used to re-evaluate business plans where analysis shows capital, liquidity and/or returns do not meet their target.

In addition to a range of internal stress tests, we are subject to supervisory stress testing by the Bank of England. The results of regulatory stress testing and our internal stress tests are used when assessing our internal capital requirements through the ICAAP. The outcomes of stress testing exercises carried out by the PRA feed into the setting of regulatory minimum ratios and buffers.

The Group and subsidiaries, including HSBC UK, have established recovery plans, which set out potential options management could take in a range of stress scenarios that could result in a breach of capital or liquidity buffers. We monitor internal and external triggers that could threaten our capital, liquidity or funding positions. We have established a recovery plan providing detailed actions that management would consider taking in a stress scenario should we threaten to breach risk appetite and regulatory minimum levels. This is to help ensure that our capital and liquidity position can be recovered even in an extreme stress event.

Overall, recovery and resolution plans form part of the framework safeguarding the group's financial stability. The Group, including HSBC UK, is committed to developing its recovery and resolution capabilities further, including in relation to the BoE's Resolvability Assessment Framework.

Details of HSBC UK's capital, liquidity and funding risk management can be found in the HSBC UK's Pillar 3 Disclosures at 31 December 2021.

Measurement of interest rate risk in the banking book processes

Assessment and risk appetite

Interest rate risk in the banking book is the risk of an adverse impact to earnings or capital due to changes in market interest rates. It is generated by our non-traded assets and liabilities, specifically loans, deposits and financial instruments that are not held for trading intent or held to hedge positions held with trading intent. Interest rate risk that can be economically hedged may be transferred to the Markets Treasury business. Hedging is generally executed through interest rate derivatives or fixed-rate government bonds. Any interest rate risk that Markets Treasury cannot economically hedge is not transferred and will remain within the global business where the risks originate.

The ALCM function uses a number of measures to monitor and control interest rate risk in the banking book, including:

- 'NII' sensitivity; and
- 'EVE' sensitivity; and

NII sensitivity

A principal part of our management of non-traded interest rate risk is to monitor the sensitivity of expected NII under varying interest rate scenarios (i.e. simulation modelling), where all other economic variables are held constant. This monitoring is undertaken at the ALCO, where we forecast both one-year and five-year NII sensitivities across a range of interest rate scenarios.

NII sensitivity figures represent the effect of pro forma movements in projected yield curves based on a static balance sheet size and structure. The exception to this is where the size of the balances or repricing is deemed interest rate sensitive, for example, non-interest-bearing current account migration and fixed-rate loan early prepayment. These sensitivity calculations do not incorporate actions that would be taken by Markets Treasury or in the business that originates the risk to mitigate the effect of interest rate movements.

The NII sensitivity calculations assume that interest rates of all maturities move by the same amount in the 'up-shock' scenario. The sensitivity calculations in the 'down-shock' scenarios reflect no floors to the shocked market rates. However, customer product-specific interest rate floors are recognised where applicable.

EVE Sensitivity

EVE represents the present value of the future banking book cash flows that could be distributed to equity providers under a managed run-off scenario. This equates to the current book value of equity plus the present value of future NII in this scenario. EVE can be used to assess the economic capital required to support interest rate risk in the banking book. An EVE sensitivity represents the expected movement in EVE due to pre-specified interest rate shocks, where all other economic variables are held constant. Operating entities are required to monitor EVE sensitivities as a percentage of capital resources.

Further details of HSBC UK's risk management of interest rate risk in the banking book can be found in the HSBC UK's Pillar 3 Disclosures as at December 2021.

Other group risks

Structural foreign exchange exposures

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

HSBC UK does not have investments in subsidiaries in non-sterling currencies.

Pension risk management process

In the UK, all future pension benefits are provided on a defined contribution basis. A defined benefit pension plan remains in respect of past service. The defined benefit pension plan is sectionalised to ensure no entities outside the ring-fence participate in the same section as HSBC UK.

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

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

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

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

To fund the benefits associated with HSBC UK's defined benefit plan, HSBC UK make contributions in accordance with advice from actuaries and in consultation with the plan's trustees where relevant. Contributions are required when the plan's assets are considered insufficient to cover the existing pension liabilities. Contributions are typically revised once every three years.

The defined benefit plan invests contributions in a range of investments designed to limit the risk of assets failing to meet the plan's liabilities. Any changes in expected returns from the investments may also change future contribution requirements. In pursuit of these long-term objectives, an overall target allocation is established for asset classes of the defined benefit plan. Bonds and derivatives, comprising 95% of the Scheme's investments as at 31 December 2021, are allocated to match expected benefit outflows so as to reduce interest, inflation and currency risk. Each permitted asset class has its own benchmarks, such as property valuation indices or liability characteristics. The benchmarks are reviewed on a manager by manager basis at least once every three to five years and more frequently if required by circumstances. The process takes account of changes in the plan's liabilities. The most significant benchmark is the interest rate and inflation hedging programme and this was last reviewed during 2021. The assets are invested in a diverse range of assets to reduce any concentrations of risk.

In addition, the defined benefit plan holds longevity swap contracts. These arrangements provide long term protection to the defined benefit plan against costs resulting from pensioners or their dependants living longer than initially expected and as at 31 December 2021 cover approximately 60% of the pensioner liabilities.

Capital risk in 2021

Capital overview

Capital adequacy metrics[1]

	At 31 Dec	
	2021	2020
Available capital (£m)		
Common equity tier 1 capital	**12,813**	12,963
Tier 1 capital	**15,067**	15,197
Total regulatory capital	**18,067**	18,171
Risk-weighted assets (£m)		
Credit risk	**72,817**	74,690
Counterparty credit risk	**129**	122
Market risk	**170**	156
Operational risk	**10,607**	10,509
Total risk-weighted assets	**83,723**	85,477
Capital ratios (%)		
Common equity tier 1	**15.3**	15.2
Total tier 1	**18.0**	17.8
Total capital	**21.6**	21.3
Leverage ratio		
Total leverage ratio exposure measure (£m)	**358,221**	317,196
Leverage ratio (%)	**4.2**	4.8

1 *Unless otherwise stated, regulatory capital ratios and requirements are based on the transitional arrangements of the Capital Requirements Regulation in force at the time. These include the regulatory transitional arrangements for IFRS 9 'Financial Instruments'.*

References to EU regulations and directives (including technical standards) should, as applicable, be read as references to the UK's version of such regulation or directive, as onshored into UK law under the European Union (Withdrawal) Act 2018, and as may be subsequently amended under UK law.

Capital figures and ratios in the previous table are calculated in accordance with the CRR II. Where applicable, they also reflect government relief schemes intended to mitigate the impact of the Covid-19 pandemic.

Regulatory transitional arrangements for IFRS 9 'Financial Instruments'

We have adopted the regulatory transitional arrangements in CRR II for IFRS 9, including paragraph four of article 473a. Our capital and ratios are presented under these arrangements throughout the table above, including in the end point figures. Without their application, our CET1 ratio would be 15.3%. The IFRS 9 regulatory transitional arrangements allow banks to add back to their capital base a proportion of the impact that IFRS 9 has upon their loan loss allowances during the first five years of use. The impact is defined as:

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

Any add-back must be tax affected and accompanied by a recalculation of capital deduction thresholds, exposure and RWAs.

The impact is calculated separately for portfolios using the STD and IRB approaches.For IRB portfolios, there is no add-back to capital unless loan loss allowances exceed regulatory 12-month expected losses.

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

In the current period, the add-back to the capital base amounted to £16m under the STD approach. At 31 December 2020, the add-back to the capital base was £1,074m under the IRB approach and £32m under the STD approach. The reduction in the add back resulted from a release of IFRS9 loan loss provisions in 2021 due to the improvement in the UK macro economic outlook.

Own funds

Our CET1 ratio increased to 15.3% at 31 December 2021, from 15.2% at 31 December 2020. The increase in CET1 was attributable to a reduction in RWAs and to profits net of dividends, partially offset by the capital impact of lower levels of loan loss provisioning as the economy recovered from the pandemic (leading to both a reduction in IFRS9 transitional relief, and an increase in excess expected loss deduction).

During 2022, we expect CET1 ratio to be affected by regulatory developments including the change in the treatment of software assets, measures to improve the comparability of IRB models, the introduction of a minimum risk weight for performing mortgage portfolios and the expiry of transitional provisions in the European Union (Withdrawal) Act.

Our Pillar 2A requirement at 31 December 2021, as per the PRA's Individual Capital Requirement based on a point-in-time assessment, was 4.57% of RWAs, of which 2.57% was met by CET1.

Own funds disclosure

(Audited)

Ref*		At 31 Dec 2021 £m	At 31 Dec 2020 £m
	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[1]	**11,463**	10,934
3	Accumulated other comprehensive income (and other reserves)	**(544)**	700
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend	**1,125**	(46)
6	**CET1 capital before regulatory adjustments[1]**	**21,059**	20,603
28	Total regulatory adjustments to common equity tier1[1]	**(8,246)**	(7,640)
29	**CET1 capital**	**12,813**	12,963
36	Additional tier 1 capital before regulatory adjustments	**2,254**	2,234
44	**Additional tier 1 capital**	**2,254**	2,234
45	**Tier 1 Capital (T1 = CET1 + AT1)**	**15,067**	15,197
51	Tier 2 capital before regulatory adjustments	**3,000**	2,967
	Tier 2 capital: regulatory adjustments	—	7
57	Total regulatory adjustments to tier 2 capital	**—**	7
58	**Tier 2 capital**	**3,000**	2,974
59	**Total capital**	**18,067**	18,171

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

1 *The figures for 31 December 2020 have been restated to reflect the reclassification of IFRS9 transitional adjustments from retained earnings (within rows 2 and 6) to 'Total regulatory adjustments to common equity tier1'(row 28).*

Throughout 2021, we complied with the PRA's regulatory capital adequacy requirements.

Risk-weighted assets

RWA movement by business by key driver

	Credit risk, counterparty credit risk and operational risk					
	WPB	CMB	GBM	Corporate Centre	Market risk	Total RWAs
	£m	£m	£m	£m	£m	£m
RWAs at 1 Jan 2021	**25,061**	**58,362**	**444**	**1,454**	**156**	**85,477**
Asset size	(310)	(1,554)	(78)	291	14	(1,637)
Asset quality	(145)	(559)	–	(30)	–	(734)
Methodology and policy	99	669	1	(152)	–	617
– internal updates	99	669	1	(152)	–	617
Total RWA movement	**(356)**	**(1,444)**	**(77)**	**109**	**14**	**(1,754)**
RWAs at 31 Dec 2021	**24,705**	**56,918**	**367**	**1,563**	**170**	**83,723**

RWAs decreased by £1.8bn in the year, mainly from a reduction in asset size (£1.6bn) and asset quality (£0.7bn), partially offset by increase in methodology and policy changes of £0.6bn.

Methodology and policy

Changes to Markets Treasury allocation methodologies decreased RWAs in Corporate Centre and increased RWAs in WPB, CMB and GBM. CMB RWAs increased during the year due to data remediation and risk parameter refinements.

Asset size

WPB RWAs decreased due to a reduction in personal loans, overdrafts and credit cards balances offset by increased mortgage lending. CMB RWAs decreased as a result of reductions achieved under our transformation programme and other management actions.

Asset quality

Changes in asset quality led to RWA decreases across WPB and CMB mostly due to favorable portfolio mix changes and credit migrations.

Leverage ratio

Our leverage ratio, calculated in accordance with the Capital Requirements Regulation, was 4.2% at 31 December 2021, down from 4.8% at 31 December 2020.

The decrease in the ratio was largely due to growth in the balance sheet.

Pillar 3 disclosure requirements

Pillar 3 of the Basel regulatory framework is related to market discipline and aims to make financial services firms more transparent by requiring publication of wide-ranging information on their risks, capital and management. Our *Pillar 3 Disclosures at 31 December 2021* is published on HSBC Group's website, www.hsbc.com, under 'Investors'.

Liquidity and funding risk in 2021

Liquidity metrics

At 31 December 2021, we were above regulatory minimum levels. We maintain sufficient unencumbered liquid assets to comply with regulatory requirements. The liquidity value of these liquid assets is shown in the table below along with the LCR level on a EC basis.

We maintain sufficient stable funding relative to the required stable funding assessed using the NSFR.

Our liquidity and funding position as at the end of 2021 is analysed in the following sections.

HSBC UK liquidity group[1]

	At	
	31 Dec 2021	31 Dec 2020
LCR (%)	**241**	198
HQLA (£m)	**120,543**	88,838
Net outflows (£m)	**49,941**	44,865
NSFR (%)	**178**	164

1 *HSBC UK liquidity group comprises: HSBC UK Bank plc, 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 PRA.*

HSBC UK Bank plc retained a strong liquidity position, reflecting growth in its commercial surplus that was driven by customer deposits and drawdown of the Bank of England's Term Funding Scheme for SMEs (TFSME)..

Liquid assets

As at 31 December 2021 we had a total of £120,543m of highly liquid unencumbered LCR eligible liquid assets (31 December 2020: £88,838m) held in a range of asset classes and currencies. Of these, 99% were eligible as level 1 (31 December 2020: 99%).

The below tables reflects the composition of the liquidity pool by asset type and currency at 31 December 2021:

	Liquidity pool	Cash	Level 1	Level 2
	£m	£m	£m	£m
Cash and balance at central bank	**111,128**	**111,128**	**–**	**–**
Central and local government bonds	**7,388**	**–**	**7,126**	**262**
Regional government PSE	**90**	**–**	**46**	**44**
International organisation and MDBs	**772**	**–**	**772**	**–**
Covered bonds	**602**	**–**	**188**	**414**
Other	**563**	**–**	**563**	**–**
Total at 31 Dec 2021	**120,543**	**111,128**	**8,695**	**720**
Total at 31 Dec 2020	88,838	75,770	12,405	663

	£	$	€	Other	Total
	£m	£m	£m	£m	£m
Liquidity pool at 31 Dec 2021	**112,840**	**5,372**	**1,090**	**1,241**	**120,543**
Liquidity pool at 31 Dec 2020	79,137	7,263	2,029	409	88,838

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 LFRF, which requires we 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. In 2021, 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

(Audited)	2021 £m	2020 £m
Sources		
Customer accounts	**281,870**	259,341
Deposits by banks	**11,180**	540
Repurchase agreements – non-trading	**10,438**	6,150
Debt securities in issue	**900**	866
Cash collateral, margin and settlement accounts	**2**	32
Subordinated liabilities	**12,487**	10,015
Total equity	**23,805**	22,858
Other balance sheet liabilities	**5,381**	5,062
At 31 Dec	**346,063**	304,864

Funding Uses

(Audited)	2021 £m	2020 £m
Uses		
Loans and advances to customers	**195,526**	191,233
Loans and advances to banks	**1,914**	1,514
Reverse repurchase agreements – non-trading	**7,988**	2,485
Cash collateral, margin and settlement accounts	**294**	220
Financial investments	**14,377**	19,309
Cash and balances with Central banks	**112,478**	76,429
Other balance sheet assets	**13,486**	13,674
At 31 Dec	**346,063**	304,864

Market risk

Overview

Market risk is the risk that movements in market factors, such as foreign exchange rates, interest rates and credit spreads that will reduce our income or the value of our portfolios.

Exposure to market risk is separated into two portfolios: trading portfolios and non-trading portfolios.

Trading portfolios comprise positions arising from customer-derived positions or short dated foreign exchange trades executed for nostro management or liquidity management purposes.

Non-trading portfolios including Markets Treasury comprise positions that primarily arise from the interest rate management of the group's retail and commercial banking assets and liabilities and financial investments designated as HTCS held as part of the entities LAB.

Market risk management

Key developments in 2021

There were no material changes to our policies and practices for the management of market risk in 2021.

Market risk governance

(Audited)

The following table summarises market risk measures used to monitor and limit exposures and where trading and non-trading market risks reside.

	Trading risk	Non-trading risk
Risk types	• Foreign exchange • Interest rates	• Interest rates • Credit spreads • Foreign exchange
Risk measure	Value at risk | Sensitivity | Stress testing	Value at risk | Sensitivity | Stress testing

Market risk is managed and controlled through limits approved by the Group Chief Risk Officer for HSBC Holdings. These limits are allocated across business lines and to the Group's legal entities, including HSBC UK. The level of limits set is based on the overall risk appetite for HSBC UK being cascaded down to the individual entities and the limits required for the individual desks to be able to execute their stated business strategy under the HSBC UK ring-fencing Exceptions Policy. The market risk limits are endorsed by HSBC UK RMM. HSBC UK has an independent market risk management and control sub-function, which is responsible for measuring, monitoring and reporting market risk exposures against limits on a daily basis.

HSBC UK is required to assess the market risks arising in its business and to transfer them either to its local Markets or Markets Treasury unit for management, or to separate books managed under the supervision of the local ALCO. The Traded Risk function enforces the controls around trading in permissible instruments approved for HSBC UK as well as following completion of the new product approval process.

Key Risk Management processes

Monitoring and limiting market risk exposures

Our objective is to manage and control market risk exposures while maintaining a market profile consistent with HSBC UK strategy and risk appetite as well as operating within the HSBC Group's risk appetite for the entity. We use a range of tools to monitor and limit market risk exposures including sensitivity analysis, VaR, and stress testing.

Sensitivity analysis

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

VaR

(Audited)

VaR is a technique that estimates the potential losses on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The use of VaR is integrated into market risk management and is calculated for all trading positions. HSBC UK does not have a market risk internal model approval and therefore VaR is not used for any regulatory return but only used for internal management information purposes. We use the standardised approach for its market risk capital calculation.

In addition, we calculate VaR for non-trading portfolios to have a complete picture of risk.

Stress testing

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

Scenarios are tailored to capture the relevant events or market movements at each level. The risk appetite around potential stress losses is set and monitored against referral limits.

Market risk reverse stress tests are designed to identify vulnerabilities in our portfolios by looking for scenarios that lead to loss levels considered severe for the relevant portfolio. These scenarios complement the systematic top-down stress testing.

Stress testing and reverse stress testing provide senior management with insights regarding the 'tail risk' beyond VaR for which our appetite is limited.

Trading portfolios

Back-testing

Trading book VaR is not used for calculating capital requirements arising from market risk within HSBC UK therefore there is no back testing of trading book VaR.

Non-trading portfolios

Non-trading VaR of HSBC UK includes the interest rate risk of non-trading financial instruments held by the global businesses and transferred into portfolios managed by Markets Treasury or ALCM functions. In measuring, monitoring and managing risk in our non-trading portfolios, VaR is just one of the tools used. The management of interest rate risk in the banking book is described further in 'Interest rate risk in the banking book' section, including the role of Markets Treasury.

Our control of market risk in the non-trading portfolios is based on transferring the assessed market risk of assets and liabilities created outside Markets Treasury or Markets, to the books managed by Markets Treasury, provided the market risk can be neutralised. The net exposure is typically managed by Markets Treasury through the use of fixed rate government bonds (high quality asset held in HTCS books) and interest rate swaps. The interest rate risk arising from fixed rate government bonds held within HTCS portfolios is reflected within non-trading VaR. Interest rate swaps used by Markets Treasury is typically classified as either a fair value hedge or a cash flow hedge and included within non-trading VaR. Any market risk that cannot be neutralised in the market is managed by HSBC UK ALCM in segregated ALCO books.

Defined benefit pension scheme

Market risk also arises within HSBC UK's defined benefit pension plan to the extent that the obligations of the plan are not fully matched by assets with determinable cash flows. Refer to Pension risk section on page 51 for additional information.

Market risk in 2021

Financial markets performed well in 2021. During the first half of the year, the rollout of Covid-19 vaccination programmes and continued fiscal support contributed to a gradual reopening of major economies. Concerns of rising inflationary pressures were mainly interpreted as transitory. Whilst the path of monetary policies remained uncertain, central banks continued to provide liquidity. This supported risk assets valuations, while volatility in most asset classes was subdued. Yields followed a downward trend for most of 3Q21, before reversing in the final weeks of the year, when markets began pricing a faster pace of interest rate rises in some of the major economies, due to persistently elevated inflation and the expectation of tighter monetary policies. Credit markets remained strong, with credit benchmark indices for investment-grade and high-yield debt close to pre-pandemic levels.

We continued to manage market risk prudently during 2021. Sensitivity exposures and VaR remained within appetite.

Trading portfolios

(Audited)

The HSBC Group's preferred method of market risk capital calculations is to use a VaR model. However, due to the small size of the regulatory trading portfolio with HSBC UK, the current approach to capital calculations for market risk in the trading portfolio within the group is to use the standardised model. Trading portfolio market risk exposures with the entity are not material as customer facing trades within markets are hedged on a one for one basis and the Markets Treasury portfolio are primarily used for short term cash management.

Value at Risk of the non-trading portfolios

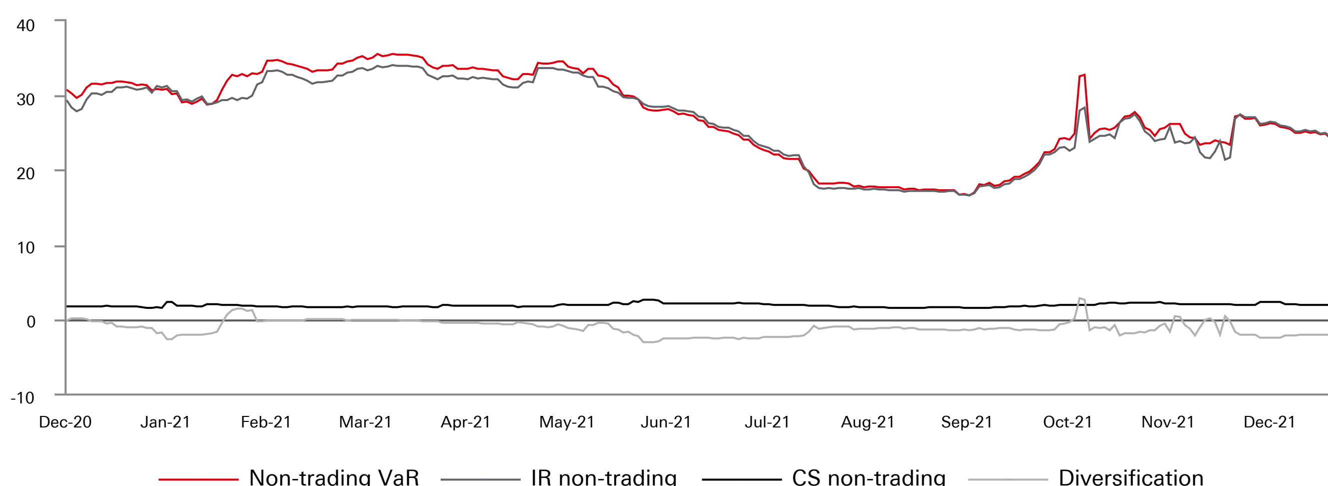
(Audited)

Non-trading VaR of the group includes contributions from Markets Treasury and ALCO book positions. It is primarily driven by interest rate risk of the non-trading Markets Treasury positions which have the most significant market risk limits with HSBC UK. These limits and corresponding exposures are the consequence of Markets Treasury needing to meet its twin objectives of managing the structural interest rate risk transferred from the global businesses and the management of the entity's LAB.

The Markets Treasury business managed their risk actively throughout 2021 driving the VaR exposure changes throughout the year. Interest rate risk exposure increased towards the latter end of Q1 as the Markets Treasury business took advantage of higher yield environment driven by inflationary concerns and increased the government bond holdings. Bond positions receded over the summer before increasing again at the tail end of Q3 as markets positioned for a curtailment in the supportive central bank stance and a commencement of a hiking cycle in the near term. The non-trading VaR in 2021 ended on 31 December 2021 at £24.3m.

The daily levels of total non-trading VaR over the last year are set out in the graph below.

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



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

Non-trading VaR, 99% 1 day

(Audited)

	Credit spread	Interest Rates	Portfolio Diversifi-cation[1]	Total[2]
	£m	£m	£m	£m
Balance at 31 Dec 2021	**1.9**	**24.5**	**(2.1)**	**24.3**
Average	**1.8**	**26.7**	**(1.2)**	**27.3**
Maximum	**2.6**	**34.1**		**35.6**
Minimum	**1.5**	**16.6**		**16.6**
Balance at 31 Dec 2020	1.7	29.4	(0.2)	30.8
Average	1.8	27.6	(1.3)	28.1
Maximum	3.0	36.0		36.5
Minimum	0.6	14.3		14.0

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

2 *The total VaR is non-additive across risk types due to diversification effects.*

Resilience risk

Overview

Resilience risk is the risk that we are unable to provide critical services to our customers, affiliates and counterparties, as a result of sustained and significant operational disruption. Resilience risk arises from failures or inadequacies in processes, people, systems or external events.

Resilience Risk management

Key developments in 2021

Our Operational and Resilience Risk function provides robust non-financial risk steward oversight of the management of risk within HSBC UK's businesses, functions and legal entities. It also provides effective and timely independent challenge. During the year we carried out a number of initiatives to strengthen the management of non-financial risks:

- We developed a more robust understanding of our risk and control environment, by updating our material risk taxonomy and control libraries, and refreshing material risk and control assessments.
- We further strengthened our non-financial risk governance and senior leadership.
- We created a consolidated view of risk issues enabling better senior management focus on non-financial risk, and the ability to identify material control issues and intervention as required.
- We improved how we provide analysis and reporting of non-financial risks, with more risk practitioners having access to a wider range of management information on their risks and controls.
- We increased the capability of risk stewards to allow for effective stewardship to be in place in HSBC UK.
- We strengthened our approach in the comparison of issues and near misses by implementing a UK approach that considers all events across the global businesses, functions and regions.
- We enhanced risk management oversight across our most material change initiatives to support growth in our strategic transformation.

We prioritise our efforts on material risks and areas undergoing strategic growth, aligning our location strategy to this need.

Governance and structure

The Operational and Resilience Risk target operating model provides a consistent view across resilience risks, strengthening our risk management oversight while operating effectively as part of a simplified non-financial risk structure. We view resilience risk across seven risk types related to: third parties and supply chains; information, technology and cybersecurity; payments and manual processing; physical security; business interruption and contingency risk; building unavailability; and workplace safety.

The principal senior management meeting for operational and resilience risk governance within HSBC UK is the HSBC UK RMM, with an escalation path globally to both the Non-Financial Risk Management Board, chaired by the Group Chief Risk and Compliance Officer, and the Group Risk Management Meeting.

Key risk management process

Operational resilience is our ability to anticipate, prevent, adapt, respond to, recover and learn from internal or external disruption, protecting customers, the markets we operate in and economic stability. Resilience is determined by assessing whether we are able to continue to provide our most important services, within an agreed level. We accept we will not be able to prevent all disruption, we prioritise investment to continually improve the response and recovery strategies for our most important business services.

Business operations continuity

Business Continuity, in response to the Covid-19 pandemic, remains in place across a number of locations where we operate, allowing the majority of service level agreements to be maintained. There were no significant impacts to service delivery in locations where we operate.

Regulatory compliance risk

Overview

Regulatory compliance risk is the risk associated with breaching our duty to clients and other counterparties, inappropriate market conduct and breaching related financial services regulatory standards.

Key developments in 2021

In 2021, we have continued to embed the structural changes from last year integrating regulatory compliance and financial crime risk management under the HSBC UK Chief Compliance Officer.

Regulatory developments

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

Within this intense regulatory agenda, there is ongoing focus by regulators on banks' treatment of customers, especially vulnerable ones. The following continue to be areas of particular focus:

- Understanding what harms customers are likely to be vulnerable to throughout the customer lifecycle.
- Ensuring fair treatment of customers, including those in financial difficulties, and in particular during business change.
- Ensuring operational resilience and minimising fraud and other financial crime.
- Higher levels of consumer protection in retail financial markets, including the introduction of the FCA's new Consumer Duty.
- Updating the Payments Infrastructure and policies relating to Access to Cash.

The competitive landscape in which HSBC UK operates may be impacted by future regulatory changes and government intervention. For example, potential regulatory developments

include any legislative changes resulting from a statutory review of ring-fencing, which has been undertaken by an independent panel appointed by HM Treasury. HM Treasury will then review their recommendations and legislative amendments may be proposed in due course.

We continue to engage in the development of new and amended regulations in the UK to ensure that the implications have been fully considered by regulators and the wider industry. We also continue to work with the UK authorities and regulatory bodies to discuss any impacts on customers and markets.

Conduct of business

In 2021, we announced our new purpose-led approach to conduct. As part of this, we have taken the opportunity to align and simplify our approach, making conduct easier to understand and showing how it fulfils our value: 'we take responsibility'.

We have carried out a number of activities to integrate and embed the new purpose-led conduct approach into everything that we do. In particular, this has included a review of our risk management processes and procedures and the delivery of bespoke training and guidance to the risk steward community.

Our new simplified approach guides us to do the right thing and to recognise the real impact we have for our customers and the financial markets in which we operate. It complements our Purpose and Values, setting outcomes to be achieved for our customers and markets. It recognises cultural and behavioural drivers of good conduct outcomes and applies across all risk disciplines, operational processes and technologies. During 2021:

- We understood and serviced our customers' ongoing needs and continued to champion a strong conduct and customer-focused culture.
- We demonstrated this through providing support to our customers facing financial difficulties as a result of the prolonged impacts of the pandemic and the resulting uncertainty in trading conditions.
- We improved our digital capabilities, by developing a 'forward-looking' and interactive conduct dashboard, to predict potential signs of financial distress within pandemic related lending customer cohorts.
- We began the integration of climate risk into HSBC UK's wider risk management approach to recognise the importance of strengthened controls and oversight for our related activities.
- We continued to embed conduct within our business line processes and through our Non-Financial and Financial Risk Steward activities.
- We continued our focus on culture and behaviours as a driver of good conduct outcomes.
- We focused oversight on the effectiveness of HSBC UK Conduct Governance, to promote visibility and read across of Conduct issues in all business lines and the efficient, consistent escalation of issues.
- We placed a particular focus on the importance of well-being and collaborative working as we continued to adapt to changing working practices as the pace of change resulting from the pandemic varied across our markets.
- We continued to emphasise through the rollout of bespoke training to all compliance colleagues; an environment in which employees are encouraged, feel safe to speak up and know of all the channels that are available to them to do so.
- We delivered our latest annual global mandatory training course on conduct to reinforce the importance of conduct for all colleagues.
- We delivered bespoke and focused conduct training and guidance to our risk steward colleagues.

The Board continues to maintain oversight of conduct matters through the Risk Committee.

Financial crime risk

Overview

Financial crime risk is the risk of knowingly or unknowingly helping parties to commit or to further potentially illegal activity through HSBC UK including money laundering, fraud, bribery and corruption, tax evasion, sanctions breaches, and terrorist and proliferation financing.

Key developments in 2021

We consistently review the effectiveness of our financial crime risk management framework, which includes consideration of geopolitical and wider economic factors, and 2021 was no exception. We continued to support the business in navigating the complex and dynamic nature of geopolitics as it relates to sanctions and export control risk, notably with respect to the array of new regulations and designations in 2021.

We also continued to progress several key financial crime risk management initiatives, including:

- Deployment of a key component of our intelligence-led, dynamic risk assessment capabilities for customer account monitoring within our retail line of business, as well as undertaking key enhancements to our traditional transaction monitoring systems.
- Strengthening our anti-fraud capabilities, notably with respect to the early identification of first party lending fraud and the identification of new strategic detection tools, including device profiling, behavioural biometrics and more advanced analytics.
- Ongoing developments in surveillance technology and capabilities to identify potential market abuse.
- Investing in the use of AI and advanced analytics techniques to manage financial crime risk, notably introducing new automated capabilities in transaction monitoring and name screening.
- Delivering account review and a real-time payment freezing capability to combat Money Mule activity.
- Implementing a gifts and entertainment recording and approval system, which, in combination with an expenses reconciliation tool, allows us to manage our gifts and entertainment risk consistently and effectively.
- Implementation of a web based tool which improves the way we engage with and provide compliance advice to our internal stakeholders.
- Increased external engagement with peers via UK Finance and Government Public Private Partnership on pertinent challenges facing the industry in the context of financial crime risk. This has included contributing to key legislative and regulatory reform consultations.

Key risk management processes

We continue to assess the effectiveness of our financial crime risk management framework on an ongoing basis and invest in enhancing our operational control capabilities and technology solutions to deter and detect criminal activity. We have continued to simplify our end to end financial crime risk management framework, streamlining and de-duplicating policy requirements. We also strengthened our financial crime risk taxonomy and control libraries, and our investigative and monitoring capabilities through technology deployments. We developed more targeted metrics and also simplified governance and reporting.

We are committed to working in partnership with the wider industry and the public sector in managing financial crime risk, protecting the integrity of the financial system and the communities we serve. We participate in public-private partnerships and information-sharing initiatives, and also support the government's and international standard setters' reform activity. In 2021, there was a particular focus on reform activity in the UK, where we were instrumental in the industry responses to a number of consultation papers focused on the overall

effectiveness of the UK anti-money laundering framework. These align with our objectives of promoting a public policy and regulatory environment that embraces the use of technology in building the future financial crime framework to ensure our bank is more resilient and secure.

Skilled Person/Independent Consultant

In December 2012, HSBC Holdings entered into a number of agreements, including an undertaking with the UK Financial Services Authority (replaced with a Direction issued by the UK FCA in 2013 and again in 2020), as well as a cease-and-desist order with the US FRB, both of which contained certain forward-looking AML and sanctions-related obligations. Over the past several years, HSBC Group has retained a Skilled Person under section 166 of the Financial Services and Markets Act and an Independent Consultant under the FRB cease-and-desist order to produce periodic assessments of the Group's AML and sanctions compliance programme. This work is applicable to HSBC UK.

The Skilled Person issued its final report in June 2021, which contained a number of limited recommendations. Following publication of the report, the FCA determined that no further Skilled Person work is required. Separately, the Independent Consultant carried out its eighth annual review for the FRB and in November 2021 issued its report, which contained a limited number of recommendations.

The HSBC UK Risk Committee provides oversight of financial crime risk matters on behalf of the HSBC UK Board, including matters relating to anti-money laundering, sanctions, terrorist financing and proliferation financing.

Model risk

Overview

Model risk is the potential for adverse consequences from business decisions informed by models, which can be exacerbated by errors in methodology, design or the way they are used. Model risk arises in both financial and non-financial contexts whenever business decision making includes reliance on models.

Key developments in 2021

In 2021, we carried out a number of initiatives to further develop and embed the Model Risk Management, including:

- We continued to update the model risk policy, as well as its model risk standards to enable a more risk-based approach to model risk management whilst retaining a consistent approach, furthermore, our model owners in businesses and functions have made material progress embedding this policy.
- We made further enhancements to our control framework for models to address control weaknesses that emerged as a result of significant increases in adjustments and overlays that were applied to compensate for the impact of the Covid-19 pandemic on models. We also introduced a requirement for second line of defence to approve material models prior to use.
- Our businesses and functions were more involved in the development and management of models, hiring colleagues who had strong model risk skills. They also put an enhanced focus on key model risk drivers such as data quality and model methodology.
- We delivered a suite of training on model risk to front line teams to improve their awareness of model risk and their adherence to the governance framework.
- Working with the businesses and functions, Model Risk Control Assessments have been refreshed to ensure they continue to be a true reflection of the Model Risk landscape.
- We further embedded risk appetite measures and metrics that provide forward looking measures of model risk and will help our businesses and functions manage it more effectively.
- We continued the transformation of Model Risk Management, with changes to the model validation processes, including new systems and processes. We also made changes to the model inventory system to provide businesses and functions with improved functionality and more detailed information related to model risk.

Governance and structure

The HSBC UK Model Risk Committee is chaired by the Chief Risk Officer and provides oversight of model risk. The committee includes senior leaders and risk owners across the lines of business and Risk and focuses on model-related concerns and key model risk metrics.

Key risk management processes

We use a variety of modelling approaches, including regression, simulation, sampling, machine learning and judgemental scorecards for a range of business applications, in activities such as customer selection, product pricing, financial crime transaction monitoring, creditworthiness evaluation and financial reporting. Responsibility for managing model risk is delegated from the RMM to the Model Risk Committee, which is chaired by the Chief Risk Officer. This committee regularly reviews our model risk management policies and procedures, and requires the first line of defence to demonstrate comprehensive and effective controls based on a library of model risk controls provided by Model Risk Management.

Model Risk Management also reports on model risk to senior management on a regular basis through the use of the risk map, risk appetite metrics and top and emerging risks.

We regularly review the effectiveness of these processes, including the model oversight forum structure, to help ensure appropriate understanding and ownership of model risk is embedded in the businesses and functions.

Corporate Governance Report

Corporate governance statement

The Company is committed to high standards of corporate governance. As a subsidiary of HSBC Holdings plc which complies with the provisions of the UK Corporate Governance Code, the Company adopted the HSBC Group's Subsidiary Accountability Framework ('SAF') in 2021. The SAF Principles set out HSBC Holdings plc's high level expectations for corporate governance arrangements in its subsidiaries. The Board considers SAF to be sufficiently comprehensive and robust and has, therefore, chosen not to adopt another corporate governance code.

During the year ended 31 December 2021 and up to the date of this report, the Company complied with SAF and HSBC Group policies, frameworks and procedures in addition to its relevant legal and regulatory governance requirements, including the PRA Rulebook for Ring-Fenced Bodies.

Role of the Board

The role of the Board of Directors is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables risks to be assessed and managed. The Board is collectively responsible for: the long-term success of the Company and delivery of sustainable value to its shareholders; and sets and approves the Company's strategy, risk appetite statement, and management's capital and operating plans to achieve the strategic objectives.

The Board comprises a majority of independent non-executive directors. The roles of the Chairman and CEO are separate; the Chairman leads the Board and is responsible for its effectiveness: and the CEO leads the day-to-day management of the Company and execution of strategy.

During the year, the Board completed its annual Board Effectiveness Review taking into account work undertaken by external advisers to the Board during the year. The Board considered the outcome of this review and endorsed actions to be undertaken in the parent company and the bank to optimise the governance and operating rhythm and benefit Board and executive engagement.

In 2021 the Board held six routine meetings, a Strategy day and an additional four ad-hoc meetings to consider matters of a time sensitive nature. The Board received information from management between meetings and Directors have full access to all relevant information on a timely basis, access to the advice of the company secretary and are entitled to obtain independent external advice at the Company's expense.

Details of the stakeholder engagement and management may be found in 'Stakeholder engagement' on pages 7 to 9.

Culture and values

Through its work, the Board supports the Company's purpose and values outlined on page 5 of the Strategic Report by ensuring that the Company conducts its business in a way consistent with its purpose and values, treating customers fairly and openly, doing business with the right customers and in the right way, is a responsible employer, acts responsibly towards the communities in which it operates and considers its other stakeholders.

Board of Directors

All Directors are subject to annual re-election by the shareholder at the Company's Annual General Meeting.

The Directors who served during the year ended 31 December 2021 and up to date of this report are shown below:

Dame Clara Furse

Chairman and Independent non-executive Director

Chairman of the Board's Chairman's Nominations and Remuneration Committee and Chairman of the Crisis Oversight Committee

Appointed to the Board: April 2017

James Coyle

Independent non-executive Director

Chairman of the Audit Committee

Member of the Risk Committee, Chairman's Nominations and Remuneration Committee and the Crisis Oversight Committee

Appointed to the Board: May 2018

David Lister

Independent non-executive Director

Member of the Risk Committee and from 15 January 2022, the Audit Committee

Appointed to the Board: May 2018

Marie Claire Baird (known as Claire Baird)

Executive Director and Chief Financial Officer

Member of the Executive Committee

Appointed to the Board: 6 January 2022

John David Stuart (known as Ian Stuart)

Executive Director and Chief Executive Officer

Chairman of the Board's Executive Committee and Member of the Crisis Oversight Committee

Appointed to the Board: May 2017

Mridul Hegde CB

Independent non-executive Director

Chair of the Risk Committee

Member of the Audit Committee, the Chairman's Nominations and Remuneration Committee and the Crisis Oversight Committee

Appointed to the Board: February 2018

Philippe Leslie Van de Walle (known as Leslie Van de Walle)

Independent non-executive Director

Member of the Chairman's Nominations and Remuneration Committee and Audit Committee

Appointed to the Board: February 2018

Other Directors that served during the year

Dame Denise Holt – Non executive Director. Resigned from the Board on 20 April 2021

Jonathan James Calladine (known as James Calladine) – Executive Director and Chief Risk Officer. Resigned from the Board on 26 May 2021

David Watts - Executive Director and Chief Financial Officer. Resigned from the Board on 14 December 2021

Alan Keir – Non executive Director. Resigned from the Board on 31 December 2021

Rosemary Leith – Non executive Director. Resigned from the Board on 16 February 2022

Company Secretary

Nicola Black:

Appointed: May 2017

Board activities during 2021

The Board's key areas of focus during 2021 were aligned to the four pillars of the refreshed strategic plan:

- Focus on our Strengths – the Board considered the transformation plans for Wealth Management and first direct and proposals on the Branch strategy.
- Energise for growth – the Board approved the Technology and Cloud strategies and considered the technology investment outlook and Digital vision. It also considered the 'Return to workplace' planning and, as part of the 'Future of Work planning, the future skills required from the workforce to safeguard and future proof the business.
- Supporting our community – the Board considered plans to develop HSBC UK's Societal Impact, Culture and Cyber security capabilities. It was informed about the UK's plans for the financial services industry's transformation of Wholesale Cash and Payments arrangements.
- Transition to net zero – the Board approved HSBC UK's Climate Plan.

The Board also holds a Strategy Day annually. In 2021, this focused on the risks, threats and opportunities for the business from the global geopolitical and economic outlook to 2030 and the competitive landscape. The Board considered the possible consequences for our Strategy, our customers, our data and digital developments and our role in society. Further information may be found in the Section 172 statement on pages 7 to 9.

The Board routinely invites senior management from Risk, Compliance and Legal to support the discharge of its responsibilities. The non-executive Directors meet privately with the CEO ahead of every Board meeting and hold an in-camera session at the end of every meeting to consider the effectiveness of the meeting, the papers and presentations.

Board committees

The Board has established committees to assist it in discharging its responsibilities. Each Board committee operates within Terms of Reference approved by the Board that set out the scope of the delegation and responsibilities, the membership and operation of the committee and its reporting requirements to the Board. The Chairs of the Board Committees report to each Board meeting on their activities.

During the year and up to the date of this report, the Board's Committees were as follows:

Audit Committee

Role

The Audit Committee has been delegated responsibility for oversight of financial reporting related matters and internal financial controls. All the members of the committee are independent non-executive directors.

Committee activities during 2021

During the year, the committee reviewed and provided oversight on: the HSBC UK group's financial reporting; the integrity of financial statements and disclosures, and management's application of key accounting policies and significant accounting judgements; the transformation programme and cost management; financial performance; liquidity, funding and capital adequacy monitoring; the Company's Annual Operating Plan; the nature and scope of Internal Audit reviews; the effectiveness of the internal financial reporting control systems; the effectiveness of the Internal Audit function; and the external audit process.

To support the discharge of its responsibilities, the committee routinely invites senior management from Finance, Internal Audit and the External Auditor to its meetings. The committee also meets separately with the External Audit Partner and Internal Audit at least twice each year without any management present.

The committee met six times in 2021.

Risk Committee

The Risk Committee has been delegated responsibility for oversight and monitoring of risk related matters impacting the Company; risk governance; and internal control systems (other than internal financial control systems). All the members of the committee are independent non-executive directors.

Committee activities during 2021

During the year, the committee has, amongst other matters: provided oversight over risk-related matters including financial and non-financial risk; assessed the Company's risk profile and how risks are mitigated and controlled; considered current and forward-looking risk exposures; the Company's risk appetite and tolerance to inform the Company's strategy and business plans and made recommendations to the Board; reviewed the Company's Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process and stress testing, and made recommendations, as appropriate, to the Board; considered the risk management framework and effectiveness of the non-financial internal control systems; reviewed reports from Compliance and Legal; and considered the effectiveness of the Chief Risk Officer and risk management function.

The committee routinely invites senior management from Risk, Compliance, Finance, Legal, Internal Audit and the External Auditor to support the discharge of its delegated responsibilities. It also meets twice a year in a private session with each of the Chief Risk Officer, Internal Auditor and External Audit Partner without any management present.

The committee met six times in 2021.

Chairman's Nominations and Remuneration Committee

Role

The Chairman's Nominations and Remuneration Committee ('CNRC') has been delegated responsibilities from the Board in relation to nomination and remuneration for the Company and its subsidiaries. All the members of the committee are independent non-executive directors.

Committee activities during 2021

In undertaking its responsibilities, the committee has, amongst other things, during the year, considered: the Board succession plan; reviewed the Board's structure, size and composition, including skills, knowledge and diversity of the Board; assessed the independence of non-executive Directors by reference to the criteria in legislation and regulation and, in particular, the PRA Rulebook for Ring-fenced Bodies; and ensured that the remuneration framework and pay review decisions are made in line with the business strategy, objectives, values and long-term interests of the Company.

The committee regularly invites the CEO and senior management in HR to attend meetings to support the discharge of its delegated responsibilities.

The committee met seven times during 2021.

Executive Committee

Role

The Board delegates the management and day-to-day running of the Company to the Executive Committee which exercises all the powers, authorities and discretions of the Board in accordance with such policies and directions as the Board or HSBC Group may from time to time determine. The Executive Committee operates as a general management committee with the Chair being the CEO. Membership comprises the executive directors and the CEO's senior management team.

Committee activities during 2021

To support this committee in discharging its responsibilities, it has sub-delegated specific responsibilities to other committees or meetings of executive management. There is a regular Risk Management Meeting of the Executive Committee, chaired by the CRO, to establish, maintain and periodically review the policy and guidelines for the management of risk within the group. The Risk Management Meeting also considers financial crime risk management to ensure effective enterprise wide management of financial crime risk within the group and to support the CEO in discharging his financial crime risk responsibilities.

The committee met eight times in 2021.

Conflicts of interest and indemnification of Directors

The Company's Articles of Association grants the Board the authority to approve Directors' conflicts and potential conflicts of interest.The Board has adopted a Conflicts of Interest policy and procedures for considering and authorising conflicts. A review of authorised situational conflicts, including the terms of authorisation, is undertaken by the Board annually.

In accordance with the Companies Act 2006 and the Company's Articles of Association, all directors are entitled to be indemnified out of the assets of the Company in respect of claims from third parties that may arise in connection with the performance of their functions. Such qualifying third party indemnity provisions have been in place during the financial year under review, and remain in place, but have not been utilised by the Directors. All Directors have the benefit of directors' and officers' liability insurance.

Internal controls

The Board is responsible for establishing a framework of controls to enable the assessment and management of risk and sets the Company's Risk Appetite Statement. This is discharged through reviewing the effectiveness of risk management and internal control systems and by determining the appetite and tolerance levels for the types of risks the Company is willing to take in order to achieve its strategic objectives for its long-term success and the benefit of its stakeholders. For more information, please refer to 'Our Internal Controls' in 'How we manage our risks' section on pages 18 to 19.

Auditor

PricewaterhouseCoopers LLP is the external auditor to the Company. PwC has expressed its willingness to continue in office and the Board recommends that PwC be re-appointed as the Company's auditor. A resolution proposing the re-appointment of PwC as the Company's auditor and giving authority to the Audit Committee to determine its remuneration will be submitted to the forthcoming AGM.

Statement on Going Concern

The Board, having made appropriate enquiries, is satisfied that the group as a whole has adequate resources to continue operations for a period of at least 12 months from the date of this report, and it, therefore, continues to adopt the going concern basis in preparing the financial statements.

In making their going concern assessment, the Directors have considered a wide range of detailed information relating to present and potential conditions including: profitability; cash flows; capital requirements; and capital resources.

Further information relevant to the assessment is provided in the Strategic Report and the Report of the Directors, in particular:

- A description of the group's strategic direction;
- A summary of the group's financial performance and a review of performance by business;
- Reports and updates regarding regulatory and internal stress testing;
- The group's approach to capital management and its capital position; and
- The top and emerging risks facing the group, as appraised by the Directors, along with details of the group's approach to mitigating those risks and its approach to risk management in general.

The objectives, policies and processes for managing credit, liquidity and market risk are set out in the 'Risk section' of the 'Report of the Directors' on pages 17 to 63.

Directors' Report Disclosures table

The following table sets out the disclosures required by the Companies Act 2006, the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as updated by Companies (Miscellaneous Reporting) Regulations 2018) and other applicable regulations, which are incorporated by reference in this Directors' Report:

	Page
Stakeholder Engagement	Stakeholder Engagement and Section 172 on pages 7 to 9
Employee Engagement	Stakeholder Engagement and Section 172 on page 8
Employee Health and Safety	Strategic Report 'Supporting our Employees' on pages 6
Diversity & Inclusion	Strategic Report 'Supporting our Employees' on page 6
Results and Dividends	Financial Summary on pages 10 to 14 and Note 6 of the Financial Statements on page 95
Segmental Analysis	Strategic Report pages 11 to 13 and Note 1.1(f) of the Financial Statements on page 80
Future Developments	Strategic Report 'Our Strategy' on pages 5 to 7
Share Capital	Note 23 of the Financial Statements pages 112 to 113
Risk Factors	Report of the Directors pages 17 to 58
Directors' Emoluments	Note 3 of the Financial Statements pages 92 to 93
Opportunities and Threats	Strategic Report pages 5 to 7 and Risk Report pages 17 to 58
Directors	Corporate Governance Report on pages 59 to 61
Subsidiaries and Joint Ventures	Note 29 of the Financial Statements pages 117 to 118
Director Indemnities	Corporate Governance Report on page 61
Post Balance Sheet Events	Note 28 of the Financial Statements page 117

The Report of the Directors comprising pages 17 to 63 was approved by the Board on 21 February 2022 and is signed on its behalf by:

Nicola Black

Company Secretary

HSBC UK Bank plc

Registered number 9928412

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the *Annual Report and Accounts 2021* and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the group and company financial statements in accordance with UK-adopted international accounting standards. In preparing the group and company financial statements, the directors have also elected to comply with IFRSs issued by the IASB.

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. In preparing each of these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether UK-adopted international accounting standards and IFRSs issued by the IASB have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The Directors are responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group’s and company’s transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

Each of the Directors, whose names and functions are listed in the Corporate Governance report confirm that, to the best of their knowledge:

- the group and company financial statements, which have been prepared in accordance with UK-adopted international accounting standards and IFRSs issued by the IASB, give a true and fair view of the assets, liabilities and financial position of the group and company, and of the profit of the group; and
- the Report of the Directors includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the directors’ report is approved:

- so far as the director is aware, there is no relevant audit information of which the group’s and company’s auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group’s and company’s auditors are aware of that information.

Approved by the Board on 21 February 2022 and signed on its behalf by:

Nicola Black

Company Secretary

HSBC UK Bank plc

Registered number 9928412

Independent auditors' report to the member of HSBC UK Bank plc

Report on the audit of the financial statements

Opinion

In our opinion, HSBC UK Bank plc's group financial statements and parent company financial statements (the 'financial statements'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2021 and of the group's profit and the group's and the parent company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts, which comprise:

- the consolidated income statement for the year ended 31 December 2021;
- the consolidated statement of comprehensive income for the year ended 31 December 2021;
- the consolidated balance sheet at 31 December 2021;
- the consolidated statement of cash flows for the year ended 31 December 2021;
- the consolidated statement of changes in equity for the year ended 31 December 2021;
- the parent company balance sheet at 31 December 2021;
- the parent company statement of cash flows for the year ended 31 December 2021;
- the parent company statement of changes in equity for the year ended 31 December 2021; and
- the notes on the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note 1.1(a) to the financial statements, the group and parent company, in addition to applying UK-adopted international accounting standards, have also applied international financial reporting standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

In our opinion, the group and parent company financial statements have been properly prepared in accordance with IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 4, we have provided no non-audit services to the parent company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- HSBC UK Bank plc is a member of the HSBC Group, the ultimate parent company of which is HSBC Holdings plc. HSBC UK Bank plc operates in the UK.
- We performed an audit of the complete financial information of one reporting unit namely HSBC UK Bank plc.
- For four further reporting units, namely Marks and Spencer Financial Services plc ('M&S'), HSBC Invoice Finance (UK) Limited ('HIF'), HSBC Equipment Finance (UK) Limited ('HEF') and Neon Portfolio Distribution DAC ('Neon'), specific audit procedures were performed over selected significant account balances.

Key audit matters

- Expected Credit Loss ('ECL') provision for loans and advances (group and parent company).
- Recognition of income under Effective Interest Rate ('EIR') accounting (group and parent company).
- Valuation of the defined benefit pension surplus (group and parent company).

Materiality

- Overall group materiality: £106m (2020: £79m) based on 5% of 4 year average of adjusted profit before tax.
- Overall parent company materiality: £97m (2020: £72m) based on 5% of 4 year average of adjusted profit before tax.
- Performance materiality: £79m (2020: £59m) (group) and £73m (2020: £54m) (parent company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The following, which were key audit matters last year are no longer included:

- Conduct Matter, due to the fact that both the quantum of the provision and associated level of estimation uncertainty has significantly reduced over the course of 2021.
- Information Technology ('IT') Access Management, because management has remediated a number of the control deficiencies in relation to IT Access Management.
- The impact of Coronavirus disease ('Covid-19'), because we deem the overall risk and uncertainty around Covid-19 to have reduced over the past year, as the potential impacts have become better understood, so that our consideration of this area in the current year is adequately captured by our other key audit matters.

Otherwise, the key audit matters below are consistent with last year.

Expected credit losses ('ECL') provision for loans and advances

Nature of key audit matter	Matters discussed with the Audit Committee
Determining expected credit losses ('ECL') involves management judgement and is subject to a high degree of estimation uncertainty. Management makes various assumptions when estimating ECL. The significant assumptions that we focused on in our audit included those with greater levels of management judgement and for which variations had the most significant impact on ECL. Specifically these included, • Forward looking economic scenarios and their probability weightings; • Certain management judgemental adjustments; • Wholesale customer risk ratings ('CRRs'); and • The recoverability of credit impaired wholesale exposures. The impact of Covid-19, including the nature and extent of government support, and more recent factors, including supply chain constraints and increasing inflation, have resulted in unprecedented economic conditions that vary across industries. This leads to uncertainty around judgements made in determining the severity and probability weighting of macroeconomic variable ('MEV') forecasts across the different economic scenarios used in ECL models. The modelling methodologies used to estimate ECL are developed using historical experience. The impact of the unprecedented economic conditions has resulted in certain limitations in the reliability of these methodologies to forecast the extent and timing of future customer defaults and therefore estimate ECL. In addition, modelling methodologies do not incorporate all factors that are relevant to estimating ECL, such as differentiating the impact on industry sectors of economic conditions. These limitations are addressed with management adjustments, the measurement of which is inherently judgemental and subject to an increased level of estimation uncertainty.	We held discussions with the Audit Committee covering governance and controls over ECL, with a significant focus on judgemental adjustments. Our discussions included: • The severity of MEV forecasts in economics scenarios, and their related probability weighting; • Management judgemental adjustments and the nature and extent of analysis used to support those adjustments; • The criteria and conditions used to assess to what extent management judgemental adjustments continue to be needed; • Model limitations and the requirement for adjustments linked to specific industry sectors or customers; • Assumptions around the recoverability of significant wholesale exposures, and • The disclosures made to explain ECL, in particular the impact of adjustments on determining ECL and the resulting estimation uncertainty.

How our audit addressed the key audit matter

We assessed the design of controls and governance over the estimation of ECLs, as well as testing how effectively they operated. We observed management's governance forums for (1) the determination of MEV forecasts and their probability weightings for different economic scenarios, and (2) the assessment of ECL for Retail and Wholesale portfolios, including the assessment of model limitations and approval of any resulting adjustments to modelled outcomes.

We also tested controls over:

- Model validation and monitoring;
- Credit reviews that determine CRRs for wholesale customers;
- The identification of credit impaired events;
- The input of critical data into source systems and the flow and transformation of critical data from source systems to impairment models and management judgemental adjustments; and
- The calculation and approval of management judgemental adjustments to modelled outcomes.

We involved our economic experts to assist in assessing the reasonableness of the severity and probability weighting of MEV forecasts. These assessments considered the sensitivity of ECLs to variations in the severity and probability weighting of MEVs for different economic scenarios. We involved our modelling experts in assessing the appropriateness of the significant assumptions and methodologies used for models and management judgemental adjustments. We independently reperformed the calculations for a sample of those models and management judgemental adjustments. We further considered whether the judgements made in selecting the significant assumptions would give rise to indicators of possible management bias.

In addition, we performed testing over:

- The compliance of ECL methodologies and assumptions with the requirements of IFRS 9;
- The appropriateness and application of the quantitative and qualitative criteria used to assess significant increases in credit risk;
- A sample of critical data used in the year end ECL calculation and to estimate management judgemental adjustments as at 31 December 2021;
- Assumptions and critical data for a sample of credit impaired wholesale exposures; and
- A sample of CRRs applied to wholesale exposures.

We evaluated and tested the Credit Risk disclosures made in the financial statements.

Relevant references in the *Annual Report and Accounts 2021*

Note 1: Basis of preparation and significant accounting policies 1.2(g) Impairment of amortised cost and FVOCI financial assets, page 83.

Summary of credit risk, page 30

Measurement uncertainty and sensitivity analysis of ECL estimates, page 34.

Recognition of income under Effective Interest Rate accounting

Nature of key audit matter

Loans and advances are recognised at amortised cost, with the associated interest income recognised using the Effective Interest Rate ('EIR') method. The majority of interest income relates to contractual interest, which is automatically calculated by the loan administration systems and requires no management intervention or judgement.

EIR accounting requires management to recognise income and expenses directly related to a loan over its expected life.

The most significant and judgemental area where EIR accounting is applied is in relation to credit cards, where interest income is recognised over the period that a customer is expected to have the credit card, including interest free promotional periods, which results in an EIR asset being recognised.

Management uses their judgement and the performance of historic credit card portfolios to estimate customer spending levels, the total interest income expected to be earned, and the expected period that customers will use their credit cards. Changes in these behavioural assumptions could have a material impact on the EIR calculations and hence the interest income recognised.

The Covid-19 pandemic continues to impact the way that customers have used their credit cards. Although customer spending levels have increased towards pre-pandemic levels, management have considered the changes in customer behaviour and where required have updated their assumptions.

Matters discussed with the Audit Committee

Discussions with the Audit Committee focused on the key judgements and assumptions including the level of expected customer balances, interest yield forecasts, the expected behavioural life of customer accounts and consideration as to how historic experience is consistent with that expected in the future.

We discussed the impact of Covid-19 and the impact on customer behaviour and future projections of spending levels.

How our audit addressed the key audit matter

- Tested the controls over data inputs in the model and substantively tested the completeness of the data feeding into the model;
- Observed management's governance meetings for the setting, challenge and approval of key assumptions, including monitoring of actual trends compared to forecast assumptions;
- Used our risk modelling experts to review and assess the model code logic used in the EIR calculation, including independently running a sample of input data through the model and comparing to management's output;
- Critically assessed and challenged the appropriateness of the key assumptions, including expected behavioural life of customer accounts and assessing whether the use of customer balance and yield curves based on historic data were appropriately reflective of current behaviour, supported by external sources;
- Performed sensitivity analysis of key assumptions to understand the materiality of the impact that potential realistic changes in assumptions may have on the EIR asset; and
- Performed testing over the reasonableness of behavioural adjustments in the year, and the impact on customer behaviour trends.

Assessed the sufficiency of the disclosures in the financial statements relating to significant assumptions made in the EIR calculation.

Relevant references in the *Annual Report and Accounts 2021*

Note 1: Basis of preparation and significant accounting policies 1.2 (b) Income and expense, page 81.

Valuation of defined benefit pension surplus

Nature of key audit matter	Matters discussed with the Audit Committee
HSBC UK Bank plc's ('HSBC UK') defined benefit pension scheme is in a net surplus position as at 31 December 2021 consistent with the prior year. **Defined benefit obligation ('DBO')** The valuation of the DBO of HSBC UK is dependent on a number of actuarial assumptions. We consider the discount rate, inflation rate and mortality rates to be the most significant assumptions used in determining the defined benefit obligation. Management uses an actuarial expert to determine the valuation of the DBO using a number of market based inputs and other financial and demographic assumptions. Changes in these assumptions can have a material impact on the valuation due to the long duration of the pension liabilities and as such the valuation is considered to be highly judgemental. **Pension Assets** HSBC UK has various classes of pension assets, some which are more complex to value and therefore higher risk. These include the longevity swaps, infrastructure loan notes, directly held property and some more complex pooled investment vehicles ('PIVs'). Management uses valuation experts to determine the value of certain classes of unquoted pension assets including the valuation of the longevity swaps, infrastructure loan notes and directly held property. The valuation of the other asset classes is obtained from either the valuation administrator for the quoted portfolio or investment manager for other assets. The estimation of fair value for more complex pension assets is subjective, relies on valuation models and unobservable inputs and therefore significant judgement is required to estimate fair values.	We discussed the results of the work performed by our actuarial experts. This included how the key assumptions compared to our independently compiled expected ranges and the assessment of the modelling methodology adopted by management's actuarial expert. We discussed with the Audit Committee the changes in methodology adopted in setting the actuarial assumptions used to determine the value of the defined benefit obligation. For the complex scheme assets, our discussions included: • The results of audit work which included our assessment of the methodology adopted by management's experts when valuing the longevity swaps, infrastructure loan notes and property portfolio; and • The results of the additional audit procedures which we performed to corroborate the reasonableness of the valuations independently obtained from the PIV investment managers.

How our audit addressed the key audit matter

- Tested controls over the determination of the actuarial assumptions used in calculating the valuation of the DBO and the approval of those assumptions by senior management;
- Evaluated the objectivity and competence of management's actuarial expert involved in the valuation of the DBO;
- Engaged our actuarial experts to assess the reasonableness of the judgements made by management and management's actuarial expert in determining the key financial and demographic assumptions used in the calculation of the DBO;
- Assessed the reasonableness of the assumptions using independently compiled expected ranges based on market observable indices and our market experience;
- Tested the controls over the valuation of plan assets and the approval by senior management;
- Obtained independent confirmation to support the investment valuation from the investment managers for material investment balances;
- Engaged our valuation experts to independently review a sample of more complex investments including directly held property, the longevity swaps and infrastructure loan notes; and
- In respect of more complex pooled investment vehicles, we performed one or more of the following additional procedures;
  - For fair values based on net asset valuation statements from fund managers, we inspected these statements.
  - Agreed valuation statements from fund managers to audited fund financial statements where they were available.
  - Reviewed the investment managers' controls reports in respect of valuation controls.
  - Reviewed transaction prices close to the year end for the fund where they were available.

Evaluated the appropriateness of the pension disclosures within the financial statements, including the disclosure regarding the sensitivity of assumptions by comparing them to the output of our audit work.

Relevant references in the *Annual Report and Accounts 2021*

Note 1: Basis of preparation and significant accounting policies 1.2(h) Employee compensation and benefits, page 86

Note 3: Employee compensation and benefit, page 88.

How we tailored the audit scope

We performed a risk assessment, giving consideration to relevant internal and external factors, including Covid-19, climate change, economic risks, relevant accounting and regulatory developments, HSBC's strategy and any changes taking place within the group. We also considered our knowledge and experience obtained in prior year audits. As part of considering the impact of climate change in our risk assessment, we evaluated management's assessment of the impact of climate risk, which is set out on page 14, including their conclusion that there is no material impact on the financial statements.

In particular, we considered management's assessment of the impact on ECL on loans and advances to customers, the financial statement line item we determined to be most likely to be impacted by climate risk. Management's assessment gave consideration to a number of matters, including the climate stress testing performed in 2021. Using our risk assessment, we tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the parent company, the accounting processes and controls, and the industry in which they operate. We continually assessed risks and changed the scope of our audit where necessary.

HSBC UK Bank plc is structured into three divisions being Wealth and Personal Banking, Commercial Banking and Global Banking and Markets. The divisions operate across a number of subsidiary entities in the United Kingdom. The consolidated financial statements are an aggregation of the subsidiary entities ('reporting units'). Each reporting unit submits their financial information to the group in the form of a consolidation pack, which gets aggregated within the group's main consolidation and financial reporting system.

In establishing the overall approach to the group audit, we scoped our work using the balances included in the consolidation pack and determined the type of work that needed to be performed over the reporting units.

As a result of our group scoping, we determined that an audit of the complete financial information of HSBC UK Bank plc was necessary, owing to its financial significance.

We then considered the significance of other reporting units in relation to primary statement account balances. In doing this we also considered the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error). For four reporting units, specific audit procedures were performed over selected significant account balances as follows; for HIF these were 'Loans and advances to customers', 'Customer accounts', 'Items in the course of collection from other Banks' and 'Fee income'; for HEF these were 'Loans and advances to customers' and 'Property, Plant and Equipment'; for M&S these were 'Loans and advances to customers', 'Customer accounts', 'Interest income', 'Change in expected credit losses and other credit impairment charges and Provisions'; and for Neon this was 'Debt securities in issue'. For the remainder of the reporting units, the risk of material misstatement was mitigated through group audit procedures including testing of entity level controls and subsidiary level analytical review procedures.

Additionally audit procedures were performed on certain group-level account balances including goodwill.

We utilised centralised teams and a shared service centre to assist with certain aspects of our audit where it was more efficient to do so. This included the coordination of data requests and the testing of a number of controls, IT and operational processes, and central items such as payroll. We oversaw the nature, timing and extent of the work performed by these teams and received results through a memorandum of work performed.

For all in-scope reporting units apart from M&S, the group audit engagement partner was also the partner overseeing the audit work performed. For the M&S reporting unit, a separate component team performed the audit of the in-scope balances, as instructed by the group engagement team. We held regular meetings with the component team auditing the M&S reporting unit as part of our oversight of their work. In these meetings, we discussed the significant risks identified and how these risks were addressed by the component team through the procedures performed. We also performed a review of the documentation of the testing performed over a number of areas, including significant risks to ensure these were aligned with our expectations.

For the parent company, we determined our scope of work using our risk assessment and parent company materiality level. Based on these, we assessed the level of testing required on each financial statement line item in order to be able to give an opinion on the parent company financial statements. We utilised work performed over the HSBC UK Bank plc reporting unit as part of the group audit, performing further work where necessary, and testing parent company balances such as investments in subsidiaries.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Overall materiality	£106m (2020: £79m)	£97m (2020: £72m)
How we determined it	5% of 4 year average of adjusted profit before tax	5% of 4 year average of adjusted profit before tax
Rationale for benchmark applied	Adjusted profit before tax is the primary measure used by shareholders in assessing the performance of the group and the parent company and removes the impact of significant items that distort year-on-year comparisons. In determining overall materiality, we have made adjustments, including for the impact of certain customer redress and restructuring programmes as they are large items unrelated to the underlying performance of the group and parent company. Whilst adjusted profit before tax is still considered the most suitable benchmark, we have used a 4 year average to reduce the impact Covid-19 has had on performance in 2021.	

For each reporting unit in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across reporting units was £5m-£97m.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £79m (2020: £59m) for the group financial statements and £73m (2020: £54m) for the parent company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £5m (group and parent company audit) (2020: £3m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the Directors' assessment of the group's and the parent company's ability to continue to adopt the going concern basis of accounting included:

- Performed a risk assessment to identify factors that could impact the going concern basis of accounting, including risks to the financial and operating performance of the group.
- Understanding and evaluating the group's financial forecasts and the group's stress testing of liquidity and regulatory capital, including the severity of the stress scenarios that were used.
- Reading and evaluating the adequacy of the disclosures made in the financial statements in relation to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the parent company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report and Accounts other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and the Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and the Report of the Directors for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and the Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Consumer Credit Act 1974, the Financial Conduct Authority's ('FCA') regulations, the Prudential Regulation Authority's regulations and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates and judgements. The group engagement team shared this risk assessment with the component auditor so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Challenging estimates and judgements made by management in their significant accounting estimates, in particular in relation to the expected credit loss provisions of loans and advances to customers (see related key audit matter).
- Identifying and testing journal entries, including those posted with certain descriptions, posted and approved by the same individual, backdated journals, posted by infrequent and unexpected users, posted in infrequently used accounts, posted to reverse revenue after year end and posted with unusual account combinations.
- Agreeing financial statement disclosures to underlying supporting documentation, review of correspondence with regulators including the FCA and PRA, review of correspondence with the group's external legal advisors, enquiries of management, enquiries of legal counsel and review of internal audit reports in so far as they related to the financial statements.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements.

Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report. In our engagement letter, we also agreed to describe our audit approach, including communicating key audit matters.

Use of this report

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 7 August 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 December 2017 to 31 December 2021.

Other matter

As required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Hamish Anderson *(Senior Statutory Auditor)*

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Birmingham

21 February 2022

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Consolidated income statement

for the year ended 31 December

	Notes	2021 £m	2020 £m
Net interest income		**4,650**	4,551
– interest income[1,2,3]		**5,072**	5,197
– interest expense[4]		**(422)**	(646)
Net fee income	2	**1,080**	1,016
– fee income		**1,329**	1,191
– fee expense		**(249)**	(175)
Net income from financial instruments held for trading or managed on a fair value basis		**318**	357
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss		**15**	(1)
Gains less losses from financial investments		**101**	73
Other operating income		**86**	35
Net operating income before change in expected credit losses and other credit impairment charges		**6,250**	6,031
Change in expected credit losses and other credit impairment charges		**989**	(2,115)
Net operating income		**7,239**	3,916
Employee compensation and benefits[5]	3	**(1,022)**	(985)
General and administrative expenses[5]		**(2,316)**	(2,404)
Depreciation and impairment of property, plant and equipment and right-of-use assets		**(174)**	(181)
Amortisation and impairment of intangible assets		**(247)**	(183)
Total operating expenses		**(3,759)**	(3,753)
Operating profit		**3,480**	163
Profit before tax		**3,480**	163
Tax expense	5	**(1,112)**	(83)
Profit for the year		**2,368**	80
Attributable to:			
– ordinary shareholders of the parent company		**2,363**	76
– non-controlling interests		**5**	4
Profit for the year		**2,368**	80

1 *Interest income recognised on financial assets measured at amortised cost is £4,926m (2020: £5,015m).*
2 *Interest income recognised on financial assets measured at FVOCI is £130m (2020: £182m).*
3 *Interest income calculated using the effective interest method comprises interest recognised on financial assets measured at either amortised cost or fair value through other comprehensive income.*
4 *Interest expense on financial instruments, excluding interest on trading liabilities designated or otherwise mandatorily measured at fair value is £420m (2020: £638m).*
5 *During 2021, 3,607 full-time equivalent employees transferred from HSBC Global Services (UK) Limited to HSBC UK Bank plc, that were fully dedicated to HSBC UK Bank plc. As a result in 2021, associated costs for the nine months to 31 December 2021, are now reported under Employee compensation and benefits rather than General and administrative expenses.*

Consolidated statement of comprehensive income

for the year ended 31 December

	2021	2020
	£m	£m
Profit for the year	**2,368**	80
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	**(89)**	142
– fair value gains/(losses)	**(9)**	258
– fair value gains transferred to the income statement on disposal	**(101)**	(73)
– expected credit (recoveries)/losses recognised in the income statement	**(4)**	6
– income taxes	**25**	(49)
Cash flow hedges	**(91)**	13
– fair value gains/(losses)	**(115)**	2
– fair value (gains)/losses reclassified to the income statement	**(20)**	15
– income taxes	**44**	(4)
Exchange differences	**(1)**	(5)
– other exchange differences	**(1)**	(5)
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit asset/liability	**(510)**	553
– before income taxes	**(471)**	823
– income taxes[1]	**(39)**	(270)
Other comprehensive income/(expense) for the year, net of tax	**(691)**	703
Total comprehensive income for the year	**1,677**	783
Attributable to:		
– ordinary shareholders of the parent company	**1,672**	779
– non-controlling interests	**5**	4
Total comprehensive income for the year	**1,677**	783

1 The income tax charge of £39m arising on Remeasurement of defined benefit asset/liability includes an income tax charge of £179m arising upon the remeasurement of deferred tax following the substantive enactment of legislation to increase the main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023.

Consolidated balance sheet

at 31 December

	Notes	2021 £m	2020 £m
Assets			
Cash and balances at central banks		**112,478**	76,429
Items in the course of collection from other banks		**299**	253
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	7	**79**	26
Derivatives	9	**64**	155
Loans and advances to banks		**1,914**	1,514
Loans and advances to customers		**195,526**	191,233
Reverse repurchase agreements – non-trading		**7,988**	2,485
Financial investments	10	**14,377**	19,309
Prepayments, accrued income and other assets	16	**9,136**	9,310
Current tax assets		**—**	49
Interests in joint ventures	12	**9**	8
Goodwill and intangible assets	15	**4,193**	4,093
Total assets		**346,063**	304,864
Liabilities and equity			
Liabilities			
Deposits by banks		**11,180**	540
Customer accounts		**281,870**	259,341
Repurchase agreements – non-trading		**10,438**	6,150
Items in the course of transmission to other banks		**151**	132
Derivatives	9	**292**	365
Debt securities in issue	17	**900**	866
Accruals, deferred income and other liabilities	18	**1,674**	1,941
Current tax liabilities		**802**	—
Provisions	19	**495**	979
Deferred tax liabilities	5	**1,969**	1,677
Subordinated liabilities	20	**12,487**	10,015
Total liabilities		**322,258**	282,006
Equity			
Called up share capital	23	**—**	—
Share premium account	23	**9,015**	9,015
Other equity instruments	23	**2,196**	2,196
Other reserves		**7,657**	7,838
Retained earnings		**4,877**	3,749
Total shareholders' equity		**23,745**	22,798
Non-controlling interests		**60**	60
Total equity		**23,805**	22,858
Total liabilities and equity		**346,063**	304,864

The accompanying notes on pages 80 to 118, and the audited sections in: the 'Financial Summary' on pages 10 to 14 and the 'Report of the Directors' on pages 17 to 63 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 21 February 2022 and signed on its behalf by:

John David Stuart

Director

Consolidated statement of cash flows

for the year ended 31 December

	2021	2020
	£m	£m
Profit before tax	**3,480**	163
Adjustments for non-cash items:		
Depreciation and amortisation	**421**	364
Net gain from investing activities	**(101)**	(73)
Change in expected credit losses gross of recoveries and other credit impairment charges	**(911)**	2,180
Provisions including pensions	**123**	28
Share-based payment expense	**16**	22
Other non-cash items included in profit before tax	**(30)**	—
Elimination of exchange differences[1]	**(33)**	(85)
Changes in operating assets and liabilities		
Change in net trading securities and derivatives	**(97)**	133
Change in loans and advances to banks and customers	**(3,717)**	(10,353)
Change in reverse repurchase agreements – non-trading	**(5,503)**	529
Change in financial assets designated and otherwise mandatorily measured at fair value	**(53)**	40
Change in other assets	**728**	(773)
Change in deposits by banks and customer accounts	**33,169**	43,138
Change in repurchase agreements – non-trading	**4,288**	6,052
Change in debt securities in issue	**34**	(2,276)
Change in other liabilities	**(1,233)**	93
Contributions paid to defined benefit plans	**(195)**	(202)
Tax paid	**53**	(404)
Net cash from operating activities	**30,439**	38,576
Purchase of financial investments	**(12,468)**	(27,644)
Proceeds from the sale and maturity of financial investments	**17,000**	28,848
Net cash flows from the purchase and sale of property, plant and equipment	**(53)**	(58)
Net investment in intangible assets	**(347)**	(303)
Net cash from investing activities	**4,132**	843
Subordinated loan capital issued[2]	**4,978**	—
Subordinated loan capital repaid[2]	**(2,079)**	—
Dividends paid to shareholders of the parent company and non-controlling interests	**(752)**	(226)
Net cash from financing activities	**2,147**	(226)
Net increase in cash and cash equivalents	**36,718**	39,193
Cash and cash equivalents at 1 Jan	**77,422**	38,086
Exchange differences in respect of cash and cash equivalents	**(6)**	143
Cash and cash equivalents at 31 Dec[3]	**114,134**	77,422
Cash and cash equivalents comprise:		
– cash and balances at central banks	**112,478**	76,429
– items in the course of collection from other banks	**299**	253
– loans and advances to banks of one month or less	**857**	677
– treasury bills, other bills and certificates of deposit less than three months	**475**	—
– cash collateral and net settlement accounts	**176**	195
– less: items in the course of transmission to other banks	**(151)**	(132)
Cash and cash equivalents at 31 Dec[3]	**114,134**	77,422

Interest received was £5,135m (2020: £5,204m) and interest paid was £444m (2020: £705m).

1 *Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as details cannot be determined without unreasonable expense.*
2 *Subordinated liabilities changes during the year are attributable to cash flows from issuance of securities of £4,978m (2020: £nil) and repayments of £(2,079)m (2020: £nil). Non-cash changes during the year included foreign exchange (losses)/gains of £(25)m (2020: £92m).*
3 *At 31 December 2021 £nil (2020: £nil) was not available for use by the group, £nil (2020: £nil) related to mandatory deposits at central banks.*

Consolidated statement of changes in equity

for the year ended 31 December

	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: Group re-organisation reserve[2]	Total share-holders' equity	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2021	**9,015**	**2,196**	**3,749**	**146**	**1**	**7,691**	**22,798**	**60**	**22,858**
Profit for the year	**—**	**—**	**2,363**	**—**	**—**	**—**	**2,363**	**5**	**2,368**
Other comprehensive income (net of tax)	**—**	**—**	**(510)**	**(90)**	**(91)**	**—**	**(691)**	**—**	**(691)**
– debt instruments at fair value through other comprehensive income	**—**	**—**	**—**	**(89)**	**—**	**—**	**(89)**	**—**	**(89)**
– cash flow hedges	**—**	**—**	**—**	**—**	**(91)**	**—**	**(91)**	**—**	**(91)**
– remeasurement of defined benefit asset/ liability	**—**	**—**	**(510)**	**—**	**—**	**—**	**(510)**	**—**	**(510)**
– exchange differences	**—**	**—**	**—**	**(1)**	**—**	**—**	**(1)**	**—**	**(1)**
Total comprehensive income for the year	**—**	**—**	**1,853**	**(90)**	**(91)**	**—**	**1,672**	**5**	**1,677**
Dividends to shareholders	**—**	**—**	**(747)**	**—**	**—**	**—**	**(747)**	**(5)**	**(752)**
Other movements[1]	**—**	**—**	**22**	**—**	**—**	**—**	**22**	**—**	**22**
At 31 Dec 2021	**9,015**	**2,196**	**4,877**	**56**	**(90)**	**7,691**	**23,745**	**60**	**23,805**
At 1 Jan 2020	9,015	2,196	3,292	9	(12)	7,691	22,191	60	22,251
Profit for the year	—	—	76	—	—	—	76	4	80
Other comprehensive income (net of tax)	—	—	553	137	13	—	703	—	703
– debt instruments at fair value through other comprehensive income	—	—	—	142	—	—	142	—	142
– cash flow hedges	—	—	—	—	13	—	13	—	13
– remeasurement of defined benefit asset/ liability	—	—	553	—	—	—	553	—	553
– exchange differences	—	—	—	(5)	—	—	(5)	—	(5)
Total comprehensive income for the year	—	—	629	137	13	—	779	4	783
Dividends to shareholders	—	—	(222)	—	—	—	(222)	(4)	(226)
Other movements[1]	—	—	50	—	—	—	50	—	50
At 31 Dec 2020	9,015	2,196	3,749	146	1	7,691	22,798	60	22,858

1 *Relates to £20m pension assets transfer from HSBC Global Services (UK) Limited and HSBC Bank plc (2020: £31m) and net share based payments cost of £2m in 2021 (2020: £18m).*

2 *The Group reorganisation reserve is an equity reserve which was used to recognise the contribution of equity reserves associated with the ring fenced businesses that were notionally transferred from HSBC Bank plc.*

HSBC UK Bank plc balance sheet

at 31 December

	Notes	2021 £m	2020 £m
Assets			
Cash and balances at central banks		**112,477**	76,419
Items in the course of collection from other banks		**132**	137
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	7	**79**	26
Derivatives	9	**64**	155
Loans and advances to banks		**4,405**	3,790
Loans and advances to customers		**191,208**	186,800
Reverse repurchase agreements – non-trading		**7,988**	2,485
Financial investments	10	**14,377**	19,309
Investments in subsidiaries	13	**1,014**	1,014
Prepayments, accrued income and other assets	16	**8,861**	8,985
Current tax assets		**—**	48
Interests in joint ventures	12	**5**	5
Goodwill and intangible assets	15	**1,128**	1,030
Total assets		**341,738**	300,203
Liabilities and equity			
Liabilities			
Deposits by banks		**12,095**	2,161
Customer accounts		**280,023**	256,353
Repurchase agreements – non-trading		**10,438**	6,150
Items in the course of transmission to other banks		**148**	129
Derivatives	9	**292**	365
Debt securities in issue	17	**675**	641
Accruals, deferred income and other liabilities	18	**1,514**	1,809
Current tax liabilities		**760**	—
Provisions	19	**442**	870
Deferred tax liabilities	5	**2,001**	1,710
Subordinated liabilities	20	**12,487**	9,936
Total liabilities		**320,875**	280,124
Equity			
Called up share capital	23	**—**	—
Share premium account	23	**9,015**	9,015
Other equity instruments	23	**2,196**	2,196
Other reserves		**5,214**	5,395
Retained earnings		**4,438**	3,473
Total equity		**20,863**	20,079
Total liabilities and equity		**341,738**	300,203

Profit after tax for the year was £2,201m (2020: £104m).

The accompanying notes on pages 80 to 118, and the audited sections of the 'Report of the Directors' on pages 17 to 63 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 21 February 2022 and signed on its behalf by:

John David Stuart

Director

HSBC UK Bank plc statement of cash flows

for the year ended 31 December

	2021	2020
	£m	£m
Profit before tax	**3,265**	184
Adjustments for non-cash items:		
Depreciation and amortisation	**397**	339
Net gain/(loss) from investing activities	**(101)**	(69)
Change in expected credit losses gross of recoveries and other credit impairment charges	**(801)**	1,952
Provisions including pensions	**114**	23
Share-based payment expense	**15**	21
Other non-cash items included in profit before tax	**(30)**	—
Elimination of exchange differences[1]	**(33)**	(85)
Changes in operating assets and liabilities		
Change in net trading securities and derivatives	**(97)**	134
Change in loans and advances to banks and customers	**(4,163)**	(14,010)
Change in reverse repurchase agreements – non-trading	**(5,503)**	529
Change in financial assets designated and otherwise mandatorily measured at fair value	**(53)**	40
Change in other assets	**693**	204
Change in deposits by banks and customer accounts	**33,604**	46,407
Change in repurchase agreements – non-trading	**4,288**	6,052
Change in debt securities in issue	**34**	(2,276)
Change in other liabilities	**(1,202)**	(365)
Contributions paid to defined benefit plans	**(195)**	(202)
Tax paid	**58**	(356)
Net cash from operating activities	**30,290**	38,522
Purchase of financial investments	**(12,468)**	(27,644)
Proceeds from the sale and maturity of financial investments	**17,000**	28,848
Net cash flows from the purchase and sale of property, plant and equipment	**(44)**	(39)
Net investment in intangible assets	**(343)**	(302)
Net cash from investing activities	**4,145**	863
Subordinated loan capital issued[2]	**4,978**	—
Subordinated loan capital repaid[2]	**(2,000)**	—
Dividends paid to shareholders of the parent company	**(747)**	(222)
Net cash from financing activities	**2,231**	(222)
Net increase in cash and cash equivalents	**36,666**	39,163
Cash and cash equivalents at 1 Jan	**77,454**	38,148
Exchange differences in respect of cash and cash equivalents	**(6)**	143
Cash and cash equivalents at 31 Dec[3]	**114,114**	77,454
Cash and cash equivalents comprise:		
– cash and balances at central banks	**112,477**	76,419
– items in the course of collection from other banks	**132**	137
– loans and advances to banks of one month or less	**1,002**	832
– treasury bills, other bills and certificates of deposit less than three months	**475**	—
– cash collateral and net settlement accounts	**176**	195
– less: items in the course of transmission to other banks	**(148)**	(129)
Cash and cash equivalents at 31 Dec[3]	**114,114**	77,454

Interest received was £4,827m (2020: £4,913m), interest paid was £417m (2020: £672m) and dividends received were £57m (2020: £42m).

1 *Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on line-by-line basis, as details cannot be determined without unreasonable expense.*
2 *Subordinated liabilities changes during the year are attributable to cash flows from issuance of securities of £4,978m (2020: £nil) and repayments of £(2,000)m (2020: £nil). Non-cash changes during the year included foreign exchange (losses)/gains of £(25)m (2020: £92m).*
3 *At 31 December 2021, £nil (2020: £nil) was not available for use by the bank, £nil (2020: £nil) related to mandatory deposits at central banks.*

HSBC UK Bank plc statement of changes in equity

for the year ended 31 December

	Called up share capital and share premium	Other equity instruments	Retained earnings	Other reserves: Financial assets at FVOCI reserve	Other reserves: Cash flow hedging reserve	Other reserves: Group re-organisation[2] reserve	Total share-holders' equity
	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2021	**9,015**	**2,196**	**3,473**	**146**	**1**	**5,248**	**20,079**
Profit for the year	**—**	**—**	**2,201**	**—**	**—**	**—**	**2,201**
Other comprehensive income (net of tax)	**—**	**—**	**(510)**	**(90)**	**(91)**	**—**	**(691)**
– debt instruments at fair value through other comprehensive income	**—**	**—**	**—**	**(89)**	**—**	**—**	**(89)**
– cash flow hedges	**—**	**—**	**—**	**—**	**(91)**	**—**	**(91)**
– remeasurement of defined benefit asset/liability	**—**	**—**	**(510)**	**—**	**—**	**—**	**(510)**
– exchange differences	**—**	**—**	**—**	**(1)**	**—**	**—**	**(1)**
Total comprehensive income for the year	**—**	**—**	**1,691**	**(90)**	**(91)**	**—**	**1,510**
Dividends to shareholders	**—**	**—**	**(747)**	**—**	**—**	**—**	**(747)**
Other movements[1]	**—**	**—**	**21**	**—**	**—**	**—**	**21**
At 31 Dec 2021	**9,015**	**2,196**	**4,438**	**56**	**(90)**	**5,248**	**20,863**
At 1 Jan 2020	9,015	2,196	2,989	9	(12)	5,248	19,445
Profit for the year	—	—	104	—	—	—	104
Other comprehensive income (net of tax)	—	—	553	137	13	—	703
– debt instruments at fair value through other comprehensive income	—	—	—	142	—	—	142
– cash flow hedges	—	—	—	—	13	—	13
– remeasurement of defined benefit asset/liability	—	—	553	—	—	—	553
– exchange differences	—	—	—	(5)	—	—	(5)
Total comprehensive income for the year	—	—	657	137	13	—	807
Dividends to shareholders	—	—	(222)	—	—	—	(222)
Other movements[1]	—	—	49	—	—	—	49
At 31 Dec 2020	9,015	2,196	3,473	146	1	5,248	20,079

1 *Relates to £20m pension assets transfer from HSBC Global Services (UK) Limited and HSBC Bank plc (2020: £31m) and net share based payments cost of £1m in 2021 (2020: £17m).*

2 *The Group reorganisation reserve is an equity reserve which was used to recognise the contribution of equity reserves associated with the ring fenced businesses that were notionally transferred from HSBC Bank plc.*

Notes on the financial statements

1 Basis of preparation and significant accounting policies

1.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The consolidated financial statements of HSBC UK and the separate financial statements of the bank comply with UK-adopted international accounting standards and with the requirements of the Companies Act 2006. These financial statements are also prepared in accordance with IFRSs' as issued by the IASB, including interpretations issued by the IFRS Interpretations Committee, as there are no applicable differences from IFRSs as issued by the IASB for the periods presented. There were no unendorsed standards effective for the year ended 31 December 2021 affecting these consolidated and separate financial statements.

Standards adopted during the year ended 31 December 2021

There were no new accounting standards or interpretations that had a significant effect on HSBC UK in 2021. Accounting policies have been consistently applied.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB has not published any minor amendments to IFRSs which are effective from 1 January 2021 that are applicable to HSBC UK. However, the IASB has published a number of minor amendments to IFRSs that are effective from 1 January 2022 and 1 January 2023. The group expects they will have an insignificant effect, when adopted, on the consolidated financial statements of the group and the separate financial statements of the bank.

New IFRSs

IFRS 17 'Insurance Contracts'

The IASB has published IFRS 17 'Insurance Contracts'. IFRS 17 has not yet been endorsed in the UK but is not expected to have a significant impact on the consolidated financial statements of the group and the separate financial statements of the bank.

(c) Foreign currencies

The functional currency of the bank is sterling, which is also the presentational currency of the consolidated financial statements of the group.

Transactions in foreign currencies are recorded at the rate of exchange on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date except non-monetary assets and liabilities measured at historical cost, which are translated using the rate of exchange at the initial transaction date. Exchange differences are included in other comprehensive income or in the income statement depending on where the gain or loss on the underlying item is recognised.

(d) Presentation of information

Certain disclosures required by IFRSs have been included in the audited sections of this *Annual Report and Accounts 2021* as follows:

- disclosures concerning the nature and extent of risks relating to financial instruments are included in the 'Report of the Directors | Risk' on pages 17 to 58; and
- capital disclosures are included in the 'Report of the Directors | Risk' on pages 51 to 53.

In publishing the parent company financial statements together with the group financial statements, the bank has taken advantage of the exemption in Section 408(3) of the Companies Act 2006 not to present its individual income statement and related notes.

(e) Critical accounting estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items highlighted as the critical accounting estimates and judgements in section 1.2 below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different estimates and judgements from those reached by management for the purposes of these financial statements. Management's selection of the group's accounting policies that contain critical estimates and judgements reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

(f) Segmental analysis

HSBC UK's chief operating decision-maker is the group Chief Executive, supported by the group Executive Committee, and operating segments are reported in a manner consistent with the internal reporting provided to the group Chief Executive and the group Executive Committee.

Measurement of segmental assets, liabilities, income and expenses is in accordance with the group's accounting policies. Segmental income and expenses include transfers between segments and these transfers are conducted at arm's length. Shared costs are included in segments on the basis of the actual recharges made.

The types of products and services from which each reportable segment derives its revenue are discussed in the 'Strategic Report | Our global businesses'.

(g) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the group and bank 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 and capital requirements and capital resources. These considerations include stressed scenarios that reflect the uncertainty that the global Covid-19 pandemic has had on

HSBC UK's operations, as well as considering potential impacts from other top and emerging risks, and the related impact on profitability, capital and liquidity.

1.2 Summary of significant accounting policies

(a) Consolidation and related policies

Investments in subsidiaries

Where an entity is governed by voting rights, the group consolidates when it holds, directly or indirectly, the necessary voting rights to pass resolutions by the governing body. In all other cases, the assessment of control is more complex and requires judgement of other factors, including having exposure to variability of returns, power to direct relevant activities and whether power is held as agent or principal.

Business combinations are accounted for using the acquisition method. The amount of non-controlling interest is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The election is made for each business combination.

The bank's investments in subsidiaries are stated at cost less impairment losses.

Goodwill

Goodwill is allocated to CGUs for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. The group's CGUs are based on the business lines described in the Strategic Report. Impairment testing is performed once a year, or whenever there is an indication of impairment, by comparing the recoverable amount of a CGU with its carrying amount.

Goodwill is included in a disposal group if the disposal group is a CGU to which goodwill has been allocated or it is an operation within such a CGU. The amount of goodwill included in a disposal group is measured on the basis of the relative values of the operation disposed of and the portion of the CGU retained.

Critical accounting estimates and judgements

The review of goodwill for impairment reflects management's best estimate of the future cash flows of the CGUs and the rates used to discount these cash flows, both of which are subject to uncertain factors as follows:

Judgements	Estimates
• The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. Where such circumstances are determined to exist, management re-tests goodwill for impairment more frequently than once a year when indicators of impairment exist. This ensures that the assumptions on which the cash flow forecasts are based continue to reflect current market conditions and management's best estimate of future business prospects.	• The future cash flows of the CGUs are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data, but they reflect management's view of future business prospects at the time of the assessment. • The rates used to discount future expected cash flows can have a significant effect on their valuation, and are based on the costs of equity assigned to individual CGUs. The cost of equity percentage is generally derived from a capital asset pricing model and the market implied cost of equity, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate and a premium for the risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions beyond management's control. • Key assumptions used in estimating goodwill impairment are described in Note 15.

The group does not consider there to be a significant risk of a material adjustment to the carrying amount of the goodwill balance in the next financial year but does consider this to be an area that is inherently judgemental.

Interests in associates and joint arrangements

Joint arrangements are investments in which the group, together with one or more parties, has joint control. Depending on the group's rights and obligations, the joint arrangement is classified as either a joint operation or a joint venture. The group classifies investments in entities over which it has significant influence, and that are neither subsidiaries nor joint arrangements, as associates.

The group recognises its share of the assets, liabilities and results in a joint operation. Investments in associates and interests in joint ventures are recognised using the equity method. The attributable share of the results and reserves of joint ventures and associates are included in the consolidated financial statements of the group, based on either financial statements made up to 31 December, or pro-rated amounts adjusted for any material transactions or events occurring between the date the financial statements are available and 31 December.

Investments in associates and joint ventures are assessed at each reporting date and tested for impairment when there is an indication that the investment may be impaired. Goodwill on acquisition of interests in joint ventures and associates is not tested separately for impairment, but is assessed as part of the carrying amount of the investment.

(b) Income and expense

Operating income

Interest income and expense

Interest income and expense for all financial instruments, excluding those classified as held for trading or designated at fair value, are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. However, as an exception to this, interest on debt instruments issued by the group for funding purposes that are designated under the fair value option to reduce an accounting mismatch and on derivatives managed in conjunction with those debt instruments is included in interest expense.

Interest on credit-impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Critical accounting estimates and judgements

The effective interest rate applied to interest income recognised on credit card lending includes significant estimates and judgements related to their behavioural life. This life is estimated based on internal models and is reviewed regularly to reflect actual experience. The application of the effective interest rate method to credit card lending has resulted in the recognition of £123m (2020: £129m) within loans and advances to customers at 31 December 2021.

Judgements	Estimates
• The estimated life is reviewed annually and management has assessed seven years as continuing to be the most appropriate life. The impact of reducing the estimated life to six years would be a reduction in the EIR asset of £15.7m (2020: £16.1m). • A key metric is the stick rate, being the proportion of acquired balances which remain on book after the end of promotional period. Forecasts are refreshed on a periodic basis to adjust for a forward looking view and reflect latest actual trends.	Management has assessed the sensitivity of balance and interest assumptions by considering the impact of changes as follows: • a decrease in the closing balance stick rate assumption of 5% would decrease the asset value by £6.2m (2020: £6.5m); • similarly, a decrease in the assumed interest yield of 5% would decrease the asset value by £16.4m (2020: £17.8m). (The interest yield assumption is the amount of interest receivable over the life of the account.)

Non-interest income and expense

The group generates fee income from services provided at a fixed price over time, such as account service and card fees, or when it delivers a specific transaction at a point in time, such as broking services and import/export services. With the exception of certain performance fees, all other fees are generated at a fixed price. Fund management and performance fees can be variable depending on the size of the customer portfolio and the group's performance as fund manager. Variable fees are recognised when all uncertainties are resolved. Fee income is generally earned from short-term contracts with payment terms that do not include a significant financing component.

The group acts as principal in the majority of contracts with customers, with the exception of broking services. For most brokerage trades, the group acts as agent in the transaction and recognises broking income net of fees payable to other parties in the arrangement.

The group recognises fees earned on transaction-based arrangements at a point in time when it has fully provided the service to the customer. Where the contract requires services to be provided over time, income is recognised on a systematic basis over the life of the agreement.

Where the group offers a package of services that contains multiple non-distinct performance obligations, such as those included in account service packages, the promised services are treated as a single performance obligation. If a package of services contains distinct performance obligations, such as those including both account and insurance services, the corresponding transaction price is allocated to each performance obligation based on the estimated stand-alone selling prices.

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

The group buys and sells currencies to customers, as principal and presents the results of this activity, including the related gains and losses from changes in foreign exchange rates, as trading.

Net income/(expense) from financial instruments measured at fair value through profit or loss includes the following:

- 'Net income from financial instruments held for trading or managed on a fair value basis': This comprises net trading income, which includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading and other financial instruments managed on a fair value basis, together with the related interest income, expense and dividends, excluding the effect of changes in the credit risk of liabilities managed on a fair value basis. It also includes all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets and liabilities measured at fair value through profit or loss.
- 'Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss': This includes interest on instruments that fail the SPPI test, see (d).

(c) Valuation of financial instruments

All financial instruments are initially recognised at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, the group recognises the difference as a trading gain or loss at inception (a 'day 1 gain or loss'). In all other cases, the entire day 1 gain or loss is deferred and recognised in the income statement over the life of the transaction either until the transaction matures or is closed out or the valuation inputs become observable.

The fair value of financial instruments is generally measured on an individual basis. Financial instruments are classified into one of three fair value hierarchy levels, described in Note 7, 'Fair values of financial instruments carried at fair value'.

(d) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at amortised cost. Such financial assets include most loans and advances to banks and customers and some debt securities. In addition, most financial liabilities are measured at amortised cost. The group accounts for regular way amortised cost financial instruments using trade date accounting. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs.

Non-trading reverse repurchase, repurchase and similar agreements

When debt securities are sold subject to a commitment to repurchase them at a predetermined price ('repos'), they remain on the balance sheet and a liability is recorded in respect of the consideration received. Securities purchased under commitments to resell ('reverse repos') are not recognised on the balance sheet and an asset is recorded in respect of the initial consideration paid. Non-trading

repos and reverse repos are measured at amortised cost. The difference between the sale and repurchase price or between the purchase and resale price is treated as interest and recognised in net interest income over the life of the agreement.

Finance lease receivables

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets are classified as finance leases. They are recorded at an amount equal to the net investment in the lease, less any impairment allowance. The net investment in finance leases represents the sum of the minimum payments receivable (gross investment in the lease) discounted at the rate of interest implicit in the lease. Initial direct costs incurred in arranging the lease, less any fee income related to the lease, are included in the initial measurement of the net investment.

(e) Financial assets measured at fair value through other comprehensive income

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. These comprise primarily debt securities. They are recognised on the trade date when the group enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains less losses from financial instruments'. Financial assets measured at FVOCI are included in the impairment calculations set out below and impairment is recognised in profit or loss.

(f) Derivatives

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value through profit or loss. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. This includes embedded derivatives in financial liabilities, which are bifurcated from the host contract when they meet the definition of a derivative on a stand-alone basis.

Where the derivatives are managed with debt securities issued by the group that are designated at fair value, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

Hedge accounting

When derivatives are not part of fair value designated relationships, if held for risk management purposes they are designated in hedge accounting relationships where the required criteria for documentation and hedge effectiveness are met. The group uses these derivatives or, where allowed, other non-derivative hedging instruments in fair value hedges or cash flow hedges as appropriate to the risk being hedged.

Fair value hedge

Fair value hedge accounting does not change the recording of gains and losses on derivatives and other hedging instruments, but results in recognising changes in the fair value of the hedged assets or liabilities attributable to the hedged risk that would not otherwise be recognised in the income statement. If a hedge relationship no longer meets the criteria for hedge accounting, hedge accounting is discontinued and the cumulative adjustment to the carrying amount of the hedged item is amortised to the income statement on a recalculated effective interest rate, unless the hedged item has been derecognised, in which case it is recognised in the income statement immediately.

Cash flow hedge

The effective portion of gains and losses on hedging instruments is recognised in other comprehensive income and the ineffective portion of the change in fair value of derivative hedging instruments that are part of a cash flow hedge relationship is recognised immediately in the income statement within 'Net income from financial instruments held for trading or managed on a fair value basis'. The accumulated gains and losses recognised in other comprehensive income are reclassified to the income statement in the same periods in which the hedged item affects profit or loss. When a hedge relationship is discontinued, or partially discontinued, any cumulative gain or loss recognised in other comprehensive income remains in equity until the forecast transaction is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the income statement.

(g) Impairment of amortised cost and FVOCI financial assets

ECL are recognised for loans and advances to banks and customers, non-trading reverse repurchase agreements, other financial assets held at amortised cost, debt instruments measured at FVOCI, and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months, or less, where the remaining life is less than 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in 'stage 3'. POCI are treated differently, as set out below.

Credit impaired (stage 3)

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

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay, such as when a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit default to be defined based on 180 days past due. Therefore, the definitions of credit impaired and default are aligned as far as possible so that stage 3 represents all loans that are considered defaulted or otherwise credit impaired.

Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less ECL allowance.

Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Renegotiation

Loans are identified as renegotiated and classified as credit impaired when we modify the contractual payment terms due to significant credit distress of the borrower. Renegotiated loans remain classified as credit impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and retain the designation of renegotiated until maturity or derecognition.

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the terms of an existing agreement are modified such that the renegotiated loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances are considered to be POCI and will continue to be disclosed as renegotiated loans.

Other than originated credit-impaired loans, all other modified loans could be transferred out of stage 3 if they no longer exhibit any evidence of being credit impaired and, in the case of renegotiated loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows over the minimum observation period, and there are no other indicators of impairment. These loans could be transferred to stage 1 or 2 based on the mechanism as described below by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). Any amount written off as a result of the modification of contractual terms would not be reversed.

Loan modifications other than renegotiated loans

Loan modifications that are not identified as renegotiated are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that HSBC UK rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided. Mandatory and general offer loan modifications that are not borrower-specific, for example market-wide customer relief programmes, have not been classified as renegotiated loans and generally have not resulted in derecognition, but their stage allocation is determined considering all available and supportable information under our ECL impairment policy. Changes made to these financial instruments that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change of the interest rate benchmark.

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale. However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. In addition, wholesale loans that are individually assessed, which are typically corporate and commercial customers, and included on a watch or worry list, are included in stage 2.

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime PD, which encompasses a wide range of information including the obligor's CRR, macroeconomic condition forecasts and credit transition probabilities. For origination CRRs up to 3.3, significant increase in credit risk is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at the reporting date. The quantitative measure of significance varies depending on the credit quality at origination as follows:

Origination CRR	Significance trigger – PD to increase by
0.1-1.2	15bps
2.1-3.3	30 bps

For CRRs greater than 3.3 that are not impaired, a significant increase in credit risk is considered to have occurred when the origination PD has doubled. The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates.

For loans originated prior to the implementation of IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle PDs and through-the-cycle migration probabilities, consistent with the instrument's underlying modelling approach and the CRR at origination. For these loans, the quantitative comparison is supplemented with additional CRR deterioration-based thresholds, as set out in the table below:

Origination CRR	Additional significance criteria – Number of CRR grade notches deterioration required to identify as significant credit deterioration (stage 2) (> or equal to)
0.1	5 notches
1.1-4.2	4 notches
4.3-5.1	3 notches
5.2-7.1	2 notches
7.2-8.2	1 notch
8.3	0 notch

Further information about the 23-grade scale used for CRR can be found on page 28 – Risk rating scales.

For certain portfolios of debt securities where external market ratings are available and credit ratings are not used in credit risk management, the debt securities will be in stage 2 if their credit risk increases to the extent they are no longer considered investment grade. Investment grade is where the financial instrument has a low risk of incurring losses, the structure has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil their contractual cash flow obligations.

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit scores, which incorporates all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogeneous portfolios, generally by country, product and brand. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold identifies loans with a PD higher than would be expected from loans that are performing as originally expected, and higher than what would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

Unimpaired and without significant increase in credit risk (stage 1)

ECL resulting from default events that are possible within the next 12 months ('12-month ECL') are recognised for financial instruments that remain in stage 1.

Purchased or originated credit impaired

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

Movement between stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans that are not POCI will continue to be in stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period and there are no other indicators of impairment. For loans that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

Measurement of ECL

The assessment of credit risk and the estimation of ECL are unbiased and probability-weighted, and incorporate all available information that is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

In general, the group calculates ECL using three main components: a PD, a LGD and the EAD.

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

The group makes use of the Basel II IRB framework where possible, with recalibration to meet the differing IFRS 9 requirements as set out in the following table:

Model	Regulatory capital	IFRS 9
PD	Through the cycle (represents long-run average PD throughout a full economic cycle). The definition of default includes a backstop of 90+ days past due, although this has been modified to 180+ days past due for some portfolios, particularly UK and US mortgages.	Point in time (based on current conditions, adjusted to take into account estimates of future conditions that will impact PD). Default backstop of 90+ days past due for all portfolios.
EAD	Cannot be lower than current balance.	Amortisation captured for term products.
LGD	Downturn LGD (consistent losses expected to be suffered during a severe but plausible economic downturn). Regulatory floors may apply to mitigate risk of underestimating downturn LGD due to lack of historical data. Discounted using cost of capital. All collection costs included.	Expected LGD (based on estimate of loss given default including the expected impact of future economic conditions such as changes in value of collateral). No floors. Discounted using the original effective interest rate of the loan. Only costs associated with obtaining/selling collateral included.
Other		Discounted back from point of default to balance sheet date.

While 12-month PDs are recalibrated from Basel II models where possible, the lifetime PDs are determined by projecting the 12-month PD using a term structure. For the wholesale methodology, the lifetime PD also takes into account credit migration, i.e. a customer migrating through the CRR bands over its life.

The ECL for wholesale stage 3 is determined on an individual basis using a DCF methodology. The expected future cash flows are based on the credit risk officer's estimates at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on the estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral. The cash flows are discounted at a reasonable approximation of the original effective interest rate. For significant cases, cash flows under four different scenarios are probability-weighted by reference to the economic scenarios applied more generally by the group and the judgement of the credit risk officer in relation to the likelihood of the workout strategy succeeding or receivership being required. For less significant cases, the effect of different economic scenarios and work-out strategies is approximated and applied as an adjustment to the most likely outcome.

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the group is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit the group's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the group remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.

Forward-looking economic inputs

The group applies multiple forward-looking global economic scenarios determined with reference to external forecast distributions representative of its view of forecast economic conditions. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. In certain economic environments, additional analysis may be necessary and result in additional scenarios or adjustments, to reflect a range of possible economic outcomes sufficient for an unbiased estimate. The detailed methodology is disclosed in 'Measurement uncertainty and sensitivity analysis of ECL estimates' on page 34.

Critical accounting estimates and judgements

The calculation of the group's ECL under IFRS 9 requires the group to make a number of judgements, assumptions and estimates. The most significant are set out below:

Judgements	Estimates
• Defining what is considered to be a significant increase in credit risk. • Determining the lifetime and point of initial recognition of overdrafts and credit cards. • Selecting and calibrating the PD, LGD and EAD models, which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions. • Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected loss. • Making management judgemental adjustments to account for late breaking events, model and data limitations and deficiencies, and expert credit judgements.	• The section 'Measurement uncertainty and sensitivity analysis of ECL estimates', marked as audited on pages 34 to 38, sets out the assumptions used in determining ECL, and provides an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions.

(h) Employee compensation and benefits

Share-based payments

The group enters into both equity-settled and cash-settled share-based payment arrangements with its employees as compensation for the provision of their services.

The vesting period for these schemes may commence before the legal grant date if the employees have started to render services in respect of the award before the legal grant date, where there is a shared understanding of the terms and conditions of the arrangement. Expenses are recognised when the employee starts to render service to which the award relates.

Cancellations result from the failure to meet a non-vesting condition during the vesting period, and are treated as an acceleration of vesting recognised immediately in the income statement. Failure to meet a vesting condition by the employee is not treated as a cancellation, and the amount of expense recognised for the award is adjusted to reflect the number of awards expected to vest.

Post-employment benefit plans

The group operates a pension plan which provides defined benefit and defined contribution pensions.

Payments to defined contribution schemes are charged as an expense as the employees render service.

Defined benefit pension obligations are calculated using the projected unit credit method. The net charge to the income statement mainly comprises the service cost and the net interest on the net defined benefit asset or liability, and is presented in operating expenses.

Remeasurements of the net defined benefit asset or liability, which comprise actuarial gains and losses, return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The net defined benefit asset or liability represents the present value of defined benefit obligations reduced by the fair value of plan assets (see policy (c)), after applying the asset ceiling test, where the net defined benefit surplus is limited to the present value of available refunds and reductions in future contributions to the plan.

The cost of obligations arising from other post-employment plans are accounted for on the same basis as defined benefit pension plans.

Critical accounting estimates and judgements

The most significant critical accounting estimates relate to the determination of key assumptions applied in calculating the defined benefit pension obligation.

Judgements	Estimates
	• A range of assumptions could be applied, and different assumptions could significantly alter the defined benefit obligation and the amounts recognised in profit or loss or OCI. • The calculation of the defined benefit pension obligation includes assumptions with regard to the discount rate, inflation rate, pension payments and deferred pensions, pay and mortality. Management determines these assumptions in consultation with the plan's actuaries. • Key assumptions used in calculating the defined benefit pension obligation and the sensitivity of the calculation to different assumptions are described in Note 3.

(i) Tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is recognised in the same statement in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year and on any adjustment to tax payable in respect of previous years. The group provides for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet, and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax is calculated using the tax rates expected to apply in the periods as the assets will be realised or the liabilities settled.

Current and deferred tax are calculated based on tax rates and laws enacted, or substantively enacted, by the balance sheet date.

(j) Provisions, contingent liabilities and guarantees

Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made.

Critical accounting estimates and judgements

The recognition and measurement of provisions requires the group to make a number of judgements, assumptions and estimates. The most significant are set out below:

Judgements	Estimates
• Determining whether a present obligation exists. Professional advice is taken on the assessment of litigation and similar obligations. • Provisions for legal proceedings and regulatory matters typically require a higher degree of judgement than other types of provisions. When matters are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised, revising previous estimates as appropriate. At more advanced stages, it is typically easier to make estimates around a better defined set of possible outcomes.	• Provisions for legal proceedings and regulatory matters remain very sensitive to the assumptions used in the estimate. There could be a wider range of possible outcomes for any pending legal proceedings, investigations or inquiries. As a result it is often not practicable to quantify a range of possible outcomes for individual matters. It is also not practicable to meaningfully quantify ranges of potential outcomes in aggregate for these types of provisions because of the diverse nature and circumstances of such matters and the wide range of uncertainties involved.

Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, and contingent liabilities related to legal proceedings or regulatory matters, are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Financial guarantee contracts

Liabilities under financial guarantee contracts that are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable.

(k) Impairment of non-financial assets

Software under development is tested for impairment at least annually. Other non-financial assets are property, plant and equipment, intangible assets (excluding goodwill) and right-of-use assets. They are tested for impairment at the individual asset level when there is indication of impairment at that level, or at the CGU level for assets that do not have a recoverable amount at the individual asset level. In addition, impairment is also tested at the CGU level when there is indication of impairment at that level. For this purpose, CGUs are considered to be the principal operating legal entities divided by global business.

Impairment testing compares the carrying amount of the non-financial asset or CGU with its recoverable amount, which is the higher of the fair value less costs of disposal or the value in use. The carrying amount of a CGU comprises the carrying values of its assets and liabilities, including non-financial assets that are directly attributable to it and non-financial assets that can be allocated to it on a reasonable and consistent basis. Non-financial assets that cannot be allocated to an individual CGU are tested for impairment at an appropriate grouping of CGUs. The recoverable amount of the CGU is the higher of the fair value less costs of disposal of the CGU, which is determined by independent and qualified valuers where relevant, and the value in use, which is calculated based on appropriate inputs (see Note 15).

When the recoverable amount of a CGU is less than its carrying amount, an impairment loss is recognised in the income statement to the extent that the impairment can be allocated on a pro-rata basis to the non-financial assets by reducing their carrying amounts to the higher of their respective individual recoverable amount or nil. Impairment is not allocated to the financial assets in a CGU.

Impairment loss recognised in prior periods for non-financial assets is reversed when there has been a change in the estimate used to determine the recoverable amount. The impairment loss is reversed to the extent that the carrying amount of the non-financial assets would not exceed the amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised in prior periods.

(l) Cash and cash equivalents

Cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition.

2 Net fee income

	Year ended	
	31 Dec	31 Dec
	2021	2020
Net fee income by product	**£m**	£m
Account services	**276**	263
Funds under management	**126**	105
Cards	**410**	369
Credit facilities	**140**	121
Imports/exports	**33**	29
Insurance agency commission	**59**	47
Receivables finance	**90**	84
Other	**195**	173
Fee income	**1,329**	1,191
Less: fee expense	**(249)**	(175)
Net fee income	**1,080**	1,016
Net fee income by global business		
Wealth and Personal Banking	**514**	514
Commercial Banking	**755**	682
Global Banking and Markets	**(188)**	(177)
Corporate Centre	**(1)**	(3)

Net fee income includes £1,094m of fees earned on financial assets that are not at fair value through profit or loss (other than amounts included in determining the effective interest rate) (2020: £977m), £126m of fees payable on financial liabilities that are not at fair value through profit of loss (other than amounts included in determining the effective interest rate) (2020: £133m), £11m of fees earned on trust and other fiduciary activities (2020: £13m).

3 Employee compensation and benefits

	2021[1]	2020
	£m	£m
Wages and salaries	**903**	889
Social security costs	**97**	87
Post-employment benefits	**22**	9
Year ended 31 Dec	**1,022**	985

Average number of persons employed by the group during the year

	2021[1,2]	2020
Wealth and Personal Banking	**16,458**	16,856
Commercial Banking	**4,932**	5,102
Global Banking and Markets	**51**	55
Corporate Centre	**6**	187
Year ended 31 Dec	**21,447**	22,200

1 *During 2021, 3,607 full-time equivalent employees transferred from HSBC Global Services (UK) Limited to HSBC UK Bank plc, that were fully dedicated to HSBC UK Bank plc. As a result in 2021, associated costs for the nine months to 31 December 2021, are now reported under Employee compensation and benefits rather than General and administrative expenses.*
2 *For the year 2021, average number of headcount staff in corporate centre are allocated to the respective the global businesses. The allocation is on the basis of amounts charged to the respective global business.*

Share-based payments

The share-based payment income statement charge is recognised in wages and salaries as follows:

	2021	2020
	£m	£m
Restricted share awards	**7**	4
Savings-related and other share award option plans	**10**	18
Year ended 31 Dec	**17**	22

HSBC Group share awards

Award	Policy
Deferred share awards (including annual incentive awards, LTI awards delivered in shares) and GPSP	An assessment of performance over the relevant period ending on 31 December is used to determine the amount of the award to be granted. • Deferred awards generally require employees to remain in employment over the vesting period and are generally not subject to performance conditions after the grant date. • Deferred share awards generally vest over a period of three, five or seven years. • Vested shares may be subject to a retention requirement post-vesting. • Awards are subject to malus and clawback provisions.
International Employee Share Purchase Plan ('ShareMatch')	The plan was first introduced in Hong Kong in 2013 and now includes employees based in 28 jurisdictions. • Shares are purchased in the market each quarter up to a maximum value of £750, or the equivalent in local currency. • Matching awards are added at a ratio of one free share for every three purchased. • Matching awards vest subject to continued employment and the retention of the purchased shares for a maximum period of two years and nine months.

Movement on HSBC Group share awards

	2021	2020
	Number	Number
	(000s)	(000s)
Restricted share awards outstanding at 1 Jan	**1,525**	1,288
Additions during the year	**2,101**	1,308
Released in the year	**(1,137)**	(1,008)
Forfeited in the year	**(32)**	(63)
Restricted share awards outstanding at 31 Dec	**2,457**	1,525
Weighted average fair value of awards granted (£)	**4.11**	5.21

HSBC Group share option plans

Plans	Policy
Savings-related share option plans ('Sharesave')	• Eligible employees can save up to £500 per month with the option to use the savings to acquire shares. • These are generally exercisable within six months following either the third or fifth anniversary of the commencement of a three-year or five-year contract, respectively. • The exercise price is set at a 20% (2020: 20%) discount to the market value immediately preceding the date of invitation.

Calculation of fair values

The fair values of share options are calculated using a Black-Scholes model. The fair value of a share award is based on the share price at the date of the grant.

Movement on HSBC Group share option plans

	Savings-related share option plans	
	Number	WAEP[1]
	(000s)	£
Outstanding at 1 Jan 2021	**59,815**	**2.96**
Granted during the year	**16,434**	**5.28**
Exercised during the year	**(1,693)**	**3.69**
Expired during the year	**(488)**	**4.13**
Forfeited during the year	**(9,995)**	**3.60**
Outstanding at 31 Dec 2021	**64,073**	**2.85**
– of which exercisable	***2,702***	***3.98***
Weighted average remaining contractual life (years)	**2.97**	
Outstanding at 1 Jan 2020	28,470	4.84
Granted during the year	51,386	2.63
Exercised during the year	(787)	4.49
Expired during the year	(309)	4.59
Forfeited during the year	(18,945)	4.83
Outstanding at 31 Dec 2020	59,815	2.96
– of which exercisable	*3,460*	*4.59*
Weighted average remaining contractual life (years)	3.65	

1 *Weighted average exercise price.*

Post-employment benefit plans

We operate a pension plan for our employees called the HBUK section of the HSBC Bank (UK) Pension Scheme ('the plan'), which has both defined benefit and defined contribution sections. The HSBC Bank (UK) Pension Scheme was fully sectionalised in 2018 to meet the requirements of the Banking Reform Act.

The Pension Risk section on page 51 contains details about the policies and practices associated with the plan.

The defined benefit section was closed to future benefit accrual in 2015, with defined benefits earned by employees at that date continuing to be linked to their salary while they remain employed by the HSBC Group. The plan is overseen by an independent corporate trustee, who has a fiduciary responsibility for the operation of the plan. Its assets are held separately from the assets of the group.

The investment strategy of the plan is to hold the majority of assets in bonds, with the remainder in a diverse range of investments. It also includes some interest rate swaps to reduce interest rate risk, inflation swaps to reduce inflation risk and longevity swaps to reduce the impact of longer life expectancy.

The latest funding valuation of the plan at 31 December 2019 was carried out by Colin G Singer of Willis Towers Watson Limited, who is a Fellow of the UK Institute and Faculty of Actuaries, using the projected unit credit method. At that date, the market value of the plan's assets was £31.1bn and this exceeded the value placed on its liabilities on an ongoing basis by £2.5bn, giving a funding level of 109%. These figures include defined contribution assets amounting to £2.4bn. The main differences between the assumptions used for assessing the liabilities for this funding valuation and those used for IAS19 are more prudent assumptions for discount rate, inflation rate and life expectancy. The next funding valuation will have an effective date of 31 December 2022.

Although the plan was in surplus at the valuation date, HSBC UK continued to make separately committed lump sum contributions and the final such contribution of £160m was paid in 2021.

The actuary also assessed the value of the liabilities if the HBUK section of the plan were to have been stopped and an insurance company asked to secure all future pension payments. This is generally larger than the amount needed on the ongoing basis described above because an insurance company would use more prudent assumptions and include a more prudent allowance for the future administrative expenses of the plan. Under this approach, the amount of assets needed was estimated to be £33bn at 31 December 2019.

The Trust Deed gives the ability for HSBC UK to take a refund of surplus assets after the plan has been run down such that no further beneficiaries remain. In assessing whether a surplus is recoverable HSBC UK has considered its right to obtain a future refund together with the rights of third parties such as trustees. On this basis, any net surplus in the HBUK section of the plan is recognised in HSBC UK's financial statements.

Guaranteed Minimum Pension Equalisation

Following a judgement issued by the High Court of Justice of England and Wales in 2018, we estimated the financial effect of equalising benefits in respect of guaranteed minimum pensions ('GMP') equalisation, and any potential conversion of GMPs into non-GMP benefits, to be an approximate 0.9% increase in the plan's liabilities for members of the plan, or £187m. This was recognised in the Income Statement in 2018. A further judgement by the High Court on 20 November 2020 ruled that GMPs should be also equalised for those who had previously transferred benefits from the plan to another arrangement, with £13m consequently being recognised in 2020. We continue to assess the impact of GMP equalisation.

Income statement charge

	2021	2020
	£m	£m
Defined benefit pension plans	**(44)**	(65)
Defined contribution pension plans	**66**	74
Pension plans	**22**	9
Year ended 31 Dec	**22**	9

Defined benefit pension plans

Net asset/(liability) under defined benefit pension plans

	Fair value of plan assets £m	Present value of defined benefit obligations £m	Net defined benefit assets/(liabilities) £m
At 1 Jan 2021	**31,130**	**(24,173)**	**6,957**
Service cost	**—**	**(40)**	**(40)**
– current service cost	**—**	**(10)**	**(10)**
– past service cost	**—**	**(30)**	**(30)**
Net interest income/(cost) on the net defined benefit asset/(liability)	**446**	**(344)**	**102**
Remeasurement effects recognised in other comprehensive income	**(274)**	**(197)**	**(471)**
– return on plan assets (excluding interest income)	**(274)**	**—**	**(274)**
– actuarial losses financial assumptions	**—**	**444**	**444**
– actuarial gain demographic assumptions	**—**	**(325)**	**(325)**
– actuarial gain experience adjustments	**—**	**(316)**	**(316)**
Transfers to/from the scheme	**113**	**(93)**	**20**
Benefits paid	**(1,014)**	**1,014**	**—**
Other movements[1]	**177**	**—**	**177**
At 31 Dec 2021	**30,578**	**(23,833)**	**6,745**
At 1 Jan 2020	28,647	(22,811)	5,836
Service cost	—	(38)	(38)
– current service cost	—	(7)	(7)
– past service cost	—	(31)	(31)
Net interest income/(cost) on the net defined benefit asset/(liability)	566	(448)	118
Remeasurement effects recognised in other comprehensive income	2,474	(1,651)	823
– return on plan assets (excluding interest income)	2,474	—	2,474
– actuarial losses financial assumptions	—	(2,478)	(2,478)
– actuarial gain demographic assumptions	—	67	67
– actuarial gain experience adjustments	—	760	760
Transfers to/from the scheme	151	(120)	31
Benefits paid	(895)	895	—
Other movements[1]	187	—	187
At 31 Dec 2020	31,130	(24,173)	6,957

1 *Other movements of Fair value of plan assets includes contributions by HSBC UK of £195m (2020: £203m), less administrative costs £18m (2020: £16m).*

HSBC UK expects to make total contributions of £10m to the pension scheme during 2022, which reflects the costs of providing defined benefit risk benefits to defined contribution members of the section. Benefits expected to be paid from the plan to retirees over each of the next five years, and in aggregate for the five years thereafter, are as follows:

Benefits expected to be paid from plan

	2022 £m	2023 £m	2024 £m	2025 £m	2026 £m	2027–2031 £m
The plan[1]	1,067	1,102	1,139	1,176	1,215	6,702

1 *The duration of the defined benefit obligation is 17.3 years under the disclosure assumptions adopted (2020: 17.4 years).*

Fair value of plan assets by asset classes

	At 31 Dec 2021			At 31 Dec 2020		
	Value £m	**Quoted market price in active market £m**	**No quoted market price in active market £m**	Value £m	Quoted market price in active market £m	No quoted market price in active market £m
The plan						
Fair value of plan assets	**30,578**	**26,799**	**3,779**	31,130	27,603	3,527
– equities[1]	**146**	**4**	**142**	196	5	191
– bonds fixed income[2]	**13,399**	**12,894**	**505**	12,985	12,459	526
– bonds index linked	**13,418**	**13,418**	**—**	13,526	13,526	—
– derivatives	**1,377**	**—**	**1,377**	1,445	—	1,445
– property	**808**	**—**	**808**	810	—	810
– other[3]	**1,430**	**483**	**947**	2,168	1,613	555

1 *Includes £142m (2020: £191m) in relation to private equities.*
2 *Bonds fixed income, includes £(360)m (2020: £(1,445)m) in relation to repurchase agreements.*
3 *Other includes £nil (2020: £510m) of pooled investment vehicles with quoted underlying assets and £947m (2020: £555m) of pooled investment vehicles with unquoted underlying assets.*

Post-employment defined benefit plan actuarial financial assumptions

HSBC UK 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	Inflation rate (RPI)[1]	Inflation rate (CPI)[1]	Rate of increase for pensions	Rate of pay increase
	%	%	%	%	%
UK					
At 31 Dec 2021	**1.90**	**3.45**	**3.20**	**3.30**	**3.45**
At 31 Dec 2020	1.45	3.05	2.50	3.00	2.75

1 *Due to the significant difference between short-term and long-term inflation expectations that has developed over 2021, HSBC UK have changed the methodology of setting inflation-related assumptions to fully and separately reflect how benefits are linked to RPI inflation and CPI inflation respectively. For example, the revaluation of deferred pensions is driven by CPI inflation expectations in the short-medium term, whereas increases to pensions in payment are driven by RPI inflation expectations over the long-term.*

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
UK					
At 31 Dec 2021	**SAPS S3[1]**	**27.3**	**28.8**	**28.5**	**30.1**
At 31 Dec 2020	SAPS S3[1]	27.0	28.5	28.1	29.7

1 *Self-administered pension scheme ('SAPS') S3 table, with different tables and multipliers adopted based on gender, pension amount and member status, reflecting the Scheme's actual mortality experience. Improvements are projected in accordance with the Continuous Mortality Investigation's 2020 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.*

The effect of changes in key assumptions on the plan

	Impact on HSBC Bank (UK) Pension Scheme Obligation[1]			
	Financial impact of increase		Financial impact of decrease	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Discount rate – increase/decrease of 0.25%	**(988)**	(1,014)	**1,053**	1,082
Inflation rate (RPI/CPI) – increase/decrease of 0.25%	**895**	638	**(724)**	(608)
Pension payments and deferred pensions – increase/decrease of 0.25%	**936**	957	**(870)**	(895)
Pay – increase/decrease of 0.25%	**15**	44	**(15)**	(43)
Change in mortality – increase of 1 year	**1,025**	1,064	**N/A**	N/A

1 *Sensitivities allow for HSBC UK's convention of rounding pension assumptions to the nearest 0.05%.*

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this in unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit asset recognised in the balance sheet.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

Directors' emoluments

The aggregate emoluments of the Directors of the Company, computed in accordance with the Companies Act 2006 as amended by statutory instrument 2008 No.410, were:

	2021	2020
	£000	£000
Fees paid to non-executive Directors	**1,568**	1,721
Salaries and other emoluments[1]	**2,735**	3,171
Annual incentives[2]	**716**	840
Long-term incentives[3]	**477**	360
Year ended 31 Dec	**5,496**	6,092

1 *Salaries and other emoluments include Fixed Pay Allowances.*

2 *Discretionary annual incentives for the Executive Directors are based on a combination of individual and corporate performance and are determined by the Remuneration Committee of the Company's ultimate parent company, HSBC Holdings plc. Incentive awards made to Executive Directors are delivered in the form of cash and HSBC Holdings plc shares. The total amount shown is comprised of £357,846 (2020: £419,982) in cash and £357,846 (2020: £419,982) in Restricted Shares, which is the upfront portion of the annual incentive granted in respect of performance year 2021.*

3 *The amount shown is comprised of £256,463 (2020: £225,569) in deferred cash and £220,507 (2020: £134,035) in deferred Restricted Shares. These amounts relate to the portion of the awards that will vest following the substantial completion of the vesting condition attached to these awards in 2022. The total deferral period of deferred cash and share awards is no less than five years up to a maximum of seven years. Grants with a five-year deferral vest in five equal tranches on each anniversary of the grant date on a pro-rate basis. Grants with a seven-year deferral vest in five equal tranches on each anniversary from the third anniversary of the grant date on a pro-rata basis.The deferral periods and pro-rata calculations are in line with the requirements set out in the Remuneration rules applicable to Material Risk Takers. The share awards are subject to a retention period of six months to one year upon vesting. Details of the Plans are contained within the Directors' Remuneration Report of HSBC Holdings plc.*

No Directors exercised share options over HSBC Holdings plc ordinary shares during the year (2020: no Directors).

Awards were made to two Directors under HSBC Holdings plc long-term incentive plans in respect of qualifying services rendered in 2021 (2020: 3). During 2021, two Directors received shares in respect of awards in HSBC Holdings plc long-term incentive plans that vested during the year (2020: 3).

No retirement benefits accrued to Directors during the year in respect of their qualifying services (2020: no Directors). Three Directors received cash in lieu of pension contributions during the year in respect of their qualifying services (2020: 3). Cash received in lieu of pension is included in the salary and other emoluments disclosure in the table above.

Of these aggregate figures, the following amounts are attributable to the highest paid Director:

	2021	2020
	£000	£000
Salaries and other emoluments	**1,753**	1,749
Annual incentives[1]	**596**	453
Long-term incentives[2]	**407**	223
Year ended 31 Dec	**2,756**	2,425

1 *Awards made to the highest paid Director are delivered in the form of cash and HSBC Holdings plc shares. The amount shown is comprised of £297,846 (2020: £226,549) in cash and £297,846 (2020: £226,549) in Restricted Shares.*
2 *The amount shown is comprised of £218,698 (2020: £136,615) in deferred cash and £188,070 (2020: £86,735) in deferred Restricted Shares.*

These amounts represent a portion of the total award that will vest following satisfaction of the vesting condition attached to the 2021 awards. The total period of deferral for these cash and share awards is seven years with pro-rata vesting in five equal tranches between the third and seventh anniversary of the date granted. The vested share awards are then subject to a one-year retention period.

The highest paid Director received shares in respect of qualifying services under an HSBC Holdings plc long term incentive plan.

Pension contributions of £nil were made by the Company in respect of services by the highest paid Director during the year (2020: £nil).

4 Auditors' remuneration

	2021	2020
	£m	£m
Audit fees payable to PwC	**5.4**	5.6
Other audit fees payable	**2.7**	2.0
Year ended 31 Dec	**8.1**	7.6

Fees payable by the group to PwC

	2021	2020
	£m	£m
Audit fees for HSBC UK Bank plc's statutory audit[1]	**4.4**	4.5
Fees for other services provided to the group	**3.7**	3.1
– audit of the group's subsidiaries[2]	**1.0**	1.1
– audit-related assurance services[3]	**2.0**	2.0
– other assurance services[4]	**0.7**	—
Year ended 31 Dec	**8.1**	7.6

1 *Fees payable to PwC for the statutory audit of the consolidated financial statements of the group and the separate financial statements of HSBC UK Bank plc. They exclude amounts payable for the statutory audit of the bank's subsidiaries which have been included in 'Fees for other services provided to the group'.*
2 *Including fees payable to PwC for the statutory audit of the bank's subsidiaries.*
3 *Including services for assurance and other services that relate to statutory and regulatory filings, including comfort letters and interim and quarter reviews.*
4 *Including reviews of PRA regulatory reporting returns.*

No fees were payable to PwC as principal auditor for the following types of services: internal audit services and services related to litigation, recruitment and remuneration.

Fees payable for non-audit services for HSBC UK Bank plc are not disclosed separately because such fees are disclosed on a consolidated basis for the group.

5 Tax

Tax expense

	2021	2020
	£m	£m
Current tax	**836**	(10)
– for this year	**852**	(37)
– adjustments in respect of prior years	**(16)**	27
Deferred tax	**276**	93
– origination and reversal of temporary differences	**54**	36
– effect of changes in tax rates	**203**	58
– adjustments in respect of prior years	**19**	(1)
Year ended 31 Dec[1]	**1,112**	83

1 *In addition to amounts recorded in the income statement, a tax credit of £23m (2020: charge of £323m) was recorded directly to equity.*

The tax rate applying to HSBC UK Bank plc and its banking subsidiaries was 27%, comprising 19% UK corporation tax rate plus 8% surcharge tax rate on UK banking profits. The tax rate applicable for non-banking entities is 19% (2020:19%).

Tax reconciliation

The tax charged to the income statement differs from the tax expense that would apply if all profits had been taxed at the UK corporation tax rate as follows:

	2021		2020	
	£m	%	£m	%
Profit before tax	**3,480**		163	
Tax expense				
Taxation at UK corporation tax of 19.00% (2020: 19.00%)	**661**	**19.0**	31	19.0
Items increasing the tax charge in 2021:				
– UK banking surcharge	**266**	**7.6**	9	5.5
– change in tax rates	**203**	**5.8**	58	35.6
– UK bank levy	**9**	**0.3**	—	—
– non-deductible costs in respect of regulatory and legal matters	**4**	**0.1**	16	9.8
– adjustments in respect of prior period liabilities	**3**	**0.1**	26	16.0
– other permanent disallowables	**1**	**0.1**	—	—
Items reducing tax charge in 2021:				
– deductions for AT1 coupon payments	**(32)**	**(0.9)**	(34)	(20.9)
– non-deductible UK customer redress	**(3)**	**(0.1)**	(23)	(14.1)
Year ended 31 Dec	**1,112**	**32.0**	83	50.9

The effective tax rate for the year was 32.0% (2020: 50.9%). This is higher than the UK rate of corporation tax for banking entities of 27% (2020: 27%) mainly due to the impact of remeasuring deferred tax balances following enactment of legislation to increase the main rate of UK corporation tax from 19% to 25% from 1 April 2023. This increased the effective tax rate by 5.8% and mainly arises on the deferred tax liability associated with the defined benefit pension surplus, partially offset by credits arising on deferred tax assets.

In the Budget on 27 October 2021 HM Treasury announced that the banking surcharge rate will decrease from 8% to 3% with effect from 1 April 2023. This has not been reflected for accounting purposes since legislation to effect this change was not substantively enacted at the balance sheet date.

Movement of deferred tax assets and liabilities

	Loan impairment provisions	Cash flow hedges	FVOCI reserves	Defined benefit pension	Fixed and intangible assets	Other	Total
	£m	£m	£m	£m	£m	£m	£m
The group							
At 1 Jan 2021	**123**	**1**	**(52)**	**(1,879)**	**118**	**12**	**(1,677)**
Income statement	**1**	**—**	**—**	**(272)**	**(16)**	**11**	**(276)**
Other comprehensive income	**—**	**44**	**23**	**(76)**		**(7)**	**(16)**
Foreign exchange and other adjustments	**(2)**	**—**	**3**	**1**	**—**	**(2)**	**—**
At 31 Dec 2021	**122**	**45**	**(26)**	**(2,226)**	**102**	**14**	**(1,969)**
Assets	**122**	**45**	**—**	**—**	**102**	**14**	**283**
Liabilities	**—**	**—**	**(26)**	**(2,226)**	**—**	**—**	**(2,252)**
At 1 Jan 2020	130	4	(3)	(1,459)	98	7	(1,223)
Income statement	(7)	—	—	(109)	20	3	(93)
Other comprehensive income	—	(3)	(49)	(311)	—	2	(361)
Foreign exchange and other adjustments	—	—	—	—	—	—	—
At 31 Dec 2020	123	1	(52)	(1,879)	118	12	(1,677)
Assets	123	1	—	—	118	12	254
Liabilities	—	—	(52)	(1,879)	—	—	(1,931)
The bank							
At 1 Jan 2021	**114**	**1**	**(52)**	**(1,879)**	**95**	**11**	**(1,710)**
Income statement	**1**	**—**	**—**	**(272)**	**(15)**	**10**	**(276)**
Other comprehensive income	**—**	**44**	**23**	**(76)**	**—**	**(7)**	**(16)**
Foreign exchange and other adjustments	**—**	**—**	**—**	**1**	**—**	**—**	**1**
At 31 Dec 2021	**115**	**45**	**(29)**	**(2,226)**	**80**	**14**	**(2,001)**
Assets	**115**	**45**	**—**	**—**	**80**	**14**	**254**
Liabilities	**—**	**—**	**(29)**	**(2,226)**	**—**	**—**	**(2,255)**
At 1 Jan 2020	121	4	(3)	(1,459)	80	2	(1,255)
Income statement	(7)	—	—	(109)	15	9	(92)
Other comprehensive income	—	(3)	(49)	(311)	—	—	(363)
Foreign exchange and other adjustments	—	—	—	—	—	—	—
At 31 Dec 2020	114	1	(52)	(1,879)	95	11	(1,710)
Assets	114	1	—	—	95	11	221
Liabilities	—	—	(52)	(1,879)	—	—	(1,931)

Management has assessed the likely availability of future taxable profits against which to recover the deferred tax assets of the bank and the group, taking into consideration the reversal of existing taxable temporary differences, past business performance and forecasts of future business performance. Management is satisfied that there is sufficient evidence to support recognition of all deferred tax assets. In the Budget on 27 October 2021 HM Treasury announced that the banking surcharge rate will decrease from 8% to 3% with effect from 1 April 2023, if enacted this will result in a £300m decrease to the group's net deferred tax liability (£303m decrease to the bank) as at 31 December 2021.

6 Dividends

On 16 February 2022, the Directors resolved to pay an interim dividend to ordinary shareholders of £491m in respect of the financial year ending 31 December 2021. No liability is recognised in the financial statements in respect of this dividend.

Dividends to the shareholder of the parent company

	2021		2020	
	£ per share	**£m**	£ per share	£m
Dividends paid on ordinary shares				
Interim dividend in respect of the previous year	**—**	**—**	2,000	100
Interim dividend in respect of the current year	**12,659**	**633**	—	—
Total	**12,659**	**633**	2,000	100

Total coupons on capital securities classified as equity

		2021	2020
	First call date	**£m**	£m
Undated Subordinated Additional Tier 1 instruments			
– £1,096m	Dec 2019	**57**	60
– £1,100m	Dec 2024	**57**	62
Total		**114**	122

7 Fair values of financial instruments carried at fair value

Control framework

Fair values are subject to a control framework designed to ensure that they are either determined or validated by a function independent of the risk taker.

Where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is used.

For fair values determined using valuation models, the control framework includes development or validation by independent support functions of the model logic, inputs, model outputs and adjustments. Valuation models are subject to a process of due diligence before becoming operational and are calibrated against external market data on an ongoing basis.

Changes in fair value are generally subject to a profit and loss analysis process and are disaggregated into high-level categories including portfolio changes, market movements and other fair value adjustments.

Fair value hierarchy

Fair values of financial assets and liabilities are determined according to the following hierarchy:

- Level 1 – valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets that can be accessed at the measurement date.
- Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

Financial instruments carried at fair value and bases of valuation

	2021				2020			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
The group and bank	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m
Recurring fair value measurements at 31 Dec								
Assets								
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**65**	**14**	**—**	**79**	26	—	—	26
Derivatives	**1**	**63**	**—**	**64**	5	150	—	155
Financial investments	**13,979**	**398**	**—**	**14,377**	19,013	296	—	19,309
Liabilities								
Derivatives	**1**	**291**	**—**	**292**	2	363	—	365

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 2021 and 2020.

Fair value adjustments

Fair value adjustments are adopted when the group determines there are additional factors considered by market participants that are not incorporated within the valuation model. Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement, such as when models are enhanced and therefore fair value adjustments may no longer be required.

8 Fair values of financial instruments not carried at fair value

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

		Fair value			
	Carrying amount	Quoted market price Level 1	Observable inputs Level 2	Significant unobservable inputs Level 3	Total
	£m	£m	£m	£m	£m
The group					
At 31 Dec 2021					
Assets					
Loans and advances to banks	**1,914**	**—**	**1,914**	**—**	**1,914**
Loans and advances to customers	**195,526**	**—**	**224**	**195,922**	**196,146**
Reverse repurchase agreements – non-trading	**7,988**	**—**	**7,988**	**—**	**7,988**
Liabilities					
Deposits by banks	**11,180**	**—**	**11,180**	**—**	**11,180**
Customer accounts	**281,870**	**—**	**281,870**	**—**	**281,870**
Repurchase agreements – non-trading	**10,438**	**—**	**10,438**	**—**	**10,438**
Debt securities in issue	**900**	**—**	**675**	**217**	**892**
Subordinated liabilities	**12,487**	**—**	**12,686**	**—**	**12,686**
At 31 Dec 2020					
Assets					
Loans and advances to banks	1,514	—	1,514	—	1,514
Loans and advances to customers	191,233	—	420	191,291	191,711
Reverse repurchase agreements – non-trading	2,485	—	2,485	—	2,485
Liabilities					
Deposits by banks	540	—	540	—	540
Customer accounts	259,341	—	259,341	—	259,341
Repurchase agreements – non-trading	6,150	—	6,150	—	6,150
Debt securities in issue	866	—	641	208	849
Subordinated liabilities	10,015	—	10,411	—	10,411
The bank					
At 31 Dec 2021					
Assets					
Loans and advances to banks	**4,405**	**—**	**4,406**	**—**	**4,406**
Loans and advances to customers	**191,208**	**—**	**224**	**191,617**	**191,841**
Reverse repurchase agreements – non-trading	**7,988**	**—**	**7,988**	**—**	**7,988**
Liabilities					
Deposits by banks	**12,095**	**—**	**12,095**	**—**	**12,095**
Customer accounts	**280,023**	**—**	**280,022**	**—**	**280,022**
Repurchase agreements – non-trading	**10,438**	**—**	**10,438**	**—**	**10,438**
Debt securities in issue	**675**	**—**	**675**	**—**	**675**
Subordinated liabilities	**12,487**	**—**	**12,686**	**—**	**12,686**
At 31 Dec 2020					
Assets					
Loans and advances to banks	3,790	—	3,790	—	3,790
Loans and advances to customers	186,800	—	420	186,848	187,268
Reverse repurchase agreements – non-trading	2,485	—	2,485	—	2,485
Liabilities					
Deposits by banks	2,161	—	2,161	—	2,161
Customer accounts	256,353	—	256,353	—	256,353
Repurchase agreements – non-trading	6,150	—	6,150	—	6,150
Debt securities in issue	641	—	641	—	641
Subordinated liabilities	9,936	—	10,332	—	10,332

Other financial instruments not carried at fair value are typically short term in nature and reprice to current market rates frequently. Accordingly, their carrying amount is a reasonable approximation of fair value. They include cash and balances at central banks and items in the course of collection from and transmission to other banks, all of which are measured at amortised cost.

Valuation

Fair value is an estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It does not reflect the economic benefits and costs that the group expects to flow from an instrument's cash flow over its expected future life. Our valuation methodologies and assumptions in determining fair values for which no observable market prices are available may differ from those of other companies.

Loans and advances to banks and customers

To determine the fair value of loans and advances to banks and customers, loans are segregated, as far as possible, into portfolios of similar characteristics. Fair values are based on observable market transactions, when available. When they are unavailable, fair values are estimated using valuation models incorporating a range of input assumptions. These assumptions may include: forward-looking discounted cash flow models, taking account of expected customer prepayment rates, using assumptions that HSBC UK believes are consistent with those that would be used by market participants in valuing such loans; and new business rates estimates for similar loans.

The fair value of loans reflects expected credit losses at the balance sheet date and the fair value effect of repricing between origination and the balance sheet date. For credit impaired loans, fair value is estimated by discounting the future cash flows over the time period they are expected to be recovered.

Deposits by banks and customer accounts

The fair values of deposits are approximated by their carrying value.

Debt securities in issue and subordinated liabilities

Fair values are determined using quoted market prices at the balance sheet date where available, or by reference to quoted market prices for similar instruments. When quoted market prices are unavailable, these instruments are valued using valuation techniques, the inputs for which are derived from observable market data and, where relevant, assumptions in respect of unobservable inputs.

Repurchase and reverse repurchase agreements – non-trading

Fair values approximate carrying amounts as balances are generally short dated.

9 Derivatives

Notional contract amounts and fair values of derivatives by product contract type held

	Notional contract amount		Fair value – Assets			Fair value – Liabilities		
	Trading	Hedging	Trading	Hedging	Total	Trading	Hedging	Total
The group and bank	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Foreign exchange	**19,845**	**106**	**58**	**—**	**58**	**171**	**10**	**181**
Interest rate	**10,998**	**37,179**	**478**	**265**	**743**	**479**	**369**	**848**
Gross total fair values	**30,843**	**37,285**	**536**	**265**	**801**	**650**	**379**	**1,029**
Offset (Note 22)					**(737)**			**(737)**
At 31 Dec 2021	**30,843**	**37,285**	**536**	**265**	**64**	**650**	**379**	**292**
Foreign exchange	13,688	—	73	—	73	165	—	165
Interest rate	21,388	21,816	1,117	625	1,742	1,121	739	1,860
Gross total fair values	35,076	21,816	1,190	625	1,815	1,286	739	2,025
Offset (Note 22)					(1,660)			(1,660)
At 31 Dec 2020	35,076	21,816	1,190	625	155	1,286	739	365

The notional contract amounts of derivatives held for trading purposes and derivatives designated in qualifying hedge accounting indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Use of derivatives

We undertake derivative activity for two primary purposes: to create risk management solutions for commercial clients and to manage and hedge our own balance sheet risks.

Hedge accounting derivatives

The group applies hedge accounting to manage interest rate risk and foreign exchange risk. The 'Report of the Directors | Risk' presents more details on how these risks arise and how they are managed by the group.

Fair value hedges

The group enters into fixed-for-floating-interest-rate swaps to manage the exposure to changes in fair value due to movements in market interest rates on certain fixed rate financial instruments which are not measured at fair value through profit or loss.

Hedging instrument by hedged risk

	Hedging Instrument				
		Carrying amount			
	Notional amount[1]	Assets	Liabilities	Balance sheet Presentation	Change in fair value[2]
Hedged risk	**£m**	**£m**	**£m**		**£m**
Interest rate[3]	**14,628**	**256**	**251**	**Derivatives**	**(90)**
At 31 Dec 2021	**14,628**	**256**	**251**		**(90)**
Interest rate[3]	20,521	623	739	Derivatives	53
At 31 Dec 2020	20,521	623	739		53

1 *The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.*
2 *Used in effectiveness testing; comprising the full fair value change of the hedging instrument not excluding any component.*
3 *The hedged risk 'interest rate' includes inflation risk.*

Hedged item by hedged risk

	Hedged item						Ineffectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount[2]					
	Assets	Liabilities	Assets	Liabilities	Balance sheet presentation	Change in fair value[1]	Recognised in profit and loss	Profit and loss presentation
Hedged risk	£m	£m	£m	£m		£m	£m	
Interest rate[4]	**9,075**		**14**		**Financial assets designated and otherwise mandatorily measured at fair value through other comprehensive income**	**(226)**	**1**	**Net income from financial instruments held for trading or managed on a fair value basis**
	397		**—**		**Loans and advances to customers**	**(3)**		
		—		**122**	**Subordinated Liabilities[3]**	**320**		
At 31 Dec 2021	**9,472**	**—**	**14**	**122**		**91**	**1**	
Interest rate[4]	15,798		164		Financial assets designated and otherwise mandatorily measured at fair value through other comprehensive income	321	3	Net income from financial instruments held for trading or managed on a fair value basis
	—		—		Loans and advances to customers	—		
		6,001		573	Subordinated Liabilities[3]	(371)		
At 31 Dec 2020	15,798	6,001	164	573		(50)	3	

1 *Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.*
2 *The accumulated amount of fair value adjustments remaining in the statement of financial position for hedged items that have ceased to be adjusted for hedging gains and losses were liabilities of £19m (2020: £27m) for FVOCI.*
3 *The notional amount of non-dynamic fair value hedges is equal to £5,444m (2020: £5,947m), of which the weighted-average maturity date is August 2027 and the weighted average swap rate is 1.39% (2020: 1.71%). These hedges are all internal to HSBC Group and hedges internal funding between Group and HSBC UK.*
4 *The hedged risk 'interest rate' includes inflation risk.*

The hedged item is either the benchmark interest rate risk portion within the fixed rate of the hedged item or the full fixed rate and it is hedged for changes in fair value due to changes in the benchmark interest rate risk.

Sources of hedge ineffectiveness may arise from basis risk including but not limited to the discount rates used for calculating the fair value of derivatives, hedges using instruments with a non-zero fair value and notional and timing differences between the hedged items and hedging instruments.

The disclosures for the group are the same as the disclosures for the bank.

Cash flow hedges

The group's cash flow hedging instruments consist principally of interest rate swaps and cross-currency swaps that are used to manage the variability in future interest cash flows of non-trading financial assets and liabilities, arising due to changes in market interest rates and foreign-currency basis.

The group applies macro cash flow hedging for interest-rate risk exposures on portfolios of replenishing current and forecasted issuances of non-trading assets and liabilities that bear interest at variable rates, including rolling such instruments. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their contractual terms and other relevant factors, including estimates of prepayments and defaults. The aggregate cash flows representing both principal balances and interest cash flows across all portfolios are used to determine the effectiveness and ineffectiveness. Macro cash flow hedges are considered to be dynamic hedges.

The group also hedges the variability in future cash-flows on foreign-denominated financial assets and liabilities arising due to changes in foreign exchange market rates with cross-currency swaps, these are considered dynamic hedges.

Hedging instrument by hedged risk

	Hedging Instrument					Hedged Item	Ineffectiveness	
		Carrying amount						
	Notional amount[1]	Assets	Liabilities	Balance sheet presentation	Change in fair value[2]	Change in fair value[3]	Recognised in profit and loss	Profit and loss presentation
Hedged risk	£m	£m	£m		£m	£m	£m	
Foreign currency	**106**	**—**	**10**	**Derivatives**	**(7)**	**(7)**	**—**	**Net income from financial instruments held for trading or managed on a fair value basis**
Interest rate	**22,551**	**9**	**118**	**Derivatives**	**(108)**	**(108)**	**—**	
At 31 Dec 2021	**22,657**	**9**	**128**		**(115)**	**(115)**	**—**	

Hedging instrument by hedged risk (continued)

	Hedging Instrument					Hedged Item	Ineffectiveness	
		Carrying amount			Change in fair value[2]	Change in fair value[3]	Recognised in profit and loss	
	Notional	Assets	Liabilities	Balance sheet presentation				Profit and loss presentation
Hedged risk	£m	£m	£m		£m	£m	£m	
Foreign currency	—	—	—	Derivatives	(9)	(9)	—	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	1,295	2	—	Derivatives	11	11	—	
At 31 Dec 2020	1,295	2	—		2	2	—	

1 *The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.*
2 *Used in effectiveness testing; comprising the full fair value change of the hedging instrument not excluding any component.*
3 *Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.*

Sources of hedge ineffectiveness may arise from basis risk, including but not limited to timing differences between the hedged items and hedging instruments and hedges using instruments with a non-zero fair value.

The disclosures for the group are the same as the disclosures for the bank.

Reconciliation of equity and analysis of other comprehensive income by risk type

	Interest rate	Foreign Currency
	£m	£m
Cash flow hedging reserve at 1 Jan 2021	**1**	**—**
Fair value gains/(losses)	**(108)**	**(7)**
Fair value (gains)/losses reclassified from the cash flow hedge reserve to the income statement in respect of:		
– hedged items that have affected profit or loss	**(26)**	**6**
Income taxes	**44**	**—**
Cash flow hedging reserve at 31 Dec 2021	**(89)**	**(1)**
Cash flow hedging reserve at 1 Jan 2020	(15)	3
Fair value gains/(losses)	11	(9)
Fair value (gains)/losses reclassified from the cash flow hedge reserve to the income statement in respect of:		
– hedged items that have affected profit or loss	9	6
Income taxes	(4)	—
Cash flow hedging reserve at 31 Dec 2020	1	—

Interest Rate Benchmark Reform: Amendments to IFRS 9 and IAS 39 'Financial Instruments'

HSBC UK has applied both the first set of amendments ('Phase 1') and the second set of amendments ('Phase 2') to IFRS 9 and IAS 39 applicable to hedge accounting. The hedge accounting relationships that are affected by Phase 1 and Phase 2 amendments are presented in the balance sheet as 'Financial assets designated and otherwise mandatorily measured at fair value through other comprehensive income', 'Loans and advances to customers', 'Debt securities in issue' and 'Deposits by banks'. The notional value of the derivatives impacted by the Ibor reform, including those designated in hedge accounting relationships, is disclosed on page 22 in the section 'Financial instruments impacted by the Ibor reform'. For further details of Ibor transition, see 'Top and emerging' in the Risk review on page 19.

During 2021 HSBC UK transitioned all of its hedging instruments referencing sterling Libor, Eonia and Japanese yen Libor. HSBC UK also transitioned some of the hedging instruments referencing US dollar Libor. There is no significant judgment applied for these benchmarks to determine whether and when the transition uncertainty has been resolved.

The most significant Ibor benchmark in which HSBC UK continues to have hedging instruments is US dollar Libor. It is expected that the transition out of US dollar Libor hedging derivatives will be largely completed by the end of 2022. These transitions do not necessitate new approaches compared with any of the mechanisms used so far for transition and it will not be necessary to change the transition risk management strategy.

The notional amounts of interest rate derivatives designated in hedge accounting relationships do not represent the extent of the risk exposure managed by the group but they are expected to be directly affected by market-wide Ibor reform and in scope of Phase 1 amendments and are shown in the table below. The cross-currency swaps designated in hedge accounting relationships and affected by Ibor reform are not significant and have not been presented below.

The disclosures for the group are the same as the disclosures for the bank.

Hedging instrument impacted by Ibor reform held by the group

	Hedging instrument					
	Impacted by Ibor reform				Not impacted by Ibor reform	Notional amount[1]
	€[2]	£	$	Total		
	£m	£m	£m	£m	£m	£m
Fair value hedges	—	—	2,217	2,217	12,411	14,628
Cash flow hedges	—	—	—	—	22,551	22,551
At 31 Dec 2021	—	—	2,217	2,217	34,962	37,179

Hedging instrument impacted by Ibor reform held by the group (continued)

	Hedging instrument					
	Impacted by Ibor reform				Not impacted by Ibor reform	Notional amount[1]
	€	£	$	Total		
	£m	£m	£m	£m	£m	£m
Fair value hedges	1,264	3,750	2,197	7,211	13,310	20,521
Cash flow hedges	—	295	—	295	1,000	1,295
At 31 Dec 2020	1,264	4,045	2,197	7,506	14,310	21,816

1 *The notional contract amounts of Interest Rate derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.*

2 *The notional contract amounts of euro interest rate derivatives impacted by Ibor reform mainly comprise hedges with a Euribor benchmark, which are 'Fair value hedges' of £nil (31 December 2020: £1,264m) and 'Cash flow hedges' of £nil, (31 December 2020: £nil).*

10 Financial investments

Carrying amount of financial investments

	The group and bank	
	2021	2020
	£m	£m
Financial investments measured at fair value through other comprehensive income	**14,377**	19,309
– treasury and other eligible bills	**1,252**	874
– debt securities	**13,125**	18,435
At 31 Dec	**14,377**	19,309

11 Assets pledged, collateral received and assets transferred

Assets pledged

Financial assets pledged as collateral

	The group and bank	
	2021	2020
	£m	£m
Debt securities	**4,804**	7,428
Loans and advances to customers	**13,440**	—
Other	**349**	197
Assets pledged at 31 Dec	**18,593**	7,625

The amount of assets pledged to secure liabilities may be greater than the book value of assets utilised as collateral. For example, where assets are placed with a custodian or a settlement agent that has a floating charge over all the assets placed to secure any liabilities under settlement accounts.

These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and borrowing, repurchase agreements and derivative margining. The group places both cash and non-cash collateral in relation to derivative transactions.

Financial assets pledged as collateral that the counterparty has the right to sell or repledge

	The group and bank	
	2021	2020
	£m	£m
Financial investments	**4,478**	7,184
At 31 Dec	**4,478**	7,184

Collateral received

The fair value of assets accepted as collateral, relating primarily to standard securities lending, reverse repurchase agreements and derivative margining, that the group and the bank is permitted to sell or repledge in the absence of default was £9,402m (2020: £3,436m). The group and the bank is obliged to return equivalent securities. These transactions are conducted under terms that are usual and customary to standard securities lending, reverse repurchase agreements and derivative margining. The fair value of financial assets accepted as collateral by the group and the bank that have been sold or repledged is £7,953m (2020: 1,302m).

Assets transferred

The assets pledged include transfers to third parties that do not qualify for derecognition, notably secured borrowings such as debt securities held by counterparties as collateral under repurchase agreements and securities lent under securities lending agreements. For secured borrowings, the transferred asset collateral continues to be recognised in full and a related liability, reflecting the group's obligation to repurchase the assets for a fixed price at a future date is also recognised on the balance sheet. Where securities are swapped, the transferred asset continues to be recognised in full. There is no associated liability as the non-cash collateral received is not recognised on the balance sheet. The group is unable to use, sell or pledge the transferred assets for the duration of these transactions, and remains exposed to interest rate risk and credit risk on these pledged assets. The counterparty's recourse is not limited to the transferred assets.

Transferred financial assets not qualifying for full derecognition and associated financial liabilities

	2021		2020	
	Carrying amount of:		Carrying amount of:	
	Transferred assets	**Associated liabilities**	Transferred assets	Associated liabilities
The group and bank	**£m**	**£m**	£m	£m
Repurchase agreements	**2,630**	**2,608**	5,162	5,040
Securities lending agreements	**1,848**	**—**	2,022	—

12 Interests in joint ventures

Vaultex UK Limited is a joint venture of the bank and the group. Vaultex UK Limited is incorporated in England and its principal activity is that of cash management services. At 31 December 2021, the group had a 50% interest in the £10m issued equity capital (2020: 50%).

For further detail see Note 29.

13 Investments in subsidiaries

Main subsidiaries of HSBC UK Bank plc

	Country of incorporation or registration	HSBC UK Bank plc's interest in equity capital %	Share class
HSBC Equipment Finance (UK) Limited	**England and Wales**	**100.00**	**Ordinary £1**
HSBC Invoice Finance (UK) Limited	**England and Wales**	**100.00**	**Ordinary £1**
Marks and Spencer Financial Services plc	**England and Wales**	**100.00**	**Ordinary £1**

All the above prepare their financial statements up to 31 December.

Details of all group subsidiaries, as required under Section 409 of the Companies Act 2006, are set out in Note 29. The principal country of operation is the same as the country of incorporation.

Impairment testing of investments in subsidiaries

At each reporting period end, HSBC UK Bank plc reviews investments in subsidiaries for indicators of impairment. An impairment is recognised when the carrying amount exceeds the recoverable amount for that investment.

The recoverable amount is the higher of the investment's fair value less costs of disposal and its value in use. The value in use is calculated by discounting management's cash flow projections for the investment.

- The cash flow projections for each investment are based on the latest approved forecast profitability plans and minimal capital levels required to support the business operations of each entity and a long-term growth rate is used to extrapolate the cash flows in perpetuity.
- The growth rate reflects inflation and is based on the long-term average for the UK.
- The rate used to discount the cash flows is based on the cost of capital assigned to each investment, which is derived using a CAPM and market implied cost of equity. CAPM depends on a number of inputs reflecting financial and economic variables, including the risk-free rate and a premium to reflect the inherent risk of the business being evaluated. These variables are based on the market's assessment of the economic variables and management's judgement.

During 2021, an impairment of £0.5m (2020: £4m) was recognised on the bank's investment in HSBC Private Bank (UK) Limited, due to a reduction in the net assets of the entity. No further impairments were recognised as a result of the impairment test performed in 2021.

14 Structured entities

The group is involved with both consolidated and unconsolidated structured entities through the securitisation of financial assets and investment funds, established either by the group or a third party.

Consolidated structured entities

Total assets of the group's consolidated structured entities, split by entity type:

	Securitisations	Total
	£m	£m
At 31 Dec 2021	**348**	**348**
At 31 Dec 2020	373	373

Securitisations

The group uses a structured entity to securitise customer loans and advances to diversify its sources of funding for asset origination and capital efficiency purposes. The loans and advances are transferred by the group to the structured entity synthetically, and the structured entity issues debt securities to investors.

Unconsolidated structured entities

The term 'unconsolidated structured entities' refers to all structured entities not controlled by the group. The group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions and for specific investment opportunities.

The group's interest in unconsolidated structured entities consist of unit holdings in four funds managed by a third party within the wider HSBC Group. The groups unit holdings are held to facilitate customer transactions and are recognised as Other assets with a carrying value and maximum exposure to loss at 31 December 2021 of £0.2m (2020: £0.2m). The total assets of the funds at 31 December 2021 was £1.2bn (2020: £1.2bn). The group has no liabilities or commitments in respect of the funds.

15 Goodwill and intangible assets

	The group		The bank	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Goodwill	**3,285**	3,285	**223**	223
Other intangible assets[1]	**908**	808	**905**	807
At 31 Dec	**4,193**	4,093	**1,128**	1,030

1 *Included within the group's other intangible assets is internally generated software with a net carrying value of £908m (2020: £808m). During the year, capitalisation of internally generated software is £347m (2020: £302m), impairment was £18m (2020: £4m) and amortisation is £229m (2020: £179m). The amortisation and impairment of intangible assets totalled for the group £247m (2020: £183m).*

Impairment testing

The group's annual impairment test in respect of goodwill allocated to each CGU is performed at 1 October each year. A review for indicators of impairment is undertaken at 30 June and 31 December. At 31 December 2021, this review did not identify any indicators of impairment. As a result, no impairment test has been performed at 31 December 2021.

Basis of the recoverable amount

The recoverable amount of all CGUs to which goodwill has been allocated was equal to its VIU at each respective testing date. The VIU is calculated by discounting management's cash flow projections for the CGU. At 1 October 2021, all CGUs supporting goodwill had a VIU larger than their respective carrying amounts. The key assumptions used in the VIU calculation for each CGU are discussed below.

Key assumptions in VIU calculation

	Goodwill at 1 Oct 2021	**Discount rate**	**Growth rate beyond initial cash flow projections**	Goodwill at 1 Oct 2020	Discount rate	Growth rate beyond initial cash flow projections
Cash-generating unit	**£m**	**%**	**%**	£m	%	%
WPB	**2,046**	**9.8**	**2.0**	2,046	8.3	1.8
CMB	**1,239**	**7.9**	**2.0**	1,239	8.8	1.8
Total	**3,285**			3,285		

The group's CGUs do not carry on their balance sheets any significant intangible assets with indefinite useful lives, other than goodwill.

Management's judgement in estimating the cash flows of a CGU

The cash flow projections for each CGU are based on the forecast profitability plans approved by the Board and minimal capital levels required to support the business operations of a CGU. The Board challenges and endorses planning assumptions in light of internal capital allocation decisions necessary to support HSBC UK's strategy, current market conditions and macroeconomic outlook including climate risk. For the 1 October 2021 impairment test, cash flow projections until the end of 2026 were considered, in line with internal planning horizon. As required by IFRSs, estimates of future cash flows exclude estimated cash inflows or outflows that are expected to arise from restructuring initiatives before an entity has a constructive obligation to carry out the plan, and would therefore have recognised a provision for restructuring costs.

Discount Rate

The rate used to discount the cash flows is based on the cost of equity assigned to each CGU, which is derived using a CAPM and market implied cost of equity. CAPM depends on a number of inputs reflecting financial and economic variables, including the risk-free rate and a premium to reflect the inherent risk of the business being evaluated. These variables are based on the market's assessment of the economic variables and management's judgement.

Long-term growth rate

The long-term growth rate is used to extrapolate the cash flows in perpetuity because of the long-term perspective within the group of business units making up the CGUs. The long-term growth rate reflects inflation for the UK.

Sensitivities of key assumptions in calculating VIU

At 1 October 2021, there were no CGUs deemed sensitive to reasonably possible changes in the key assumptions supporting the recoverable amounts. In making an estimate of reasonably possible changes to assumptions, management considers the available evidence in respect of each input to the model. These include the external range of observable discount rates, historical performance against forecast and risks attaching to the key assumptions underlying cash flow projections.

16 Prepayments, accrued income and other assets

	The group		The bank	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Prepayments and accrued income	**660**	727	**661**	730
Settlement accounts	**10**	23	**10**	23
Cash collateral and margin receivables	**284**	197	**284**	197
Endorsements and acceptances	**78**	58	**78**	58
Employee benefit assets (Note 3)	**6,745**	6,957	**6,745**	6,957
Right-of-use assets	**222**	275	**210**	258
Other accounts	**625**	520	**467**	325
Owned property, plant and equipment	**512**	553	**406**	437
At 31 Dec	**9,136**	9,310	**8,861**	8,985

Prepayments, accrued income and other assets include £1,405m (2020: £1,361m) of financial assets, of which are measured at amortised cost. Other accounts includes a receivable of £71m (2020: £120m) arising from our profit and loss sharing arrangement with Marks & Spencers plc, which is tested for impairment in line with our accounting policy on the impairment of non-financial assets.

17 Debt securities in issue

	The group		The bank	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Bonds and medium-term notes[1]	**376**	376	**151**	151
Other debt securities in issue[2]	**524**	490	**524**	490
At 31 Dec	**900**	866	**675**	641

1 *The group's Bonds and medium-term notes includes £225m (2020: £225m) issued by structured entities.*
2 *Other debt securities in issue consists of commercial paper and certificates of deposits.*

18 Accruals, deferred income and other liabilities

	The group		The bank	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Accruals and deferred income	**418**	505	**379**	457
Settlement accounts	**2**	19	**2**	19
Cash collateral and margin payable	**—**	13	**—**	13
Endorsements and acceptances	**78**	59	**78**	59
Lease liabilities	**243**	295	**231**	278
Other liabilities	**933**	1,050	**824**	983
At 31 Dec	**1,674**	1,941	**1,514**	1,809

For the group, accruals, deferred income and other liabilities include £1,533m (2020: £1,795m), and for the bank £1,464m (2020: £1,749m) of financial liabilities, the majority of which are measured at amortised cost.

19 Provisions

	Restructuring costs[2]	**Legal proceedings and regulatory matters**	**Customer remediation[3,4]**	**Other provisions[5]**	**Total**
The group	**£m**	**£m**	**£m**	**£m**	**£m**
Provisions (excluding contractual commitments)					
At 1 Jan 2021	**93**	**64**	**588**	**11**	**756**
Additions	**49**	**27**	**120**	**40**	**236**
Amounts utilised	**(82)**	**(48)**	**(375)**	**(2)**	**(507)**
Unused amounts reversed	**(38)**	**(4)**	**(74)**	**(8)**	**(124)**
Exchange and other movements	**—**	**—**	**(3)**	**55**	**52**
At 31 Dec 2021	**22**	**39**	**256**	**96**	**413**
Contractual commitments[1]					
At 1 Jan 2021					**223**
Net change in expected credit loss provision and other movements					**(141)**
At 31 Dec 2021					**82**
Total provisions					
At 31 Dec 2020					979
At 31 Dec 2021					**495**

	Restructuring costs[2]	Legal proceedings and regulatory matters	Customer remediation[3,4]	Other provisions[5]	Total
	£m	£m	£m	£m	£m
Provisions (excluding contractual commitments)					
At 1 Jan 2020	52	4	1,190	4	1,250
Additions	89	60	127	8	284
Amounts utilised	(30)	—	(557)	—	(587)
Unused amounts reversed	(18)	—	(172)	(1)	(191)
Exchange and other movements	—	—	—	—	—
At 31 Dec 2020	93	64	588	11	756
Contractual commitments[1]					
At 1 Jan 2020					75
Net change in expected credit loss provision and other movements					148
At 31 Dec 2020					223
Total provisions					
At 31 Dec 2019					1,325
At 31 Dec 2020					979

1 *Contractual commitments include the provision for contingent liabilities measured under IFRS 9 Financial Instruments in respect of financial guarantees and the expected credit loss provision on off-balance sheet guarantees and commitments.*
2 *Restructuring costs include charges received from HSBC Global Services (UK) Limited, which do not form part of the balance sheet provision movement.*
3 *Additional provisions of £120m (2020: £127m) were recorded in the consolidated income statement under net interest income £27m (2020: £72m), net fee income £10m (2020: £19m) and operating expenses £83m (2020: £36m).*
4 *Release of £74m (2020: £172m) were recorded in the consolidated income statement under net interest income £34m (2020: £50m), operating expense as £35m (2020: £122m) and net fee income £5m (2020: Nil).*
5 *Other movements include £54m (2020: Nil) of restoration costs reclassified from accruals and deferred income.*

	Restructuring costs[2]	Legal proceedings and regulatory matters	Customer remediation[3,4]	Other provisions[5]	Total
The bank	**£m**	**£m**	**£m**	**£m**	**£m**
Provisions (excluding contractual commitments)					
At 1 Jan 2021	**93**	**64**	**486**	**11**	**654**
Additions	**49**	**27**	**101**	**40**	**217**
Amounts utilised	**(82)**	**(48)**	**(315)**	**(2)**	**(447)**
Unused amounts reversed	**(38)**	**(4)**	**(64)**	**(8)**	**(114)**
Exchange and other movements	**—**	**—**	**(3)**	**55**	**52**
At 31 Dec 2021	**22**	**39**	**205**	**96**	**362**
Contractual commitments[1]					
At 1 Jan 2021					**216**
Net change in expected credit loss provision and other movements					**(136)**
At 31 Dec 2021					**80**
Total provisions					
At 31 Dec 2020					870
At 31 Dec 2021					**442**
The bank					
Provisions (excluding contractual commitments)					
At 1 Jan 2020	51	4	983	4	1,042
Additions	89	60	103	8	260
Amounts utilised	(30)	—	(447)	—	(477)
Unused amounts reversed	(18)	—	(153)	(1)	(172)
Exchange and other movements	1	—	—	—	1
At 31 Dec 2020	93	64	486	11	654
Contractual commitments[1]					
At 1 Jan 2020					72
Net change in expected credit loss provision and other movements					144
At 31 Dec 2020					216
Total provisions					
At 31 Dec 2019					1,114
At 31 Dec 2020					870

1 *Contractual commitments include the provision for contingent liabilities measured under IFRS 9 Financial Instruments in respect of financial guarantees and the expected credit loss provision on off-balance sheet guarantees and commitments.*
2 *Restructuring costs include charges received from HSBC Global Services (UK) Limited, which do not form part of the balance sheet provision movement.*
3 *Additional provisions of £101m (2020: £103m) were recorded in the HSBC UK income statement under net interest income £23m (2020: £51m), net fee income £10m (2020: £18m) and operating expenses £68m (2020: £34m).*
4 *Release of £64m (2020: £153m) under customer remediation was recorded in HSBC UK income statement under net interest income £35m (2020: £50m), operating expense as £24m (2020: £103m) and net fee income £5m (2020: Nil).*
5 *Other movements include £54m (2020: Nil) of restoration costs reclassified from accruals and deferred income.*

Customer Remediation

Payment protection insurance

At 31 December 2021, £128m (31 December 2020: £242m) 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 £142m were made during 2021, and the provision was increased by £28m.

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 future litigation.

However, the volume and merits of future litigation, and the amount of any compensation to be paid, remain uncertain and based upon a number of assumptions. The provision increase of £28m is primarily driven by revisions to litigation assumptions. Payment in respect of claims made by the Official Receiver to pursue redress amounts in respect of bankrupt and insolvent customers, was made in July 2021.

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

Collections and recoveries related matters

At 31 December 2021, a provision of £64m (2020: £223m) was held relating to the estimated liability for redress payable to customers following a review of historical collections and recoveries practices in the UK, including HSBC UK. During 2021, redress payments and incurred operating costs totalled £145m, in addition to a net release of £14m of provision. This release reflects the actual number of customers impacted and cost of redress paid, which were lower than had been previously estimated.

Restructuring costs

The restructuring costs provision relates to severance costs, including severance related to pension augmentations.

Legal proceedings and regulatory matters

Further details of 'Legal proceedings and regulatory matters' are set out in Note 26. 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.

20 Subordinated liabilities

Subordinated liabilities

	The group		The bank	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
At amortised cost	**12,487**	10,015	**12,487**	9,936
– subordinated liabilities[1]	**12,487**	10,015	**12,487**	9,936
At 31 Dec	**12,487**	10,015	**12,487**	9,936

1 *Includes £9.5bn (2020: £7.0bn) of eligible debt issued to meet our Minimum requirement for own funds and Eligible Liabilities applicable from 1 January 2020.*

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

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

Subordinated liabilities of the group

		First call date	Maturity date	Carrying amount 2021 £m	2020 £m
Capital instruments					
Tier 2 instruments					
£550m	HSBC UK Bank plc Subordinated Floating Loan 2028[1]	Jul 2023	Jul 2028	**550**	550
$840m	HSBC UK Bank plc Subordinated Floating Loan 2028[2]	Jul 2023	Jul 2028	**620**	615
£100m	HSBC UK Bank plc 2.8594% Subordinated Loan 2029	Mar 2024	Mar 2029	**100**	100
£1,000m	HSBC UK Bank plc Subordinated Floating Loan 2030[3]	Jul 2025	Jul 2030	**1,000**	1,000
£650m	HSBC UK Bank plc Subordinated Floating Loan 2033[4]	Sep 2028	Sep 2033	**650**	650
£79m	HSBC UK Bank plc 2.1250% Subordinated Loan 2031	Mar 2026	Mar 2031	**79**	79
Other instruments					
Subordinated loan instruments not eligible for inclusion in regulatory capital					
$2000m	HSBC UK Bank plc 0.9760% MREL eligible Subordinated Loan 2025	May 2024	May 2025	**1,455**	—
£350m	HSBC UK Bank plc 1.8777% MREL eligible Subordinated Loan 2025	Oct 2024	Oct 2025	**350**	350
£150m	HSBC UK Bank plc 2.1003% MREL eligible Subordinated Loan 2025	Oct 2024	Oct 2025	**150**	150
€500m	HSBC UK Bank plc MREL eligible Subordinated Floating Loan 2026[5]	Sep 2025	Sep 2026	**427**	—
£1,000m	HSBC UK Bank plc 1.1250% MREL eligible Subordinated Loan 2026	Nov 2025	Nov 2026	**1,000**	—
£1,000m	HSBC UK Bank plc 3.2485% MREL eligible Subordinated Loan 2026[6]	Nov 2025	Nov 2026	**—**	1,064
£1,000m	HSBC UK Bank plc 1.7500% MREL eligible Subordinated Loan 2027	Jul 2026	Jul 2027	**998**	—
£1,000m	HSBC UK Bank plc 3.0000% MREL eligible Subordinated Loan 2028	Jul 2027	Jul 2028	**1,009**	1,077
£1,000m	HSBC UK Bank plc 1.7500% MREL eligible Subordinated Loan 2029	Aug 2028	Aug 2029	**1,000**	—
£1,000m	HSBC UK Bank plc 3.4602% MREL eligible Subordinated Loan 2029[7]	Aug 2028	Aug 2029	**—**	1,101
$3000m	HSBC UK Bank plc 3.9730% MREL eligible Subordinated Loan 2030	May 2029	May 2030	**2,346**	2,469
£750m	HSBC UK Bank plc 3.0000% MREL eligible Subordinated Loan 2030	May 2029	May 2030	**753**	810
At 31 Dec				**12,487**	10,015

1 *The distribution rate is Sonia plus 1.60%.*
2 *The distribution rate is three month USD Libor plus 1.51%.*
3 *The distribution rate is Sonia plus 1.89%.*
4 *The distribution rate is Sonia plus 2.14%.*
5 *The distribution rate is three month Euribor plus 1.00%*
6 *During January 2021 HSBC UK Bank plc redeemed its £1,000m 3.2485% MREL eligible fixed rate subordinated loan.*
7 *During February 2021 HSBC UK Bank plc redeemed its £1,000m 3.4602% MREL eligible fixed rate subordinated loan.*

21 Maturity analysis of assets, liabilities and off-balance sheet commitments

The following table provides an analysis of consolidated total assets, liabilities and off-balance sheet commitments by residual contractual maturity at the balance sheet date. These balances are included in the maturity analysis as follows:

- Trading derivatives are included in the 'Due not more than 1 month' time bucket, because trading balances are typically held for short periods of time.
- Financial assets and liabilities with no contractual maturity (such as equity securities) are included in the 'Due over 5 years' time bucket. Undated or perpetual instruments are classified based on the contractual notice period which the counterparty of the instrument is entitled to give. Where there is no contractual notice period, undated or perpetual contracts are included in the 'Due over 5 years' time bucket.
- Non-financial assets and liabilities with no contractual maturity are included in the 'Due over 5 years' time bucket.
- Loan and other credit-related commitments are classified on the basis of the earliest date they can be drawn down.

Maturity analysis of assets, liabilities and off-balance sheet commitments

	Due not more than 1 month	Due over 1 month but not more than 3 months	Due over 3 months but not more than 6 months	Due over 6 months but not more than 9 months	Due over 9 months but not more than 1 year	Due over 1 year but not more than 2 years	Due over 2 years but not more than 5 years	Due over 5 years	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
The group									
Financial assets									
Cash and balances at central banks	112,478	—	—	—	—	—	—	—	112,478
Items in the course of collection from other banks	299	—	—	—	—	—	—	—	299
Financial assets designated or otherwise mandatorily measured at fair value	65	—	—	—	—	—	—	14	79
Derivatives	58	—	—	—	—	—	—	6	64
Loans and advances to banks	857	—	1,057	—	—	—	—	—	1,914
Loans and advances to customers	16,717	9,830	7,932	5,965	5,551	17,836	34,353	97,342	195,526
– personal	6,880	2,117	1,846	1,868	1,819	7,060	19,208	89,753	130,551
– corporate and commercial	9,497	7,449	5,885	3,955	3,610	10,508	14,627	7,311	62,842
– financial	340	264	201	142	122	268	518	278	2,133
Reverse repurchase agreements – non-trading	318	555	2,379	3,494	1,242	—	—	—	7,988
Financial investments	854	622	290	475	102	1,233	2,298	8,503	14,377
Accrued income and other financial assets	1,276	102	19	3	3	—	—	—	1,403
Total financial assets at 31 Dec 2021	132,922	11,109	11,677	9,937	6,898	19,069	36,651	105,865	334,128
Non-financial assets	—	—	—	—	—	—	—	11,935	11,935
Total assets at 31 Dec 2021	132,922	11,109	11,677	9,937	6,898	19,069	36,651	117,800	346,063
Financial liabilities									
Deposits by banks	862	18	—	—	—	—	10,300	—	11,180
Customer accounts[1]	279,674	861	422	286	362	260	5	—	281,870
– personal	175,815	558	267	209	274	258	4	—	177,385
– corporate and commercial	99,838	287	102	46	88	2	1	—	100,364
– financial	4,021	16	53	31	—	—	—	—	4,121
Repurchase agreements – non-trading	9,938	500	—	—	—	—	—	—	10,438
Items in the course of transmission to other banks	151	—	—	—	—	—	—	—	151
Derivatives	172	—	—	—	—	19	22	79	292
Debt securities in issue	250	275	—	150	—	—	225	—	900
Accruals and other financial liabilities	1,110	176	23	14	13	47	93	49	1,525
Subordinated liabilities	—	—	—	—	—	1,170	5,558	5,759	12,487
Total financial liabilities at 31 Dec 2021	292,157	1,830	445	450	375	1,496	16,203	5,887	318,843
Non-financial liabilities	—	—	—	—	—	—	—	3,415	3,415
Total liabilities at 31 Dec 2021	292,157	1,830	445	450	375	1,496	16,203	9,302	322,258
Off-balance sheet commitments given									
Loan and other credit-related commitments	70,205	1	2	50	—	18	164	—	70,440
– personal	39,889	—	—	—	—	—	—	—	39,889
– corporate and commercial	29,464	1	2	50	—	18	164	—	29,699
– financial	852	—	—	—	—	—	—	—	852

Maturity analysis of assets, liabilities and off-balance sheet commitments (continued)

	Due not more than 1 month	Due over 1 month but not more than 3 months	Due over 3 months but not more than 6 months	Due over 6 months but not more than 9 months	Due over 9 months but not more than 1 year	Due over 1 year but not more than 2 years	Due over 2 years but not more than 5 years	Due over 5 years	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
The group									
Financial assets									
Cash and balances at central banks	76,429	—	—	—	—	—	—	—	76,429
Items in the course of collection from other banks	253	—	—	—	—	—	—	—	253
Financial assets designated or otherwise mandatorily measured at fair value	23	—	—	—	—	—	—	3	26
Derivatives	73	—	—	—	—	—	9	73	155
Loans and advances to banks	676	—	838	—	—	—	—	—	1,514
Loans and advances to customers	15,833	9,579	7,710	6,090	5,483	17,529	29,114	99,895	191,233
– personal	6,482	2,214	1,668	1,751	1,664	6,453	17,124	85,440	122,796
– corporate and commercial	8,882	7,063	5,737	4,083	3,607	10,520	11,582	14,179	65,653
– financial	469	302	305	256	212	556	408	276	2,784
Reverse repurchase agreements – non-trading	531	851	819	284	—	—	—	—	2,485
Financial investments	2,191	195	437	136	93	1,926	5,552	8,779	19,309
Accrued income and other financial assets	1,097	117	17	14	6	30	77	—	1,358
Total financial assets at 31 Dec 2020	97,106	10,742	9,821	6,524	5,582	19,485	34,752	108,750	292,762
Non-financial assets	—	—	—	—	—	—	—	12,102	12,102
Total assets at 31 Dec 2020	97,106	10,742	9,821	6,524	5,582	19,485	34,752	120,852	304,864
Financial liabilities									
Deposits by banks	530	10	—	—	—	—	—	—	540
Customer accounts[1]	255,990	1,616	384	287	324	661	79	—	259,341
– personal	156,615	633	266	248	319	658	78	—	158,817
– corporate and commercial	92,862	882	113	39	5	3	1	—	93,905
– financial	6,513	101	5	—	—	—	—	—	6,619
Repurchase agreements – non-trading	6,150	—	—	—	—	—	—	—	6,150
Items in the course of transmission to other banks	132	—	—	—	—	—	—	—	132
Derivatives	171	—	—	—	—	4	22	168	365
Debt securities in issue	268	223	—	151	—	—	—	224	866
Accruals and other financial liabilities	1,292	229	25	17	17	53	95	74	1,802
Subordinated liabilities	—	—	—	—	—	—	350	9,665	10,015
Total financial liabilities at 31 Dec 2020	264,533	2,078	409	455	341	718	546	10,131	279,211
Non-financial liabilities	—	—	—	—	—	—	—	2,795	2,795
Total liabilities at 31 Dec 2020	264,533	2,078	409	455	341	718	546	12,926	282,006
Off-balance sheet commitments given									
Loan and other credit-related commitments	72,478	96	—	75	40	—	—	—	72,689
– personal	39,716	—	—	—	—	—	—	—	39,716
– corporate and commercial	31,830	96	—	75	40	—	—	—	32,041
– financial	932	—	—	—	—	—	—	—	932

1 *'Customer accounts' includes £137,853m (2020: £132,204m) insured by guarantee schemes.*

Maturity analysis of assets, liabilities and off-balance sheet commitments

	Due not more than 1 month £m	Due over 1 month but not more than 3 months £m	Due over 3 months but not more than 6 months £m	Due over 6 months but not more than 9 months £m	Due over 9 months but not more than 1 year £m	Due over 1 year but not more than 2 years £m	Due over 2 years but not more than 5 years £m	Due over 5 years £m	Total £m
The bank									
Financial assets									
Cash and balances at central banks	112,477	–	–	–	–	–	–	–	112,477
Items in the course of collection from other banks	132	–	–	–	–	–	–	–	132
Financial assets designated or otherwise mandatorily measured at fair value	65	–	–	–	–	–	–	14	79
Derivatives	58	–	–	–	–	–	–	6	64
Loans and advances to banks	1,002	295	1,483	125	135	475	890	–	4,405
Loans and advances to customers	18,992	6,767	7,170	5,948	5,519	17,491	32,353	96,968	191,208
– personal	5,028	1,862	1,744	1,772	1,727	6,747	18,797	89,725	127,402
– corporate and commercial	9,359	4,227	4,885	3,851	3,505	9,818	12,373	6,872	54,890
– financial	4,605	678	541	325	287	926	1,183	371	8,916
Reverse repurchase agreements – non-trading	318	555	2,379	3,494	1,242	–	–	–	7,988
Financial investments	854	622	290	475	102	1,232	2,298	8,504	14,377
Accrued income and other financial assets	1,287	92	19	3	3	–	–	–	1,404
Total financial assets at 31 Dec 2021	135,185	8,331	11,341	10,045	7,001	19,198	35,541	105,492	332,134
Non-financial assets	–	–	–	–	–	–	–	9,604	9,604
Total assets at 31 Dec 2021	135,185	8,331	11,341	10,045	7,001	19,198	35,541	115,096	341,738
Financial liabilities									
Deposits by banks	1,468	73	55	25	30	55	10,389	–	12,095
Customer accounts[1]	277,826	861	422	286	362	260	6	–	280,023
– personal	174,723	558	267	209	274	258	4	–	176,293
– corporate and commercial	98,743	287	102	46	87	2	2	–	99,269
– financial	4,360	16	53	31	1	–	–	–	4,461
Repurchase agreements – non-trading	9,938	500	–	–	–	–	–	–	10,438
Items in the course of transmission to other banks	148	–	–	–	–	–	–	–	148
Derivatives	172	–	–	1	–	18	22	79	292
Debt securities in issue	250	275	–	150	–	–	–	–	675
Accruals and other financial liabilities	1,066	167	20	13	12	44	88	45	1,455
Subordinated liabilities	–	–	–	–	–	1,171	5,558	5,758	12,487
Total financial liabilities at 31 Dec 2021	290,868	1,876	497	475	404	1,548	16,063	5,882	317,613
Non-financial liabilities	–	–	–	–	–	–	–	3,262	3,262
Total liabilities at 31 Dec 2021	290,868	1,876	497	475	404	1,548	16,063	9,144	320,875
Off-balance sheet commitments given									
Loan and other credit-related commitments	56,733	–	–	–	–	–	–	–	56,733
– personal	29,223	–	–	–	–	–	–	–	29,223
– corporate and commercial	26,743	–	–	–	–	–	–	–	26,743
– financial	767	–	–	–	–	–	–	–	767

Maturity analysis of assets, liabilities and off-balance sheet commitments (continued)

	Due not more than 1 month	Due over 1 month but not more than 3 months	Due over 3 months but not more than 6 months	Due over 6 months but not more than 9 months	Due over 9 months but not more than 1 year	Due over 1 year but not more than 2 years	Due over 2 years but not more than 5 years	Due over 5 years	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
The bank									
Financial assets									
Cash and balances at central banks	76,419	—	—	—	—	—	—	—	76,419
Items in the course of collection from other banks	137	—	—	—	—	—	—	—	137
Financial assets designated or otherwise mandatorily measured at fair value	23	—	—	—	—	—	—	3	26
Derivatives	73	—	—	—	—	—	9	73	155
Loans and advances to banks	831	320	1,278	135	125	410	675	16	3,790
Loans and advances to customers	15,846	7,837	7,819	6,126	5,421	17,235	27,118	99,398	186,800
– personal	4,690	1,985	1,561	1,636	1,553	6,105	16,607	85,420	119,557
– corporate and commercial	8,711	4,142	5,231	4,009	3,483	9,888	9,402	13,632	58,498
– financial	2,445	1,710	1,027	481	385	1,242	1,109	346	8,745
Reverse repurchase agreements – non-trading	531	851	819	284	—	—	—	—	2,485
Financial investments	2,191	195	437	136	93	1,926	5,552	8,779	19,309
Accrued income and other financial assets	1,112	100	21	2	1	—	—	—	1,236
Total financial assets at 31 Dec 2020	97,163	9,303	10,374	6,683	5,640	19,571	33,354	108,269	290,357
Non-financial assets	—	—	—	—	—	—	—	9,846	9,846
Total assets at 31 Dec 2020	97,163	9,303	10,374	6,683	5,640	19,571	33,354	118,115	300,203
Financial liabilities									
Deposits by banks	1,476	450	60	30	40	75	30	—	2,161
Customer accounts[1]	253,003	1,615	384	287	324	661	79	—	256,353
– personal	154,421	632	266	248	319	658	78	—	156,622
– corporate and commercial	92,946	882	113	39	5	3	1	—	93,989
– financial	5,636	101	5	—	—	—	—	—	5,742
Repurchase agreements – non-trading	6,150	—	—	—	—	—	—	—	6,150
Items in the course of transmission to other banks	129	—	—	—	—	—	—	—	129
Derivatives	171	—	—	—	—	4	22	168	365
Debt securities in issue	267	223	—	151	—	—	—	—	641
Accruals and other financial liabilities	1,279	207	20	16	13	48	93	74	1,750
Subordinated liabilities	—	—	—	—	—	—	350	9,586	9,936
Total financial liabilities at 31 Dec 2020	262,475	2,495	464	484	377	788	574	9,828	277,485
Non-financial liabilities	—	—	—	—	—	—	—	2,639	2,639
Total liabilities at 31 Dec 2020	262,475	2,495	464	484	377	788	574	12,467	280,124
Off-balance sheet commitments given									
Loan and other credit-related commitments	57,968	—	—	—	—	—	—	—	57,968
– personal	28,108	—	—	—	—	—	—	—	28,108
– corporate and commercial	29,018	—	—	—	—	—	—	—	29,018
– financial	842	—	—	—	—	—	—	—	842

1 *'Customer accounts' includes £136,791m (2020: £130,128m) insured by guarantee schemes.*

Contractual maturity of financial liabilities

The table below shows, on an undiscounted basis, all cash flows relating to principal and future coupon payments (except for derivatives not treated as hedging derivatives). For this reason, balances in the table below do not agree directly with those in our consolidated balance sheet and the bank's balance sheet. Undiscounted cash flows payable in relation to hedging derivative liabilities are classified according to their contractual maturities. Derivatives not treated as hedging derivatives are included in the 'Due not more than 1 month' time bucket and not by contractual maturity.

In addition, loans and other credit-related commitments, financial guarantees and similar contracts are generally not recognised on our balance sheet. The undiscounted cash flows potentially payable under loan and other credit-related commitments, and financial guarantees are classified on the basis of the earliest date they can be called.

Cash flows payable under financial liabilities by remaining contractual maturities

The group	Due not more than 1 month £m	Due over 1 month but not more than 3 months £m	Due over 3 months but not more than 1 year £m	Due over 1 year but not more than 5 years £m	Due over 5 years £m	Total £m
Deposits by banks	**862**	**18**	**2**	**10,310**	**—**	**11,192**
Customer accounts	**279,674**	**861**	**1,071**	**265**	**—**	**281,871**
Repurchase agreements – non-trading	**9,938**	**500**	**—**	**—**	**—**	**10,438**
Derivatives	**171**	**19**	**—**	**135**	**354**	**679**
Debt securities in issue	**250**	**282**	**169**	**324**	**—**	**1,025**
Subordinated liabilities	**24**	**48**	**216**	**7,588**	**5,856**	**13,732**
Other financial liabilities	**1,262**	**170**	**50**	**154**	**54**	**1,690**
	292,181	**1,898**	**1,508**	**18,776**	**6,264**	**320,627**
Loan and other credit-related commitments	**70,205**	**1**	**52**	**182**	**—**	**70,440**
Financial guarantees	**1,102**	**—**	**—**	**—**	**—**	**1,102**
At 31 Dec 2021	**363,488**	**1,899**	**1,560**	**18,958**	**6,264**	**392,169**
Proportion of cash flows payable in period	**93%**	**—%**	**—%**	**5%**	**2%**	**100%**
Deposits by banks	530	10	—	—	—	540
Customer accounts	255,990	1,617	998	744	—	259,349
Repurchase agreements – non-trading	6,150	—	—	—	—	6,150
Derivatives	168	46	92	368	537	1,211
Debt securities in issue	318	239	169	98	250	1,074
Subordinated liabilities	24	47	212	1,472	12,364	14,119
Other financial liabilities	1,389	219	63	169	83	1,923
	264,569	2,178	1,534	2,851	13,234	284,366
Loan and other credit-related commitments	72,477	96	116	—	—	72,689
Financial guarantees	935	—	—	—	—	935
At 31 Dec 2020	337,981	2,274	1,650	2,851	13,234	357,990
Proportion of cash flows payable in period	94%	1%	—%	1%	4%	100%
The bank						
Deposits by banks	**1,468**	**73**	**112**	**10,455**	**—**	**12,108**
Customer accounts	**277,827**	**861**	**1,071**	**265**	**—**	**280,024**
Repurchase agreements – non-trading	**9,938**	**500**	**—**	**—**	**—**	**10,438**
Derivatives	**171**	**19**	**—**	**135**	**354**	**679**
Debt securities in issue	**250**	**275**	**151**	**—**	**—**	**676**
Subordinated liabilities	**24**	**48**	**216**	**7,588**	**5,856**	**13,732**
Other financial liabilities	**1,216**	**164**	**46**	**147**	**50**	**1,623**
	290,894	**1,940**	**1,596**	**18,590**	**6,260**	**319,280**
Loan and other credit-related commitments	**56,733**	**—**	**—**	**—**	**—**	**56,733**
Financial guarantees	**1,102**	**—**	**—**	**—**	**—**	**1,102**
At 31 Dec 2021	**348,729**	**1,940**	**1,596**	**18,590**	**6,260**	**377,115**
Proportion of cash flows payable in period	**92%**	**1%**	**—%**	**5%**	**2%**	**100%**
Deposits by banks	1,476	451	131	106	—	2,164
Customer accounts	253,003	1,617	998	744	—	256,362
Repurchase agreements – non-trading	6,150	—	—	—	—	6,150
Derivatives	168	46	92	368	537	1,211
Debt securities in issue	318	233	151	—	—	702
Subordinated liabilities	24	47	212	1,472	12,285	14,040
Other financial liabilities	1,382	199	53	163	83	1,880
	262,521	2,593	1,637	2,853	12,905	282,509
Loan and other credit-related commitments	57,968	—	—	—	—	57,968
Financial guarantees	935	—	—	—	—	935
At 31 Dec 2020	321,424	2,593	1,637	2,853	12,905	341,412
Proportion of cash flows payable in period	94%	1%	—%	1%	4%	100%

22 Offsetting of financial assets and financial liabilities

The 'Amounts not set off in the balance sheet' include transactions where:

- the counterparty has an offsetting exposure with the group and a master netting or similar arrangement is in place with a right of set off only in the event of default, insolvency or bankruptcy, or the offset criteria are not otherwise satisfied; and
- in the case of derivatives and reverse repurchase/repurchase, stock borrowing/lending and similar agreements, cash and non-cash collateral has been received/pledged.

For risk management purposes, the net amounts of loans and advances to customers are subject to limits, which are monitored and the relevant customer agreements are subject to review and updated, as necessary, to ensure that the legal right of offset remains appropriate.

	Amounts subject to enforceable netting arrangements								
				Amounts not set off in the balance sheet					
	Gross amounts	Amounts offset	Net amounts in the balance sheet	Financial instruments	Non-cash collateral	Cash collateral	Net amount	Amounts not subject to enforceable netting arrangements[4]	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial assets									
Derivatives (Note 9)	**801**	**(737)**	**64**	**(33)**	**(16)**	**–**	**15**	**–**	**64**
Reverse repos, stock borrowing and similar agreements classified as:									
– non-trading assets	**8,311**	**(323)**	**7,988**	**–**	**(7,988)**	**–**	**–**	**–**	**7,988**
Loans and advances to customers[2]	**5,018**	**(1,977)**	**3,041**	**(2,457)**	**–**	**–**	**584**	**–**	**3,041**
At 31 Dec 2021	**14,130**	**(3,037)**	**11,093**	**(2,490)**	**(8,004)**	**–**	**599**	**–**	**11,093**
Derivatives (Note 9)	1,815	(1,660)	155	(28)	—	(13)	114	—	155
Reverse repos, stock borrowing and similar agreements classified as:									
– non-trading assets	2,620	(135)	2,485	—	(2,485)	—	—	—	2,485
Loans and advances to customers[2]	4,893	(979)	3,914	(3,330)	—	—	584	—	3,914
At 31 Dec 2020	9,328	(2,774)	6,554	(3,358)	(2,485)	(13)	698	—	6,554
Financial liabilities									
Derivatives[1] (Note 9)	**1,029**	**(737)**	**292**	**(33)**	**–**	**(261)**	**(2)**	**–**	**292**
Repos, stock lending and similar agreements classified as:									
– non-trading liabilities	**10,761**	**(323)**	**10,438**	**–**	**(10,438)**	**–**	**–**	**–**	**10,438**
Customer accounts[3]	**7,673**	**(1,977)**	**5,696**	**(2,457)**	**–**	**–**	**3,239**	**1**	**5,697**
At 31 Dec 2021	**19,463**	**(3,037)**	**16,426**	**(2,490)**	**(10,438)**	**(261)**	**3,237**	**1**	**16,427**
Derivatives[1] (Note 9)	2,025	(1,660)	365	(28)	—	(104)	233	—	365
Repos, stock lending and similar agreements classified as:									
– non-trading liabilities	6,285	(135)	6,150	—	(6,150)	—	—	—	6,150
Customer accounts[3]	7,399	(979)	6,420	(3,330)	—	—	3,090	—	6,420
At 31 Dec 2020	15,709	(2,774)	12,935	(3,358)	(6,150)	(104)	3,323	—	12,935

1 *At 31 December 2021, the amount of cash margin paid that had been offset against the gross derivatives liabilities was £219m (2020: £300m).*
2 *At 31 December 2021, the total amount of 'Loans and advances to customers' recognised on the balance sheet was £195,526m (2020: £191,233m) of which £3,041m (2020: £3,914m) was subject to offsetting.*
3 *At 31 December 2021, the total amount of 'Customer accounts' recognised on the balance sheet was £281,870m (2020: £259,341m) of which £5,696m (2020: £6,420m) was subject to offsetting.*
4 *These exposures continue to be secured by financial collateral, but we may not have sought or been able to obtain a legal opinion evidencing enforceability of the right of offset.*

23 Called up share capital and other equity instruments

Called up share capital and share premium

HSBC UK Bank plc ordinary shares of £1.00 each, issued and fully paid

	2021		2020	
	Number	£m	Number	£m
At 1 Jan and 31 Dec	**50,002**	**–**	50,002	—

HSBC UK Bank plc share premium

	2021	2020
	£m	£m
At 31 Dec	**9,015**	9,015

Total called up share capital and share premium

	2021	2020
	£m	£m
At 31 Dec	**9,015**	9,015

Other equity instruments

HSBC UK Bank plc additional tier 1 instruments

		2021	2020
		£m	£m
£1,096m	Undated Subordinated Additional Tier 1 instrument issued 2014 (Callable December 2019 onwards)	1,096	1,096
£1,100m	Undated Subordinated Additional Tier 1 instrument issued 2014 (Callable December 2024 onwards)	1,100	1,100
At 31 Dec		**2,196**	2,196

The bank has issued capital instruments that are included in the group's capital base as fully CRR II compliant additional tier 1 capital.

Interest on these instruments will be due and payable only at the sole discretion of the bank, and the bank has sole and absolute discretion at all times and for any reason to cancel (in whole or in part) any interest payment that would otherwise be payable on any date. There are limitations on the payment of principal, interest or other amounts if such payments are prohibited under UK banking regulations, or other requirements, if the bank has insufficient distributable items or if the bank fails to satisfy the solvency condition as defined in the instruments terms.

The instruments are undated and are repayable, at the option of the bank, in whole at the initial call date, or on any Interest Payment Date after the initial call date. In addition, the instruments are repayable at the option of the bank in whole for certain regulatory or tax reasons. Any repayments require the prior notification to and consent of the PRA. These instruments rank *pari passu* with the bank's most senior class or classes of issued preference shares and therefore ahead of ordinary shares. These instruments will be written down in whole, together with any accrued but unpaid interest if either the group's solo or consolidated Common Equity Tier 1 Capital Ratio falls below 7.00%.

24 Contingent liabilities, contractual commitments, guarantees and contingent assets

	The group		The bank	
	2021	2020	2021	2020
	£m	£m	£m	£m
Guarantees and other contingent liabilities:				
– financial guarantees[1]	1,102	935	1,102	935
– performance and other guarantees	2,192	2,342	2,192	2,342
At 31 Dec	**3,294**	3,277	**3,294**	3,277
Commitments[2]:				
– documentary credits and short-term trade-related transactions	134	75	134	75
– forward asset purchases and forward deposits placed	236	507	—	296
– standby facilities, credit lines and other commitments to lend	70,071	72,106	56,599	57,597
At 31 Dec	**70,441**	72,688	**56,733**	57,968

1 *Financial guarantees contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due, in accordance with the original or modified terms of a debt instrument. The amounts in the above table are nominal principal amounts.*

2 *Includes £67bn (2020: £70bn) for the group and £54bn (2020: £55bn) for the bank of commitments to which the impairment requirements in IFRS 9 are applied where the group and bank has become party to an irrevocable commitment.*

The above table discloses the nominal principal amounts, which represents the maximum amounts at risk should the contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the nominal principal amounts is not indicative of future liquidity requirements. The expected credit loss provision relating to guarantees and commitments under IFRS 9 is disclosed in Note 19.

Contingent liabilities arising from legal proceedings, regulatory and other matters against group companies are disclosed in Note 26.

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

The group provides guarantees and similar undertakings on behalf of third-party customers. These guarantees are generally provided in the normal course of the group's banking businesses.

Financial Services Compensation Scheme

The FSCS provides compensation, up to certain limits, to eligible customers of financial services firms that are unable, or likely to be unable, to pay claims against them. The FSCS may impose a further levy on HSBC UK to the extent the industry levies imposed to date are not sufficient to cover the compensation due to customers in any future possible collapse. The ultimate FSCS levy to the industry as a result of a collapse cannot be estimated reliably. It is dependent on various uncertain factors including the potential recovery of assets by the FSCS, changes in the level of protected products (including deposits and investments) and the population of FSCS members at the time.

UK branches of HSBC overseas entities

In December 2017, HM Revenue & Customs ('HMRC') challenged the VAT status of certain UK branches of HSBC overseas entities. In Q1 2019, HMRC reaffirmed its assessment that the UK branches are ineligible to be members of the UK VAT group and HSBC filed appeals. In February 2022, the Upper Tribunal issued a judgement addressing several preliminary legal issues, which was partially in favour of HMRC and partially in favour of HSBC. Further proceedings remain pending. Since January 2018, HSBC's returns have been prepared on the basis that the UK branches are not in the UK VAT group. In the event that HSBC's appeals are successful, HSBC will seek a refund of this VAT, of which £130m in estimated to be attributable to HSBC UK Bank plc.

25 Finance lease receivables

The group leases a variety of assets to third parties under finance leases, including transport assets, property and general plant and machinery. At the end of lease terms, assets may be sold to third parties or leased for further terms. Rentals are calculated to recover the cost of assets less their residual value, and earn finance income.

	2021			2020		
	Total future minimum payments	**Unearned finance income**	**Present Value**	Total future minimum payments	Unearned finance income	Present Value
	£m	**£m**	**£m**	£m	£m	£m
Lease receivables[1]						
– No later than one year	**1,232**	**(61)**	**1,171**	1,254	(63)	1,191
– One to two years	**818**	**(41)**	**777**	905	(40)	865
– Two to three years	**553**	**(27)**	**526**	585	(23)	562
– Three to four years	**353**	**(16)**	**337**	337	(12)	325
– Four to five years	**177**	**(10)**	**167**	155	(6)	149
– Later than 5 years	**314**	**(52)**	**262**	173	(12)	161
31 Dec[2]	**3,447**	**(207)**	**3,240**	3,409	(156)	3,253

1 *Finance leases receivables are disclosed within 'Loans and advances to customers' in the balance sheet.*
2 *ECL of £52m (2020: £71m) is held in respect of loans and advances under Finance lease receivables.*

26 Legal proceedings and regulatory matters

The group is party to legal proceedings and regulatory matters arising out of its normal business operations. Apart from the matters described below, the group considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 1. While the outcomes of legal proceedings and regulatory matters are inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters at 31 December 2021 (see Note 19). Where an individual provision is material, the fact that a provision has been made is stated and quantified. 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, HSBC Holdings entered into a number of agreements, including an undertaking with the UK Financial Services Authority (replaced with a Direction issued by the UK FCA in 2013 and again in 2020) as well as a cease-and-desist order with the US FRB, both of which contained certain forward-looking AML and sanctions-related obligations. Over the past several years, HSBC has retained a Skilled Person, under section 166 of the Financial Services and Markets Act, and an Independent Consultant, under the cease-and-desist order, to produce periodic assessment of the Group's AML and sanctions compliance programme. The Skilled Person completed its engagement in the second quarter of 2021, and no further Skilled Person activity on this matter is anticipated. The FRB Independent Consultant continues to work pursuant to the cease-and-desist order. Based on the facts currently known, it is not practicable to predict the resolution of these matters, including the timing or any possible impact on the group, which could be significant. The roles of each of the FCA Skilled Person and the FRB Independent Consultant are discussed on page 58.

In December 2021, the FCA concluded its investigation into HSBC Bank plc's compliance with UK anti-money laundering regulations and financial crime systems and control requirements in its retail and commercial banking business and imposed a fine, which has been paid. These businesses were substantially transferred to HSBC UK as part of the court approved ring fence transfer scheme in 2018.

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. In December 2018 and June 2019, two further actions were brought against PBGB in the High Court of England and Wales by multiple claimants in connection with lending provided by PBGB to third parties in respect of certain Ingenious film finance schemes in which the claimants participated. In January 2022, HSBC UK (as successor to PBGB) reached a settlement in principle with the claimant group to resolve these actions. The settlement remains subject to the negotiation of definitive documentation.

In June 2020, two separate claims were issued against HSBC UK (as successor to PBGB's business) in the High Court of England and Wales by two separate groups of investors in Eclipse film finance schemes in connection with PBGB's role in the development of such schemes. These actions are ongoing.

In April 2021, HSBC UK (as successor to PBGB's business) was served with a claim issued in the High Court of England and Wales in connection with PBGB's role in the development of the Zeus film finance schemes. This action is 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 to predict the resolution of these matters, including the timing or any possible impact on HSBC UK, which could be significant.

Foreign exchange related matters

In January 2018, following the conclusion of the US Department of Justice's ('DoJ') investigation into HSBC Group's historical foreign exchange activities, HSBC Holdings entered into a three-year deferred prosecution agreement with the Criminal Division of the DoJ (the 'FX DPA'), regarding fraudulent conduct in connection with two particular transactions in 2010 and 2011. In January 2021, the FX DPA expired and, in August 2021, the charges deferred by the FX DPA were dismissed.

In February 2019, various HSBC Group companies, including HSBC UK, were named as defendants in a claim issued in the High Court of England and Wales that alleges foreign exchange-related misconduct. In November 2021, the court dismissed all claims against HSBC Group and this matter is now concluded.

PPI

Although the FCA deadline for bringing PPI complaints has passed, customers can still commence litigation for PPI mis-selling. Further details are contained in Note 19.

Other regulatory investigations, reviews and litigation

HSBC UK and/or certain of its affiliates is also subject to a number of other investigations and reviews by various regulators and competition and law enforcement authorities, as well as litigation, in connection with various matters relating to the firm's businesses and operations, including:

- an investigation by the PRA in connection with depositor protection arrangements in the UK; and
- an investigation by the FCA in connection with collections and recoveries operations in the UK.

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

27 Related party transactions

On 21 June 2021 the ownership and immediate parent company of the group changed from HSBC UK Holdings Limited to HSBC Holdings plc, who is also the ultimate parent company of the group. HSBC Holdings plc is incorporated in England.

Copies of the Group financial statements may be obtained from the following address:

HSBC Holdings plc
8 Canada Square
London E14 5HQ

The group's related parties include the parent, fellow subsidiaries, joint ventures, post-employment benefit plans for HSBC UK employees, Key Management Personnel ('KMP') of the Company and its ultimate parent company, HSBC Holdings plc, close family members of KMP and entities which are controlled, jointly controlled or significantly influenced by KMP or their close family members.

Particulars of transactions between the group and its related parties are tabulated below in accordance with IAS 24 'Related party disclosures'. The disclosure of the year-end balance and the highest amounts outstanding during the year are considered to be the most meaningful information to represent the amount of the transactions and outstanding balances during the year.

Key Management Personnel

The KMP of the Company are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company and the group, and include the Directors of the Company, certain senior executives of the Company, directors of HSBC Holdings plc and certain senior executives of HSBC Holdings plc. The emoluments of those KMP who are not directors or senior executives of the Company are paid by other Group companies who make no recharge to the Company. It is therefore not possible to make a reasonable apportionment of their emoluments in respect of services they have provided to the Company during the year. Accordingly, no emoluments in respect of these KMP are included in the following disclosure.

The table below represents the compensation for KMP (Directors and certain senior executives) of the Company in exchange for services rendered to the Company for the period they served during the year.

Compensation of Key Management Personnel

	2021	2020
	£000	£000
Short-term employee benefits	**8,009**	8,068
Post-employment benefits	**10**	23
Other long-term employee benefits	**520**	345
Share-based payments	**1,231**	1,017
Year ended 31 Dec	**9,770**	9,453

Advances and credits, guarantees and deposit balances during the year with Key Management Personnel[1]

	2021		2020	
	Balance at 31 Dec	**Highest amounts outstanding during year**	Balance at 31 Dec	Highest amounts outstanding during year
	£m	**£m**	£m	£m
Advances and credits	**12**	**13**	12	18
Deposits	**8**	**27**	25	67

1 *Includes close family members and entities which are controlled or jointly controlled by KMP or their close family members.*

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

In addition to the requirements of IAS 24, particulars of advances (loans and quasi-loans), credits and guarantees entered into by the bank and its subsidiaries with Directors of the Company are required to be disclosed pursuant to section 413 of the Companies Act 2006. Under the Companies Act, there is no requirement to disclose transactions with other KMP.

Transactions with Directors: advances, credits and guarantees (Companies Act 2006)

	2021	2020
	Balance at 31 Dec	Balance at 31 Dec
	£000	£000
Loans	**6,785**	7,273

Other related parties

Transactions and balances during the year with KMP of the bank's ultimate parent company[1,2]

	2021		2020	
	Balance at 31 Dec	**Highest amounts outstanding during the year**	Balance at 31 Dec	Highest amounts outstanding during the year
	£m	**£m**	£m	£m
Advances and credits	**6**	**8**	7	13
Deposits	**13**	**18**	10	34

1 Excludes those who are also KMP of the Company.
2 Includes close family members and entities which are controlled or jointly controlled by the KMP or their close family members.

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

Transactions and balances during the year with the joint venture

	2021		2020	
	Balance at 31 Dec	**Highest balance during the year**	Balance at 31 Dec	Highest balance during the year
	£m	**£m**	£m	£m
Unsubordinated amounts due from the joint venture	**70**	**114**	105	105
Amounts due to joint venture	**33**	**75**	75	75
Guarantees and commitments	**107**	**294**	200	310

The group provides certain banking and financial services to its joint venture, including loans, overdrafts, interest and non-interest-bearing deposits and current accounts. Details of the interest in the joint venture are given in Note 12.

The group's transactions and balances during the year with HSBC Holdings plc and subsidiaries of HSBC Holdings plc

	2021				2020			
	Due to/from HSBC Holdings plc		**Due to/from subsidiaries of HSBC Holdings plc**		Due to/from HSBC Holdings plc		Due to/from subsidiaries of HSBC Holdings plc	
	31 Dec	**Highest balance**	**31 Dec**	**Highest balance**	31 Dec	Highest balance	31 Dec	Highest balance
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Assets								
Derivatives	**—**	**—**	**31**	**87**	—	—	25	61
Loans and advances to banks	**—**	**—**	**827**	**932**	—	—	594	696
Reverse repos	**—**	**—**	**—**	**213**	—	—	213	231
Prepayments and accrued income	**—**	**—**	**2**	**27**	—	—	2	14
Other assets	**—**	**2**	**180**	**284**	2	3	221	368
Total related party assets at 31 Dec	**—**	**2**	**1,040**	**1,543**	2	3	1,055	1,370
Liabilities								
Deposits by banks	**—**	**—**	**795**	**1,250**	—	—	436	436
Customer accounts	**—**	**—**	**1**	**4**	—	—	4	20
Repos	**—**	**—**	**126**	**126**	—	—	—	—
Other liabilities	**32**	**95**	**138**	**190**	95	95	149	767
Accruals & Deferred Income	**71**	**98**	**4**	**97**	5	11	77	149
Derivatives	**—**	**—**	**66**	**145**	—	—	145	145
Subordinated liabilities	**12,487**	**12,590**	**—**	**10,015**	—	—	10,015	10,435
Total related party liabilities at 31 Dec	**12,590**	**12,783**	**1,130**	**11,827**	100	106	10,826	11,952

	Due to/from HSBC Holdings plc		Due to/from subsidiaries of HSBC Holdings plc	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Income statement				
Interest income	**—**	—	**(3)**	2
Interest expense	**181**	—	**83**	294
Fee income	**—**	—	**66**	52
Fee expense	**—**	—	**45**	42
Other operating income	**—**	—	**11**	19
General and administrative expenses	**40**	255	**1,783**	1,692

The above outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

The bank's transactions and balances during the year with HSBC UK Bank plc subsidiaries, HSBC Holdings plc and subsidiaries of HSBC Holdings plc

	2021						2020					
	Due to/from subsidiaries of HSBC UK Bank plc subsidiaries		Due to/from HSBC Holdings plc		Due to/from subsidiaries of HSBC Holdings plc		Due to/from subsidiaries of HSBC UK Bank plc subsidiaries		Due to/from HSBC Holdings plc		Due to/from subsidiaries of HSBC Holdings plc	
	31 Dec	Highest balance	31 Dec	Highest balance	31 Dec	Highest balance	31 Dec	Highest balance	31 Dec	Highest balance	31 Dec	Highest balance
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets												
Derivatives	—	—	—	—	31	87	—	—	—	—	25	61
Loans and advances to banks	2,495	2,500	—	—	827	932	2,276	3,046	—	—	594	696
Loans and advances to customers	6,822	6,822	—	—	—	—	5,998	8,074	—	—	—	—
Reverse repos	—	—	—	—	—	213	—	—	—	—	213	231
Prepayments and accrued income	12	15	—	—	2	27	15	24	—	—	2	14
Other assets	1,029	1,042	—	2	179	284	1,027	1,639	2	3	221	367
Total related party assets at 31 Dec	10,358	10,379	—	2	1,039	1,543	9,316	12,783	2	3	1,055	1,369
Liabilities												
Deposits by banks	915	1,927	—	—	795	1,250	1,620	2,346	—	—	436	436
Customer accounts	339	379	—	—	1	1	348	926	—	—	1	20
Repos	—	—	—	—	126	126	—	—	—	—	—	—
Derivatives	—	—	—	—	66	145	—	—	—	—	145	145
Other liabilities	17	39	32	95	134	182	39	629	95	95	142	749
Accruals & Deferred Income	3	7	71	98	4	97	3	7	5	11	77	148
Subordinated liabilities	—	—	12,487	12,590	—	9,936	—	—	—	—	9,936	10,356
Total related party liabilities at 31 Dec	1,274	2,352	12,590	12,783	1,126	11,737	2,010	3,908	100	106	10,737	11,854

The above outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

Post-employment benefit plans

The HSBC Bank (UK) Pension Scheme has placed deposits of £58m (2020: £46m) with HSBC UK, earning interest of £nil (2020: £nil).

The above outstanding balances arose from the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

28 Events after the balance sheet date

These accounts were approved by the Board of Directors on 21 February 2022 and authorised for issue.

On 16 February 2022, the Directors resolved to pay an interim dividend to ordinary shareholders of £491m in respect of the financial year ending 31 December 2021. No liability is recognised in the financial statements in respect of this dividend.

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.

29 HSBC UK Bank plc’s subsidiaries and joint ventures

In accordance with section 409 of the Companies Act 2006 a list of HSBC UK Bank plc subsidiaries and joint ventures, the registered office address and the effective percentage of equity owned at 31 December 2021 is disclosed below.

Unless otherwise stated, the share capital comprises ordinary or common shares which are held by HSBC UK Bank plc subsidiaries. The ownership percentage is provided for each undertaking. The undertakings below are consolidated by HSBC UK Bank plc unless otherwise indicated.

HSBC UK Bank plc's registered office address is:

HSBC UK Bank plc
1 Centenary Square
Birmingham B1 1HQ
United Kingdom

Subsidiaries

The undertakings below are consolidated by HSBC UK Bank plc.

Subsidiaries	% of share class held by immediate parent company (or by HSBC UK Bank plc where this varies)	Footnotes
Assetfinance December (F) Limited	100.00	3
Assetfinance June (D) Limited	100.00	3
Assetfinance March (D) Limited	100.00	3
Assetfinance September (G) Limited	100.00	3
B&Q Financial Services Limited	100.00	1, 4
Canada Square Nominees (UK) Limited	100.00	1, 4
HSBC Bank Pension Trust (UK) Limited	100.00	1, 4
HSBC Branch Nominee (UK) Limited	100.00	1, 3
HSBC Equipment Finance (UK) Limited	100.00	1, 3
HSBC Executor & Trustee Company (UK) Limited	100.00	3
HSBC Finance Limited	100.00	1, 4
HSBC Invoice Finance (UK) Limited	100.00	1, 5
HSBC Private Bank (UK) Limited	100.00	1, 4
HSBC Trust Company (UK) Limited	100.00	1, 4
HSBC UK Client Nominee Limited	100.00	1, 3
HSBC Wealth Client Nominee Limited	100.00	1, 3
John Lewis Financial Services Limited	100.00	1, 4
Marks and Spencer Financial Services plc	100.00	1, 6
Marks and Spencer Unit Trust Management Limited	100.00	1, 6
Midland Bank (Branch Nominees) Limited	100.00	1, 3
Midland Nominees Limited	100.00	3
St Cross Trustees Limited	100.00	3
Turnsonic (Nominees) Limited	100.00	3

Joint venture

The undertaking below is a Joint Venture and equity accounted.

Joint venture	% of share class held by immediate parent company (or by HSBC UK Bank plc where this varies)	Footnotes
Vaultex UK Limited	50.00	2, 7

Footnotes

1	*Directly held by HSBC UK Bank plc*
2	*Financial year ended 1 October 2021*

Registered Offices

3	*1 Centenary Square, Birmingham, United Kingdom, B1 1HQ*
4	*8 Canada Square, London, United Kingdom, E14 5HQ*
5	*21 Farncombe Road, Worthing, United Kingdom, BN11 2BW*
6	*Kings Meadow Chester Business Park, Chester, United Kingdom, CH99 9FB*
7	*All Saints Triangle, Caledonian Road, London, United Kingdom, N1 9UT*

Reconciliation of alternative performance measures

Return on equity and 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

	Year ended	
	31 Dec 2021	31 Dec 2020
	$m	$m
Profit		
Profit attributable to the ordinary shareholders of the parent company	**3,090**	(32)
Significant items (net of tax)	**280**	140
Adjusted profit attributable to the ordinary shareholders of the parent company	**3,370**	108
Equity		
Average shareholders' equity	**31,541**	29,580
Additional Tier 1	**(2,999)**	(2,835)
Average ordinary shareholders' equity	**28,542**	26,745
Effect of goodwill and other intangibles (net of deferred tax)	**(5,680)**	(5,236)
Average tangible ordinary shareholders' equity	**22,862**	21,509
Ratio	**%**	%
Return on equity	**10.8**	(0.1)
Return on average tangible equity	**13.5**	(0.1)
Adjusted return on average tangible equity[1]	**14.7**	0.5

1 *Under IAS 19 HSBC UK holds a pension fund surplus, and records pension income in the Income Statement. The IAS 19 pension fund surplus increases Tangible Equity but not CET1. In the event that the IAS 19 pension fund surplus was zero, Tangible equity and profit would reduce, and Adjusted RoTE would be 17.4% (2020: (0.1)%); we refer to this as Pension Adjusted RoTE.*

Abbreviations

Currencies	
£	British pound sterling
€	Euro
$	United States dollar
Abbreviations	
A	
AGM	Annual General Meeting
AIEA	Average interest-earning assets
ALCM	Asset, Liability and Capital Management
ALCO	Asset and Liability Management Committee
AML	Anti-money laundering
AI	Artificial intelligence
AT1	Additional tier 1
B	
Basel	Basel Committee on Banking Supervision
Basel III	Basel Committee's reforms to strengthen global capital and liquidity rules
BB	Business Banking
BoE	Bank of England
Bps	Basis points. One basis point is equal to one hundredth of a percentage point
BBLS	Bounce Bank Loan Scheme
C	
CAN	Climate Action Network
CAPM	Capital asset pricing model
CBES	Climate Biennial Exploratory Scenario
CEO	Chief Executive Officer
CET1	Common equity tier 1
CFO	Chief Financial Officer
CGU	Cash-generating Unit
CMB	Commercial Banking
CODM	Chief Operating Decision Maker
CRD IV	Capital Requirements Regulation and Directive
CRR	Customer risk rating
CRR II	Revised Capital Requirements Regulation and Directive, as implemented
CBILS	Coronavirus Business Interruption Loan Scheme
CLBILS	Coronavirus Large Business Interruption Loan Scheme
CPI	Consumer Price Index
D	
DCF	Discounted cash flows
DPD	Days past due
E	
EAD	Exposure at default
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
ECL	Expected credit losses. In the income statement, ECL is recorded as a change in expected credit losses and other credit impairment charges. In the balance sheet, ECL is recorded as an allowance for financial instruments to which only the impairment requirements in IFRS 9 are applied.
EEA	European Economic Area
EIR	Effective interest rate
Eonia	Euro Overnight Index Average
ESG	Environmental, social and governance
EU	European Union
Euribor	Euro interbank offered rate
EVE	Economic value of equity
EPC	Energy Performance Certificate
F	
FCA	Financial Conduct Authority (UK)
FRB	Federal Reserve Board
FPC	Financial Policy Committee
FSCS	Financial Services Compensation Scheme
FTE	Full-time equivalent staff
FVOCI	Fair value through other comprehensive income
FX	Foreign exchange
FX DPA	Three-year deferred prosecution agreement with the US Department of Justice, entered into in January 2018
FY	Full Year
G	
GAAP	Generally accepted accounting principles
GBM	Global Banking and Markets
GDP	Gross domestic product
GEC	Group Executive Committee
GLCM	Global Liquidity and Cash Management
GMP	Guaranteed Minimum Pension
GPSP	Group Performance Share Plans
group	HSBC UK Bank plc together with its subsidiary undertakings
Group	HSBC Holdings together with its subsidiary undertakings
GTRF	Global Trade and Receivables Finance
H	
HTCS	held-to-collect-and-sell
HQLA	High-quality liquid assets
HSBC Group	HSBC Holdings together with its subsidiary undertakings
HSBC Holdings	HSBC Holdings plc, the parent company of HSBC UK
HSBC UK	HSBC UK Bank plc together with its subsidiary undertakings
HIF	HSBC Invoice Finance (UK) Limited
HEF	HSBC Equipment Finance (UK) Limited
I	
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBA	ICE Benchmark Administration
Ibor	Interbank offered rate
ICAAP	Internal capital adequacy assessment process
IFRSs	International Financial Reporting Standards
ILAAP	Internal liquidity adequacy assessment process
IRB	Internal ratings-based
IT	Information technology
L	
LC	Large Corporates
LCR	Liquidity coverage ratio
LFRF	Liquidity and Funding Risk management Framework
LGD	Loss given default
Libor	London interbank offered rate
LTI	Long-term incentive
LTV	Loan to value
LAB	Liquid asset buffer
M	
MME	Mid-Market Enterprises
MREL	EU minimum requirements for own funds and eligible liabilities
M&S	Marks and Spencer Financial Services plc
N	
NII	Net interest income
NIM	Net interest margin
NPS	Net Promoter Score
NSFR	Net stable funding ratio
Neon	Neon Portfolio Distribution DAC
O	
OCI	Other comprehensive income
OTC	Over-the-counter
P	
PACTA	Paris Agreement Capital Transition Assessment
PAYG	Pay As You Grow

PBT	Profit before tax
PD	Probability of default
POCI	Purchased or originated credit impaired
PPA	Power Purchase Agreement
PPI	Payment protection insurance
PRA	Prudential Regulation Authority
Premier	HSBC Premier, HSBC's premium personal global banking service
PwC	PricewaterhouseCoopers LLP and its network of firms
R	
RAS	Risk Appetite Statement
Revenue	Net operating income before change in expected credit losses and other credit impairment charges/Loan impairment charges and other credit provisions, also referred to as revenue
RFR	Risk-free rate
RMF	Risk Management Framework
RMM	Risk Management Meeting
RoE	Return on average ordinary shareholders' equity
RoTE	Return on average tangible equity
RPI	Retail Price Index
RWA	Risk-weighted asset
RCF	Revolving Credit Facility
S	
SBB	Small Business Banking
SME	Small and medium-sized enterprise
SOFR	Secured Overnight Financing Rate
Sonia	Sterling Overnight Index Average
SPPI	Solely payments of principal and interest
STD	Standardised Approach
T	
TCA	Trade and Cooperation Agreement
TCFD	Task force on Climate-Related Financial Disclosures
TFSME	Term Funding Scheme for SME
U	
UK	United Kingdom
US	United States of America
V	
VaR	Value at risk
VAT	Value-added tax
VIU	Value in use
W	
WPB	Wealth and Personal Banking
WTO	World Trade Organisation
Y	
YoY	Year-on-year

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